Jacob Gemma

From: Ware Julian
Sent: 17 February 2017 17:22
To: Vincett-Wilson Harriet; Alan Benson; Gardiner Stephen; Hart Anna; Lees Neil; Neil Hook; 'Peter Heath'; 'Richard Jones'; 'Richard Linton '; 'Ryan Gerrish'; Sharples Elliot; Turner Lucinda
Subject: DRAFT DEPUTY MAYORS PAPER

Colleagues,

I have had a go at writing a cover paper for the Deputy Mayors meeting on our progress on MCIL2. It is designed to be read with the latest JLL version.

We will want to discuss this on Monday, as it will need to go on Monday night. I have gone for joint TfL/GLA authorship but happy to nominate anyone as the author – as long as they agree my conclusions!

Richard Jones will want to look at what the single commercial rate might be, as it would be good to quote that. I have cited JLL in a number of places and you will want to be sure that these are acceptable. Any better evidence on station zones would be very useful – as well as anything from Neil or Harriet on S106 payments from outside Central London or Docklands.

I am going to send this separately and simultaneously to selected TfL senior officers.

Julian

Towards a PDCS for MCIL2b.docx...

Julian Ware
Transport for London | Commercial Finance
Windsor House | 42-50 Victoria Street | London SW1H 0TL
[redacted]tfl.gov.uk | Mob: [redacted] or [redacted] Tel: [redacted] (internal [redacted]

Agenda item

Deputy Mayors' Planning meeting

Prepared by: Title Extension	Julian Ware Senior Principal, TfL [redacted]	Peter Heath Senior Planner [redacted]
Meeting Date:	**28 February 2017**	
Item:	**MCIL 2 – Towards a Preliminary Draft Charging Schedule**	
Format: *Attached papers:*	Meeting Paper Annex 1 – JLL Draft Report	
Purpose	• To report on progress on work towards a PDCS document in March • To get a steer on some detailed proposals	

Introduction

1. The Growth Board discussed the Mayoral Community Infrastructure Levy (MCIL) on 29 December 2016 as part of Crossrail 2 funding, and after further discussions the Mayor agreed a paper on 8 December. Those papers contained initial proposals for MCIL2 with increased rates, in two stages, an agreed forecast of development and a funding line for Crossrail 2. GLA and TfL officials were asked to prepare a full Preliminary Draft Charging Schedule (PDCS) for March 2017, together with a viability report.

2. Work has continued on both Crossrail 2 and MCIL in 2017. Deputy Mayors approved the biennial review of the existing MCIL on 7 February, and on 14 February the Mayor agreed publication. TfL has also put the Crossrail 2 Strategic Outline Business Case (SOBC) forward for approval. [Crossrail 2 and MCIL 2 have been picked up in the Housing Plan and the work on the London Plan.]

3. MCIL2 work is making good progress. We have engaged Jones Lang Lasalle (JLL) to prepare the viability study. There is nothing to report which would affect the headline rates for residential property, the forecasts or the Crossrail 2 SOBC. We have worked closely with colleagues from GLA Housing on the affordable housing issues.

4. There are a number of detailed questions, many around integrating the current S106 SPG regime in Central London and North Docklands where an early steer would be helpful. This would allow us to include a complete proposal, with viability work and a forecast, in the draft PDCS. There is a particularly important question on station zones.

5. The Government has now published the Housing White Paper, and the Liz Peace review of CIL nationally. There will be no decisions on CIL until the Autumn Budget. The Liz Peace review commented on the MCIL's simplicity, universal applicability and use for a single scheme and noted it that it was frequently cited as a success story.

Issues

6. JLL's latest draft document is attached. The approach taken for MCIL2 is based on the same methodology as MCIL with three bands of charging rates applied across boroughs, together with a new Central London and North Docklands zone for commercial development (residential development in Central London will be done on a borough basis).

7. Table 3 on page 11 contains the house price levels for each borough, showing the changes since 2010 which was the basis for MCIL. There is no change required in the top eight boroughs, in the current £50 band. But there has been movement in the middle and lower bands, and there is some discretion as to how we treat this. Our recommendation is that **Waltham Forest and Enfield should move up into the middle band, and Greenwich should move into the lower band.**

8. There was no separate treatment of Mayoral Development Corporations in MCIL, as neither existed at that point. So while the MDCs collect MCIL in their areas, and set their own CILs, the MCIL charging rate is based on the underlying borough. Housing statistics are not collected at MDC level, but JLL's advice is that both MDCs would fall into the middle band. Our recommendation is that **MDCs should be treated separately and placed in the middle charging band.**

9. The current Central London contribution area for commercial development is based on the Central Activities Zone (CAZ) with 1km circles around Liverpool Street and Paddington and the exclusion of Waterloo, Elephant and Castle, and Vauxhall Nine Elms Battersea (VNEB). A small area near Hyde Park is also included to avoid a hole in the zone. There is a JLL map of this zone at Figure 8 on page 33.

10. There is now an opportunity to rationalise this map and to make it closer to JLL's definition of the central commercial area. Our recommendations are:

    a. **To include Waterloo, Elephant and VNEB.** JLL's evidence is that all three of these areas have commercial characteristics and viability similar to the rest of the CAZ. Elephant is perhaps the most marginal.
    b. **To use major roads as natural boundaries, not 1km circles.** This avoids the boundary going through part of a development.

11. There is a question as to whether we should include a wider area around Victoria and Euston. Most of Belgravia is within a 1km circle of Victoria, yet is outside the current CAZ boundary. The natural road boundary would go down Sloane Street. The Crossrail 2 station at Euston/St Pancras may well itself lie outside the current boundary. And a 1km zone from Angel, with natural boundaries, would also widen the area. **Our view is that it is too early to expand the**

Central London map around proposed Crossrail 2 stations. We can pick up changes in the CAZ map and other Crossrail 2 amendments at the second stage in 2024. The map of our proposed Central London area is at Figure 10 on page 35.

12. The SPG S106 scheme has other elements which complicate it, and which are based on the S106 justification of mitigation rather than the CIL justification of viability. These are:

    a. Different charging rates for offices, retail and hotel.
    b. Different charging rates for North Docklands and Central London, with Docklands higher.
    c. Station zones for commercial development around Crossrail 1 stations across London, although with lower rates.

13. All three can be justified on viability grounds on the basis that they apply at present, have been absorbed into land valuation as necessary, and have led to a very small number of viability challenges.

14. On the other hand, they would make MCIL2 much more complicated. A single Central London and Docklands commercial rate across both zones and all commercial uses would be simpler to apply, and keep MCIL2 closer to the Liz Peace review recommendations. It could be based on a weighted average of the current rates to raise the same amount overall. This will create some winners and losers but the effects will be marginal, and JLL report that there is little viability evidence on the ground to justify a difference. **Our view is that there should be a single commercial rate in Central London and Docklands.**

15. In December Deputy Mayors specifically asked us to look at the inclusion of station zones. These could be drawn around all Crossrail 2 stations, and possibly Crossrail 1 stations. They could use natural boundaries and would apply to market residential as well as commercial uses. They could involve a supplement on the underlying rate charged for the relevant borough (or MDC).

16. There are a number of difficulties with station zones in MCIL2:

    a. The existing S106 station zones have produced very little revenue.
    b. The location and timing of Crossrail 2 stations are not confirmed. For instance, there has been no announcement on the revised route and there is an option for delaying some parts of the scheme.
    c. Under the MCIL regulations we would need to justify station zones on a viability basis, across London as a whole. This is possible, as we have evidence of the likely land value changes from the KPMG/Savills work on land value capture. But there is a timing problem: they argue that the changes in viability are still hard to discern for Crossrail 1 and are unlikely to emerge before the end of the construction period for Crossrail 2. JLL have said we would need to obtain and show viability evidence.
    d. We can only estimate the value of the zones if we study them in more detail at particular rates. But all previous work has suggested fairly low values, with total receipts well under £1 billion.

   e. They will add to the complexity of the proposed changes, and weaken MCIL's simplicity and universality.
   f. While there is a potential viability argument on Crossrail 1, the scheme is already fully funded and going back now to extract additional contributions for Crossrail 2 may be attacked by boroughs and developers.

17. There are other routes to station zones:
   a. They could be introduced in 2024 at the second stage for MCIL, and we could trawl this in our 2017 documents.
   b. They could be taken forward in negotiations with the boroughs as amendments to borough CILs. This would be similar to the approach used in VNEB by Wandsworth and Lambeth. In this case, viability issues only have to be addressed at a borough level.
   c. Should further MDCs be introduced on the Crossrail 2 route, the station zones could form part of the MDC CIL with viability examined across the MDC only.
   d. Station zones and CILs form part of the wider land value capture work and it may be possible to create zones for a variety of taxes to be captured (stamp duty, business rates).

18. So our recommendation is that **there should not be station zones for Crossrail 1 or 2 stations in MCIL2.**

Summary of recommendations

1. **Waltham Forest and Enfield should move up into the middle band, and Greenwich should move into the lower band.**
2. **MDCs should be treated separately and placed in the middle charging band.**
3. **The Central London contribution area should include Waterloo, Elephant and VNEB and should use major roads as natural boundaries, not 1km circles.**
4. **It is too early to expand the Central London map around proposed Crossrail 2 stations.**
5. **There should be a single commercial rate in Central London and Docklands.**
6. **There should not be station zones for Crossrail 1 or 2 stations in MCIL2.**

Julian Ware/Peter Heath

Jacob Gemma

From: Ware Julian
Sent: 22 March 2017 15:44
To: 'Richard Linton'; Lees Neil; Sharples Elliot; Hart Anna; 'Jones, Richard (UK)'; 'Ryan Gerrish'; Neil Hook
Subject: DRAFT MDF CONTENT ON MCIL 2.1
Attachments: DRAFT MDF CONTENT ON MCIL 2.1.docx

Colleagues,

Here is my first shot at the MDF. That is for Richard L to draft and submit, but I think most of this material will need to find a home somewhere.

The document has some gaps and needs further work. In particular:

- There are maps/charts which others are preparing included
- I have left a paragraph to quote verbatim JLL's overall viability advice to the Mayor. It would be great if Richard J would give this thought.
- I have marked confidential material in highlighter. On balance there is not a lot which the informed outsider does not already know. So there is a choice to be open and release it. It would be fairly simple to group the stuff and put it in a confidential section.
- There are a couple of things I need to check.

I will liaise with colleagues on Crossrail 2 separately, as well as with colleagues on the Canary Wharf dispute. We may end up with a desire for a separate note on the Crossrail 2 strategy, which may ease our confidentiality issues.

I am in the office tomorrow, and then on leave on Friday and Monday.

Thanks

Julian

Julian Ware
Transport for London | Commercial Finance
Windsor House | 42-50 Victoria Street | London SW1H 0TL
[redacted]tfl.gov.uk | Mob: [redacted] or [redacted] Tel: [redacted] (internal [redacted]

DRAFT MDF CONTENT ON MCIL 2

REQUEST FOR MAYORAL DECISION – XXXX

Title:Preliminary Draft Charging Schedule (PDCS) for proposed changes to the Mayoral Community Infrastructure Levy (MCIL) – approval of PDCS document

Executive Summary

This Mayoral Decision Form asks the Mayor to agree a PDCS document, with annexes, setting out proposals for revisions to the MCIL. The PDCS will then be published as the start of the process of changing the MCIL, which involves further consultation and then an Examination in Public (EIP). The new proposals (MCIL2) are designed to increase the revenue from MCIL and to replace the existing the Crossrail 1 Section 106 scheme. The target date for the change is April 2019. The document also contains advance notice of further changes with a target date of 2024. MCIL2 is forecast to raise 15% of Crossrail 2 funding, on a basis consistent with the affordable housing target. Publishing the PDCS gives the Mayor an opportunity to make a public statement on Crossrail 2.

Decision:

That the Mayor:

1. Agrees the content of the draft PDCS, including the summary of proposed changes included with it
2. Notes the findings and conclusions of the viability evidence prepared by Jones Lang LaSalle (JLL) in support of the PDCS
3. Agrees that the PDCS should be published for consultation
4. Authorises GLA and TfL expenditure in support of consultation, to be funded from the 1% administrative charge which TfL is allowed to withhold from monies collected.

….

Standard text and signature

….

Confidential advice to the Mayor

Introduction

1. The PDCS document and the supporting analysis will be public information. But the details of the Crossrail 2 funding and the state of the discussions with the Government are not, and the Strategic Outline Business Case (SOBC) has been submitted as a private document. This section refers to both and so is confidential.

2. Growth Board discussed the Mayoral Community Infrastructure Levy (MCIL) on 29 November 2016 as part of Crossrail 2 funding, and after further discussions the Mayor agreed a paper on 8 December. Those papers contained initial proposals for MCIL 2 with:

   a. increased rates from 2019;
   b. advance notice of a further increase in 2024, for MCIL 3;
   c. the Crossrail 1 S106 subsumed into MCIL 2;
   d. an agreed forecast of development, consistent with affordable housing plans;
   e. and a funding line for Crossrail 2.

3. On 14 February the Mayor agreed publication of the biennial review of the existing MCIL. MCIL receipts have stayed strong over the course of [this/last] financial year and we are on track to reach the £600 million combined MCIL/S106 target by April 2019, and possibly up to one year earlier. Total amount of MCIL/S106 raised to date is £438 million, with the next receipts due in April. The Crossrail 2 Strategic Outline Business Case (SOBC) was submitted to Government on 6 March for approval. SOBC highlights MCIL 2 as an important funding source for the project, especially during the construction phase.

4. GLA/TfL submitted a paper to Deputy Mayors on 7 March asking for guidance on some detailed questions including:

   a. The banding of the boroughs
   b. The treatment of the two Mayoral Development Corporations (MDCs)
   c. The boundaries of the Central London and Docklands contribution area
   d. The removal of the differential between Docklands compared to the remainder of Central London
   e. Whether there should be station zones for Crossrail 1 or Crossrail 2 stations.

5. The Government has now published the Housing White Paper and the Liz Peace review of CIL nationally. There will be no decisions on CIL before the Autumn Budget. The Liz Peace review commented on the MCIL's simplicity, universal applicability and use for a single scheme and noted that it was frequently cited as a success story.

6. The PDCS document is consistent with the decision in December and the further guidance in March. It is also supported by the JLL work on viability. And the forecasts for funding are those assumed in the SOBC document.

Key issues

Charging rates

7. The proposed charging rates are in the tables in Annex 1, with no changes since December. The top and middle bands of boroughs have an increase of approximately £15 a square metre over forecast tender inflation. There is no increase for the bottom band of boroughs. These rates would apply to residential property everywhere, and to offices, retail, and hotels outside Central London and Docklands. The discretionary exemption for health and education would continue to apply. JLL have looked at changes in overall viability, based on house prices and tender inflation; and they have also examined the buffer in BCILs.

8. The charging rates for offices, retail and hotels in Central London and North Docklands have changed. We looked with JLL at a single charge for all commercial development in those areas. The higher rates for Docklands came from the S106 policy and the greater reliance of Docklands on a few public transport links; the justification looks weaker when using the CIL approach of viability, where Docklands rents are typically below those in the West End and the City. On the other hand there is concern that a significant rise in hotel and retail markets to the office rate could affect those markets.

9. The proposed compromise is to have separate office, retail and hotel rates, but to apply the same three rates to Central London and Docklands. We also recommend flagging a move to a single rate in 2024.

10. TfL has a Crossrail 1 contractual agreement with the Canary Wharf Group over the repayment of S106 contributions on three sites in Docklands. There is a current dispute, which may go to court, around whether this includes MCIL.

What are the changes to the charging bands?

11. Annex 2 shows how the boroughs were divided into three bands based on mean 2010 house prices, which was used as a proxy for the viability of all chargeable development. JLL have checked that this methodology is still sound. It is also close to the proposal for a regional CIL in the Liz Peace report. So we propose to use it again.

12. But the relative position of the boroughs has changed, as the table shows. There is no change in the top band boroughs; the issue is around the boundary between the middle and lower band. There is some discretion as to where to draw the line, and how many boroughs are in each group. It is convenient to draw the line where there is a clear gap as the numbers do move on a quarterly basis. Our recommendation is that the line falls between Hounslow and Sutton where there is a gap of £15,000. This would put Waltham Forest and Enfield in the middle band and move Greenwich into the lower band. The case for an increased rate of charge in Waltham Forest is very clear; and there is a wider argument that there would be several Crossrail 2 stations in Enfield.

13. There was no separate treatment of Mayoral Development Corporations (MDCs) in MCIL, as neither existed at the date of examination. At present, there are two MDCs in London – the London Legacy Development Corporation (LLDC) and the Old Oak and Park Royal Development Corporation (OPDC). While the MDCs collect MCIL in their areas, and set their own CILs, the MCIL charging rate is based on the underlying borough. Housing statistics are not collected at MDC level, but JLL’s advice is that both MDCs would be likely to fall into the middle band. This would mean the underlying MCIL rate in the area of LB Newham that forms part of the LLDC would increase, while the rate in LB Hammersmith & Fulham that is part of the OPDC would fall. Both of these changes can be justified on viability grounds. Our recommendation is that LLDC and OPDC should be treated separately and placed in the middle charging band.

Central London

14. The current Central London S106 contribution area for office/retail/hotel development is based on the Central Activities Zone (CAZ) with 1km circles around Liverpool Street and Paddington and the exclusion of Waterloo, Elephant and Castle, and Vauxhall Nine Elms Battersea (VNEB). A small area near Hyde Park is also included to avoid a hole in the zone.

15. There is now an opportunity to rationalise this map and to make it closer to JLL's definition of the central commercial area. Our recommendations are:

    a. To include Waterloo, Elephant and Castle and VNEB. JLL's evidence is that all three of these areas have viability characteristics sufficient to include them in the CAZ charging zone. Elephant and Castle is perhaps the most marginal.
    b. To use major roads as natural boundaries, not 1km circles. This avoids the boundary going through part of a development.

16. Our view, having consulted the Deputy Mayors, is that it is too early to expand the charging area to include zones around the Crossrail 2 stations at Victoria and Euston. We can pick up any London Plan CAZ map and other Crossrail 2 amendments at the second stage in 2024. The maps of the current Central London charging area and of our proposed Central London charging area are shown in Annex 3.

<u>North Docklands</u>

17. Similar to the Central London charging area, we recommend rationalising and simplifying the charging boundary of the Isle of Dogs area by using roads and the river as the natural boundaries, rather than a 1km circle around the Canary Wharf station. The maps of the current Isle of Dogs charging area and of our proposed Isle of Dogs charging area are shown in Annex 4.

<u>Station zones</u>

18. In December Deputy Mayors specifically asked us to look at the inclusion of station zones. These could be drawn around all Crossrail 2 stations, and possibly Crossrail 1 stations. They could use natural boundaries and would apply to all chargeable uses. (The existing Crossrail 1 stations zones only apply to office, retail and hotel). They could involve a supplement on the underlying rate charged for the relevant borough (or MDC).

19. We consulted Deputy Mayors again in March, as further discussion had showed a number of difficulties with station zones for Crossrail 2 in MCIL 2:

    a. The existing S106 station zones outside the Central London and the Isle of Dogs charging areas have produced very little revenue – circa £300,000 over the last 7 years.
    b. The location and timing of Crossrail 2 stations are not confirmed. For instance, there has been no announcement on the revised route and there is an option for delaying some parts of the scheme.
    c. Under the MCIL regulations we would need to justify station zones on a viability basis, across London as a whole. This is possible, as we have

evidence of the likely land value changes from the KPMG/Savills work on land value capture. But there is a timing problem: they argue that the changes in viability are still hard to discern for Crossrail 1 and are unlikely to emerge before the end of the construction period for Crossrail 2. JLL have said we would need to obtain and show viability evidence. Without good evidence, we could only propose a modest supplement.

d. We can only estimate the value of the zones if we study them in more detail at particular rates. But all previous work has suggested fairly low values, with total receipts well under £1 billion.
e. They will add to the complexity of the proposed changes, and weaken MCIL's simplicity and universality.

20. Similarly, there are difficulties with station zones for Crossrail 1. It is conceivable to use existing MCIL charging bands and add a supplement for station zones, however this would not always produce the right results on viability grounds. While certain boroughs, e.g. LB Hillingdon will benefit from a Crossrail 1 station, their house prices and hence development viability would still be lower than in other boroughs, e.g. LB Hackney, that will not have a Crossrail 1 station. There may also be a perception that Crossrail 1 has already been paid for.

21. There are other approaches to station zones:

a. They could be introduced in 2024 at the second stage for MCIL, and we could trail this in our 2017 documents.
b. They could be taken forward in negotiations with the boroughs as amendments to borough CILs. This would be similar to the approach used in VNEB by Wandsworth and Lambeth. In this case, viability issues only have to be addressed at a borough level.
c. Should further MDCs be introduced on the Crossrail 2 route, the station zones could form part of the MDC CIL with viability examined across the MDC only.
d. Station zones and CILs form part of the wider land value capture work, and it may be possible to create zones for a variety of taxes to be captured (stamp duty, business rates). Some planning work looking at station intensification areas is also underway and this might be useful.

22. Both c and d link to the work on land value capture and the Development Rights Auction Model (DRAM) being taken forward under Nick Bowes. Approaches c and d look suitable, and could be integrated with the DRAM. Approach a is possible, but the strategic nature of MCIL limits what can be done. Approach b could also work, but depends on cooperative work with the relevant boroughs.

23. So our recommendation is that there should not be CIL charging station zones for Crossrail 1 or 2 stations in MCIL 2, but this should be revisited in MCIL 3/other work.

Affordable housing

24. MCIL is not charged on affordable housing. But changes in MCIL could affect the viability, at the margin, of affordable housing. And the forecast for MCIL receipts depends on the amount of housing built, and critically the market housing component of that.

25. There has been a GLA Housing representative on the MCIL team from November. JLL have also looked at the effect of MCIL2 on affordable housing delivery. They conclude that MCIL2 will remain a very small element of the overall cost of production, and that other factors will have a much stronger effect.

26. Two changes in approach, agreed in November, will also help. First, there is no proposal for a prime London residential rate in MCIL2. So most of the viability gain at the top end of the housing market remains untouched. Secondly, there is no proposed increase, other than inflation, for the lower band of boroughs where viability can be an issue.

Viability

27. Viability is at the heart of MCIL. The Government regulation requires the Mayor to balance the desirability of funding infrastructure with the effects on the economic viability of development. JLL quote the full text in their report and it is also below.

> 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.'*

28. JLL summarise their advice as follows: [to follow]

MCIL3 and 2024

29. The proposal for consultation and EIP is the proposed 2019 charging schedule MCIL2. The information on the second stage, MCIL3, forecast for 2024 is not a formal part of the process. It could be released informally, or not

at all. There are, however, a number of reasons for releasing early details on MCIL3 as part of the document:

30.

a. It is a signal to the Government that MCIL can raise the funding stream quoted in the submitted SOBC and that there is some commitment to that.
b. It provides an early warning to the development market of the proposed changes, including higher rates, a prime residential zone and further simplification to office, hotels and retail in Central London. And we will get early information on issues and difficult areas from stakeholders.
c. And it is a signal to Government, as there is further consideration of the Liz Peace review, of the policy direction of MCIL. Broadly we accept the principles, such as simplicity and low rates, but want to make sure that London has the autonomy to develop MCIL in its own way.

Timing

The chart below gives a summary timetable for MCIL2. Provided the consultation starts by the end of June 2017, the target of April 2019 should be achievable.

[chart from Neil]

Publicity

The publication of the PDCS provides an opportunity to make an announcement on Crossrail 2. The SOBC document has been submitted and is being discussed within Government. There is no indication of when there will be a response.

One option would be for a low key announcement. Government officials are aware of the need to make progress with a PDCS [jrw to check sobc documents].

The other would be to use the opportunity to make a strong statement of support for Crossrail 2, to emphasise London's commitment to funding its share, and to highlight the PDCS as an important step in getting a key funding stream ready.

[conclude with a summary of recommendations?]

Annex 1. Table of proposed MCIL 2 charging rates

Proposed borough-wide MCIL 2 rates

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

Source: JLL report *MCIL 2 – working towards PDCS* [***draft***, 21 February 2017, table 8, page 25]

* We are proposing a continuing MCIL rate of nil for health and education premises.

Proposed Central London and Isle of Dogs MCIL 2 office/retail/hotel rates

	Current S106 rates - no indexation (per sq m)		Current S106 rate + indexation to Q3 2016 (per sq m)		Current S106 rate + indexation to Q3 2016 + forecast to Q2 2019 (per sq m)		Proposed MCIL 2 rate from April 2019 (per sq m)
	Central London	Isle of Dogs	Central London	Isle of Dogs	Central London	Isle of Dogs	Central London and Isle of Dogs
Office	140.00	190.00	153.77	208.69	£162.09	£219.98	185.00
Retail	90.00	121.00	98.85	132.90	£104.20	£140.09	165.00
Hotel	61.00	84.00	67.00	92.26	£70.62	£97.25	140.00

Annex 2. Average and median house price changes by MCIL charging bands [to be replaced with simpler jll table]

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: JLL report *MCIL 2 – working towards PDCS [**draft**,* 21 February 2017, table 2, page 11.]

Band 1 boroughs – current MCIL rate of £50 per square metre (2012 prices)

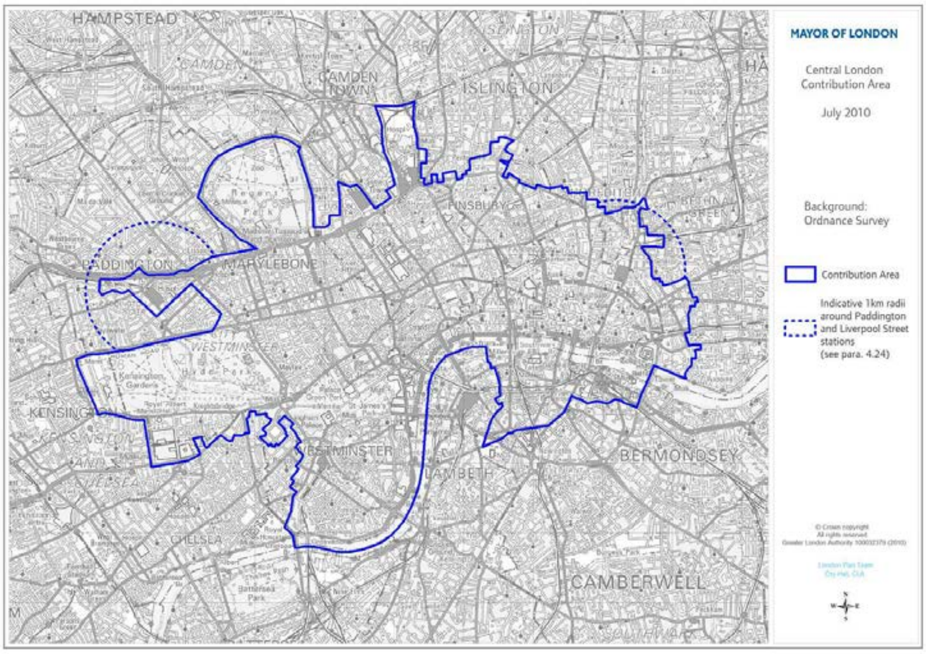
Band 2 boroughs – current MCIL rate of £35/sqm (2012 prices)

Band 3 boroughs – current MCIL rate of £20/sqm (2012 prices)

Annex 3

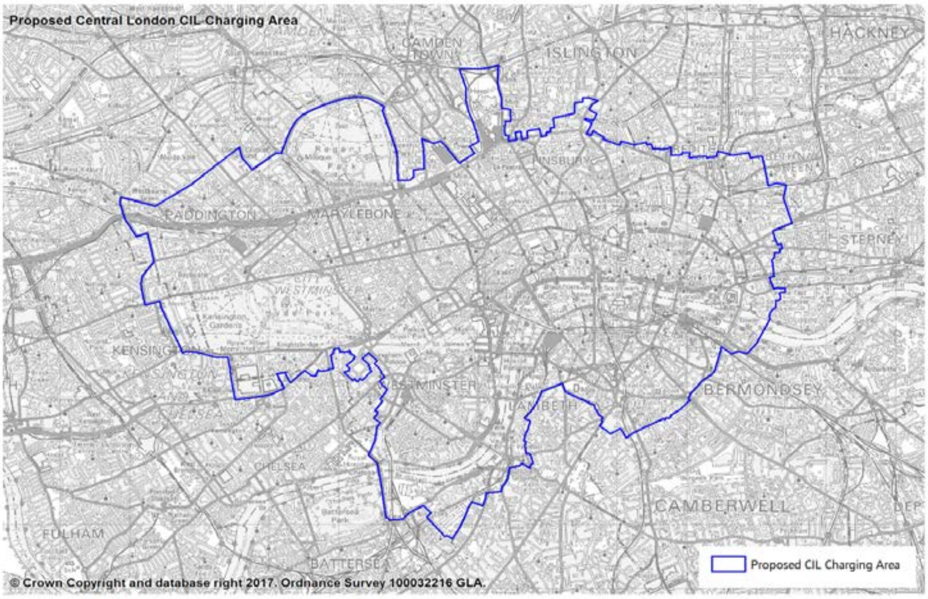
Current Central London Crossrail S.106 contribution area (excluding North Docklands)

Comment [GR1]: Check definition



Proposed Central London Crossrail S.106 contribution area (excluding North Docklands)

Comment [GR2]: Check definition


Proposed Central London CIL Charging Area
CAMDEN TOWN
ISLINGTON
HACKNEY
FINSBURY
PADDINGTON
MARYLEBONE
STEPNEY
KENSINGTON
WESTMINSTER
LAMBETH
BERMONDSEY
CHELSEA
CAMBERWELL
FULHAM
BATTERSEA
Proposed CIL Charging Area

Annex 4 -

[two docklands maps]

Jacob Gemma

From:	Ware Julian
Sent:	21 March 2017 14:57
To:	Hart Anna; Lees Neil; 'Richard Linton'; Peter Heath; Vincett-Wilson Harriet; 'Jones, Richard (UK)'
Subject:	DRAFT MDF CONTENT ON MCIL 2
Attachments:	DRAFT MDF CONTENT ON MCIL 2.docx

Here is what I am cooking. Part finished. Julian

DRAFT MDF CONTENT ON MCIL 2

REQUEST FOR MAYORAL DECISION – XXXX

Title:Preliminary Draft Charging Schedule (PDCS) for proposed changes to the Mayoral Community Infrastructure Levy (MCIL) – approval of PDCS document

Executive Summary

This Mayoral Decision Form asks the Mayor to agree a PDCS document, with annexes, setting out proposals for revisions to the MCIL. The PDCS will then be published as the start of the process of changing the MCIL, which involves further consultation and then an Examination in Public. The new proposals (MCIL2) are designed to increase the revenue from MCIL and to incorporate the existing Crossrail 1 Section 106 scheme in it. The target date for the change is April 2019. The document also contains advance notice of further changes with a target date of 2024. MCIL2 is forecast to raise 15% of Crossrail 2 funding, on a basis consistent with the affordable housing target. Publishing the PDCS gives the Mayor an opportunity to make a public statement on Crossrail 2.

Decision:

That the Mayor:

1. Agrees the content of the draft PDCS, including the summary of proposed changes included with it
2. Notes the findings and conclusions of the viability evidence prepared by Jones Lang Lasalle (JLL) in support of the PDCS
3. Agrees that the PDCS should be published for consultation
4. Authorises GLA and TfL expenditure in support of consultation, to be funded from the 1% administrative charge

….

Standard text and signature

….

Confidential advice to the Mayor

Introduction

1. The PDCS document and the supporting analysis will be public information. But the details of the Crossrail 2 funding and the state of the discussions with the Government are not, and the Strategic Outline Business Case (SOBC) has been submitted as a private document. This section refers to both and so is confidential.

2. Growth Board discussed the Mayoral Community Infrastructure Levy (MCIL) on 29 November 2016 as part of Crossrail 2 funding, and after further discussions the Mayor agreed a paper on 8 December. Those papers contained initial proposals for MCIL 2 with:

    a. increased rates from 2019;
    b. advance notice of a further increase in 2024;
    c. the Crossrail 1 S106 subsumed into MCIL 2;
    d. an agreed forecast of development, consistent with affordable housing plans;
    e. and a funding line for Crossrail 2.

3. On 14 February the Mayor agreed publication of the biennial review of the existing MCIL. MCIL receipts have stayed strong over the course of [this] financial year and we are on track to reach the £600 million combined MCIL/S106 target by April 2019, and possibly up to one year earlier. Total amount of MCIL/S106 raised to date is £438 million, with the next receipts due in April. The Crossrail 2 Strategic Outline Business Case (SOBC) was submitted to Government on 6 March for approval. SOBC highlights MCIL 2 as an important funding source for the project, especially during the construction phase.

4. GLA/TfL submitted a paper to Deputy Mayors on 7 March asking for guidance on some detailed questions including:

    a. The banding of the boroughs
    b. The treatment of the two Mayoral Development Corporations (MDCs)
    c. The boundaries of the Central London and Docklands contribution area
    d. The removal of the differential between Docklands compared to Central London
    e. Whether there should be station zones for Crossrail 1 or Crossrail 2 stations.

5. The Government has now published the Housing White Paper and the Liz Peace review of CIL nationally. There will be no decisions on CIL before the Autumn Budget. The Liz Peace review commented on the MCIL's simplicity, universal applicability and use for a single scheme and noted that it was frequently cited as a success story.

6. The PDCS document is consistent with the decision in December and the further guidance in March. It is also supported by the JLL work on viability. And the forecasts for funding are those assumed in the SOBC document.

Key issues

Charging rates

7. The proposed charging rates are in the tables in Annex 1, with no changes since December. The top and middle bands of boroughs have an increase of approximately £15 a square metre over forecast tender inflation. There is no increase for the bottom band of boroughs. These rates would apply to residential property everywhere, and to commercial property outside Central London and Docklands. The discretionary exemption for health and education would continue to apply.

8. The charging rates for commercial property in Central London and North Docklands have changed. We looked with JLL at a single charge for all commercial development in those areas. The higher rates for Docklands came from the S106 policy and the greater reliance of Docklands on a few public transport links; the justification looks weaker when using the CIL approach of viability, where Docklands rents are typically below those in Central London. On the other hand there is concern that a significant rise in hotel and retail markets to the office rate could affect those markets.

9. The proposed compromise is to have separate office, retail and hotel rates, but to apply the same three rates to Central London and Docklands. We also recommending flagging a move to a single rate in 2024.

What are the changes to the charging zones?

10. The proposed compromise is to have separate office, retail and hotel rates, but to apply the same three rates to

Annex 1. Table of proposed MCIL 2 charging rates

Proposed borough-wide MCIL 2 rates

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

Source: JLL report *MCIL 2 – working towards PDCS* [***draft***, 21 February 2017, table 8, page 25]

* We are proposing a continuing MCIL rate of nil for health and education premises.

Proposed Central London and Isle of Dogs MCIL 2 office/retail/hotel rates

	Current S106 rates - no indexation (per sq m)		Current S106 rate + indexation to Q3 2016 (per sq m)		Current S106 rate + indexation to Q3 2016 + forecast to Q2 2019 (per sq m)		Proposed MCIL 2 rate from April 2019 (per sq m)
	Central London	Isle of Dogs	Central London	Isle of Dogs	Central London	Isle of Dogs	Central London and Isle of Dogs
Office	140.00	190.00	153.77	208.69	£162.09	£219.98	185.00
Retail	90.00	121.00	98.85	132.90	£104.20	£140.09	165.00
Hotel	61.00	84.00	67.00	92.26	£70.62	£97.25	140.00

Annex 2. Average and median house price changes by MCIL charging bands

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: JLL report *MCIL 2 – working towards PDCS* [***draft***, 21 February 2017, table 2, page 11.]

Band 1 boroughs – current MCIL rate of £50 per square metre (2012 prices)

Band 2 boroughs – current MCIL rate of £35/sqm (2012 prices)

Band 3 boroughs – current MCIL rate of £20/sqm (2012 prices)

From: Jones, Richard (UK) <[redacted]eu.jll.com>
Sent: 28 November 2016 19:09
To: Ware Julian
Cc: Hart Anna; Gerrish, Ryan
Subject: FW: MCIL policy paper - for discussion on 29 November
Attachments: MCIL 2 - policy options paper v3.2 CLEAN (sent to GLA 20161125).pdf; MCIL2 - Growth Board Meeting 29 November 2016 v1.1 (sent to GLA).pdf

Julian

Just a couple of further thoughts that might impact the emphasis you give to the statements on the slides:

1) The area forecast at 3.1m is our number assuming that The Mayor hits his target for overall numbers of houses built and 35% affordable. It is not a JLL forecast of what will happen as I don't expect him to achieve this or if he does not in a hurry.
2) I expect things to get worse before they get better ie over 2017/8
3) I don't think I have made a statement about the relative impacts of more affordable housing vs Borough CIL –see statement on slide 5. It will clearly depend on a borough by borough analysis to look at the relationship between CIL levied and impact of affordable percentage rising from the norm in the Borough in question to the 35% level. Quite a lot of work which we have not done yet.

Regards

Richard

Richard Jones
Lead Director - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 28 November 2016 16:02
To: Jones, Richard (UK) ; Gerrish, Ryan
Subject: FW: MCIL policy paper - for discussion on 29 November

Richard, Ryan,

FYI – final versions of the MCIL 2 policy paper and presentation slides that went to GLA ahead of the Growth Board this Tuesday.

Regards,
Anna

Anna Hart

Telephone: [redacted] | Auto: [redacted] | Mobile: [redacted]

From: Hart Anna
Sent: 25 November 2016 13:19
To: 'Richard Linton'; 'Neil Hook'; 'David Gallie'; 'Margaret Kalaugher'; 'Mathieu Mazenod'; 'Jeremy Skinner';

Peter Heath; Colin Wilson; 'stewart.murray[redacted] James Clark
Cc: Dix Michèle; Williams Alex; Ware Julian; Turner Lucinda; Lees Neil; Burton-Page Tom; Delion Solene
Subject: RE: MCIL policy paper - for discussion on 29 November

Dear all,

Please, find attached an updated version of the MCIL 2 paper for the Growth Board meeting next Tuesday (pdf and Word).

This version reflects the comments received yesterday afternoon and this morning from TfL and GLA colleagues.

Any questions, please let me know.

Kind regards,
Anna

Anna Hart

Telephone: [redacted] | Auto: [redacted] | Mobile: [redacted]

From: Hart Anna
Sent: 24 November 2016 14:28
To: 'Richard Linton'; 'Neil Hook'; 'David Gallie'; 'Margaret Kalaugher'; 'Mathieu Mazenod'; 'Jeremy Skinner'; Peter Heath; Colin Wilson; 'stewart.murray[redacted]
Cc: Dix Michèle; Williams Alex; Ware Julian; Turner Lucinda; Lees Neil; Burton-Page Tom; Delion Solene
Subject: MCIL policy paper - for discussion on 29 November

Dear all,

Please, find attached the updated MCIL 2 policy paper, incorporating the latest modelling numbers from KPMG and the feedback received on Tuesday.

I understand that this needs to be cleared by the GLA before the end of the week, in time for the Growth Board meeting next Tuesday, 29 November.

Please let me know if you have any further comments that should be incorporated.

And if I've missed anyone off, please forward the paper on.

Kind regards,
Anna

Anna Hart

Telephone: [redacted] | Auto: [redacted] | Mobile: [redacted]

From: Hart Anna
Sent: 21 November 2016 13:39
To: 'Richard Linton'; Neil Hook; 'David Gallie'; 'Margaret Kalaugher'; 'Mathieu Mazenod'
Cc: Dix Michèle; Williams Alex; Ware Julian; Lees Neil; Burton-Page Tom; Delion Solene
Subject: MCIL policy paper - for discussion on 22 November

Dear all,

Please, find attached the MCIL 2 policy paper for discussion at the Officers' meeting tomorrow afternoon.

If I've missed anyone who should receive this today, please could you forward on.

Kind regards,
Anna

Anna Hart
Transport for London | Commercial Finance |
Windsor House | 42-50 Victoria Street | London SW1H 0TL
Telephone: [redacted] | Auto: [redacted] |
Mobile: [redacted]
Email: [redacted]tfl.gov.uk

PLEASE NOTE THE NEW TELEPHONE NUMBER ABOVE
Please consider the environment before printing this e-mail

Mayoral Community Infrastructure Levy (MCIL)

[redacted]

Policy Discussion Paper

November 2016

EVERY JOURNEY MATTERS

Contents

1. Executive Summary

1.1. MCIL has performed well since its introduction in 2012, collecting £307 million to date. It is well on track to collect £600 million towards the Crossrail project, together with S.106, by March 2019. There is no evidence to suggest that MCIL has had an impact on affordable housing delivery and wider development in London. S106 has performed less well, partly as a result of a slower commercial development market recovery and CIL payment taking precedence over S.106.

1.2. Looking forward to MCIL 2, it is considered that the current affordable housing policy could have some impact on the development viability and could lead to lower revenues raised through MCIL. Jones Lang LaSalle (JLL) consider that the development market conditions are still subdued, however there is likely to be some viability headroom for increasing MCIL rates from April 2019.

1.3. MCIL 2 options are being considered in the context of receipts going towards the Crossrail 2 project and them being a core element of the funding package. MCIL revenues are dependent on both the rates charged and the quantity of market development being delivered. Three options are set out in this paper:

- Option A (Consolidation) – keeping MCIL rates as at present and bringing the S.106 rates into MCIL
- Option B (Blanket increase in MCIL rates) – doubling the existing MCIL and S.106 rates
- Option C (Targeted increase in MCIL rates) – a compromise between Options A and B with rates increasing in two steps, in 2019 and 2024

1.4. Whilst Option B rates were used as an assumption in the Crossrail 2 funding case for the National Infrastructure Commission (NIC) submission in February 2016, recent evidence presented by JLL suggests that an up-front doubling of rates could be challenged on development viability grounds.

1.5. Option C appears to be a more acceptable option but the suggested rates would still need to be tested for their impact on development viability. The implication of going for a lower increase in the rates than under Option B, and doing it in two steps, is that MCIL's contribution towards the Crossrail 2 funding package would be lower than what was set out in the NIC submission. The two-step implementation approach suggested for Option C could be helpful however, as it will signal a second increase in rates early on, giving the development industry time to adjust before the second step implementation.

1.6. JLL forecast new MCIL-liable development from 2019 to be an average of **3.13 million sqm per annum**, marginally higher than the 2015/16 level of MCIL-liable development of 2.95 million sqm**.** There is strong policy support for an increased level of development in the future and it is noted that OBR forecasts issued with the Autumn Statement predict a sharp rebound in GDP growth. JLL's forecast of development assumes that policy support is accompanied by government (national and local) intervention where necessary to back up these policies.

1.7. Summary of funding contribution towards the Crossrail 2 project that could be achieved under the three MCIL 2 options are as follows:

Table 1: MCIL 2 Options – possible contribution towards Crossrail 2

MCIL 2 Option	MCIL % contribution towards project costs* in present value (PV) terms** (Central Case, 35% affordable housing)	MCIL revenue £bn (PV)	MCIL revenue £bn (nominal)
Option A	8.5%	2.6	4.6
Option B	15.7%	4.8	8.4
Option C	12.7%	3.9	7.0

* Crossrail 2 project cost – £30.75 billion (PV)

** PV in Financial Year 2020

1.8. These figures are subject to further viability testing and should be treated as indicative. They are inclusive of a 10% contingency on Options A and C, and a 15% contingency on Option B, to reflect the viability concerns associated with the doubling of the MCIL and S.106 rates.

1.9. This paper makes a set of recommendations for the next steps:

- officers should prepare further work on a revised MCIL2 policy
- this should absorb the existing S106 Crossrail scheme for commercial development
- there should be a package of minor changes
- MCIL2 should propose some increases in rates, such as those set out under Option C, but not an across the board doubling from 2019, as it could affect development viability
- a full viability study should be done to refine these proposals, together with more detailed work on affordable housing with the aim of a preliminary consultation in April 2017 (and therefore a return to this group in February 2017)
- officers should explore the potential of securing an additional contribution from the boroughs and from setting differential rates around the proposed Crossrail 2 station locations, with the aim of making a contribution of c. 1% of project cost (c. £300 million PV)

2. Introduction

Policy context

2.1. MCIL and the Crossrail Section 106 (S.106) charge were introduced in order to contribute £600 million towards the Crossrail project by March 2019. Once the target contribution amount has been reached, it is currently proposed to bring the S.106 policy, whose sole purpose is raising funds towards the Crossrail project, to an end[1]. There is more flexibility on the use of MCIL, however policy for MCIL beyond March 2019 has not yet been confirmed.

2.2. The February 2016 Crossrail 2 submission to the NIC stated that MCIL would play a role in funding the project. The submission assumed that MCIL would continue to operate beyond March 2019, at double existing rates and would incorporate the S.106 rates currently charged on commercial development in the Central Activity Zone (CAZ) and the North Docklands.

2.3. The Mayor has not yet given his commitment on the use of both MCIL and S.106 charge for the Crossrail 2 project. MCIL was however presented as an assumed funding stream in the 2015 Crossrail 2 Strategic Outline Business Case (SOBC). There is a need to review the S.106 and MCIL policies to decide what contribution these mechanisms should make towards Crossrail 2. Under the CIL Regulations (2010, 59(2)) the Mayor can apply MCIL proceeds towards funding roads and other transport facilities after the £600 million contribution target for Crossrail 1 has been achieved in combination with S.106 charge. Therefore, using MCIL to contribute towards funding Crossrail 2 is not precluded in legal terms.

2.4. A decision on what happens with MCIL after March 2019 needs to be made relatively soon, in order for the new policy to dovetail the current one and to inform the revised SOBC for Crossrail 2, which needs to be submitted in draft form to the Government by mid-December 2016. The Mayor said the GLA and TfL should explore all options to ensure it can robustly say London will contribute 50% of the Crossrail 2 cost. Any MCIL policy change will require a preparation for and a re-run of the CIL examination in public (EiP). This process typically takes up to two years.

2.5. This decision will also be made in the context of the national CIL review, led by Liz Peace CBE. We understand that officials are currently working on options for Ministers.

2.6. During the review there was some criticism of a system where each lower tier authority could set its own CIL; and we have seen a very wide range of approaches and rates used by boroughs. It is possible the recommendation to

---

[1] Crossrail Funding SPG updated in March 2016
https://www.london.gov.uk/sites/default/files/crossrail_funding_spg_updated_march_2016v2.pdf

ministers will propose centralisation of rates setting. This could be an issue, as a national system is unlikely to deal well with London's circumstances. TfL has argued during the review that the MCIL had worked reasonably well and delivered useful sums of money.

2.7. We expect the Government to respond to the review in its Housing White Paper following the Autumn Statement announcement. It is not known what the Government will conclude and therefore, it has not really been possible to take account of the Peace review in this paper. This factor does however add a little weight to the arguments for proceeding on MCIL 2 policy with caution.

Paper structure

2.8. The purpose of this paper is to provide an update to TfL and GLA officers on:

- the performance of MCIL to date and its impact (if any) on the development activity in London
- the progress made on the proposed MCIL 2 policy development, including testing the viability of extending MCIL beyond April 2019 and potentially increasing the charging rates

2.9. **Section 3** discusses the current MCIL policy and its interaction with the development market.

2.10. **Section 4** discusses the relationship between the proposed MCIL 2 policy and the delivery of affordable housing, reflecting the Mayor's higher affordable housing targets. This section goes on to discuss JLL's review of the medium term market conditions, forecast of CIL-liable development and possible methodology for establishing the viability headroom for MCIL 2.

2.11. **Section 5** presents MCIL 2 policy options, including possible charging rates, and **Section 6** concludes with the recommendations on the next steps for MCIL 2 policy development and viability testing.

3. MCIL Position to Date

3.1. The 2016 Mayoral CIL Biennial Review Report will discuss the MCIL position to date and its impact on development levels and affordable housing delivery in greater level of detail. The report will become available later this year. This section summarises the report's key messages.

3.2. MCIL has raised £307 million by October 2016, against an original target of £300 million by 2019. Together with S.106 receipts the total from developer contributions is £387 million against an overall target of £600 million by March 2019. The MCIL trend continues to increase, though there is some evidence it is flattening off. Given information on the future pipeline, it looks likely that the £600 million figure will be reached during the first two quarters of financial year 2018/19. Any surplus receipts above £600 million raised by April 2019 would be available to the Mayor to direct to other transport infrastructure priorities, for example the Crossrail 2 project. Future receipts do however depend on how buoyant development is post the Brexit vote.

3.3. It is difficult to discern any impact MCIL has had on development. JLL have looked at a number of approaches to measuring impact; and in theory a tax on development should reduce the amount of development. But the low level of MCIL means that any effect is small compared to changes in other market and policy areas.

3.4. It is important to note that MCIL has not prevented boroughs and Mayoral Development Corporations (MDCs) from setting their own CILs. Almost all have done so, or are in the process of doing so. Most borough CILs (BCILs) are several multiples of the MCIL rate in that borough.

3.5. JLL have found that there has been no discernible effect on the levels or type of affordable housing delivered in London as a result of MCIL. Again the theory is that MCIL as a charge paid from land value should reduce the ability to obtain affordable housing through Section 106. But changes in types of affordable housing, the financial support for affordable housing, and in the overall viability of development all have much larger effects.

3.6. The S. 106 policy has raised less money than expected since 2010. This is partly because of the pattern of development, with commercial development recovering more recently than residential. It is also partly from a transfer from S.106 to MCIL because CIL is regarded as part of the payment of the S106 obligation and the money received under S106 is now a top up above the CIL amount. There have been very few examples of viability arguments being used in an attempt to reduce the policy levels of S106 for individual sites. The rules on mixed use development have been generous to developers and there is an argument for a change in approach.

4. MCIL 2 Policy Development

MCIL 2 and affordable housing

4.1. The relationship between CILs and the delivery of affordable housing is a complex one. The Mayoral target of 50% affordable housing delivery will interact closely with the amount of MCIL2 that could be collected.

4.2. Higher affordable housing levels could have some impact on the development viability. This will be dependent on what grant or other incentives accompany the higher affordable housing delivery threshold. Higher affordable housing levels could also lead to a reduction in the number of homes developed for market sale but are unlikely to lead to a reduction in demand for residential property at market prices, given the housing supply/demand disequilibrium in London.

4.3. There is some evidence that development is becoming more viable, given the differential between the house price growth and the construction inflation over the past six years (discussed in 3.19) which means that some headroom for MCIL 2 would be available, even in a higher affordable housing environment.

4.4. MCIL represents a small proportion of development cost and although both MCIL and affordable housing delivery draw from the same viability pot, we consider that across London as a whole, the extra MCIL charge will not be the element that turns a viable development into an unviable one. However, on some specific sites there may be some viability impact when the cumulative effect of MCIL, BCIL, affordable housing and any other Section 106 costs is considered. The CIL relief offered to social housing, the scaling back of s106 requirements, and the reduction in the price paid for development land are amongst mitigating factors, whilst the level of BCILs is likely to be of much greater impact in the majority of cases. There is little evidence to date of any meaningful impact of CIL on affordable housing levels. A range of other factors such as the availability and level of social housing investment, stamp duty charges, construction costs, fluctuations in demand and Brexit uncertainty are likely to be more influential. As CIL charges cannot be negotiated, there may be individual circumstances where policy levels of affordable housing might be challenged on the basis of viability.

4.5. There is also no evidence suggesting that the higher levels of affordable housing would lead to a reduction in the overall quantum of development.

Market outlook

4.6. This sub-section summarises JLL's review of market conditions. Full commentary will form part of the MCIL Biennial Review Report.

4.7. JLL report that business and consumer sentiment has largely recovered after an immediate dip post the EU referendum result and that economic growth in London is forecast to continue to outstrip the national average in 2018.

4.8. Beyond 2018, the office supply outlook is uncertain and the level of speculative development starts over the next 6 to 12 months will be crucial in determining the level of supply delivered in 2019-2020 and hence the levels of MCIL that could be collected over the medium term. Retail and hotel sectors are not expected to experience significant ups or downs over this medium term.

4.9. For the residential market, JLL report that demand levels are still down compared with a year ago, when investors were more active. The market is described as being quieter and more subdued. New build prices across Central London have fallen slightly during the second quarter of 2016 but remain up on a year ago. JLL consider it unlikely that the high competitive demand from the past few years is going to return any time soon. JLL anticipate annual price growth on residential property in the order of 0% in 2017, +1% in 2018 and +3% in 2019, before stronger growth returns from 2020.

4.10. In summary, the economic outlook for the property development sector looks challenging over the next two years and JLL consider that a large increase in MCIL would be difficult to achieve at EiP against this backdrop and given the proximity in time to the last of the Borough CILs being introduced.

Forecast of development activity

4.11. This sub-section covers JLL's approach on forecasting the level of new CIL-liable development beyond 2016/17, in the light of the current development market conditions and the Mayoral affordable housing policy. The revenue raised by MCIL depends both on the rates charged and the amount of space developed.

4.12.So the forecast of future development is important. But the forecasting development over a 20 year period is not simple. The market is known to be cyclical and volatile, and the forecast is not going to be accurate in any particular year. The aim is to predict the average amount of development, taking account of long term economic changes and the way in which planning and housing policies actually come into practice.

4.13. The original MCIL policy was based around a measure of the historic amounts of development in London. As shown in the biennial review, this has broadly worked, with financial results that are on target.

4.14. JLL propose to use the space which generated CIL payments in 2015/16 as the baseline for an MCIL2 forecast. Their estimate is that approximately 2.95 million square metres (sqm) of new MCIL-liable development generated the payments in 2015/16. Of this, new residential floorspace was estimated at 2.24 million sqm and new commercial floorspace at 0.71 million sqm.

4.15. This was a high level of development and it is possible that there may be a fall in the near future reflecting changes in economic conditions following the referendum. On the other hand, there is strong policy support for an increased level of development in the future and it is noted that OBR forecasts issued with the Autumn Statement predict a sharp rebound in GDP growth. JLL's central forecast for MCIL-liable development from 2019 is an average of **3.13 million sqm per year** but this assumes that policy support is accompanied by government (national and local) intervention where necessary to back up these policies. As viability work continues, they will develop upside and downside sensitivities for this number. The central forecast assumes constant commercial development at 0.71 million sqm a year and a small increase in market housing to 2.42 million sqm a year. The small increase is explained by affordable housing percentages increasing – see 4.17 below.

4.16. This is a flat forecast for the same amount of development in every year (apart from some allowance for a ramp up). JLL have discussed with officials whether there should be a trend in the forecast. It could go up over time as more development comes forward, or down as the existing development pipeline is used up and land becomes scarcer. On balance a flat forecast, with sensitivities, seems best.

4.17. This small increase in market residential development could be consistent with a much larger overall increase in homes delivered. This is because for the baseline year it is assumed that only 15% affordable housing was delivered (note: different statistical sources give different percentages). So any growth in homes delivered would need to go disproportionately to the affordable sector to meet the Mayor's 35% target and aspiration for 50%. JLL have assumed as a long term average that 35% of all new houses delivered will be affordable, and thus subject to relief from CIL including MCIL.

4.18. In coming to the new development estimate, JLL also considered the following issues:

- MCIL is payable only on the net increase in floor space

- The MCIL yield is smoothed due to a combination of it being paid on a phased basis and in instalments

- During the early years of MCIL implementation, schemes were developed under existing planning permissions, which did not trigger MCIL

Establishing MCIL 2 viability headroom

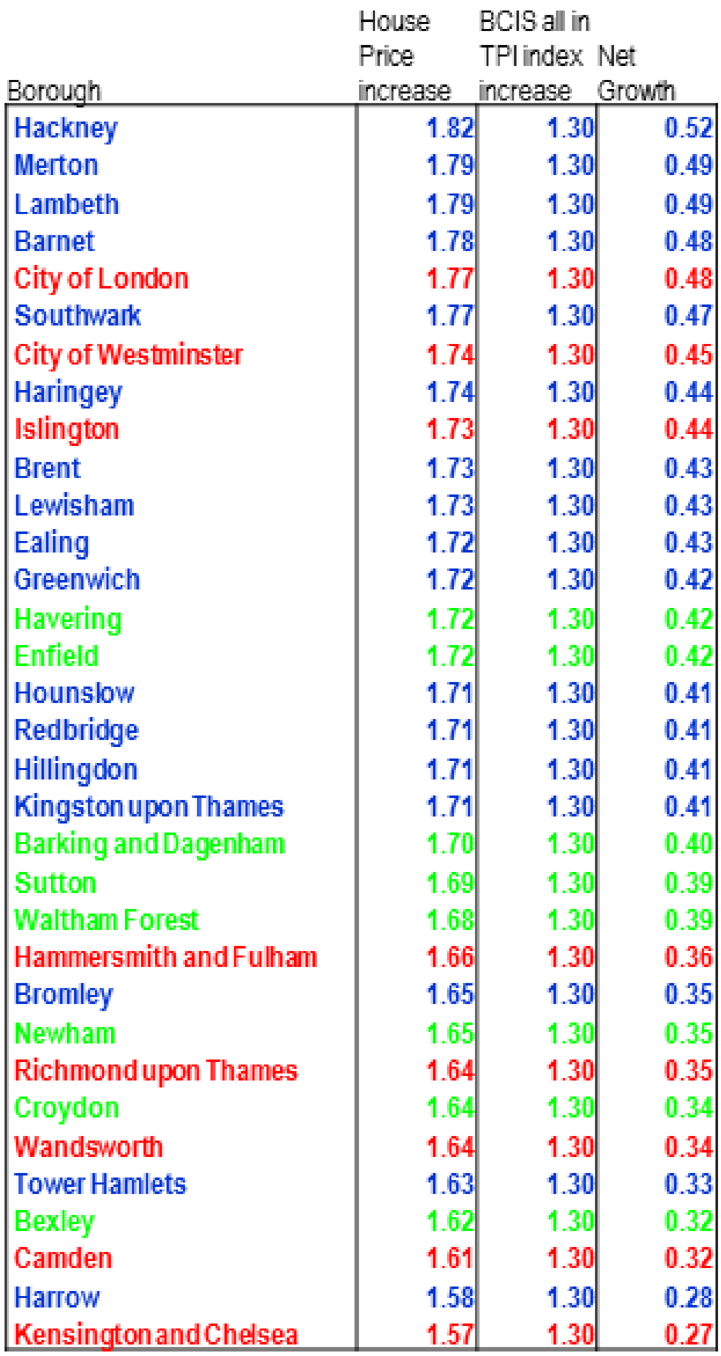
4.19. Having assessed the prevalent development market environment and the level of new CIL-liable development that could be delivered in future, JLL started to assess the viability of extending MCIL beyond March 2019 and setting higher rates.

4.20. JLL's approach focused on establishing selling price and development costs of a viable residential development in 2012. Development costs (including development profit at 20%) and selling prices were then updated to 2016 values, reflecting the house price inflation and construction price inflation that has occurred over the past four years. Both MCIL and BCIL rates were taken into account in the updated calculation. The difference between the 2016 selling prices and total development costs represents the value headroom, which, if all things remain equal, results in higher land prices.

4.21. Some of this additional land value could be absorbed by setting higher MCIL rates, provided that the remaining headroom is still sufficient to incentivise the land owner to sell their land. Land in central London often means land and buildings that are ripe for development and where refurbishment is an option. JLL are currently looking at how existing use values have grown since MCIL was introduced.

4.22. JLL found that across all London boroughs the growth in house prices has outstripped the growth in construction prices **(Table 2)**, suggesting that additional headroom has opened up which could accommodate a higher MCIL charge, although the level of headroom is dampened somewhat by the recent introduction of BCILs, which in most instances are multiple of MCIL rates. Therefore, the level of this headroom varies across the capital and would need to be reflected in the new MCIL rates, in order not to prohibit viability of development across London as a whole.

Table 2: Net growth in house prices by borough - 2010 to 2016



Borough	House Price increase	BCIS all in TPI index increase	Net Growth
Hackney	1.82	1.30	0.52
Merton	1.79	1.30	0.49
Lambeth	1.79	1.30	0.49
Barnet	1.78	1.30	0.48
City of London	1.77	1.30	0.48
Southwark	1.77	1.30	0.47
City of Westminster	1.74	1.30	0.45
Haringey	1.74	1.30	0.44
Islington	1.73	1.30	0.44
Brent	1.73	1.30	0.43
Lewisham	1.73	1.30	0.43
Ealing	1.72	1.30	0.43
Greenwich	1.72	1.30	0.42
Havering	1.72	1.30	0.42
Enfield	1.72	1.30	0.42
Hounslow	1.71	1.30	0.41
Redbridge	1.71	1.30	0.41
Hillingdon	1.71	1.30	0.41
Kingston upon Thames	1.71	1.30	0.41
Barking and Dagenham	1.70	1.30	0.40
Sutton	1.69	1.30	0.39
Waltham Forest	1.68	1.30	0.39
Hammersmith and Fulham	1.66	1.30	0.36
Bromley	1.65	1.30	0.35
Newham	1.65	1.30	0.35
Richmond upon Thames	1.64	1.30	0.35
Croydon	1.64	1.30	0.34
Wandsworth	1.64	1.30	0.34
Tower Hamlets	1.63	1.30	0.33
Bexley	1.62	1.30	0.32
Camden	1.61	1.30	0.32
Harrow	1.58	1.30	0.28
Kensington and Chelsea	1.57	1.30	0.27

Source: JLL

Key:

Red - Boroughs currently paying CIL based on a £50 per sqm

Blue - Boroughs currently paying CIL based on £35 per sqm

Green - Boroughs currently paying CIL based on £20 per sqm

5. MCIL 2 Charging Options

5.1. This section looks at the possible MCIL 2 charging options. It summarises the current thinking developed by TfL, with JLL's support.

5.2. There are a range of choices for how MCIL 2 is taken forward and they cover:

- the broad options about what should happen to the rates charged
- more minor changes to boundaries and rules
- timings and tactics

5.3. TfL developed three broad options:

A. **Consolidation** – keeping MCIL rates as at present, bringing the CAZ and Docklands SPG S106 scheme for commercial development into MCIL at the current levels
B. **Blanket Increase in MCIL Rates (NIC submission)** – doubling the existing MCIL and S106 rates
C. **Targeted Increase in MCIL rates** – striking a compromise between A and B, with rates increasing in two steps, in 2019 and 2024

Option A – Consolidation

5.4. This option is easiest to justify in viability terms and its policy implications are also limited. This combination makes it low risk. There are three underlying arguments.

5.5. First, the biennial review has found no evidence that the current MCIL scheme has had a noticeable effect on development volume or affordable housing delivery.

5.6. Secondly, the existing Crossrail S.106 scheme has been taken account of in all relevant borough CILs and there has been very little take up of the option of a specific viability review. So it too gets a viability 'green light'.

5.7. Finally, the S.106 scheme only applies to commercial uses and in general these are not affected by affordable housing policy. This option does not however raise revenue above the current sums produced by MCIL and S.106, with an exception of a possible small increase as a result of removing the CIL/S106 set off on mixed use schemes. Overall, this option means a possible contribution towards the Crossrail 2 project would be limited to approximately the current levels of income being achieved for the Crossrail project.

5.8. **Table 3** summarises the proposed rates under this option.

Table 3: MCIL2 rates - Option A

Current MCIL rate unindexed (per sq m)	Current MCIL rate including indexation to November 2016 (per sq m)	Current MCIL rate including indexation to March 2019 (per sq m)*	Proposed MCIL rate April 2019 (per sq m)	
All land uses				
Zone 1 boroughs[2]				
£50.00	£63.23	£60.76	£61.00	
Zone 2 boroughs				
£35.00	£44.26	£42.53	£43.00	
Zone 3 boroughs				
£20.00	£25.29	£24.30	£24.00	
In CAZ/North Docklands – commercial land uses only			CAZ	North Docklands
Office			£157.00	£213.00
Retail			£101.00	£136.00
Hotel			£69.00	£94.00

* lower 2019 rates reflective of some negative Tender Price Inflation between 2016 and 2019

5.9. Under this option, MCIL is estimated to generate revenues to cover **8.5%** of Crossrail 2 project cost (total revenue of **£4.6 billion** in nominal terms, inclusive of a 10% contingency).

Option B – Blanket Increase

5.10. This option takes the assumptions used by the previous Mayor in the Crossrail 2 submission to the NIC. At that stage, no detailed viability work had been done.

5.11. The latest viability work done by JLL now suggests that a simple doubling would cause viability problems in some areas. JLL note difficulties in two different areas – the boroughs with relatively low values, particularly those in the £20 band, and a few boroughs in Central London where the borough CIL has been set at a high level recently.

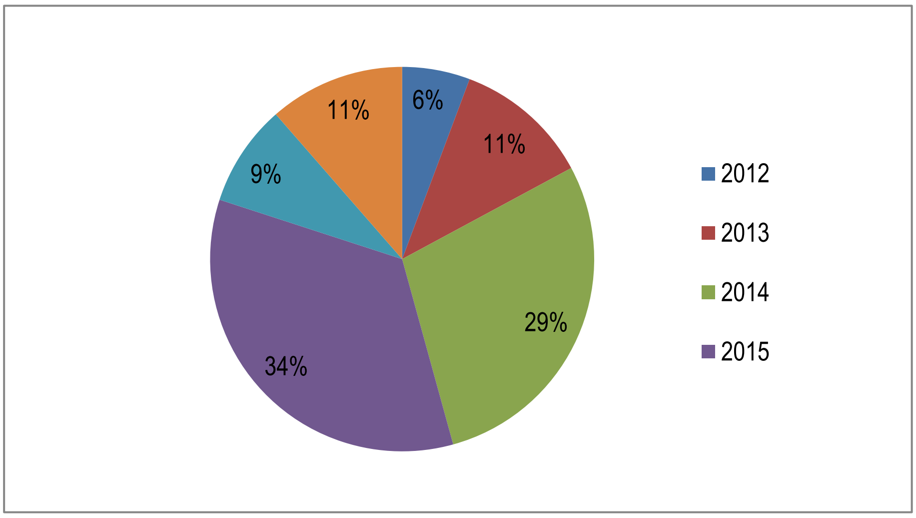
5.12. Since MCIL was introduced local CIL charging schedules have been progressively introduced by boroughs and MDCs. The majority of boroughs introduced their charging schedules in 2014/2015 (**Table 4**), although Westminster, which is a very important Borough in terms of CIL receipts, only introduced its CIL in May 2016.

---

[2] Zone 1 boroughs - MCIL rate of £50/sqm (unindexed) currently applies
Zone 2 boroughs - MCIL rate of £35/sqm (unindexed) currently applies
Zone 3 boroughs - MCIL rate of £20/sqm (unindexed) currently applies
https://www.london.gov.uk/what-we-do/planning/implementing-london-plan/mayoral-community-infrastructure-levy

5.13. **Table 5** shows high and low BCIL rates, which in combination with the doubled MCIL rates could impact on development viability. JLL also note the uncertainty in the development market at present. The higher affordable housing targets could also impact on development viability.

Table 4: BCIL implementation by year (% of boroughs in each year)



Source: JLL

Table 5: BCIL low and high rates

Borough	July 2016 Average House Price	Residential Low BCIL	Residential High BCIL	Borough	July 2016 Average House Price	Residential Low BCIL	Residential High BCIL
Kensington and Chelsea	£1,287,850	£0	£750	Tower Hamlets	£468,484	£0	£200
City of Westminster	£1,029,884	£200	£550	Harrow	£451,643	£110	£110
City of London	£886,713	£95	£150	Bromley	£440,373	£0	£0
Camden	£788,065	£150	£500	Waltham Forest	£424,824	£65	£70
Hammersmith and Fulham	£760,245	£0	£400	Lewisham	£421,155	£70	£100
Richmond upon Thames	£685,448	£190	£250	Hillingdon	£417,684	£95	£95
Islington	£683,349	£250	£300	Redbridge	£409,025	£70	£70
Wandsworth	£621,220	£0	£575	Hounslow	£401,957	£70	£200
Haringey	£569,376	£15	£265	Enfield	£388,151	£40	£120
Barnet	£542,389	£135	£135	Greenwich	£387,336	£40	£70
Hackney	£541,914	£0	£190	Sutton	£376,410	£100	£100
Lambeth	£527,419	£50	£265	Croydon	£365,479	£0	£120
Merton	£526,216	£115	£220	Newham	£359,231	£40	£80
Southwark	£519,781	£50	£400	Havering	£348,973	£0	£0
Kingston upon Thames	£500,730	£50	£210	Bexley	£328,107	£40	£60
Brent	£499,514	£200	£200	Barking & Dagenham	£276,145	£10	£70
Ealing	£497,044	£0	£0				

5.14. **Table 6** summarises the proposed rates under this option, as assumed in the Crossrail 2 submission to the NIC.

Table 6: MCIL2 rates - Option B

Current MCIL/S106 rate unindexed (per sq m)	Current MCIL rate including indexation to November 2016 (per sq m)	Current MCIL rate including indexation to March 2019* (per sq m)	Proposed unindexed MCIL rate April 2019 (per sq m)
Zone 1 boroughs			
£50.00	£63.23	£60.76	£100.00
Zone 2 boroughs			
£35.00	£44.26	£42.53	£70.00
Zone 3 boroughs			
£20.00	£25.29	£24.30	£40.00
CAZ – all uses			
£140.00			£280.00

* lower 2019 rates reflective of some negative Tender Price Inflation between 2016 and 2019

5.15. Under this option, MCIL is estimated to generate revenues to cover **15.7%** of Crossrail 2 project cost (total revenue of **£8.4 billion** in nominal terms, inclusive of a 15% contingency), provided the rates can be substantiated at EiP.

Option C – Targeted Increase

5.16. This option is not fully developed. JLL's initial analysis shows that in many boroughs and uses there is likely to be viability space for an increased MCIL, mainly because of the growth in property prices since 2012. These include most of the high and medium level boroughs. Further work will be needed on viability and on the impact on affordable housing and other policies.

5.17. The more minor changes could address the boundaries agreed in the 2009 S106 Examination in Public (EIP) and the approach taken to offsetting MCIL and S106 for mixed use development. At present, Waterloo, Elephant and Castle, Vauxhall and Battersea are not treated as part of Central London – despite being in the Central Activities Zone. Under a CIL approach it might also be possible to charge all commercial development the same rate, if viability permits (rather than have different rates for offices, retail and hotel). The two MDCs could also be treated as separate planning areas.

5.18. The CIL setting process involves two rounds of consultation and an EIP. So it is a reasonable approach, and one that a number of boroughs have adopted to put out proposals at the preliminary stage and see how developers and stakeholders react. They can then be adapted at the main consultation stage, without much delay to the process.

5.19. Secondly, the CIL process allows statements of future intent to be made. So it would be possible to show clearly a direction of travel, and then note that part of the changes will be delayed to allow the market to strengthen and new policies to be adopted. JLL assume that MCIL rate increases for residential property could take place in two steps – first, in 2019 and second, in 2024. Commercial development is assumed to be charged new MCIL rates from 2019.

5.20. **Table 7** presents the possible MCIL 2 rates that could be tested under this option, with a two-step implementation - in 2019 and a subsequent increase in 2024. Tactically, it will be important to show intent of the 2024 increase in rates during the initial EiP. Securing Government support for this approach would also be beneficial. Full viability of these rates has not yet been assessed and they may need to be adjusted in the light of the evidence that will be developed by JLL.

Table 7: MCIL2 rates - Option C

Current MCIL rate unindexed (per sq m)	Current MCIL rate including indexation to November 2016 (per sq m)	Current MCIL rate including indexation to March 2019 (per sq m)*	Proposed MCIL rate April 2019 (per sq m)**		Proposed MCIL rate April 2024 (per sq m)**	
All land uses						
Zone 1 boroughs						
£50.00	£63.23	£60.76	£80.00		£100.00	
Zone 2 boroughs						
£35.00	£44.26	£42.53	£60.00		£70.00	
Zone 3 boroughs						
£20.00	£25.29	£24.30	£25.00		£40.00***	
In CAZ/North Docklands only						
Zone 1 boroughs						
Residential			£80.00		£150.00	
Office			£175.00		£190.00	
Retail			160.00		£175.00	
Hotel			122.50		£137.50	
Zone 2 boroughs			CAZ	North Docklands	CAZ	North Docklands
Residential			£60.00	£60.00	£120.00	£120.00
Office			£160.00	£220.00	£165.00	£225.00
Retail			£145.00	£195.00	£150.00	£200.00
Hotel			£105.00	£135.00	£110.00	£140.00

* lower 2019 rates reflective of some negative Tender Price Inflation between 2016 and 2019
** rates in 2019 prices
***rate may need to be revised down to £30/sqm on viability grounds

5.21. Under this option, assuming both the 2019 and 2024 rate increases are possible, MCIL could generate revenues to cover **12.7%** of Crossrail 2 project cost (total revenue of **£7.0 billion** in nominal terms, inclusive of a 10% contingency). As would be expected, this is lower than **£8.4 billion** estimated under option B. This means that other funding sources would need to be drawn on to fill the £1.4 billion gap.

Other considerations

5.22. BCILs are multiples of the MCIL rate in a number of the boroughs which Crossrail 2 will serve (Westminster and Wandsworth for example). There is also some evidence from the Land Value Capture study of higher house prices and thus viability close to stations.

5.23. Boroughs have contributed, or agreed to contribute, from BCILs or S106 to transport improvements in the past – e.g. the Northern Line Extension (NLE) and the proposed Elephant and Castle station works. It might be possible to obtain contributions from relevant boroughs, perhaps with the Mayor and Government both exerting influence as there is likely to be opposition to this proposal. The boroughs' spending need on local infrastructure would need to be recognised.

5.24. As a fall back, MDCs could be used as these divert developer contributions from the boroughs to the Mayor in their zones. New MDCs would need to be created for this.

5.25. An alternative policy approach would use special MCIL zones around stations, reflective of the land value uplift likely to be experienced near the stations. These would have to be justified at EiP and would complicate the MCIL proposal. They would also be unpopular with the affected boroughs.

5.26. Nothing has been included for either option in the current SOBC. If there is support for taking a tough line with boroughs, then a modest target would be £300 million or 1% of funding. This is roughly the same as Wandsworth and Lambeth will contribute to the NLE – though the bulk of that comes from one large developer.

5.27. Increase in the MCIL rates will fund a proportion of the Crossrail 2 cost and help in the development of the funding package for the project. The two-step rates increase approach will give the Mayor the opportunity to introduce rates that best reflect the development viability in 2019 and in mid-2020s. The two year process for the first rise also gives opportunities to refine and restate the policy as negotiations with Government continue and the business case develops. The downside of the phased approach in Option C is that borrowing against MCIL 2 becomes more problematic given that MCIL 2 would be generating lower income between 2019 and 2024 than under an outright doubling of rates set out under Option B.

5.28. If the Crossrail 2 project does not get a go-ahead, the Mayor will be able to direct its MCIL 2 receipts when available towards other infrastructure projects in the capital, for example the Bakerloo Line Extension. The switch of MCIL revenue from Crossrail 2 to another project would be relatively simple to implement and with relevant CIL Regulations change, could potentially be used for other types of infrastructure requirements.

6. MCIL 2 Recommendations

6.1. The recommendations of this paper with regard to the MCIL 2 policy development and charging rates testing are that, subject to the Mayor's agreement:

- officers should prepare further work on a revised MCIL2
- this should absorb the existing S106 Crossrail scheme for commercial development
- there should be a package of minor changes
- MCIL2 should propose some increases in rates, such as those set out under Option C, but not an across the board doubling from 2019, as it could affect development viability
- a full viability study should be done to refine these proposals, together with more detailed work on affordable housing with the aim of launching a preliminary draft charging schedule consultation in April 2017 (and therefore a return to this group in February 2017).
- officers should explore the potential of securing an additional contribution from the boroughs and from setting differential rates around the proposed Crossrail 2 station locations, with the aim of making a contribution of c. 1% of project cost

Contact

Julian Ware
Senior Principal
TfL Commercial Finance

Email [redacted]tfl.gov.uk
Phone ([redacted]

EVERY JOURNEY MATTERS

29 NOVEMBER 2016

Mayoral Community Infrastructure Levy (MCIL) 2

Growth Board Meeting – Discussion of Proposals

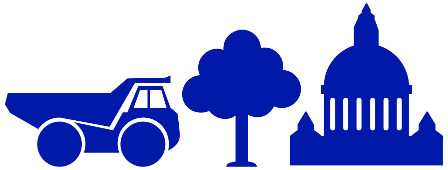
TFL Commercial Finance: Julian Ware

EVERY JOURNEY MATTERS

MCIL – Biennial Review Key Messages

MCIL continues to perform well since its introduction in April 2012

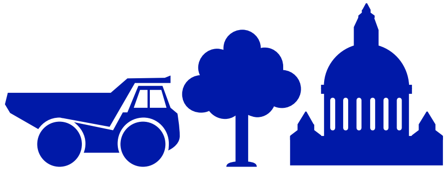
- Raised **£307 million** to date
- On track to collect £600 million, together with Section 106, towards the Crossrail project by March 2019
- No evidence to suggest impact on affordable housing
- Biennial Review will recommend no change to MCIL rates
- Outcome of Liz Peace CIL Review yet unknown



MCIL 2 and Crossrail 2

Crossrail 2 Strategic Outline Business Case (SOBC) assumes MCIL 2 will play a major role in funding the project from April 2019

- Decision on MCIL use beyond March 2019 needs to be made soon
- Revised Crossrail 2 SOBC to be agreed by mid-December 2016
- London to contribute 50% of Crossrail 2 scheme cost and all funding options to be considered
- Any MCIL policy change will require a preparation for and a re-run of the CIL Examination in Public (EiP)
- This process typically takes up to two years



Development Market Forecast

Jones Lang LaSalle (JLL) expect challenging development market conditions over the next two years, however Autumn Statement was positive on GDP growth

- Current level of MCIL-liable development – 2.95 million square metres (sqm) per annum
- JLL forecast a rise to an average of **3.13 million sqm of MCIL-liable per annum from 2019**
- This assumes affordable housing at 35% and FALP housing targets achieved
- Actual levels of development will fluctuate each year, depending on the economic conditions
- JLL do not recommend a large increase in MCIL rates from 2019 on development viability grounds

Affordable Housing and MCIL 2

Mayoral affordable housing target of 50% - impact on MCIL 2

- Potentially lower levels of development released for market sale – impact on MCIL receipts

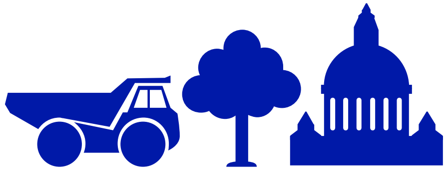
- Could impact development viability, unless accompanied by grants / other incentives, but effect on viability is smaller than from borough CIL rates

- Compromise between development charges (including MCIL) and level of affordable housing delivered on some development sites may be needed

MCIL 2 Options Summary

Options	Description	Contribution towards Crossrail 2 (% of project cost)*	MCIL revenue (£bn, present value)	MCIL revenue (£bn, nominal)
Option A (Consolidation)	Keep MCIL rates as at present and bring S.106 rates into MCIL	8.5%	2.6	4.6
Option B (Blanket increase in MCIL rates)	Double existing MCIL and S.106 rates	15.7%	4.8	8.4
Option C (Targeted increase in MCIL rates)	Compromise between Options A and B – rates increase in two steps, in 2019 and 2024	12.7%	3.9	7.0

* in present value (PV) terms, assuming 35% affordable housing delivery. Crossrail 2 project cost - £30.75bn (PV)



MCIL 2 Option A - Consolidation

Charging rates considered

Current MCIL rate unindexed (per sq m)	Current MCIL rate including indexation to November 2016* (per sq m)	Current MCIL rate including indexation to March 2019 (per sq m)	Proposed MCIL rate April 2019 (per sq m)	
Not in CAZ – all land uses				
High				
£50.00	£63.23	£60.76	**£61.00**	
Middle				
£35.00	£44.26	£42.53	**£43.00**	
Low				
£20.00	£25.29	£24.30	**£24.00**	
In CAZ/North Docklands – commercial land uses only			CAZ	North Docklands
Office			£157.00	£213.00
Retail			£101.00	£136.00
Hotel			£69.00	£94.00

- Rolling forward current MCIL and S.106 rates
- Option is low risk and easy to justify
- Revenue raised limited to current levels
- Option could raise 8.5% of Crossrail 2 project cost

MCIL 2 Option B – Blanket Increase

Charging rates considered

Current MCIL/S106 rate unindexed (per sq m)	Current MCIL rate including indexation to November 2016* (per sq m)	Current MCIL rate including indexation to March 2019* (per sq m)	Proposed MCIL rate April 2019 (per sq m)
High			
£50.00	£63.23	£60.76	**£100.00**
Middle			
£35.00	£44.26	£42.53	**£70.00**
Low			
£20.00	£25.29	£24.30	**£50.00**
CAZ – all uses			
£140.00			**£280.00**

- Doubled MCIL/S.106 rates
- Assumption used in Crossrail 2 submission to National Infrastructure Commission in early 2016
- Latest viability work by JLL suggest blanket doubling would cause viability problems in certain places
- Option could raise 15.7% of Crossrail 2 project cost

MCIL 2 Option C – Targeted Increase

Charging rates considered

<table>
<tr><th>Current MCIL rate unindexed (per sq m)</th><th>Current MCIL rate including indexation to November 2016 (per sq m)</th><th>Current MCIL rate including indexation to March 2019 (per sq m)</th><th colspan="2">Proposed MCIL rate April 2019 (per sq m)*</th><th colspan="2">Proposed MCIL rate April 2024 (per sq m)*</th></tr>
<tr><td colspan="7">All land uses</td></tr>
<tr><td colspan="3">High</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>£50.00</td><td>£63.23</td><td>£60.76</td><td colspan="2">£80.00</td><td colspan="2">£100.00</td></tr>
<tr><td colspan="3">Middle</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>£35.00</td><td>£44.26</td><td>£42.53</td><td colspan="2">£60.00</td><td colspan="2">£70.00</td></tr>
<tr><td colspan="3">Low</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>£20.00</td><td>£25.29</td><td>£24.30</td><td colspan="2">£25.00</td><td colspan="2">£40.00**</td></tr>
<tr><td colspan="7">In CAZ/North Docklands only</td></tr>
<tr><td colspan="3">High</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td colspan="3">Residential</td><td colspan="2">£80.00</td><td colspan="2">£150.00</td></tr>
<tr><td colspan="3">Office</td><td colspan="2">£175.00</td><td colspan="2">£190.00</td></tr>
<tr><td colspan="3">Retail</td><td colspan="2">160.00</td><td colspan="2">£175.00</td></tr>
<tr><td colspan="3">Hotel</td><td colspan="2">122.50</td><td colspan="2">£137.50</td></tr>
<tr><td colspan="3">Middle</td><td>CAZ</td><td>North Docklands</td><td>CAZ</td><td>North Docklands</td></tr>
<tr><td colspan="3">Residential</td><td>£60.00</td><td>£60.00</td><td>£120.00</td><td>£120.00</td></tr>
<tr><td colspan="3">Office</td><td>£160.00</td><td>£220.00</td><td>£165.00</td><td>£225.00</td></tr>
<tr><td colspan="3">Retail</td><td>£145.00</td><td>£195.00</td><td>£150.00</td><td>£200.00</td></tr>
<tr><td colspan="3">Hotel</td><td>£105.00</td><td>£135.00</td><td>£110.00</td><td>£140.00</td></tr>
</table>

- Preferred option
- Assume rate increases for both commercial and residential property could occur in two steps – in 2019 and 2024
- Two-step approach is more suited to address viability concerns
- Option could raise 12.7% of Crossrail 2 project cost

* rates in 2019 prices

** rate may need to go down to £30/sqm

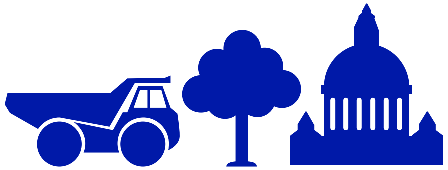
Other Considerations

- Scope to seek contribution from Borough CILs or create new Mayoral Development Corporations (MDCs) around Crossrail 2 stations to charge a MDC CIL

- Alternatively, create special (higher) MCIL zones around Crossrail 2 stations reflective of the land value uplift likely to occur in vicinity

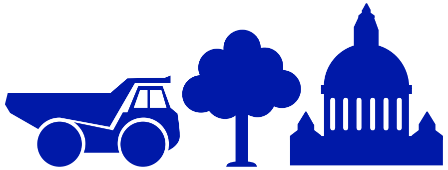
- Combination of two options above, which could be controversial, could raise up to 1% of Crossrail 2 project cost

- If Crossrail 2 project does not proceed, the Mayor could direct MCIL 2 receipts towards other infrastructure projects, e.g. Bakerloo Line Extension



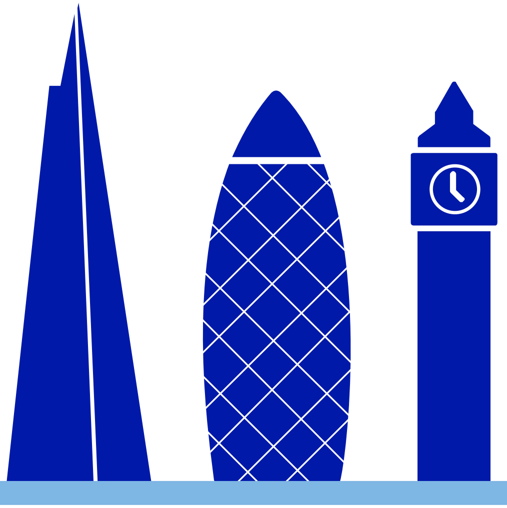
Recommendations

- Further work on revised MCIL 2 to be prepared
- MCIL 2 should propose increase in rates such as those under Option C, but not a blanket doubling
- Full viability study to be carried out, including a careful look at CAZ/North Docklands
- Aim to launch preliminary draft charging schedule consultation in April 2017
- Explore potential of securing contribution from borough CILs and from zonal MCIL



Conclusions

- Blanket doubling of MCIL and S.106 charges not possible on viability grounds, a two-step increase in 2019 and 2024 is more acceptable
- Option could raise c. £7bn towards the Crossrail 2 project (12.7% of project cost)
- CIL implementation process could take up to two years – need to start now to ensure smooth transition to MCIL 2 from April 2019
- MCIL 2 development forecast assumes 35% affordable housing. 50% would depress income and could affect development viability
- Should consider use of borough CIL and zonal MCIL to increase contribution to the Crossrail 2 by around 1% of project cost
- Recommendation of further viability testing of MCIL 2 rates (Option C)



Contact

TfL Commercial Finance

Julian Ware [redacted]tfl.gov.uk

[redacted]

[redacted]

From: Gerrish, Ryan <[redacted]eu.jll.com>
Sent: 20 March 2017 19:14
To: Hart Anna; 'Peter Heath'; Richard Linton; Ware Julian; Lees Neil; Gardiner Stephen; Jones, Richard (UK); Neil Hook; Vincett-Wilson Harriet; Sharples Elliot
Subject: MCIL2
Attachments: 20170320_MCIL2 working towards PDCS - DRAFT.docx

Dear all,

In advance of our meeting tomorrow please find our latest working draft made during the past week in track changes.

Please note the new photograph and substantially rewritten MCIL 3? Section 12.

Kind regards,

Ryan & Richard

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 20 March 2017 16:08
To: 'Peter Heath' ; Richard Linton ; Ware Julian ; Lees Neil ; Gardiner Stephen ; Jones, Richard (UK) ; Gerrish, Ryan ; Neil Hook ; Vincett-Wilson Harriet ; Sharples Elliot
Subject: RE: London Plan Transport policies for MCIL2

Dear all,

I had an initial go at preparing a draft PDCS document. Please, find this attached. The structure and majority of the text is as per the 2011 PDCS document. I've tracked the changes that I made to that original text and highlighted areas where I think text should be revised or possibly taken out altogether. I'd be grateful for your advice on the best approach.

Stephen – we will need your assistance to review all the legal/regulatory references in the text to make sure they are still up-to-date or need changing.

Please feel free to add/change as appropriate and we can discuss tomorrow afternoon.

Many thanks,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 14:15
To: Hart Anna; Richard Linton; Ware Julian; Lees Neil

Cc: Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Anna,

Why don't tfl comrades write as much as they can/want and rich and I tweak and recirculate??

Pete

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 14:00
To: Richard Linton; Julian Ware; Lees Neil
Cc: Peter Heath; Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Thanks Rich.

Were you happy with the action note that Harriet circulated earlier today and the suggested sections of the document to be drafted by you/Pete? Or did you want me to have a first go and then edit afterwards if needed?

Regards,
Anna

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 13:21
To: Hart Anna; Ware Julian; Lees Neil
Cc: Peter Heath
Subject: RE: London Plan Transport policies for MCIL2

CIB just facilitates sign off by DMs in the MD (mayoral decision) form process – it meets every week to deal with that week's MDs – from our point of view, we just need to look at it as an administrative stage…

So I/we will do the MD when your documents are ready (the PDCS and the evidence report) and sent to me – they will be annexes to the MD. I will then draft the MD and circulate it between us to check you are happy with it and the way it explains MCIL2…

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 11:27
To: Peter Heath; Julian Ware; Lees Neil; Richard Linton
Subject: RE: London Plan Transport policies for MCIL2

Many thanks Pete.

If you or Rich could also advise on the timescales for submitting papers to the CIB that would be great.

Kind regards,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 08:45
To: Hart Anna; Ware Julian; Lees Neil; Richard Linton
Subject: London Plan Transport policies for MCIL2

All,
Following policies from adopted London Plan Transport chapter may assist

Policy 6.1

https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-18

Table 6.1
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/table

Policy 6.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-19

Policy 6.4
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/policy

As may this one on cross boundary cooperation and growth
Policy 2.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-two-londons-places/policy-22

Rich may think of some more.

Pete
#LondonIsOpen

#LondonIsOpen

#LondonIsOpen

GREATER LONDON AUTHORITY NOTICE:
The information in this email may contain confidential or privileged materials. For more information see https://www.london.gov.uk/about-us/email-notice/

Jacob Gemma

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	25 January 2017 13:49
To:	Neil Hook; Lees Neil; Hart Anna; Ware Julian; Jones, Richard (UK); Richard Linton; Peter Heath; Sharples Elliot; Vincett-Wilson Harriet; Gardiner Stephen; Turner Lucinda
Subject:	RE: CIL SG - 17 January - Action Note
Attachments:	20170124_MCIL2 working towards PDCS - DRAFT.docx

Dear All,

Please see version of the document prepared for yesterday's CIL steering group. Due to some Outlook issues here, this had been sat in my inbox.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Neil Hook [mailto:[redacted]london.gov.uk]
Sent: 24 January 2017 10:34
To: Gerrish, Ryan ; 'Lees Neil' ; 'Hart Anna' ; Julian Ware ; Jones, Richard (UK) ; Richard Linton ; Peter Heath ; 'Sharples Elliot' ; 'Vincett-Wilson Harriet' ; Stephen Gardiner ; Lucinda Turner
Subject: RE: CIL SG - 17 January - Action Note

Hi,

Yes, worth discussing at length later. I/we/CR2 think the case is actually that we need to lobby for a wider use of Mayoral CIL powers beyond strategic transport, not necessarily to spend it on anything the Mayor desires, but more than some of the CR2 ask isn't transport related or conceivably can be wedged in to the description below.

Neil

Neil Hook
Senior Area Manager (North East London)
Housing and Land Directorate

GREATER **LONDON** AUTHORITY
City Hall, 3rd Floor
The Queen's Walk
London
SE1 2AA

T: [redacted]
M: [redacted]

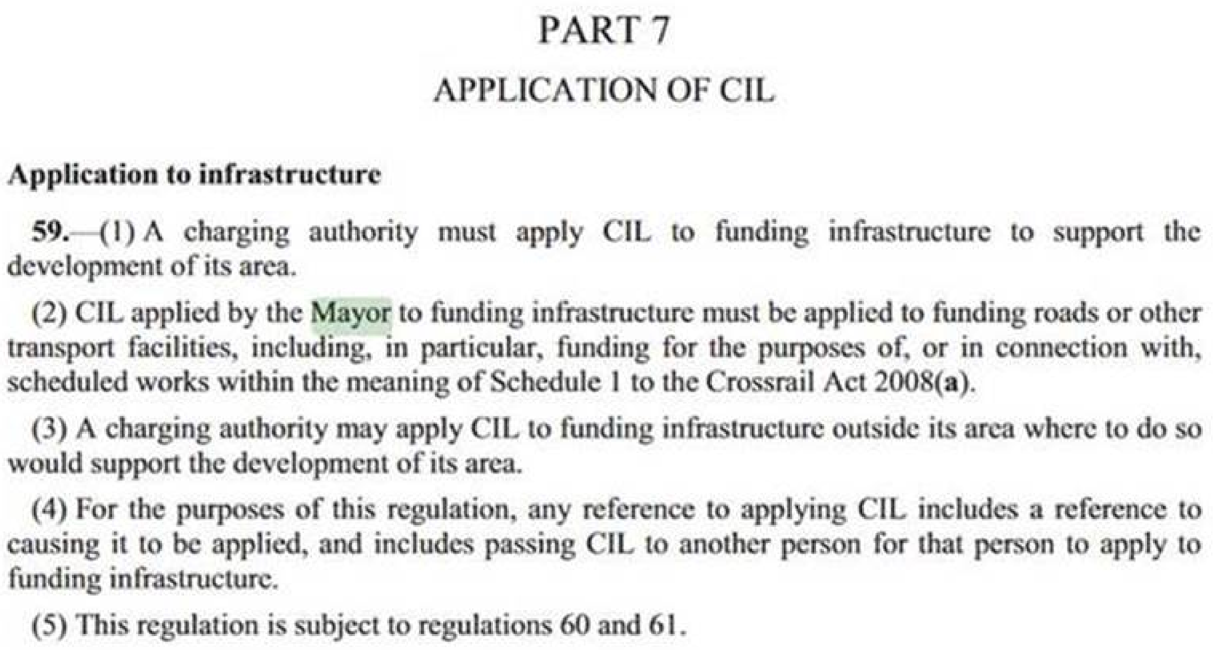
E: [redacted]london.gov.uk

From: Gerrish, Ryan [mailto:[redacted]eu.jll.com]
Sent: 24 January 2017 10:22
To: Lees Neil; Hart Anna; Julian Ware; Jones, Richard (UK); Neil Hook; Richard Linton; Peter Heath; Sharples Elliot; Vincett-Wilson Harriet; Stephen Gardiner; Lucinda Turner
Subject: RE: CIL SG - 17 January - Action Note

Dear All,

Ahead of today's steering group, one of our actions was to locate the relevant regulation dealing with where the Mayor could spend his CIL receipts. One of the decisions that needs to be taken is in the absence of there being an approved Crossrail 2 Act (in the way there was in the 2008 Act prior to the 2010 Regulations) is it wise/appropriate to construct our arguments for increasing CIL purely around Crossrail 2, or should we look for a wider justification? If the argument for a wider justification is accepted is it appropriate to have zones around Crossrail 2 stations when we cannot be sure there will be a firm scheme when we go to the Examination?

Aside from the above, it could be difficult on viability grounds to show that a zone around a station without the powers to construct it and where such construction, if it does take place, is a number of years away is capable of generating additional value which could be shared through CIL. There seems to be some benefit in leaving any station zones until it is closer to the scheme commencing and when valuation impacts may be more discernable. I appreciate that in saying this we may not be in the same groove as the Deputy Mayors. Can we discuss this later?



PART 7

APPLICATION OF CIL

Application to infrastructure

59.—(1) A charging authority must apply CIL to funding infrastructure to support the development of its area.

(2) CIL applied by the Mayor to funding infrastructure must be applied to funding 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(**a**).

(3) A charging authority may apply CIL to funding infrastructure outside its area where to do so would support the development of its area.

(4) For the purposes of this regulation, any reference to applying CIL includes a reference to causing it to be applied, and includes passing CIL to another person for that person to apply to funding infrastructure.

(5) This regulation is subject to regulations 60 and 61.

Regards,

Richard

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Lees Neil [mailto:[redacted]tfl.gov.uk]
Sent: 23 January 2017 15:46
To: Hart Anna <[redacted]tfl.gov.uk>; Ware Julian <[redacted]tfl.gov.uk>; Jones, Richard (UK) <[redacted]eu.jll.com>; Gerrish, Ryan <[redacted]eu.jll.com>; 'Neil Hook' <[redacted]london.gov.uk>; Richard Linton <[redacted]london.gov.uk>; Peter Heath <[redacted]london.gov.uk>; Sharples Elliot <[redacted]tfl.gov.uk>; Vincett-Wilson Harriet <[redacted]tfl.gov.uk>; Gardiner Stephen <[redacted]Tfl.gov.uk>; Turner Lucinda <[redacted]TfL.gov.uk>
Subject: CIL SG - 17 January - Action Note

All,
Apologies for the delay in getting the Action Note out from last week's meeting (attached).
Regards,
Neil.

From: Hart Anna
Sent: 20 January 2017 11:04
To: Ware Julian; Lees Neil; Jones, Richard (UK); 'Gerrish, Ryan'; 'Neil Hook'; Richard Linton; Peter Heath; Sharples Elliot; Vincett-Wilson Harriet
Subject: CIL SG - 24 January - agenda

Hi all,

Just to confirm the agenda for next week's meeting. We agreed to cover both the Crossrail 2 station zones/strategic sites (brought forward from 31 Jan meeting) and affordable housing. I noted that JLL took away an action to put together notes on CR2 station zones and why zonal MCIL2 would be difficult. JLL are also progressing work on borough-specific buffer analysis, which they may be able to share next week.

We would also like to re-visit the CAZ boundary and GLA colleagues have helpfully shared the CAZ/North Docklands maps. I will print a few A3 copies. If we don't have time to discuss CAZ next Tuesday we should have time the following week.

If I've missed something please shout.

Neil H – are you able to attend next week?

Thanks,
Anna

Anna Hart
Transport for London | Commercial Finance |
Windsor House | 42-50 Victoria Street | London SW1H 0TL
Telephone: [redacted] | Auto: [redacted] |
Mobile: [redacted]
Email: [redacted]tfl.gov.uk

PLEASE NOTE THE NEW TELEPHONE NUMBER ABOVE
Please consider the environment before printing this e-mail

****

****

#LondonIsOpen

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	14 March 2017 14:41
To:	Hart Anna; Sharples Elliot; Vincett-Wilson Harriet; Gardiner Stephen; Lees Neil; Neil Hook; Peter Heath; Jones, Richard (UK); Ware Julian; Richard Linton
Cc:	Turner Lucinda
Subject:	RE: CIL SG action note 14/2/17
Attachments:	20170314_MCIL2 working towards PDCS - DRAFT.pdf

Dear All,

Please find attached the working towards PDCS document. We have been making amendments and changes particularly in connection with the Central London rates (rather than separate CAZ and North Docklands rates) for both MCIL 2 and the proposed MCIL 3, although we still need to review the text that accompanies the tables to ensure this is clear.

We will discuss this and the possible Central London rate for MCIL 3 in the meeting.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 14 March 2017 12:09
To: Sharples Elliot ; Vincett-Wilson Harriet ; Gardiner Stephen ; Lees Neil ; Neil Hook ; Peter Heath ; Jones, Richard (UK) ; Gerrish, Ryan ; Ware Julian ; Richard Linton
Cc: Turner Lucinda
Subject: FW: CIL SG action note 14/2/17

All,

Can I add an item for discussion this afternoon - the drafting of the MCIL 2 PDCS document. We touched on this before but I don't think divided up the writing tasks. I circulated the below document structure earlier and it would be good to discuss how we approach the drafting.

Thanks,
Anna

From: Hart Anna
Sent: 15 February 2017 11:35
To: Sharples Elliot; Vincett-Wilson Harriet; Gardiner Stephen; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Ryan Gerrish; Ware Julian; Richard Linton

Cc: Turner Lucinda
Subject: RE: CIL SG action note 14/2/17

All,

Please, find attached the preliminary draft charging schedule we prepared for MCIL in 2010/2011. Julian – is this the document you had in mind?

It is split into 6 chapters plus an annex:

1. **Introduction** – purpose of the document and the required consultation procedures
2. **Crossrail and the CIL** – background and benefits of the project, funding arrangements, use of CIL for project and project implementation
3. **The MCIL PDCS** – including maps, the relevant extracts from regulations
4. **Evidence base** – JLL's section
5. **Conclusions** – Mayor's conclusions on the PDCS, equality statement
6. **Responding to this document**

Annex 1. Strategic Environmental Assessment

My initial feeling is that TfL/GLA will need to draft chapters 1-3 and 5-6, if we want to keep the same format. We'll need Stephen's help to make sure we're in line with the appropriate Regulations. Chapter 2 will require most effort from our side and I think we'll need to divide up drafting. Is it worth involving the Crossrail 2 team to describe the project in the appropriate level of detail?

It would be good to agree if this is a point for discussion next week or if we should aim to have started drafting the relevant sections by next Tuesday.

Kind regards,
Anna

Anna Hart

Telephone: [redacted] | Auto: [redacted] | Mobile: [redacted]

From: Sharples Elliot
Sent: 15 February 2017 10:35
To: Vincett-Wilson Harriet; Alan Benson; Gardiner Stephen; Hart Anna; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Richard Linton ; Ryan Gerrish; Turner Lucinda; Ware Julian
Subject: CIL SG action note 14/2/17

Good morning All,

Please find attached an action note from CIL SG on Tuesday 14/2/17.

Kindest regards,

Elliot Sharples

Planning Obligations I Borough Planning
Transport for London
T: [redacted] Auto: [redacted] E: [redacted]tfl.gov.uk
A: 10 Floor, Windsor House, 42-50 Victoria Street,
London SW1H 0TL

For more information regarding the TfL Borough Planning team, including TfL's *Transport Assessment Best Practice Guidance,* and pre-application advice please visit http://www.tfl.gov.uk/businessandpartners/15393.aspx. For TfL's new *Travel Planning Guidance* please see http://www.lscp.org.uk/newwaytoplan/default.html.

Jacob Gemma

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	01 February 2017 12:33
To:	Vincett-Wilson Harriet; Hart Anna; Lees Neil; Neil Hook; Peter Heath; Jones, Richard (UK); Richard Linton ; Sharples Elliot; Ware Julian
Subject:	RE: CIL SG Action Note- 24/1/17
Attachments:	20170201_MCIL 2 modified CAZ boundary proposals.pptx; 20170130_MCIL2 working towards PDCS - DRAFT.docx

Dear All,

Further to discussions over the past week I attach a copy of the MCIL CAZ map showing the proposed modifications for MCIL 2.

I have highlighted the replacement for the 1km zone around Paddington in green and in yellow for Liverpool Street. As discussed, the intention is for these modified boundaries to follow roads and avoid cutting through the middle of buildings.

The area shaded blue around Lambeth and Southwark is to follow the existing London Plan CAZ boundary.

Pete/Richard L – can you ask your college Alex Green to incorporate these proposed boundary changes onto an 'official' version using her best judgment to follow existing roads in line with the version I have attempted on Powerpoint?

I also attach a copy of the draft document circulated at the meeting yesterday for reference.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Vincett-Wilson Harriet [mailto:[redacted]tfl.gov.uk]
Sent: 27 January 2017 12:20
To: Alan Benson ; Gardiner Stephen ; Hart Anna ; Lees Neil ; Neil Hook ; Peter Heath ; Jones, Richard (UK) ; Richard Linton ; Gerrish, Ryan ; Sharples Elliot ; Turner Lucinda ; Ware Julian
Subject: CIL SG Action Note- 24/1/17

Hi All,

Please find attached the action note from this week's CIL Steering Group.

Many thanks,
Harriet

Harriet Vincett-Wilson I Assistant Planner - Planning Obligations
TfL Planning *Transport For London*

T: [redacted] Auto: [redacted] **E:** [redacted]tfl.gov.uk
10th Floor, Windsor House, 50 Victoria Street,
London, SW1H 0TL

Jacob Gemma

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	19 January 2017 19:43
To:	Hart Anna; Ware Julian; Lees Neil; Vincett-Wilson Harriet; Peter Heath; 'Richard Linton'
Cc:	Jones, Richard (UK)
Subject:	RE: CIL Steering Group
Attachments:	20170119_MCIL2 working towards PDCS - DRAFT.docx; 20170119_GLA CAZ incl North Docklands and JLL Central London Commercial Submarkets.pdf

Dear All,

Please find attached the soft copy of the MCIL2 draft report incorporating the correct average/median house price tables and the GLA CAZ and North Docklands and JLL's Central London Commercial Submarkets maps attached.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 18 January 2017 10:18
To: Gerrish, Ryan
Cc: Jones, Richard (UK) ; Ware Julian
Subject: CIL Steering Group

Hi Ryan,

Please, could you send around a soft copy of the MCIL2 draft report that you shared with the group yesterday. It would also be good to have the map comparing the GLA definition of the CAZ with your definition of 'central London'.

Thank you,
Anna

Anna Hart
Transport for London | Commercial Finance |
Windsor House | 42-50 Victoria Street | London SW1H 0TL
Telephone: [redacted] | Auto: [redacted] |
Mobile: [redacted]
Email: [redacted]tfl.gov.uk

PLEASE NOTE THE NEW TELEPHONE NUMBER ABOVE

Please consider the environment before printing this e-mail

****

****

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	05 December 2016 17:32
To:	Ware Julian; Burton-Page Tom; Hart Anna
Cc:	Jones, Richard (UK)
Subject:	RE: CIL
Attachments:	MCIL 2 - policy options paper v3.1 CLEAN (sent to GLA 20161124).pdf

Julian,

See below. Assuming KPMG's base case is working on the rates in Table 7 of the Policy Discussion Paper (v3 CLEAN) (attached) then the text below describes the scenarios and the potential risks. You will notice that these rates do have fairly significant increases built in in 2019 hence the cautionary words about achieving these at a 2017/18 EiP. If this isn't what you wanted please let us know.

Financial Base Case

This scenario extrapolates trends demonstrated by CIL/S106 receipt data since inception of MCIL. It assumes that the current S106 Policy will be absorbed in the CIL regime in 2019 and that the reach of these higher rates will extend to the whole of the Central Activities Zone and North Docklands. We have increased the rates for retail and hotels. By removing the current "set off" between S106 and CIL there should be a further improvement in yield. The rates used outside of the CAZ have been increased by 25-40% from the current index adjusted rates.

Risks: This model assumes that relatively high volumes of residential development (by historical standards) will occur from 2019 after as assumed dip, due to current uncertain market conditions, in 2017/18. We have assumed an increase in the core CIL rates and top ups in the CAZ/North Docklands which may be difficult to sustain if the market is weak at the point that an Examination in Public takes place. A further possibility is that in pursuit of the policies described below under the heading Policy Compliant there is a negative impact on the private housing market e.g. if higher affordable percentages were demanded/achieved but the volume of house building remain static there would be a lower volume of private housing and CIL receipt. Another potentially disadvantageous outcome would be a rigid adoption of Affordable Housing percentages which may result in properties staying in their existing use if viability thresholds are not sufficient to encourage development.

Financial Base Case plus increases in 2024

This scenario has all the features of the one above together with assumed rises in CIL rates in 2024 signalled in 2019. The plan would be to provide evidence to go to a 2019 CIL Charging Schedule Examination in Public which would include an illustration of how the Mayor might intend to increase rates further in 2024, subject to viability. By this method the market could have time to adjust pricing to reflect the higher rates.

Risks: As above plus signalling higher rates could draw more attention to the changes in the CIL regime and encourage more land owners/developers to attend and provide contrary evidence at the Examination in Public.

Policy Compliant

This scenario assumes all the conditions are in place to allow a major expansion of the house-building capacity in London as well as meeting policies in connection with the number of houses to be built and the affordable content.

The key policies are:

- 420,000 homes (private and affordable) to be built by 2025

- 35% affordable housing with a long term target of 50%
- An assumption that in the longer term 60,000 homes will need to be constructed each year
- 90,000 affordable homes to be started by 2021

Although if realised these policies would mean that there is considerably more residential development than we are used to currently. This does not have a significant impact on predicted CIL receipts because the private content reduces as a percentage as a result of the Affordable Housing target increasing. Affordable Housing benefits from Social Housing Relief and is therefore effectively free from an obligation to pay CIL.

Risks: In our opinion the policies require major changes to the volume of planning consents granted, the grant regime and the number and capacity of house-builders. It is possible that one or more of these requirements will not be realised.

Kind regards,

Richard / Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From:	Jones, Richard (UK) <[redacted]eu.jll.com>
Sent:	11 May 2017 18:52
To:	Richard Linton; Gerrish, Ryan; Lees Neil; Ware Julian; Gardiner Stephen; Hart Anna; Vincett-Wilson Harriet; Peter Heath; Neil Hook; Sharples Elliot
Subject:	RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May

Richard

You asked at a recent meeting how the term " North Docklands" had made an appearance in our terminology.

Having researched this it seems that the blame lies with BNP Paribas who invented the term in their evidence for LB Tower Hamlets CIL.

So if you go to the LBTH CIL Charging Schedule you will see that offices have a zero rate in " North Docklands".

The expression has now been removed from our document.

Regards

Richard

Richard Jones
Lead Director - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 10 May 2017 23:36
To: Gerrish, Ryan ; Lees Neil ; Julian Ware ; Stephen Gardiner ; Hart Anna ; Vincett-Wilson Harriet ; Peter Heath ; Neil Hook ; Sharples Elliot ; Jones, Richard (UK)
Subject: RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May

Front cover needs updating!

From: Gerrish, Ryan [mailto:[redacted]eu.jll.com]
Sent: 10 May 2017 13:22
To: Lees Neil; Richard Linton; Julian Ware; Stephen Gardiner; Hart Anna; Vincett-Wilson Harriet; Peter Heath; Neil Hook; Sharples Elliot; Jones, Richard (UK)
Subject: RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May

Dear Neil,

Thank you very much for your detailed look through our document. All your text changes are agreed (and I will accept these in the next version alongside changes to references to North Docklands to Isle of Dogs and the table in Section 13 as per my earlier email). We have inserted replies against your comments – some of which other addressees to this email will be interested in.

Please can I have any final comments today.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Lees Neil [mailto:[redacted]tfl.gov.uk]
Sent: 09 May 2017 15:48
To: 'Richard Linton' <[redacted]london.gov.uk>; Ware Julian <[redacted]tfl.gov.uk>; Gardiner Stephen <[redacted]Tfl.gov.uk>; Hart Anna <[redacted]tfl.gov.uk>; Vincett-Wilson Harriet <[redacted]tfl.gov.uk>; Peter Heath <[redacted]london.gov.uk>; Neil Hook <[redacted]london.gov.uk>; Sharples Elliot <[redacted]tfl.gov.uk>; Jones, Richard (UK) <[redacted]eu.jll.com>; Gerrish, Ryan <[redacted]eu.jll.com>
Subject: RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May

Apologies all for the late circulation.
Attached are some proposed (minor) changes & comments on the JLL Viability Evidence Base document.
Regards,
Neil.

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 09 May 2017 15:01
To: Ware Julian; Lees Neil; Gardiner Stephen; Hart Anna; Vincett-Wilson Harriet; Peter Heath; Neil Hook; Sharples Elliot; 'richard.jones[redacted]; Ryan Gerrish
Subject: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May
Importance: High

For discussion at CILSG this afternoon…

Rich

From: Richard Linton
Sent: 09 May 2017 14:58
To: Jinder Ubhi
Cc: Joe Wilkinson; Jennifer Peters; Juliemma McLoughlin; Peter Heath
Subject: MCIL2 progress report to Jules' meeting Thursday 11 May
Importance: High

Hi Jinder

As discussed, MCIL2 report from me and Julian Ware (plus 4 attachments) attached:

- MCIL2 progress report (Richard Linton/Julian Ware TfL) +
    - Draft MD2123
    - MCIL2 PDCS
    - MCIL2 PDCS Supporting Information
    - MCIL2 PDCS Viability Evidence Base (JLL)

All agreed as good to go by Jen…

Rich

Richard Linton
Strategic Planning Manager
London Plan | GLA | Mayor of London
[redacted]london.gov.uk

#LondonIsOpen

#LondonIsOpen

Prepared for the Mayor of London and Transport for London

Mayoral Community Infrastructure Levy 2 (18/04/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule
March 2017

Contents

Cover photo: view from City Hall roof terrace. April 2017 © Richard Linton GLA

1 Introduction

1.1 Definitions

1.1.1 For clarity, the Mayoral Community Infrastructure Levy (Mayoral CIL or MCIL), introduced in April 2012 will be referred to as the Mayoral Community Infrastructure Levy 1 (Mayoral CIL 1 or MCIL1) throughout this document. A continuation of MCIL1 is proposed from April 2019, which is referred as Mayoral Community Infrastructure Levy 2 (Mayoral CIL 2 or MCIL2).

1.2 The Current MCIL1 Charging Schedule

1.2.1 As part of the funding arrangements with Government for the Crossrail project, the Greater London Authority (GLAL and Transport for London (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 1 and the Crossrail Section 106 (S106). MCIL1 is a charge on new development as set out in the CIL regulations. ~~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" Supplementary Planning Guidance updated in March 2016.

1.2.2 Before the introduction of MCIL1, 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.

1.2.3 Mayoral CIL 1 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 bands. 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

1.2.4 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 MCIL1 at the rates referred to above according to the geography of the underlying borough.

1.2.5 The MCIL1 charging bands have been coloured red, blue and green for ease of analysis and comparison. Table 1 below provides a breakdown of MCIL1 receipts by borough up to December 2016.

Table 1: MCIL1 receipts by borough to Q3 2016-17

Borough/Authorities	Total MCIL1 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

Comment [n1]: Could we update with the Q4 data.

Comment [GR2]: No. This would result in too many consequential changes.

1.2.6 The London boroughs and LLDC (collecting authorities) started collecting MCIL1 on behalf of the Mayor in April 2012. OPDC temporarily devolved the reporting and collection of MCIL1 to its underlying boroughs upon its creation in April 2015.

1.2.7 It can be seen that those boroughs which have seen the most development tend to be those where the MCIL1 level is in bands 1 & 2 i.e. the highest and middle levels.

1.2.8 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations (except Woolwich). Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

1.2.9 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 MCIL1 will be met during the financial year 2018/19. It is proposed to transition from the current Crossrail S106 and MCIL1 arrangements, to only having MCIL2, from 1 April 2019.

1.2.10 Following the implementation of MCIL1 in April 2012, the GLA and TfL, supported by JLL, have undertaken two Biennial Reviews, one in 2014 and another in 2016 to ensure that the rates set for MCIL1 continue to be appropriate.

1.2.11 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.

1.2.12 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.'*

1.2.13 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 of the 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.'*

1.2.14 For any chargeable development permitted before April 2019, but implemented after this date~~Post 2019~~, when Crossrail construction is expected to complete, the GLA and TfL intend to continue collecting a Mayoral CIL, (referred to as MCIL2 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 A.

1.2.15 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 and the UK's tax base.'* (p.9). The report further goes on to describe developer contributions by way of Community Infrastructure Levy and Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.[1]

Comment [n3]: Is there more to this sentence. I expected both X and Y.

Comment [GR4]: Thanks we have added the missing words.

1.2.16 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".*[2]

1.2.17 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.

1.3 Considerations when revising the Mayor's Charging Schedule

1.3.1 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 MCIL1.

1.3.2 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."*

1.3.3 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.

1.3.4 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 MCIL1 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

---

[1] *See 'Funding Crossrail 2,' London First (February 2014). Retrieved from: http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf last accessed 20/03/2017*

[2] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

that a correlation was sufficiently strong to make the residential value approach suitable for adoption generally across other uses. *(Para 12)*

1.3.5 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)*

1.3.6 When considering what levels of MCIL1 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."*

1.3.7 In Paragraph 42 Mr Holland considers arguments for reducing or setting a nil MCIL1 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[1] rate on the grounds of promoting desirable development would run the risk of contravening the State Aid rules."*

1.3.8 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[1] 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".*

1.3.9 In the following sections of his report Mr Holland considers the Mayor's decision not to make use of the exceptional circumstances relief. 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."*

1.3.10 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[1] 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."*

1.4 Market background for testing MCIL2 viability

1.4.1 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.

1.4.2 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.

1.4.3 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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.

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

1.4.5 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 MCIL2

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 MCIL1 rates Mr Holland stated *"Overall in London the MCIL[1] 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 for MCIL2. In addition we will take into account:

- changes in values across London since MCIL1 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 MCIL1 was introduced and whether there is any viability headroom to justify an increase in rates for MCIL2
- the impact of borough CILs on MCIL2 viability
- the impact of affordable housing policy

2.1.4 In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[3]

2.1.5 The CIL Review Team reported that consultees found the system inflexible. However they made an exception for MCIL1. Paragraph 3.3.5 says *'The only exception seems to be the single rate Mayoral CIL[1] 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[1] 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.'*[4]

2.1.6 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.7 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to

---

[3] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[4] *Ibid*

roll these in to the MCIL2 charging regime. At present because of the way the Mayor allows MCIL1 payments in the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a ‘top-up’ above the prevailing MCIL1 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.

2.1.8 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.

Comment [GR5]: We have removed the reference to 1km to give maximum flexibility if station zones were to be considered in the future.

Comment [n6]: Have we agreed a clear line now on station zones?

3 Residential and commercial values

3.1 Residential and commercial development activity

3.1.1 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL1 receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 Analysis of MCIL1 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

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

Figure 1: Residential and commercial development activity estimates based on MCIL1 receipts data for FY 2015-16 (estimated)

	Gross Internal Area	
Net additional MCIL1 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	-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

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL2 rates.

3.2 Mean vs Median

3.2.1 In the MCIL1 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 MCIL1 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 MCIL1 charging bands

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 MCIL2 charging bands

3.3.1 Based on Table 2 (average price changes by MCIL1 charging bands) the Mayor proposes the following changes for MCIL2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***

- Band 3 – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

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 residential values and other uses.

3.4.2 When considering the results of correlation coefficient analysis, the following ranges are typical:

- 0.90 to 1.00 – very high correlation

- 0.70 to 0.89 – high correlation

- 0.50 to 0.69 – moderate correlation

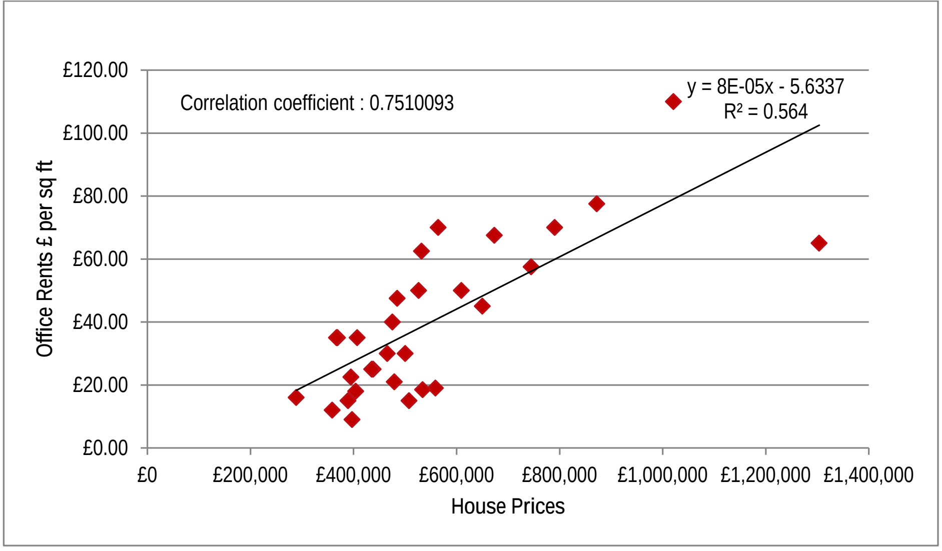
- 0.30 – 0.59 – low correlation

- 0.00 to 0.20 – little, if any correlation

3.4.3 Offices

3.4.4 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a high correlation between office rents and house prices.

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



Source: Land Registry, CoStar, JLL

3.4.5 Retail

3.4.6 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 and Westminster. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL2 bands.

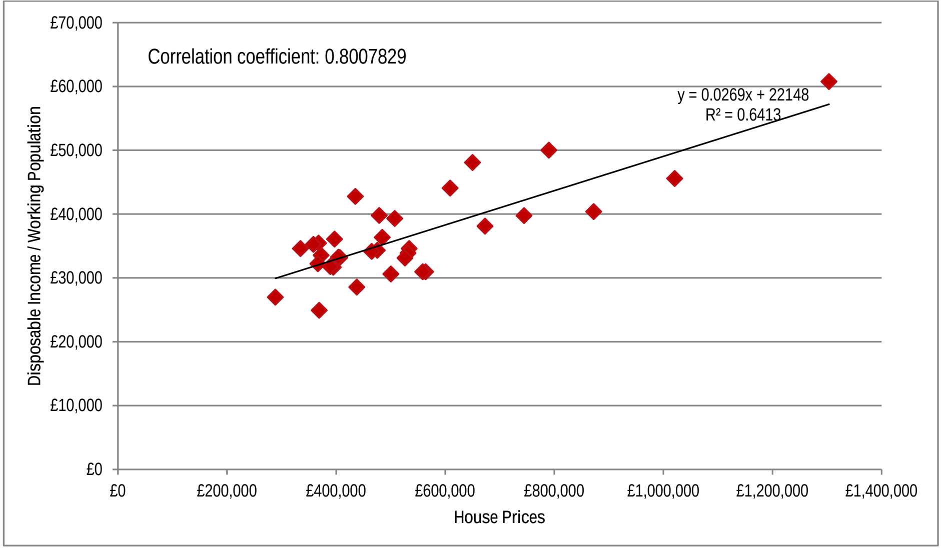
3.4.7 Other Categories

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

3.4.9 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.

3.4.10 We have confirmed this by comparing house prices with disposable income per person of working population in Figure 3 and Table 4 below, which shows a high correlation.

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



Source: Land Registry, Oxford Economics

3.4.11 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.

3.4.12 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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

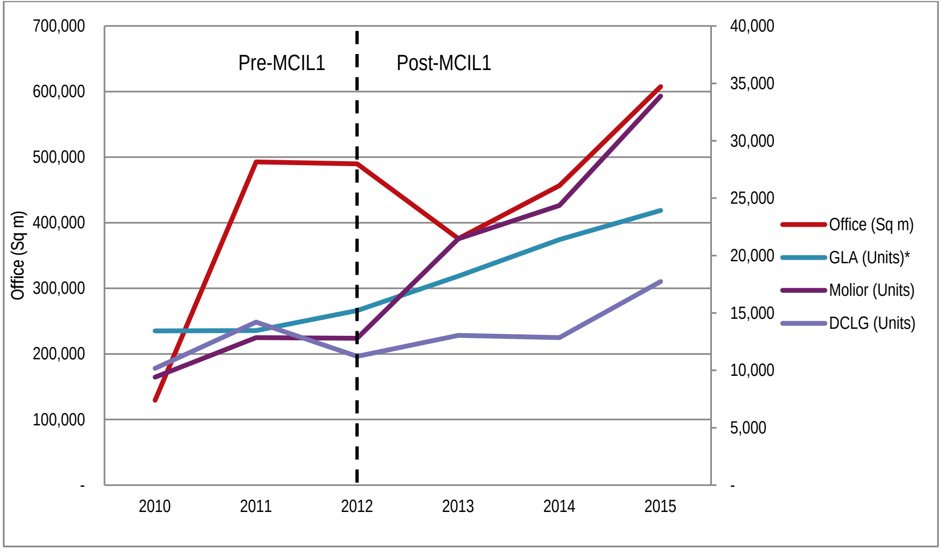
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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 MCIL1 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 MCIL1 in 2012, with office and residential trending upwards.

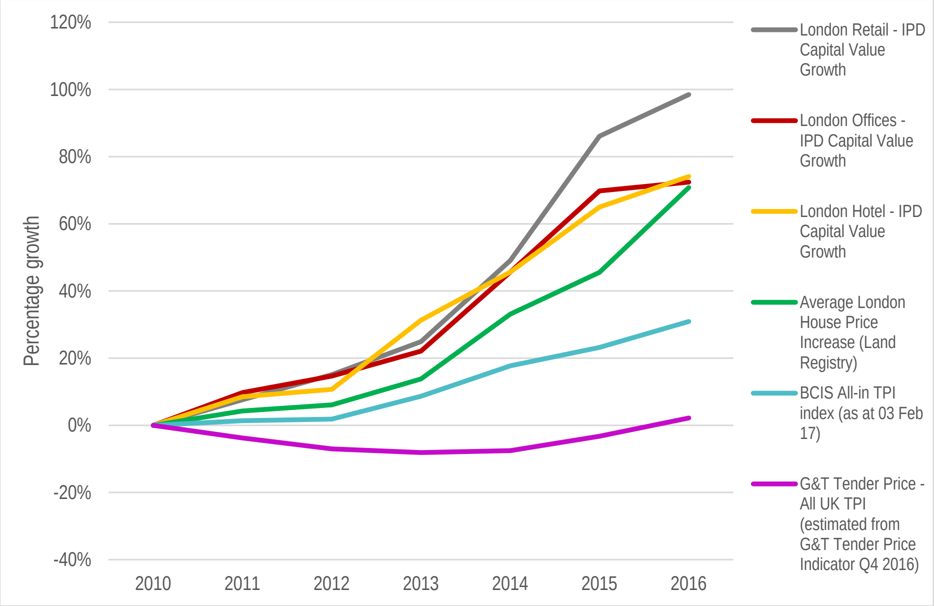
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL1 will be an important indicator of the likelihood of the ability for higher MCIL2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their 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 2017	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 MCIL1 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.

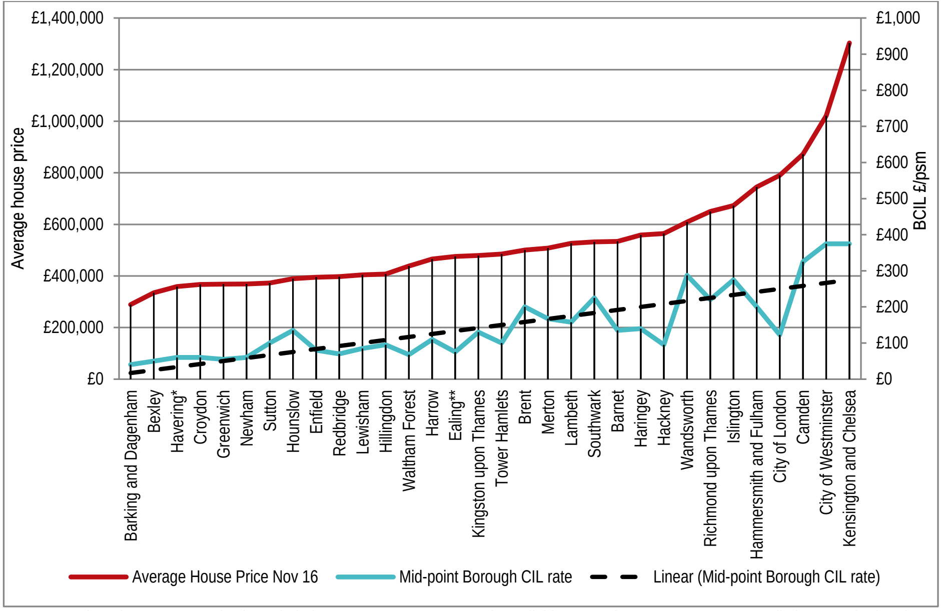
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and Borough CIL rates.

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

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 mid-point residential 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 MCIL1 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 part of 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 MCIL1 development activity has impacted development volumes. In order to calculate approximate levels of additional floor space we have removed indexation from the MCIL1 receipts shown earlier in Table 1. By examining the data in Table 6 below it can be seen that the green boroughs paying the lowest MCIL1 per sq m, are substantially in the bottom third of a list of boroughs/authorities.

5.1.6 For the green boroughs, relatively low levels of MCIL1 has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL1 charging rates.

Table 6: MCIL1 receipts (excl. indexation) by revenues and net additional GIA in sq m to Q3 2016-17

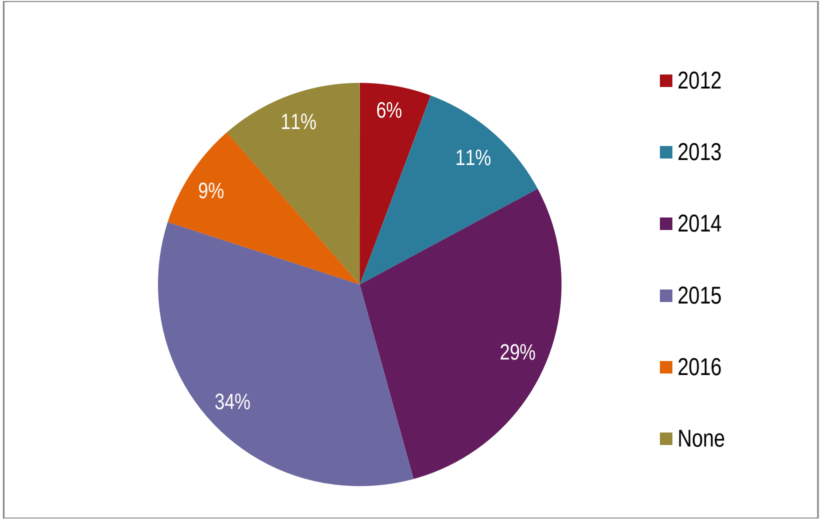
Comment [n7]: Can we update to Q4

Borough	Total MCIL1 revenue excluding indexation to Q3 2016-17	MCI1L rate per sq m (excluding indexation)	Net additional development (GIA sq m) to Q3 2016-17
Tower Hamlets	£33,226,940	£35	949,341
Southwark	£20,134,067	£35	575,259
City of Westminster	£27,853,421	£50	557,068
Lambeth	£18,463,412	£35	527,526
Hammersmith and Fulham	£20,516,892	£50	410,338
Hackney	£12,847,714	£35	367,078
Wandsworth	£18,308,958	£50	366,179
Greenwich	£12,015,455	£35	343,299
Barnet	£11,391,709	£35	325,477
City of London	£14,506,765	£50	290,135
Hounslow	£10,046,845	£35	287,053
Brent	£9,547,160	£35	272,776
Camden	£12,476,615	£50	249,532
Islington	£11,729,324	£50	234,586
Hillingdon	£7,680,248	£35	219,436
LLDC	£7,639,096	£35/£20	218,260*
Newham	£3,780,260	£20	189,013
Enfield	£3,037,537	£20	151,877
Haringey	£4,787,390	£35	136,783
Bromley	£4,743,828	£35	135,538
Lewisham	£4,587,054	£35	131,059
Bexley	£2,619,413	£20	130,971
Croydon	£2,533,527	£20	126,676
Ealing	£3,995,905	£35	114,169
Kensington and Chelsea	£5,588,604	£50	111,772
Waltham Forest	£2,143,309	£20	107,165
Sutton	£1,994,814	£20	99,741
Merton	£3,184,001	£35	90,971
Harrow	£3,136,808	£35	89,623
Kingston upon Thames	£2,859,849	£35	81,710
Barking and Dagenham	£1,078,069	£20	53,903
Richmond upon Thames	£2,523,974	£50	50,479
Havering	£832,889	£20	41,644
Redbridge	£974,009	£35	27,829
OPDC	£149,473	£50/£35	4,271*
Totals	£302,935,337		8,068,538

*For the purposes of this calculation we have assumed an MCIL1 rate of £35 per sq m for LLDC and OPDC. The area may be slightly overstated/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. Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

Comment [n8]: Can we update

Comment [GR9]: Yes we can update. Please can you provide the latest position?

6 Flat or variable rates

6.1.1 There is a trade-off between not importing unfairness into the MCIL2 charging schedule whilst still keeping the regime simple to understand and to operate.

6.1.2 When the MCIL1 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 MCIL1.

6.1.3 This policy has worked well and informal consultation through the MCIL1 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 proposals for MCIL2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[5]

6.1.4 We considered the following:

1. Consolidating the extant MCIL1 and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;

2. Removing all Central London and North Docklands rates and relying totally on Borough rates;

3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and

4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL2 rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[5] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

Comment [n10]: How are we proposing to deal with this section? Agreed line?

Comment [GR11]: Please see my earlier email today which related to this section. Third bullet therefore removed.

7.1.1 The Mayor considered the possibility of including station zones for MCIL2 around the stations anticipated to be on the Crossrail 2 route. The Mayor decided not to take this approach at this stage for the following reasons:

- It would increase the complexity of the MCIL2 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.~~
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[6]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL2 purposes.[7]

---

[6] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[7] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL2 charging schedule

8.1.1 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.

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

Table 8: Proposed MCIL2 charging rates from April 2019

Charging band	Boroughs	Proposed MCIL2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

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

Table 9: Proposed MCIL2 charging rates from April 2019 compared to existing MCIL1 rates including indexation

Proposed MCIL2 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 MCIL2 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)

8.1.4 In the proposed MCIL2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes differential rates ~~additional 'top ups'~~ as part of the combination of the S106 and MCIL1 into one MCIL2 regime. The 1km 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 proposed MCIL2 Central London charging area are considered further in chapter 10.

Comment [GR12]: See new language removing reference to top ups.

Comment [n13]: What are the 'top ups'?

8.1.5 As a result the Mayor proposes the following MCIL2 rates per sq m in Central London:

Table 10: Proposed Central London MCIL2 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	MCIL2 borough rate (£80.00 / £60.00)

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

8.1.7 For the purposes of comparison we present the current MCIL1 and S106 rates including indexation and the proposed Central London MCIL2 rates for commercial uses in the table below.

Table 11: Proposed Central London MCIL2 charging rates from April 2019 compared to existing MCIL1 and Crossrail S106 rates including indexation

	Central London				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 MCIL2 rate (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 MCIL2 rate (2019) to preserve existing relativities (per sq m)
Offices								
S106 rate / Central London MCIL2 rate	£140.00	£153.77	£162.09	£185.00	£190.00	£208.69	£219.98	£185.00
Retail								
S106 rate / Central London MCIL2 rate	£90.00	£98.85	£104.20	£165.00	£121.00	£132.90	£140.09	£165.00
Hotel								
S106 rate / Central London MCIL2 rate	£61.00	£67.00	£70.62	£140.00	£84.00	£92.26	£97.25	£140.00

*Indexation as per BCIS All-in TPI index and forecasts (as at 03 February 2017) for MCIL1 rates and as per CPI for the Crossrail S106 rates (Oxford Economics forecasts)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL2 rates

9.1.1 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.

9.2 Original MCIL1 as a percentage of highest and lowest average house prices within each charging band

9.2.1 For the purpose of considering this question in setting the original MCIL1 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 band (i.e. £50, £35 and £~~3~~20 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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 MCIL2 we have continued to use a ‘typical’ residential unit of 83.33 sq m to aid comparability with the previous MCIL1 evidence.

Comment [n14]: Shouldn’t this be £20

Comment [GR15]: Thank you.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

Table 12: MCIL1 payable on a typical residential unit of 83.33 sq m GIA at 73% and 100% net increase in GIA (2011-12)

Band	MCIL1 rate per Sq M	MCIL1 payable at 73% net increase in GIA	MCIL1 payable at 100% net increase in GIA
Band 1	£50	£3,050	£4,167
Band 2	£35	£2,135	£2,917
Band 3	£20	£1,220	£1,667

Table 13: MCIL1 as a percentage of highest and lowest average house prices by band assuming 73% and 100% net increase in GIA, as per original evidence (2011-12)

Band	Borough	Average House Price (as per HPI data April 2010)	MCIL1 payable (no indexation) assuming 73% Net increase in GIA	MCIL1 as percentage of highest and lowest average house price in each band assuming 73% net increase in GIA	MCIL1 payable (no indexation) assuming 100% Net increase in GIA	MCIL1 as percentage of highest and lowest average house price in each band assuming 100% net increase in GIA
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	0.35%	£4,167	0.48%
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	0.82%	£4,167	1.12%
Band 2 highest average house price	Hackney	£361,035	£2,135	0.59%	£2,917	0.81%
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	0.82%	£2,917	1.13%
Band 3 highest average house price	Havering	£256,611	£1,220	0.48%	£1,667	0.65%
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	0.57%	£1,667	0.78%

9.2.3 Since the original MCIL1, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

9.3 Testing MCIL2 proposals as a percentage of highest and lowest average house prices within each charging band

9.3.1 We have undertaken the same analysis to test the current MCIL2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL2 rate per Sq M	Proposed MCIL2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

Band	Borough	Average House Price (as per HPI data November 2016)	Proposed MCIL2 payable (no indexation) at 100% Net increase in GIA	Proposed MCIL2 as percentage of highest and lowest average house price in each band at 100% net increase in GIA
Band 1 highest average house price	Kensington and Chelsea	£1,303,778	£6,667	0.51%
Band 1 lowest average house price	Wandsworth	£609,373	£6,667	1.09%
Band 2 highest average house price	Hackney	£564,536	£5,000	0.89%
Band 2 lowest average house price	Hounslow	£389,458	£5,000	1.28%
Band 3 highest average house price	Sutton	£372,926	£2,083	0.56%
Band 3 lowest average house price	Barking and Dagenham	£288,873	£2,083	0.72%

9.4 Analysis of proposed MCIL2 rates

9.4.1 MCIL2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 Major movements in building costs and values over the development cycle are likely to have far greater impacts on viability than a proposed MCIL2 at the levels suggested in this paper.

9.4.4 Across the charging bands the percentage of the proposed MCIL2 payable on a typical unit is broadly in line with MCIL1. For the borough with the lowest average house prices in band 2 however, the proposed MCIL2 payable increases modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 MCIL2. On this basis, notwithstanding that on a typical unit the proposed MCIL2 rates equate to 1.28% of the average house price as at 2016 (see Table 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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
MCIL1 (2014) / proposed MCIL2 (2016)	-£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.

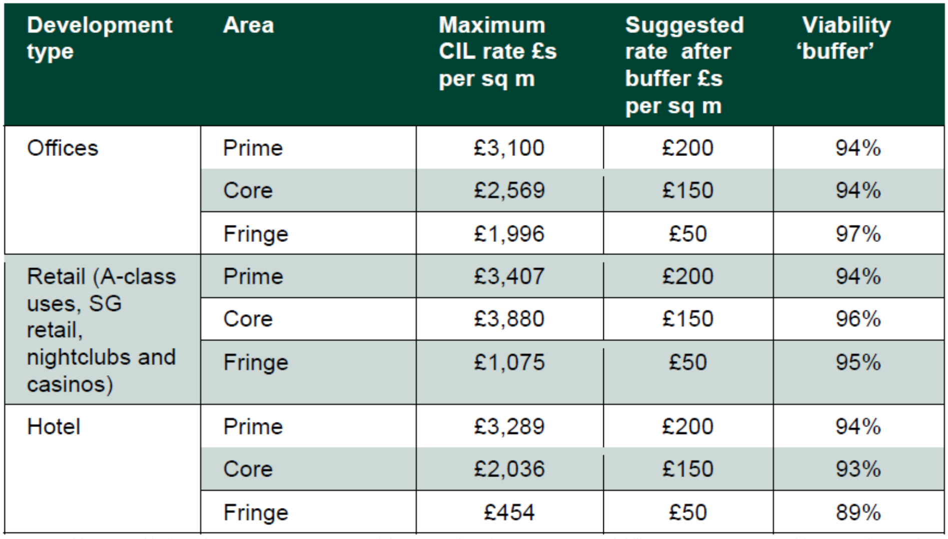
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL2 Central London charging area – for boundaries see the following chapter - (Central London and North Docklands) are a consolidation of the MCIL1 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). 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 borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL2 Central London charging area.

9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL2 over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [8]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [9]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[10]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

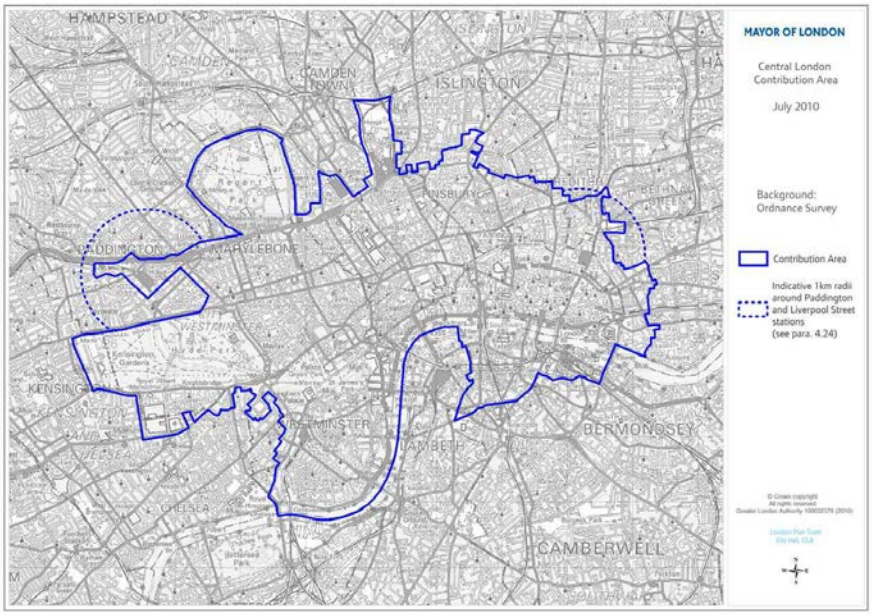
[8] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[9] *Ibid*

[10] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

10 MCIL2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

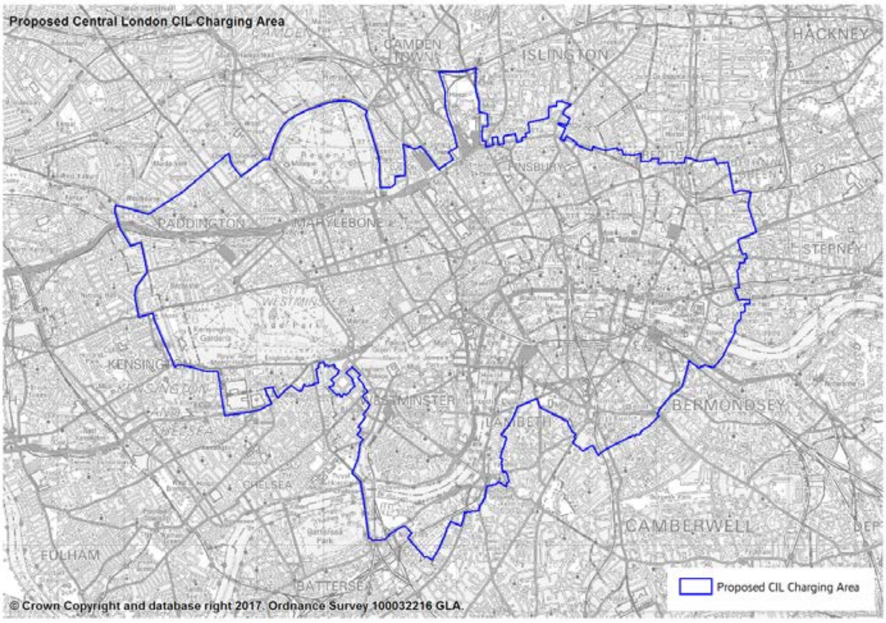


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL2 viability analysis we have proposed an MCIL2 Central London charging area 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. A consolidated boundary for MCIL2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

Figure 9: Proposed MCIL2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)

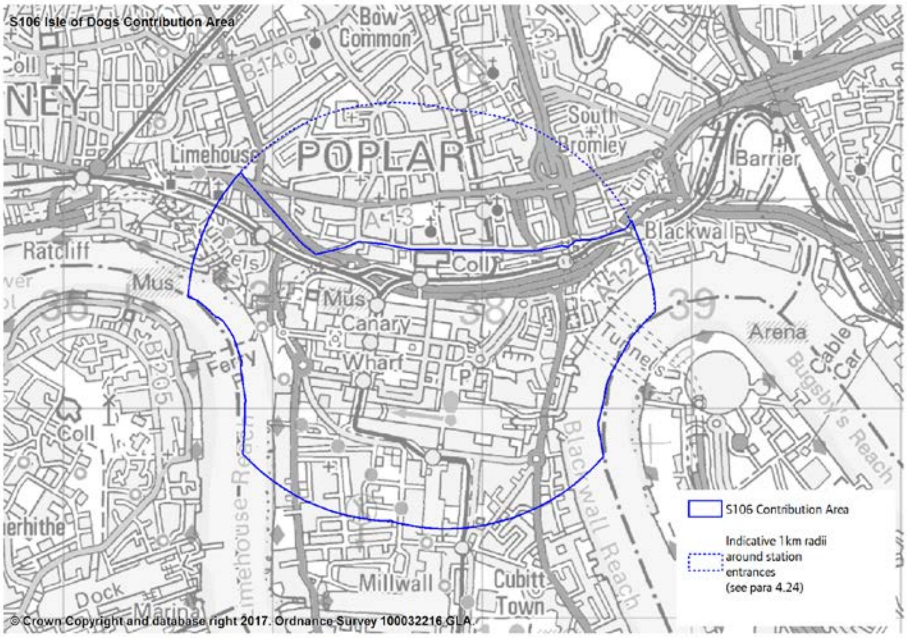
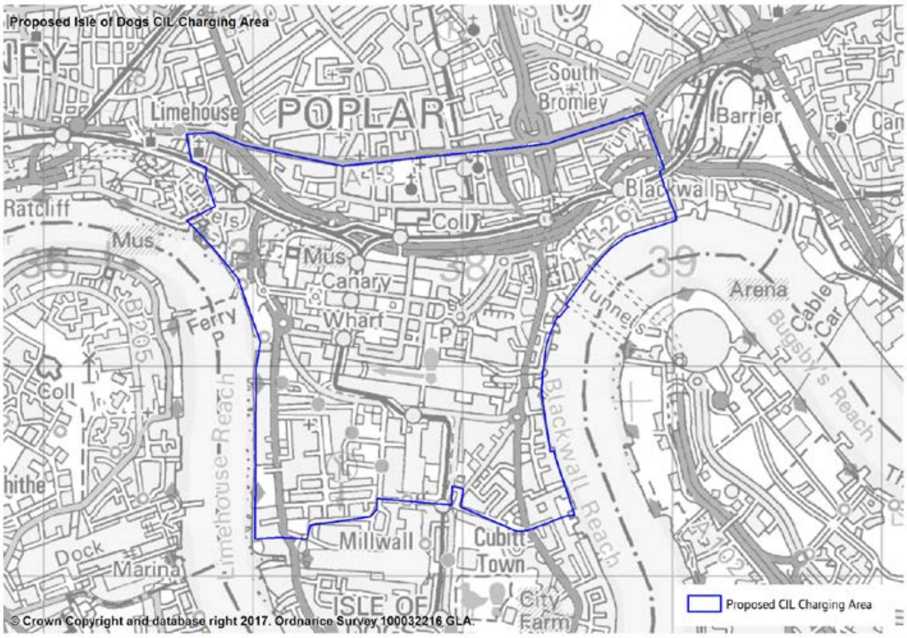


Figure 11: Proposed MCIL2 Central London charging area – North Docklands

Comment [n16]: Why use the centre of the river for one map but not the other

Comment [GR17]: The new arrangement is intended to be a more 'real life' approach so we are not showing the charging area in the River Thames.



11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL2 rates, as a percentage of overall development costs MCIL2 remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL2 rate might make matters marginally worse, there will be many other instances where additional MCIL2 can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual affordable housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the proposed MCIL2 rates. Therefore we conclude that the impact raising MCIL2 will have is likely to be minor.

Table 18: 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
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%)

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
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
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				
		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 MCIL3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL1 and the Crossrail S106 regimes.

12.1.3 MCIL3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough and another set that will apply to outer London.

Comment [n18]: It may be me. But having said it will be simpler, I can't understand what follows, including the tables. They don't seem to show one set of rates.

Comment [GR19]: I have added some wording which might help with clarity?

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: Proposed MCIL3 charging ~~rates~~ rates for outer London from April 2024

Charging band	Proposed MCIL2 rate in 2019 (per sq m)	Proposed MCIL2 rate to Q2 2024 including indexation*	*Proposed MCIL3 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 MCIL3 charging date)

Table 20: Proposed Central London MCIL3 charging rates from April 2024

Charging band	Proposed MCIL2 Central London rate in 2019 (per sq m)	Proposed MCIL2 rate to Q2 2024 including indexation*	*Proposed MCIL3 rate at Q2 2024*
Office	£185.00	£206.62	*£210.00*
Retail	£165.00	£184.28	*£185.00*
Hotel	£140.00	£156.36	*£150.00*
Residential	£80.00/£60.00	£89.35/£67.01	*£100.00*

*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 MCIL3 charging date)

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Jacob Gemma

From: Gerrish, Ryan <[redacted]eu.jll.com>
Sent: 11 May 2017 19:01
To: Richard Linton; Lees Neil; Ware Julian; Gardiner Stephen; Hart Anna; Vincett-Wilson Harriet; Peter Heath; Neil Hook; Sharples Elliot; Jones, Richard (UK)
Subject: RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May
Attachments: 20170511_MCIL2 Viability Evidence for PDCS.pdf

Categories: Skim read some action required

Dear all,

Please find the version of the viability evidence attached including:

- Changes to the title and date
- References to 'North Docklands' replaced with 'Isle of Dogs' to be consistent with the S106 / GLA planning policy wording.
- Tables for MCIL3 updated as per the CR2 teams' comments.
- Neil Lees' track changes have been accepted
- Appendix A – Table 6.1 of the London Plan has been included
- Draft watermarks have been removed

As far as I am aware these were the last outstanding points. Please let me know if there is anything you feel I may have missed.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 10 May 2017 23:36
To: Gerrish, Ryan ; Lees Neil ; Julian Ware ; Stephen Gardiner ; Hart Anna ; Vincett-Wilson Harriet ; Peter Heath ; Neil Hook ; Sharples Elliot ; Jones, Richard (UK)
Subject: RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May

Front cover needs updating!

From: Gerrish, Ryan [mailto:[redacted]eu.jll.com]
Sent: 10 May 2017 13:22
To: Lees Neil; Richard Linton; Julian Ware; Stephen Gardiner; Hart Anna; Vincett-Wilson Harriet; Peter Heath; Neil Hook; Sharples Elliot; Jones, Richard (UK)
Subject: RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May

Dear Neil,

Thank you very much for your detailed look through our document. All your text changes are agreed (and I will accept these in the next version alongside changes to references to North Docklands to Isle of Dogs and the table in Section 13 as per my earlier email). We have inserted replies against your comments – some of which other addressees to this email will be interested in.

Please can I have any final comments today.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Lees Neil [mailto:[redacted]tfl.gov.uk]
Sent: 09 May 2017 15:48
To: 'Richard Linton' <[redacted]london.gov.uk>; Ware Julian <[redacted]tfl.gov.uk>; Gardiner Stephen <[redacted]Tfl.gov.uk>; Hart Anna <[redacted]tfl.gov.uk>; Vincett-Wilson Harriet <[redacted]tfl.gov.uk>; Peter Heath <[redacted]london.gov.uk>; Neil Hook <[redacted]london.gov.uk>; Sharples Elliot <[redacted]tfl.gov.uk>; Jones, Richard (UK) <[redacted]eu.jll.com>; Gerrish, Ryan <[redacted]eu.jll.com>
Subject: RE: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May

Apologies all for the late circulation.
Attached are some proposed (minor) changes & comments on the JLL Viability Evidence Base document.
Regards,
Neil.

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 09 May 2017 15:01
To: Ware Julian; Lees Neil; Gardiner Stephen; Hart Anna; Vincett-Wilson Harriet; Peter Heath; Neil Hook; Sharples Elliot; 'richard.jones[redacted]; Ryan Gerrish
Subject: CILSG 9 May 2017 - MCIL2 progress report to Jules' meeting Thursday 11 May
Importance: High

For discussion at CILSG this afternoon…

Rich

From: Richard Linton
Sent: 09 May 2017 14:58
To: Jinder Ubhi
Cc: Joe Wilkinson; Jennifer Peters; Juliemma McLoughlin; Peter Heath
Subject: MCIL2 progress report to Jules' meeting Thursday 11 May
Importance: High

Hi Jinder

As discussed, MCIL2 report from me and Julian Ware (plus 4 attachments) attached:

- MCIL2 progress report (Richard Linton/Julian Ware TfL) +
    - o Draft MD2123
    - o MCIL2 PDCS
    - o MCIL2 PDCS Supporting Information
    - o MCIL2 PDCS Viability Evidence Base (JLL)

All agreed as good to go by Jen…

Rich

Richard Linton
Strategic Planning Manager
London Plan | GLA | Mayor of London
[redacted]london.gov.uk

#LondonIsOpen

Jones Lang LaSalle Limited
Registered in England and Wales Number 1188567
Registered office at 30 Warwick Street, London, W1B 5NH

#LondonIsOpen

Prepared for the Mayor of London and Transport for London

MCIL2 PDCS
Viability Evidence Base

Viability Evidence Base for the Mayoral Community Infrastructure Levy 2
Preliminary Draft Charging Schedule
June 2017

Contents

Cover photo: view from City Hall roof terrace. April 2017 © Richard Linton GLA

1 Introduction

1.1 Definitions

1.1.1 For clarity, the Mayoral Community Infrastructure Levy (Mayoral CIL or MCIL), introduced in April 2012 will be referred to as the Mayoral Community Infrastructure Levy 1 (Mayoral CIL 1 or MCIL1) throughout this document. A continuation of MCIL1 is proposed from April 2019, which is referred as Mayoral Community Infrastructure Levy 2 (Mayoral CIL 2 or MCIL2).

1.2 The Current MCIL1 Charging Schedule

1.2.1 As part of the funding arrangements with Government for the Crossrail project, the Greater London Authority (GLAL and Transport for London (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 1 and the Crossrail Section 106 (S106). MCIL1 is a charge on new development as set out in the CIL regulations. More details can be found in the 'Use of Planning Obligations in the Funding of Crossrail, and the Mayoral Community Infrastructure Levy,' Supplementary Planning Guidance, updated in March 2016.

1.2.2 Before the introduction of MCIL1, 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.

1.2.3 Mayoral CIL 1 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 bands. 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

1.2.4 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 MCIL1 at the rates referred to above according to the geography of the underlying borough.

1.2.5 The MCIL1 charging bands have been coloured red, blue and green for ease of analysis and comparison. Table 1 below provides a breakdown of MCIL1 receipts by borough up to December 2016.

Table 1: MCIL1 receipts by borough to Q3 2016-17

Borough/Authorities	Total MCIL1 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**

1.2.6 The London boroughs and LLDC (collecting authorities) started collecting MCIL1 on behalf of the Mayor in April 2012. OPDC temporarily devolved the reporting and collection of MCIL1 to its underlying boroughs upon its creation in April 2015.

1.2.7 It can be seen that those boroughs which have seen the most development tend to be those where the MCIL1 level is in bands 1 & 2 i.e. the highest and middle levels.

1.2.8 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering part of the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations (except Woolwich). Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

1.2.9 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 MCIL1 will be met during the financial year 2018/19. It is proposed to transition from the current Crossrail S106 and MCIL1 arrangements, to only having MCIL2, from 1 April 2019.

1.2.10 Following the implementation of MCIL1 in April 2012, the GLA and TfL, supported by JLL, have undertaken two Biennial Reviews, one in 2014 and another in 2016 to ensure that the rates set for MCIL1 continue to be appropriate.

1.2.11 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.

1.2.12 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.'*

1.2.13 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 of the Plan states *'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….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.'*

1.2.14 For any chargeable development permitted before April 2019, but implemented after this date, when Crossrail construction is expected to complete, the GLA and TfL intend to continue collecting a Mayoral CIL, (referred to as MCIL2 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 A**.

1.2.15 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 and the UK's tax base.'* (p.11). The report further goes on to describe developer contributions by way of Community Infrastructure Levy and Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.[1]

1.2.16 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".*[2]

1.2.17 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.

1.3 Considerations when revising the Mayor's Charging Schedule

1.3.1 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 MCIL1.

1.3.2 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."*

1.3.3 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.

1.3.4 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 MCIL1 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

---

[1] *See 'Funding Crossrail 2,' London First (February 2014). Retrieved from: http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf last accessed 20/03/2017*

[2] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

that a correlation was sufficiently strong to make the residential value approach suitable for adoption generally across other uses. *(Para 12)*

1.3.5 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)*

1.3.6 When considering what levels of MCIL1 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."*

1.3.7 In Paragraph 42 Mr Holland considers arguments for reducing or setting a nil MCIL1 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[1] rate on the grounds of promoting desirable development would run the risk of contravening the State Aid rules."*

1.3.8 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[1] 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".*

1.3.9 In the following sections of his report Mr Holland considers the Mayor's decision not to make use of the exceptional circumstances relief. 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."*

1.3.10 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[1] 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."*

1.4 Market background for testing MCIL2 viability

1.4.1 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.

1.4.2 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.

1.4.3 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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.

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

1.4.5 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 MCIL2

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 MCIL1 rates Mr Holland stated *"Overall in London the MCIL[1] 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 for MCIL2. In addition we will take into account:

- changes in values across London since MCIL1 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 MCIL1 was introduced and whether there is any viability headroom to justify an increase in rates for MCIL2
- the impact of borough CILs on MCIL2 viability
- the impact of affordable housing policy

2.1.4 In the report titled '*New Approach to Developer Contributions*' published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[3]

2.1.5 The CIL Review Team reported that consultees found the system inflexible. However they made an exception for MCIL1. Paragraph 3.3.5 says '*The only exception seems to be the single rate Mayoral CIL[1] 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[1] 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.*'[4]

2.1.6 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.7 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to

---

[3] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*
[4] *Ibid*

roll these in to the MCIL2 charging regime. At present because of the way the Mayor allows MCIL1 payments in the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a ‘top-up’ above the prevailing MCIL1 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.

2.1.8 In considering commercial rates we will review the S106 charging area (including 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL1 receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 Analysis of MCIL1 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

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

Figure 1: Residential and commercial development activity estimates based on MCIL1 receipts data for FY 2015-16 (estimated)

	Gross Internal Area	
Net additional MCIL1 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	-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

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL2 rates.

3.2 Mean vs Median

3.2.1 In the MCIL1 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 MCIL1 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 MCIL1 charging bands

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 MCIL2 charging bands

3.3.1 Based on Table 2 (average price changes by MCIL1 charging bands) the Mayor proposes the following changes for MCIL2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

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 residential values and other uses.

3.4.2 When considering the results of correlation coefficient analysis, the following ranges are typical:

- 0.90 to 1.00 – very high correlation

- 0.70 to 0.89 – high correlation

- 0.50 to 0.69 – moderate correlation

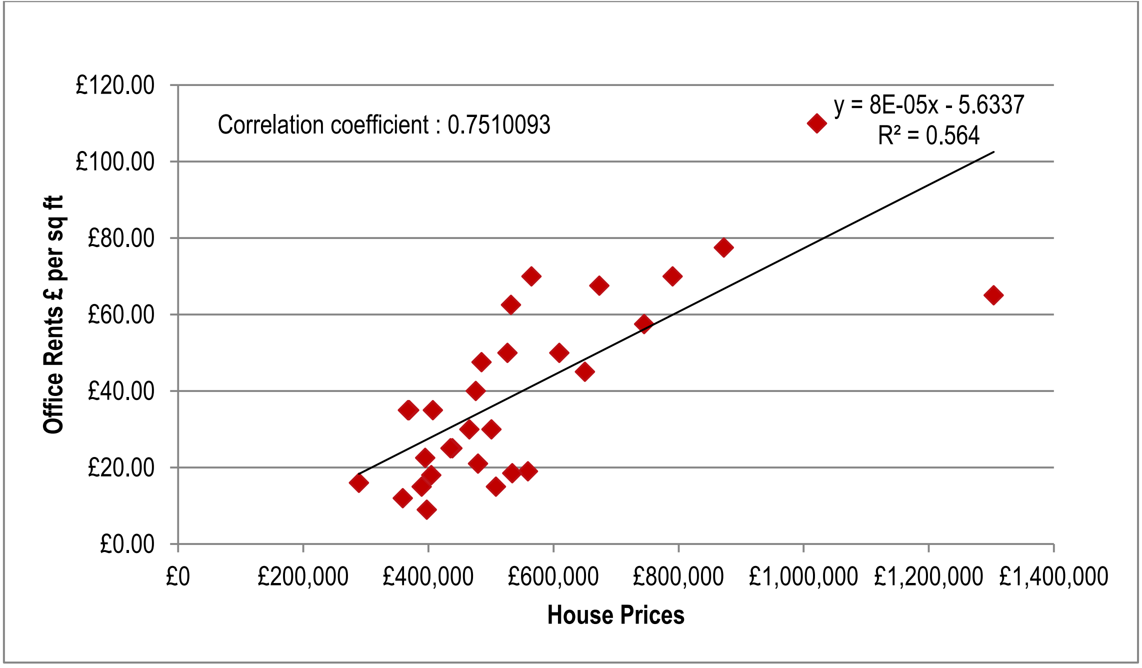
- 0.30 – 0.59 – low correlation

- 0.00 to 0.20 – little, if any correlation

3.4.3 Offices

3.4.4 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a high correlation between office rents and house prices.

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



Source: Land Registry, CoStar, JLL

3.4.5 Retail

3.4.6 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 and Westminster. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL2 bands.

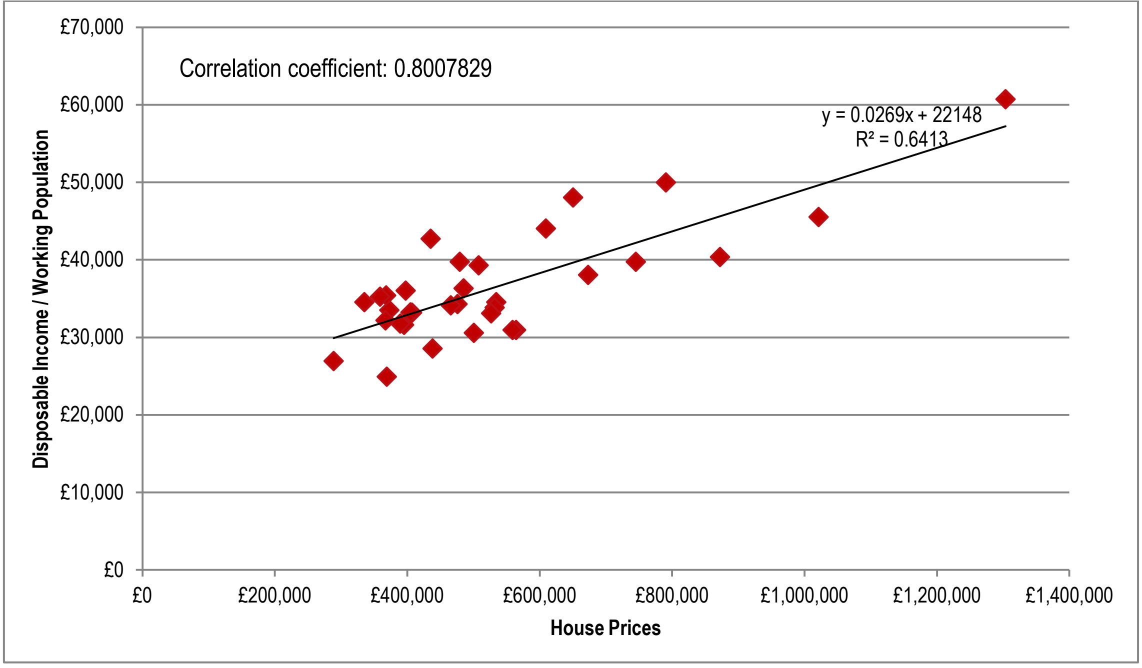
3.4.7 Other Categories

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

3.4.9 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.

3.4.10 We have confirmed this by comparing house prices with disposable income per person of working population in Figure 3 and Table 4 below, which shows a high correlation.

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



Source: Land Registry, Oxford Economics

3.4.11 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.

3.4.12 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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

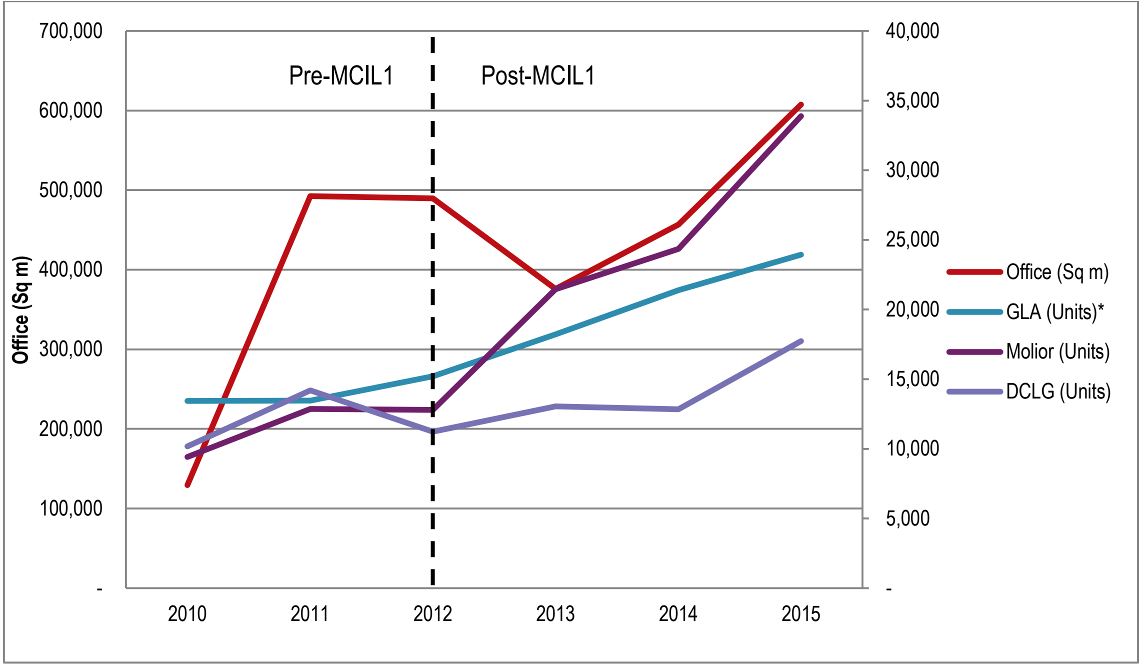
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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 MCIL1 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 MCIL1 in 2012, with office and residential trending upwards.

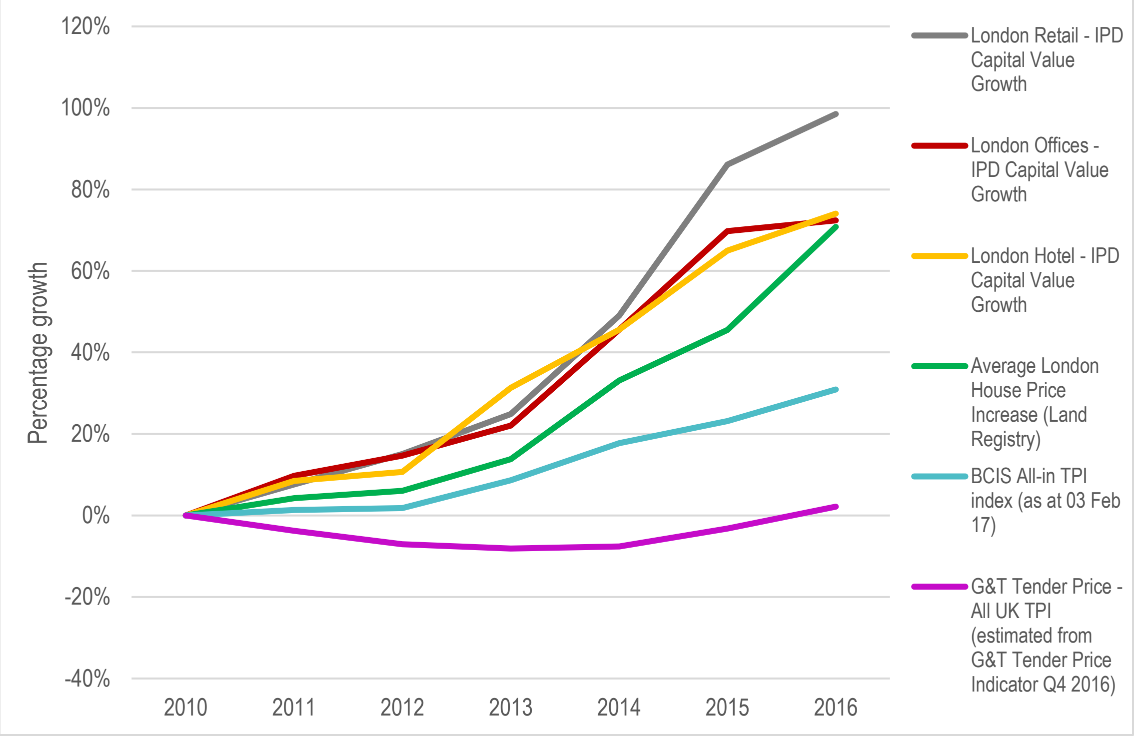
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL1 will be an important indicator of the likelihood of the ability for higher MCIL2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their 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 2017	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 MCIL1 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.

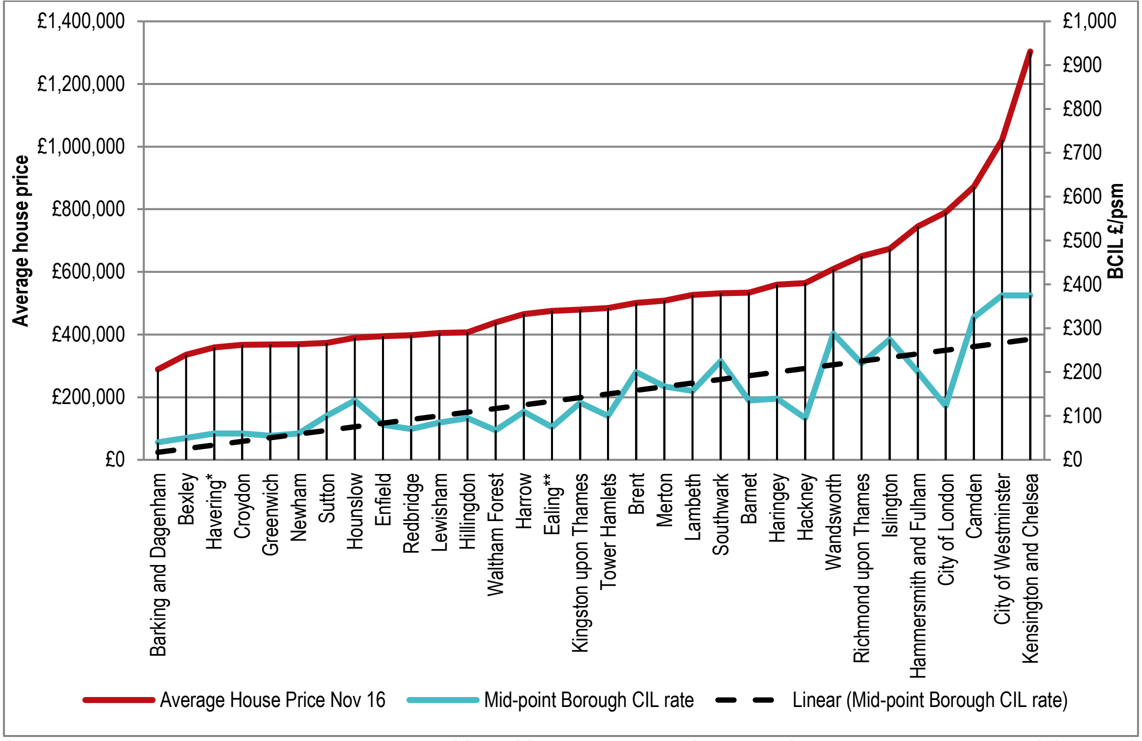
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and Borough CIL rates.

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

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 mid-point residential 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 MCIL1 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 part of 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 MCIL1 development activity has impacted development volumes. In order to calculate approximate levels of additional floor space we have removed indexation from the MCIL1 receipts shown earlier in Table 1. By examining the data in Table 6 below it can be seen that the green boroughs paying the lowest MCIL1 per sq m, are substantially in the bottom third of a list of boroughs/authorities.

5.1.6 For the green boroughs, relatively low levels of MCIL1 has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL1 charging rates.

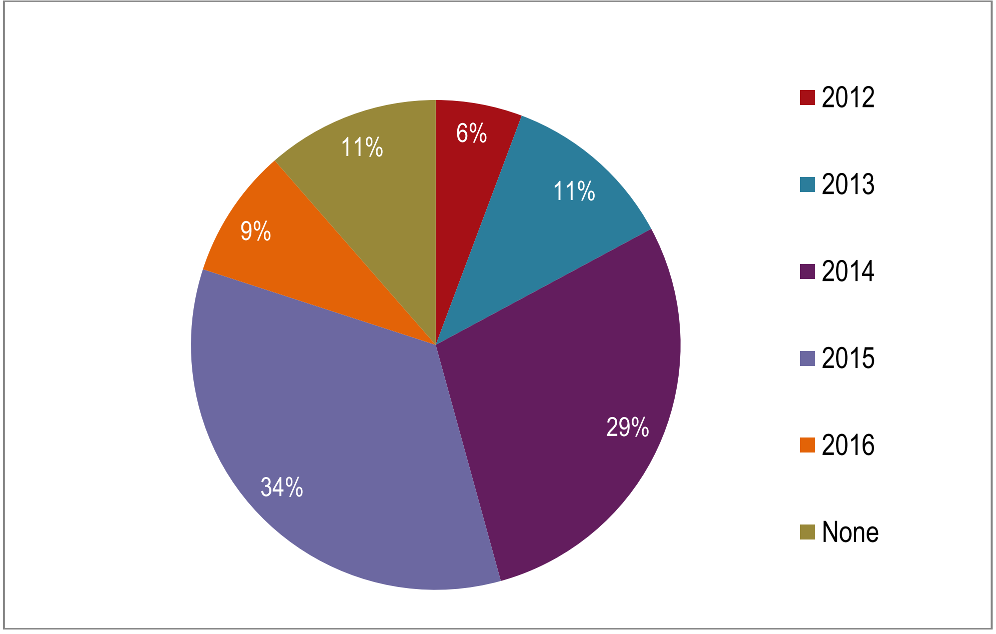
Table 6: MCIL1 receipts (excl. indexation) by revenues and net additional GIA in sq m to Q3 2016-17

Borough	Total MCIL1 revenue excluding indexation to Q3 2016-17	MCI1L rate per sq m (excluding indexation)	Net additional development (GIA sq m) to Q3 2016-17
Tower Hamlets	£33,226,940	£35	949,341
Southwark	£20,134,067	£35	575,259
City of Westminster	£27,853,421	£50	557,068
Lambeth	£18,463,412	£35	527,526
Hammersmith and Fulham	£20,516,892	£50	410,338
Hackney	£12,847,714	£35	367,078
Wandsworth	£18,308,958	£50	366,179
Greenwich	£12,015,455	£35	343,299
Barnet	£11,391,709	£35	325,477
City of London	£14,506,765	£50	290,135
Hounslow	£10,046,845	£35	287,053
Brent	£9,547,160	£35	272,776
Camden	£12,476,615	£50	249,532
Islington	£11,729,324	£50	234,586
Hillingdon	£7,680,248	£35	219,436
LLDC	£7,639,096	£35/£20	218,260*
Newham	£3,780,260	£20	189,013
Enfield	£3,037,537	£20	151,877
Haringey	£4,787,390	£35	136,783
Bromley	£4,743,828	£35	135,538
Lewisham	£4,587,054	£35	131,059
Bexley	£2,619,413	£20	130,971
Croydon	£2,533,527	£20	126,676
Ealing	£3,995,905	£35	114,169
Kensington and Chelsea	£5,588,604	£50	111,772
Waltham Forest	£2,143,309	£20	107,165
Sutton	£1,994,814	£20	99,741
Merton	£3,184,001	£35	90,971
Harrow	£3,136,808	£35	89,623
Kingston upon Thames	£2,859,849	£35	81,710
Barking and Dagenham	£1,078,069	£20	53,903
Richmond upon Thames	£2,523,974	£50	50,479
Havering	£832,889	£20	41,644
Redbridge	£974,009	£35	27,829
OPDC	£149,473	£50/£35	4,271*
Totals	£302,935,337		8,068,538

*For the purposes of this calculation we have assumed an MCIL1 rate of £35 per sq m for LLDC and OPDC. The area may be slightly overstated/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. Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

6 Flat or variable rates

6.1.1 There is a trade-off between not importing unfairness into the MCIL2 charging schedule whilst still keeping the regime simple to understand and to operate.

6.1.2 When the MCIL1 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 the Isle of Dogs there was the additional consideration of the S106 policy which runs in tandem with MCIL1.

6.1.3 This policy has worked well and informal consultation through the MCIL1 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 proposals for MCIL2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[5]

6.1.4 We considered the following:

1. Consolidating the extant MCIL1 and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and the Isle of Dogs for offices, retail and hotels;

2. Removing all Central London and Isle of Dogs rates and relying totally on Borough rates;

3. Removing the distinction between the Isle of Dogs and the remainder of Central London but retaining differential rates for commercial uses in Central London/Isle of Dogs above the borough rates; and

4. Unifying all residential and commercial rates in Central London/Isle of Dogs, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/Isle of Dogs.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL2 rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL2 Central London charging area, including part of the Isle of Dogs, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[5] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 The Mayor considered the possibility of including station zones for MCIL2 around the stations anticipated to be on the Crossrail 2 route. The Mayor decided not to take this approach at this stage for the following reasons:

- It would increase the complexity of the MCIL2 charging schedule.
- Crossrail 2 is still being worked up and therefore station locations cannot be predicted with certainty.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[6]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL2 purposes.[7]

---

[6] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[7] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL2 charging schedule

8.1.1 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.

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

Table 8: Proposed MCIL2 charging rates from April 2019

Charging band	Boroughs	Proposed MCIL2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

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

Table 9: Proposed MCIL2 charging rates from April 2019 compared to existing MCIL1 rates including indexation

Proposed MCIL2 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 MCIL2 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)

8.1.4 In the proposed MCIL2 Central London charging area (which incorporates a modified version of the CAZ and an area of the Isle of Dogs) the Mayor proposes differential rates as part of the combination of the S106 and MCIL1 into one MCIL2 regime. The 1km 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 proposed MCIL2 Central London charging area are considered further in chapter 10.

8.1.5 As a result the Mayor proposes the following MCIL2 rates per sq m in Central London:

Table 10: Proposed Central London MCIL2 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	MCIL2 borough rate (£80.00 / £60.00)

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

8.1.7 For the purposes of comparison we present the current MCIL1 and S106 rates including indexation and the proposed Central London MCIL2 rates for commercial uses in the table below.

Table 11: Proposed Central London MCIL2 charging rates from April 2019 compared to existing MCIL1 and Crossrail S106 rates including indexation

	Central London				Isle of Dogs			
	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 MCIL2 rate (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 MCIL2 rate (2019) to preserve existing relativities (per sq m)**
Offices								
S106 rate / Central London MCIL2 rate	£140.00	£153.77	£162.09	**£185.00**	£190.00	£208.69	£219.98	**£185.00**
Retail								
S106 rate / Central London MCIL2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*Indexation as per BCIS All-in TPI index and forecasts (as at 03 February 2017) for MCIL1 rates and as per CPI for the Crossrail S106 rates (Oxford Economics forecasts)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL2 rates

9.1.1 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.

9.2 Original MCIL1 as a percentage of highest and lowest average house prices within each charging band

9.2.1 For the purpose of considering this question in setting the original MCIL1 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 band (i.e. £50, £35 and £20 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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 MCIL2 we have continued to use a ‘typical’ residential unit of 83.33 sq m to aid comparability with the previous MCIL1 evidence.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

Table 12: MCIL1 payable on a typical residential unit of 83.33 sq m GIA at 73% and 100% net increase in GIA (2011-12)

Band	MCIL1 rate per Sq M	MCIL1 payable at 73% net increase in GIA	MCIL1 payable at 100% net increase in GIA
Band 1	£50	£3,050	£4,167
Band 2	£35	£2,135	£2,917
Band 3	£20	£1,220	£1,667

Table 13: MCIL1 as a percentage of highest and lowest average house prices by band assuming 73% and 100% net increase in GIA, as per original evidence (2011-12)

Band	Borough	Average House Price (as per HPI data April 2010)	MCIL1 payable (no indexation) assuming 73% Net increase in GIA	**MCIL1 as percentage of highest and lowest average house price in each band assuming 73% net increase in GIA**	MCIL1 payable (no indexation) assuming 100% Net increase in GIA	**MCIL1 as percentage of highest and lowest average house price in each band assuming 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

9.2.3 Since the original MCIL1, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

9.3 Testing MCIL2 proposals as a percentage of highest and lowest average house prices within each charging band

9.3.1 We have undertaken the same analysis to test the current MCIL2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL2 rate per Sq M	Proposed MCIL2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

Band	Borough	Average House Price (as per HPI data November 2016)	Proposed MCIL2 payable (no indexation) at 100% Net increase in GIA	**Proposed MCIL2 as percentage of highest and lowest average house price in each band at 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£1,303,778	£6,667	**0.51%**
Band 1 lowest average house price	Wandsworth	£609,373	£6,667	**1.09%**
Band 2 highest average house price	Hackney	£564,536	£5,000	**0.89%**
Band 2 lowest average house price	Hounslow	£389,458	£5,000	**1.28%**
Band 3 highest average house price	Sutton	£372,926	£2,083	**0.56%**
Band 3 lowest average house price	Barking and Dagenham	£288,873	£2,083	**0.72%**

9.4 Analysis of proposed MCIL2 rates

9.4.1 MCIL2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 Major movements in building costs and values over the development cycle are likely to have far greater impacts on viability than a proposed MCIL2 at the levels suggested in this paper.

9.4.4 Across the charging bands the percentage of the proposed MCIL2 payable on a typical unit is broadly in line with MCIL1. For the borough with the lowest average house prices in band 2 however, the proposed MCIL2 payable increases modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 MCIL2. On this basis, notwithstanding that on a typical unit the proposed MCIL2 rates equate to 1.28% of the average house price as at 2016 (see Table 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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
MCIL1 (2014) / proposed MCIL2 (2016)	-£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.

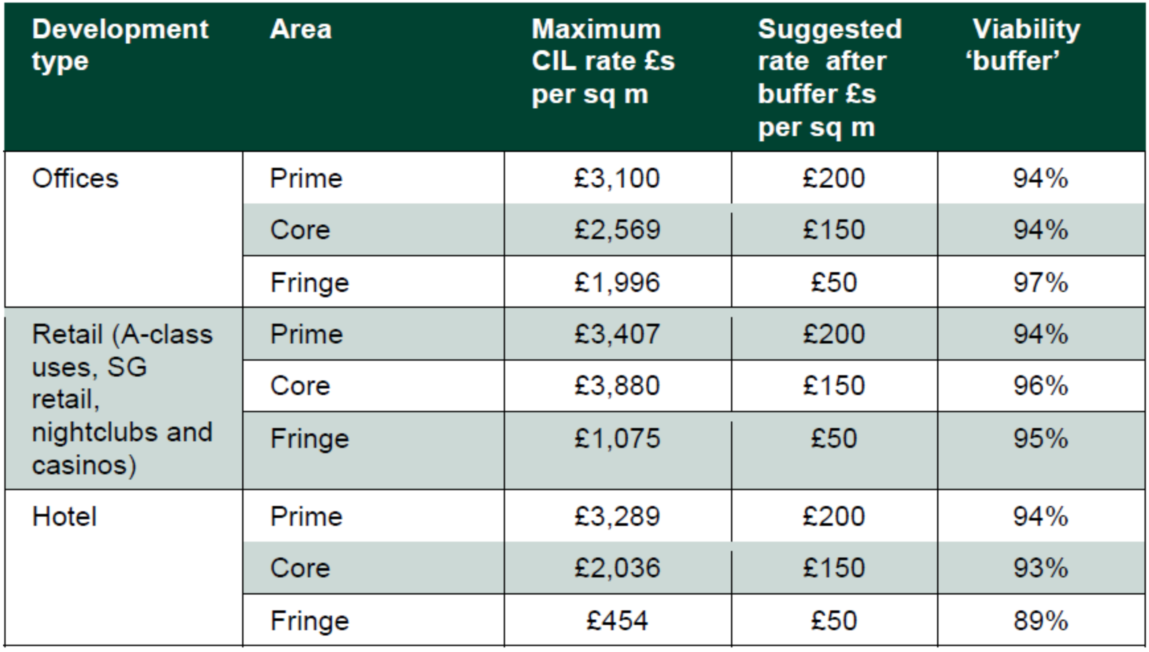
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL2 Central London charging area – for boundaries see the following chapter - (Central London and the Isle of Dogs) are a consolidation of the MCIL1 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). 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 borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL2 Central London charging area.

9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL2 over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed

use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [8]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [9]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the Isle of Dogs area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013.[10] On page 7, the summary of possible maximum borough CIL rates in North Docklands (which is comparable with the proposed Isle of Dogs charging area for MCIL2) for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

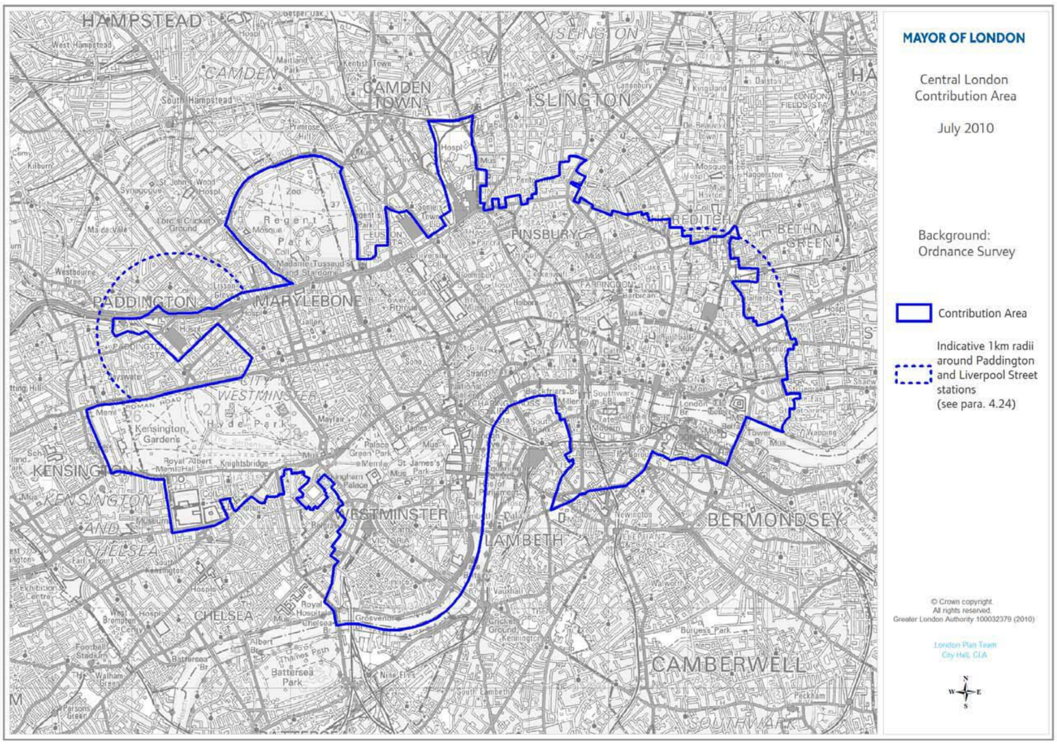
[8] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[9] *Ibid*

[10] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

10 MCIL2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding Isle of Dogs)

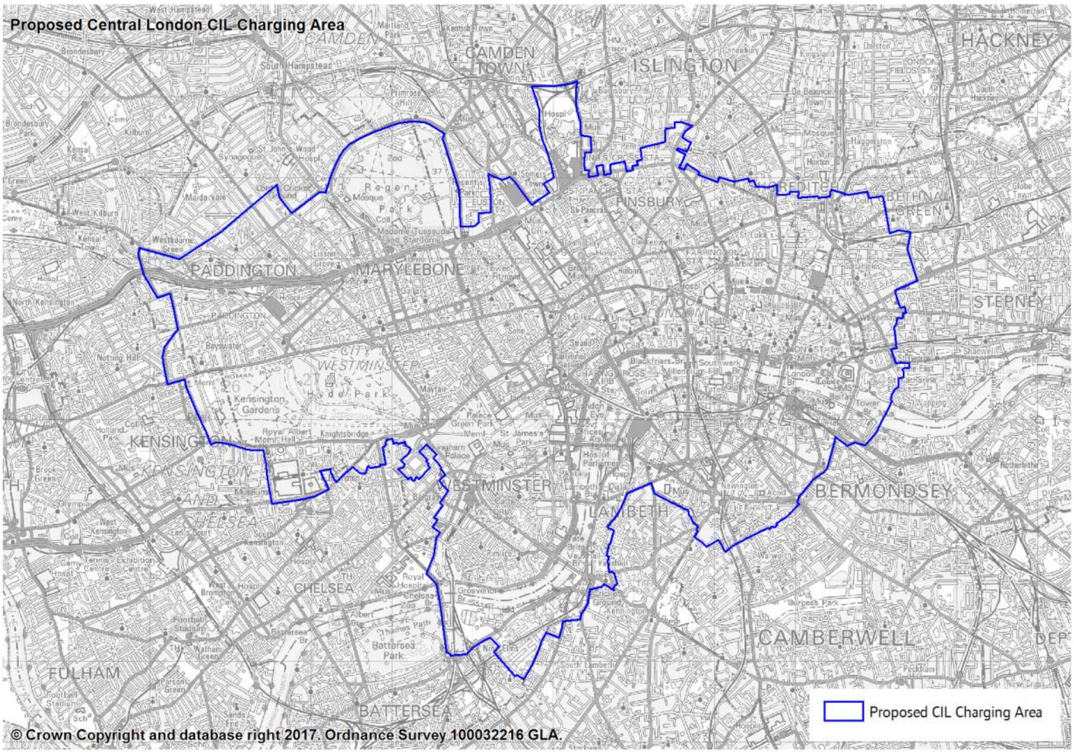


10.1.1 The current Crossrail S106 boundary (excluding the Isle of Dogs) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL2 viability analysis we have proposed an MCIL2 Central London charging area 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. A consolidated boundary for MCIL2 purposes (excluding the Isle of Dogs) is presented in Figure 9.

10.1.3 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.

Figure 9: Proposed MCIL2 Central London charging area (excluding Isle of Dogs)



10.1.4 In a similar manner we have sought to rationalise and simplify the boundaries of the Isle of Dogs area by using roads and river as boundaries rather than a circular zone around the Canary Wharf Station. The existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area

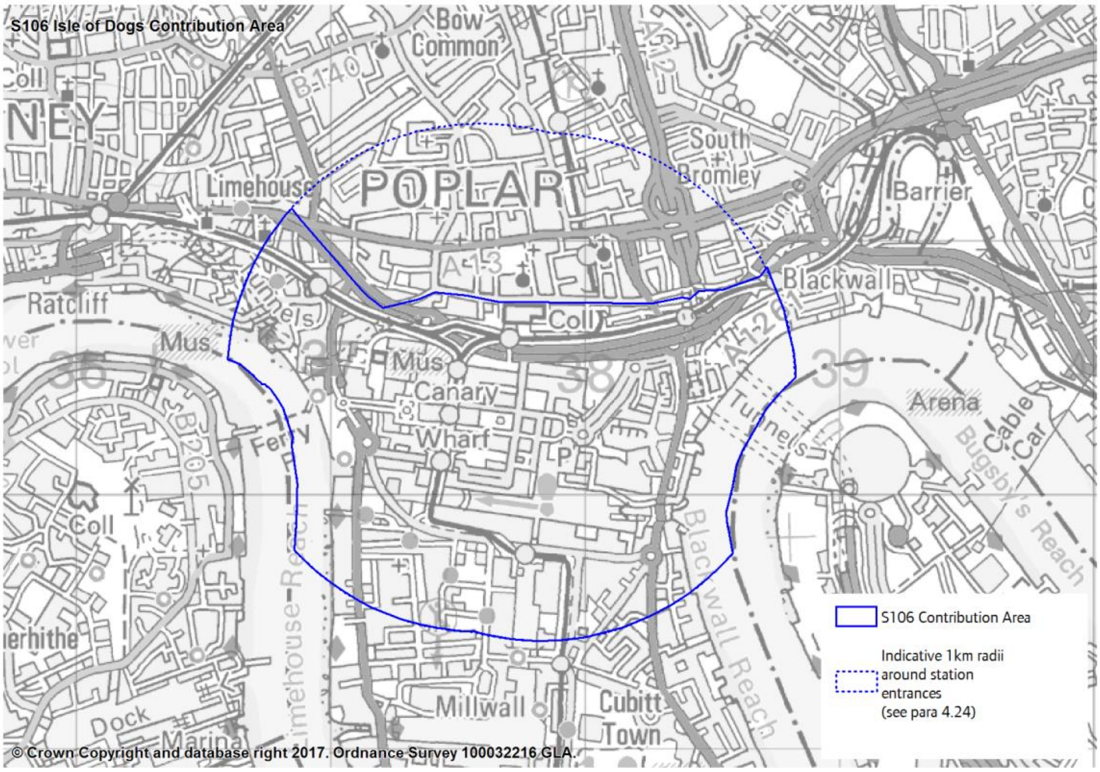
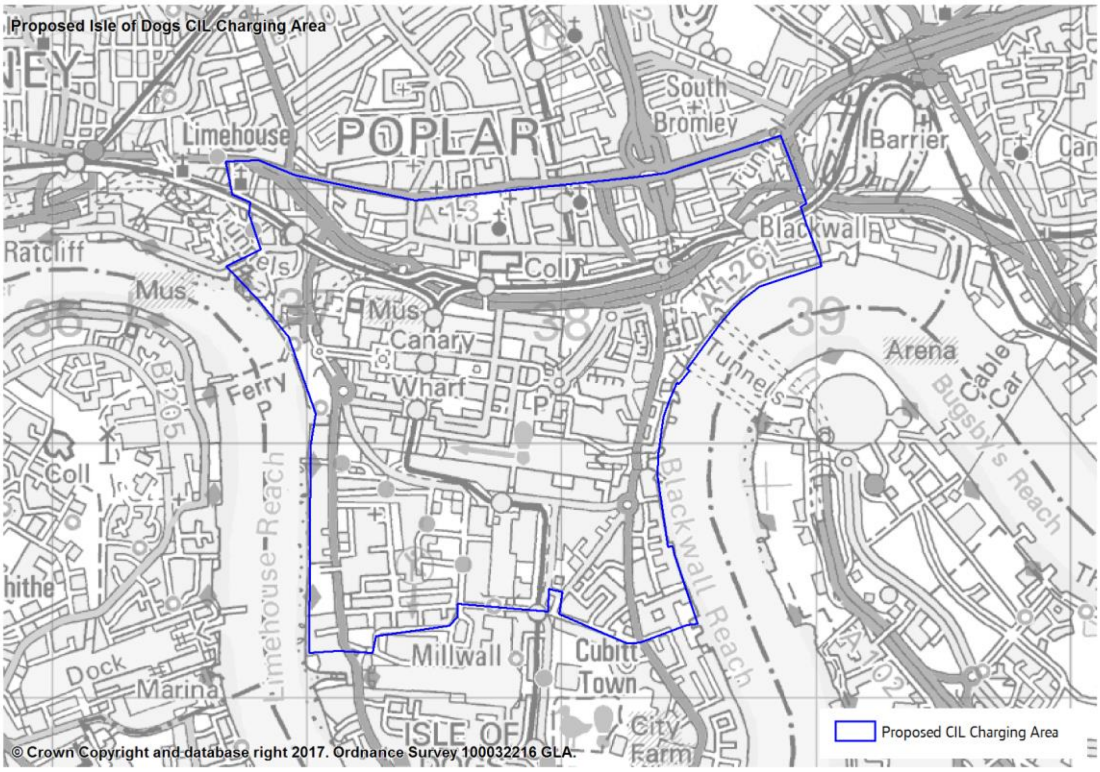


Figure 11: Proposed Isle of Dogs MCIL2 Central London charging area



11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL2 rates, as a percentage of overall development costs MCIL2 remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL2 rate might make matters marginally worse, there will be many other instances where additional MCIL2 can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual affordable housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the proposed MCIL2 rates. Therefore we conclude that the impact raising MCIL2 will have is likely to be minor.

Table 18: 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
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%)

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
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
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				
		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 MCIL3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL1 and the Crossrail S106 regimes.

12.1.3 MCIL3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary (Table 19) regardless of the underlying borough and another set that will apply to Outer London (Table 20).

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: Proposed Central London MCIL3 charging rates from April 2024

Use	Proposed MCIL2 Central London rate		***Proposed MCIL3 Central London rate***
	At Q2 2019 (per sq m)	At Q2 2024 including indexation*	***At Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
All other uses	£80.00/£60.00	£89.35/£67.01	***£100.00***

*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 MCIL3 charging date)

Table 20: Proposed MCIL3 charging rates for Outer London from April 2024

Charging band	Proposed MCIL2 Outer London rate		***Proposed MCIL3 Outer London rate***
	At Q2 2019 (per sq m)	At Q2 2024 including indexation*	***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 MCIL3 charging date)

Appendix A

Table 6.1 of the London Plan

Table 6.1 Indicative list of transport schemes

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Rail					
Crossrail 1	Core scheme: Maidenhead and Heathrow in the west to Shenfield and Abbey Wood in the east	H		🟧	
High Speed 1	International services stopping at Stratford	L		🟥	
High Speed 1	Direct services to a wider range of European destinations (making use of new European infrastructure)	L		🟥	
High Speed 2	London to the West Midlands and beyond.	H			🟥
Improved rail freight terminals to serve London	New and/or expanded rail freight terminals to serve London	L	🟥		
Improved rail freight routes	Rail link from Barking - Gospel Oak line to West Coast Main Line	M			🟥
Improved rail freight routes	Further capacity enhancement for the Felixstowe - Nuneaton route	M		🟥	
Crossrail 1 extensions	Westerly extension(s) potentially to Reading/Milton Keynes/ Watford/ Staines (via Airtrack) and/or additional services to Heathrow and West Drayton Easterly extension from Abbey Wood - Gravesend	M			🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Crossrail 2 (formerly Chelsea-Hackney line)	Enhanced southwest – northeast London capacity and connectivity. Scheme detail to be reviewed to ensure maximum benefits and value for money	H			🟥
London Over-ground- Capacity Improvement Programme	Scheme to provide a fifth carriage (and associated infrastructure works on the north, west and east London lines, as well as the Euston – Watford 'DC' line)	M	🟧		
London Over-ground	Barking - Gospel Oak line – electrification and train lengthening	L		🟥	
London Over-ground	Extension from Barking to Barking Riverside	M		🟥	🟥
West Anglia	Stratford –Angel Road capacity enhancement to enable the running of 4 trains per hour.	M		🟧	
West Anglia	Further service enhance-ments (including four-tracking) across the whole of the Lea Valley line	M/H		🟥	🟥
Essex Thameside	Further capacity increases including increased speeds on the Tilbury loop and more 12 car services	M	🟥	🟥	
South Central London	Ten-car capability on inner suburban Twelve-car capability and additional fast services (HLOS CP4)	M/L	🟧		
South Central London	Further CP5 capacity increases	M		🟥	

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Southeast London	Works to allow 12 car running on Sidcup Bexleyheath, Greenwich, Woolwich, Dartford, Rochester, Hayes & Sevenoaks routes and redevelopment work at Victoria and Charing Cross	M	🟧	🟧	
Southeast London	Further CP5 capacity increases	M		🟥	
Southwest London	Ten-car capability on inner suburban and Windsor lines (HLOS CP4)	M	🟧		
Southwest London	Further CP5 capacity increases	M		🟥	
Great Western	Electrification with associated change in rolling stock allocation	H	🟧	🟧	
Great Northern	Train lengthening (HLOS CP4)	L	🟧		
Great Northern	Further CP5 capacity increases	L		🟥	
Great Eastern	Further CP5 capacity increases including Bow Junction remodeling which will help increase frequency of outer suburban services from 24 to 28 tph	L		🟥	
West Coast	Further CP5 capacity increases	L		🟥	
Thameslink	End of 2018: 24 trains per hour through core, expanded network	H		🟧	
Thameslink	Make greater use of 12-car capability coverage	M		🟥	🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Rail termini enhancement	Passenger congestion relief/ onward movement capacity enhancement works. Schemes under development including the provision of step free access.	M		🟥	🟥
Airport access	Improved access to Heathrow Airport from south London being considered	M		🟥	
Tube					
Jubilee line	Jubilee line upgrade in delivery phase to provide additional capacity and improve journey times. Under the World Class Capacity programme, further peak service train increases are planned, subject to fleet expansion.	M	🟧	🟧	
Northern line	Phase 1: Northern line upgrade in delivery phase to provide additional capacity and improve journey times	M	🟧		
Northern line	Phase 2: Northern line Upgrade 2 to deliver a further 20 per cent increase in capacity through the simplification and recasting of service patterns	M		🟧	
Northern line Extension	Extension of the Northern line from Kennington to Battersea to support the regeneration of the Vauxhall/ Nine Elms/Battersea area	M		🟧	

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Victoria line	Victoria line upgrade in delivery phase including new rolling stock and signalling to provide additional capacity and improve journey times. Under the World Class Capacity programme, further peak service train increases are planned, subject to fleet expansion.	M	🟧	🟧	
Piccadilly line	Piccadilly line upgrade to provide additional capacity and improve journey times First new trains expected to be delivered 2021/22	M		🟧	🟥
Sub-Surface Railway (SSR)	Circle, District, Hammersmith & City and Metropolitan lines upgrade (including new air-conditioned rolling stock and new signalling) to provide additional capacity and improve journey times	H	🟧	🟧	
Metropolitan line	Croxley rail link to Watford Junction	M		🟧	
Central line	Central line upgrade: Including new energy efficient and high capacity rolling stock and signalling	M			🟥
Bakerloo line	Bakerloo line upgrade: Including new energy efficient and high capacity rolling stock and signalling	M		🟧	🟥
Bakerloo line	Bakerloo line soutern extension; potential scheme and route under investigation	H			🟥

Scheme	**Description**	**cost**	**Anticipated completion**		
			2013-2016	**2017-21/22**	**post 2022**
Station refurbishment/ modernisation/ programme	Continuing programme of refurbishment/ modernisation of stations	H	🟧	🟧	🟥
Core asset renewal	Programme of core asset renewal to lock in benefits from the upgrades and maintain assets in a state of good repair	H	🟧	🟧	🟥
Tube station congestion relief schemes	Congestion relief (and step free access) schemes, including Victoria, Tottenham Court Road, Bond Street, Bank Paddington (Hammersmith & City line), Holborn, Camden. A targeted station capacity programme looking at further congestion relief schemes	H	🟧	🟧	🟥
Energy-saving initiatives Regenerative braking and automatic train control	A programme of work to include low energy lighting, smart electricity metering at stations and low loss conductor rails To be implemented as an integral part of the Tube upgrade programme	L/M	🟧	🟧	🟥
DLR					
Reconfiguration of train interiors	To temporarily relieve crowding until additional trains are procured	L	🟥		

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
North Route Double Tracking (works associated with Crossrail funded- to be delivered by 2019)	To increase reliability, frequency and capacity of line	L	🟧	🟧	
Additional Rolling Stock	To support large scale developments e.g. Royal Docks and Olympic Park	L/M		🟥	
Station Improvement and capacity work:	Improved efficiency of interchange to accommodate increased passenger flows resulting from large scale developments, including: Royal Albert and Gallions Reach station capacity upgrades Congestion relief at Canning Town Increase capacity for interchange between DLR and Crossrail (eg Custom House) to support Royal Docks developments Increase Shadwell and Pontoon Dock station capacity to accommodate increasing passenger flows	L		🟥	

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
DLR Extensions	Work to support the Mayor's ambition for enhanced rail access to Bromley and southeast London, including Overground, rail and DLR improvements. Work towards potential extensions of west of Bank, and east of Gallions Reach	H			🟥
Tramlink					
Further enhancements to the Tramlink network	Potential extensions and/or capacity increases	L/M		🟥	🟥
	Double tracking to Wimbledon	L	🟧		
Buses and bus transit					
Bus network development	Regular review of bus network to cater for population, housing and employment growth, maintain ease of use, attractive frequencies and adequate capacity, reliable services, good coverage, effective priority and good interchange with other modes.	M	🟧	🟧	🟥
Low emission buses	Intention that all new buses entering London's fleet post 2012 be low emission (initially diesel hybrid)	M	🟧	🟧	🟥
Bus stop accessibility programme	Improved accessibility of bus stops- ensure that 95% of bus stops are accessible by the end of 2016	L	🟧	🟧	🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
High Quality Bus Priority	Bus priority / transit corridors- investment supporting economic revitalisation in London's Opportunity Areas by providing new links and services	L	🟧	🟧	🟥
Bus Reliability	Bus reliability pinch points (annualised scheme) – scheme to identify around 30 sites where bus priority measures will be implemented to improve bus and road network reliability	L	🟧	🟧	
Cycling projects			🟧	🟧	
Central London Grid	Delivery of a central London 'Bike Grid' of high quality, high-volume cycle routes, using a combination of segregation and quiet shared streets, along with some innovative use of existing infrastructure.	L	🟧	🟧	
Quietways	A well-signed network of radial and orbital routes, mainly on low-traffic back streets, for those wanting a more relaxed cycle journey. Includes a central London 'Bike Grid' of high quality, high volume cycle routes, using a combination of segregation and quiet shared streets along with some innovative use of existing infrastructure	L	🟧	🟧	

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Greenways	A network of attractive and functional routes for walking and cycling to, and through, green spaces across the Capital.	L	🟧		
Cycle Super highways	New radial routes to central London and improvements to existing Cycle Superhighways. Including fast and substantially segregated cycle superhighways providing north-south and east-west routes through central London.	L	🟧	🟧	
Biking Boroughs	Final year (2013-14) of delivery of a package of infrastructure and supporting measures by thirteen outer London Boroughs.	L	🟧		
Mini-Hollands	Transformational change in up to four Outer London town centres to provide exemplar facilities for cyclists. Programmes will be based around providing cycle-friendly town centres, cycle routes and cycle superhubs at local railway stations.	M	🟧	🟧	
Cycle Superhubs at rail and tube stations	Mass cycle storage facilities with good security and cycle routes at rail and tube stations.	L	🟧	🟧	

Scheme	**Description**	**cost**	**Anticipated completion**		
			2013-2016	**2017-21/22**	**post 2022**
Cycle to School partnerships	Partnerships between boroughs, schools and local communities all working to make cycling to school easier and safer. Local infrastructure improvements will be delivered alongside supporting activities at a cluster of schools within a geographical area.	L	🟧	🟧	
Cycle parking	Continued delivery towards target of 80,000 spaces by 2016.	L	🟧		
Better Junctions	Better junctions that are addressing cyclist and pedestrian safety at over 30 key junctions in London, including: Bow roundabout; Holland Park roundabout; Aldgate gyratory; Swiss Cottage; Nags Head	L	🟧	🟧	
Walking and urban realm enhancements					
Enhanced urban realm and pedestrian environment	London-wide ‘better streets’ initiatives to improve pedestrian connectivity and urban realm A range of gyratory removal schemes such as: Aldgate; Tottenham Court Road and Gower Street; Canning Town; Kender Street Series of urban realm / town centre enhancements such as: Camberwell; Clapham Gateway; Manford Way; Bromley North; Tolworth Broadway; Twickenham	M	🟧	🟧	🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Improved access to stations and integration with surroundings	Targeted programme of works to improve access to stations by different modes (walk, cycle, bus), enhance interchange and ensure local benefits, including: Crossrail urban realm complementary measures schemes at Bond Street; Tottenham Court Road and a number of inner/outer London stations Station and interchange enhancements: Chadwell Heath and Barking Station; Sutton Gateway; East Croydon Enhanced bus services and interchange at key Crossrail / Thameslink stations	M	🟧	🟧	🟥
Improved Wayfinding	Targeted introduction of on-street wayfinding specifically designed for pedestrians through Legible London at a variety of locations	L	🟧		
Increased tree and vegetation coverage	Target of five per cent increase in trees in London's parks, gardens and green spaces by 2025	L	🟧	🟧	🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Road Projects					
Achievement of a good state of repair of road infrastructure	Ongoing programme of maintenance to maintain the TLRN to a state of good repair through the renewal of carriageways, footways, tunnels, structures, bridges, drainage, vehicle restraint systems and other assets.	L/M	🟧	🟧	🟥
Enhanced safety features- improving safety for all road users	Implementation of a number of projects including: Identifying locations for Dutch style roundabouts Early start traffic signal technology Technology to protect all vulnerable tunnels and structures by 2016	L	🟧	🟧	
21st Century road works- reducing delay	Projects include: Lane rental charges to minimise road work disruption Underground utility corridors to reduce the need for roadworks	L/M	🟧	🟧	

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Greener Streets-implementation of a range of environmental measures	A range of projects being implemented, including but not limited to: Extra low voltage traffic signals and centrally managed lighting systems Mayor's air quality fund eg green walls, no engine-idling campaigns, local green action zones Supporting expansion of car clubs Supporting more environmentally friendly vehicles, including introducing a Euro IV and NOx standard for London Buses in 2015 Provision of infrastructure to support low emission road vehicles, including distribution networks for other alternative fuels including hydrogen and biofuels (unfunded)	L/M	🟧	🟧	🟥
Re-imagined streets and places	A series of schemes to support growth and transform key areas of London including: Elephant and Castle northern roundabout; Kings Cross; Euston Road; Old Street; Waterloo IMAX	L	🟧	🟧	

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Better management of road space to improve journey time reliability	Implementation of a programme of schemes to improve journey time reliability on the TLRN including: Upgrading traffic signal control information to SCOOT (split cycle optimisation technique). Traffic Signals timing review at over 1,000 sites across London. A scheme to actively manage the Inner Ring Road	L	🟧	🟧	
Better Crossings-improved safety for pedestrians	New Crossing points (list of potential new crossing points on TLRN published by mid-2014) 200 pedestrian countdown units at traffic signals by April 2014	L	🟧	🟧	
Congestion hotspot busting-tackling key congestion areas	Implement Mayor's £50m Blackspot fund by 2016. Continued programme of smaller scale corridor improvements to address congestion hotspots and improve journey time reliability. Bus and cycle priority points- implemented at key locations to improve journey times for these modes	L	🟧	🟧	

Scheme	**Description**	**cost**	**Anticipated completion**		
			2013-2016	**2017-21/22**	**post 2022**
Capital Projects to support growth and tackle congestion	Series of capital schemes (often linked to developer funding) to help unlock growth, regenerate key areas; provide enhanced connections and tackle congestion / key constraints on the network, including: A13; Removal of Tottenham Hale Gyratory; Vauxhall; Wandsworth; Croydon	M	🟧	🟥	🟥
Further gyratory, one-way system and bottleneck improvement works	Works proposed include: Ealing Broadway, Swiss cottage, Aldgate, Highbury Corner, Brent Cross/ Cricklewood, Wandsworth, Shoreditch Triangle, Stockwell, A10 Stoke Newington, Vauxhall Cross, Kings Cross	L/M	🟧	🟧	🟥
Low Emissions Zone	Further LEZ enhancements and vehicle coverage	L	🟧	🟧	🟥
Continue to work with Government on road pricing feasibility programme	As appropriate (see para 6.39A) review the option of road user charging and/or regulatory demand management measures to influence a shift to more CO2 efficient road vehicles and lower carbon travel options, such as walking, cycling and public transport. Share expertise and engage with development programmes as appropriate	L	🟧	🟧	🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
London river services and river crossings					🟥
Implement River Action Plan to achieve Mayoral target of 12 million passenger journeys on the river by 2020	The Action Plan aims to develop river services to their full potential. Its content is divided into four themes: Better Piers, Better Information and Integration, Better Partnership Working and Better Promotion	L	🟧	🟧	🟥
New vehicle ferry between Gallions Reach &Thamesmead	In advance of a potential fixed link	L		🟥	🟥
Promote the use of Thames and other waterways for freight movement	Enable freight access to waterways	L	🟧	🟧	🟥
New walk/cycle Thames crossings	Including schemes in central London (e.g. the Garden Bridge) and walk/cycle links to access Isle of Dogs from east and west	M		🟥	🟥
New and enhanced road vehicle river crossing(s) in east London (package of measures)	Programme of works under development to improve cross-Thames road links in east London including Silvertown tunnel	M		🟥	🟥
Other					
Enhanced travel planning tools	Ongoing enhancements to information availability, including journey planner	L	🟧	🟧	🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Sustainable transport initiatives	Initiatives to reduce the environmental impact of travel, make more efficient use of limited transport capacity and/or encourage active travel such as walking and cycling. Sustainable business travel should be influenced through the provision of integrated travel solutions and real time information delivered through mobile applications. Sustainable residential travel should be encouraged through the promotion of car free development, the use of car clubs, flexible working and active travel (walking and cycling)	L	🟧	🟧	🟥
Increased use of travel plans	Increased use and power of travel plans for workplaces, residences and schools and individuals	L	🟧	🟧	🟥

Scheme	Description	cost	Anticipated completion		
			2013-2016	2017-21/22	post 2022
Continued development and roll-out of TfL Freight Plan initiatives	Implementing a programme of measures, drawing upon lessons learnt from the 2012 Olympic Road Freight Management programme. Other measures include: Town centre and area-based Delivery and Service Plans, relocating servicing to side streets to improve access, Construction and Logistics Plans and promotion of collaborative approaches such as consolidation centres and/or break-bulk facilities	L	🟧	🟧	🟥
Promotion of freight best practice	Development and incentivisation of membership of the Fleet Operators Recognition Scheme (FORS) and develop improved communications with the freight sector.	L	🟧	🟧	🟥
Changing behaviour/ managing demand	A variety of freight related projects to examine when and how deliveries are made	L	🟧		

KEY to Table 6.1 Indicative list of transport schemes and proposals

scheme cost	L	low	£0 - £100 million
	M	medium	£100 million - £1 billion
	H	high	£1 billion +

funding	🟧 funded	🟥 unfunded

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Jones Lang LaSalle

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	03 April 2017 14:46
To:	Hart Anna; 'Neil Hook'; Gardiner Stephen; Vincett-Wilson Harriet; Lees Neil; Peter Heath; Jones, Richard (UK); Richard Linton; Sharples Elliot; Turner Lucinda; Ware Julian
Subject:	RE: MCIL 2 PDCS documents - latest drafts
Attachments:	20170403_MCIL2 working towards PDCS - DRAFT (Clean).pdf; 20170403_MCIL2 working towards PDCS compared with 20170327 - DRAFT.pdf

Dear All,

Please find attached the latest version of the JLL document.

The main points of change are:

- 3.4.2 – we include a description of what ranges of correlation coefficient are considered, high, moderate, low etc before showing the correlation analysis charts.
- Table 6 – this has been reordered by net additional development (highest to lowest)

The other changes are mainly formatting tweaks/minor corrections.

I attach a clean version and a track changes version with the document dated 27/03/17 circulated for last weeks' SG meeting for reference.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 03 April 2017 14:11
To: 'Neil Hook' ; Gardiner Stephen ; Vincett-Wilson Harriet ; Lees Neil ; Peter Heath ; Jones, Richard (UK) ; Richard Linton ; Gerrish, Ryan ; Sharples Elliot ; Turner Lucinda ; Ware Julian
Subject: MCIL 2 PDCS documents - latest drafts

Hi all,

Please find attached the latest set of the PDCS documents – charging schedule, further information and the MDF. These documents incorporate the suggestions made over the past week.

Richard J – there are a couple of areas in the text that need your attention – page 10 of PDCS on exemptions and para 28 in the MDF on viability advice.

Stephen – please could you check the extracts from the CIL Guidance in para 3.2 of the further information document. Updated version of the Guidance no longer has the following phrase '*charging authorities should "take a strategic view across their area and not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area*'. I replaced with an extract that to me made most sense.

I'm liaising with the CR2 team on the project cost figure that we should use. **Julian** – I specified the PWC 2014 report in the affordable housing section.

Kind regards,
Anna

Anna Hart

Telephone: [redacted] | Auto: [redacted] | Mobile: [redacted]

From: Neil Hook [mailto:[redacted]london.gov.uk]
Sent: 03 April 2017 11:36
To: Gardiner Stephen; Vincett-Wilson Harriet; Hart Anna; Lees Neil; Peter Heath; 'Richard Jones'; Richard Linton; 'Ryan Gerrish'; Sharples Elliot; Turner Lucinda; Ware Julian
Subject: RE: CIL Steering Action Note- 28/3

Hi all,

Picking up on this and my actions – please find attached and below the extract from the draft SPG on BTR:

(2) AFFORDABLE HOUSING TENURE

4.19 The second element of the Build to Rent pathway is the affordable housing offer, in which the aim is to maintain the integrity of the Build to Rent development, with unified ownership and management of all the homes. Where a developer is proposing a Build to Rent development which meets the definition set out above, the affordable housing offer can be entirely discounted market rent (DMR), managed by the Build to Rent provider and delivered without grant, i.e. entirely through planning gain. As it is not necessary to be a Local Authority or a Registered Provider to deliver or manage intermediate rented homes that are delivered without grant, these units can be owned and/or managed by Build to Rent landlords themselves.

4.20 Discounted market rent is also better suited to Build to Rent than other affordable products because units can more easily be tenure blind and "pepper potted" through the development. In addition, some discounted market rented products not let by local authorities/ registered providers can also qualify for mandatory CIL relief.27

4.25 All affordable housing, including discounted market rent/ London Living Rent, secured though planning should be affordable in perpetuity in line with the requirements of the NPPF. Therefore, should the developments be sold onto the open market at any time, during or after the covenant period, then a commuted sum would need to be paid to the LPA to secure the affordable housing provision in perpetuity, or replacement affordable housing would need to be provided of an equivalent value.

Does the existing framework allow DMR as described in the SPG (above) to be exempted as an affordable product, or do we need to take specific action / make reference in the PDCS and accompanying MD?

Thanks,

Neil

Neil Hook
Senior Area Manager (North East London)
Housing and Land Directorate

GREATER **LONDON** AUTHORITY
City Hall, 3rd Floor
The Queen's Walk
London
SE1 2AA

T: [redacted]
M: [redacted]
E: [redacted]london.gov.uk

From: Gardiner Stephen [mailto:[redacted]Tfl.gov.uk]
Sent: 30 March 2017 14:05
To: Vincett-Wilson Harriet; Alan Benson; Hart Anna; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Richard Linton; Ryan Gerrish; Sharples Elliot; Lucinda Turner; Julian Ware
Subject: RE: CIL Steering Action Note- 28/3

Neil

On item 2 and the definition of Affordable Housing, you will note that Regulation 49 does not use that terminology but refers to “qualifying dwellings” or “qualifying communal development”.

To be a qualifying dwelling one of he 5 conditions in the section have to be met, and to by a qualifying communal development the requirements set out in S.49C have to be met.

Best regards.

Stephen Gardiner | Principal Solicitor - Planning and Highways | Legal
Transport for London | 6th Floor, Windsor House | 42-50 Victoria Street, London | SW1H 0TL
[redacted]tfl.gov.uk | Tel: [redacted] (ext. [redacted] | Fax: [redacted] (ext. [redacted]

From: Vincett-Wilson Harriet
Sent: 30 March 2017 12:43
To: Alan Benson; Gardiner Stephen; Hart Anna; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Richard Linton ; Ryan Gerrish; Sharples Elliot; Turner Lucinda; Ware Julian
Subject: CIL Steering Action Note- 28/3

Hi All,

Please find attached an action note from CIL SG on Tuesday.

Many thanks,
Harriet.

Harriet Vincett-Wilson I Assistant Planner - Planning Obligations
TfL Planning *Transport For London*

T: [redacted] Auto: [redacted] **E:** [redacted]tfl.gov.uk
10th Floor, Windsor House, 50 Victoria Street,
London, SW1H 0TL

Prepared for TfL

Mayoral Community Infrastructure Levy 2 (03/04/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule

March 2017

Contents

Cover photo: Shutterstock

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 bands. 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

1.1.4 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.

1.1.5 The MCIL charging bands 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**

1.1.6 The London boroughs and LLDC (collecting authorities) started collecting MCIL on behalf of the Mayor in April 2012. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015.

1.1.7 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.

1.1.8 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations. Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

1.1.9 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 and MCIL 1 arrangements, to only having MCIL, from 1 April 2019.

1.1.10 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.

1.1.11 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.

1.1.12 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.'*

1.1.13 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 of the 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.'*

1.1.14 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 A**.

1.1.15 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 Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.[1]

1.1.16 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".*[2]

1.1.17 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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

1.2.1 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.

1.2.2 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."*

1.2.3 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.

1.2.4 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

---

[1] See 'Funding Crossrail 2,' London First (February 2014). Retrieved from: http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf last accessed 20/03/2017

[2] See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017

that a correlation was sufficiently strong to make the residential value approach suitable for adoption generally across other uses. *(Para 12)*

1.2.5 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)*

1.2.6 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."*

1.2.7 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."*

1.2.8 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".*

1.2.9 In the following sections of his report Mr Holland considers the Mayor's decision not to make use of the exceptional circumstances relief. 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."*

1.2.10 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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 MCIL 2

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 for 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 In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[3]

2.1.5 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.'*[4]

2.1.6 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.7 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to

---

[3] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[4] *Ibid*

roll these in to the MCIL 2 charging regime. At present because of the way the Mayor allows MCIL payments in the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a 'top-up' above the prevailing MCIL 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.

2.1.8 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 We set out in Figure 1 below our estimate 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 (estimated)

	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	-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

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL 2 rates.

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 bands

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 bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

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 residential values and other uses.

3.4.2 When considering the results of correlation coefficient analysis, the following ranges are typical:

- 0.90 to 1.00 – very high correlation

- 0.70 to 0.89 – high correlation

- 0.50 to 0.69 – moderate correlation

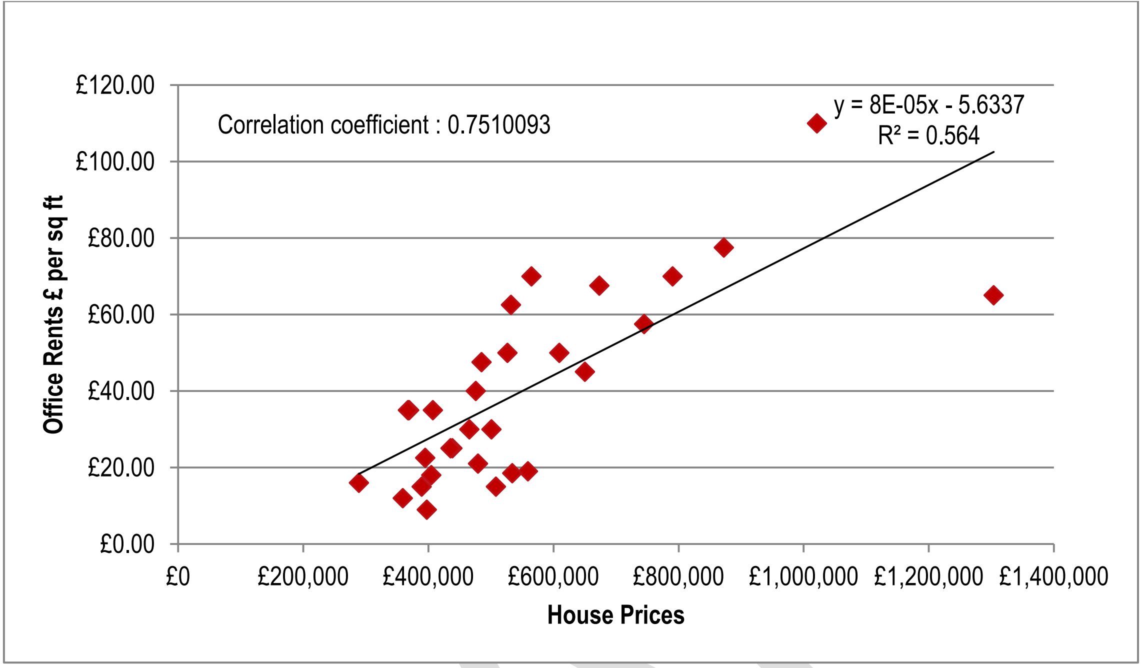
- 0.30 – 0.59 – low correlation

- 0.00 to 0.20 – little, if any correlation

3.4.3 Offices

3.4.4 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a high correlation between office rents and house prices.

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



Source: Land Registry, CoStar, JLL

3.4.5 Retail

3.4.6 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 and Westminster. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

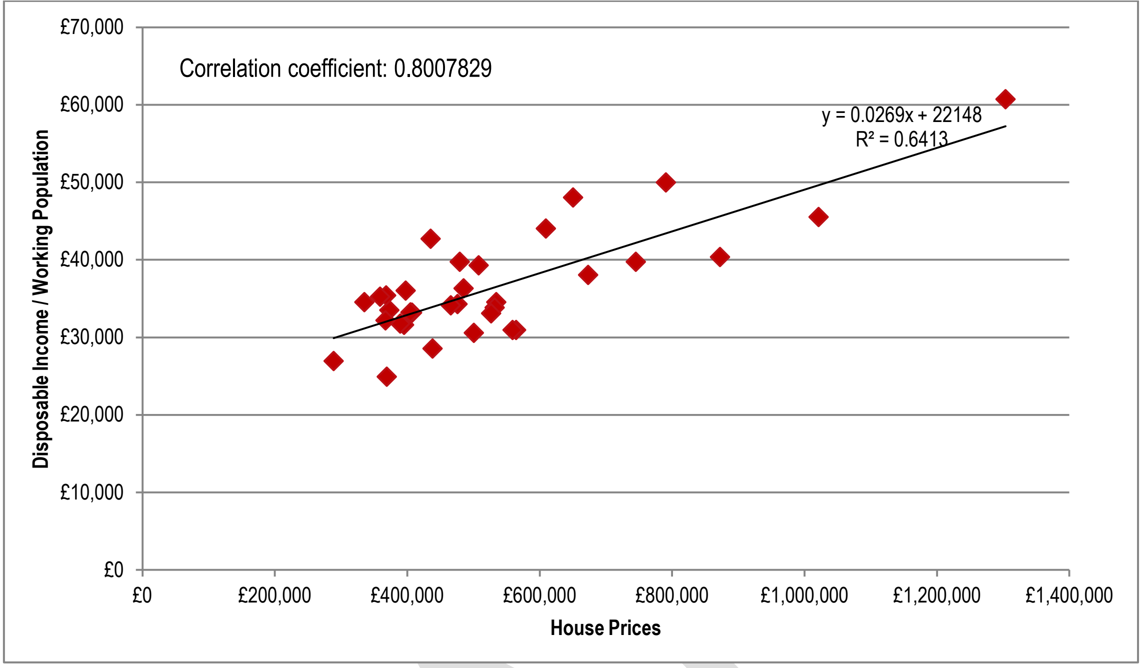
3.4.7 Other Categories

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

3.4.9 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.

3.4.10 We have confirmed this by comparing house prices with disposable income per person of working population in Figure 3 and Table 4 below, which shows a high correlation.

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



Source: Land Registry, Oxford Economics

3.4.11 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.

3.4.12 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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

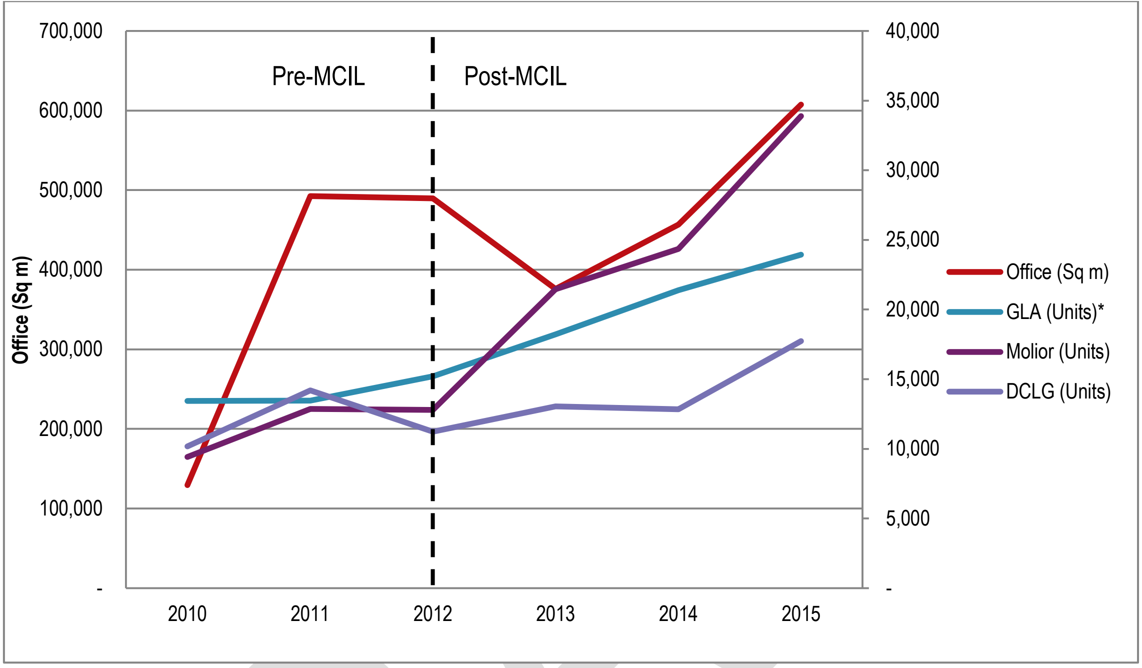
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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, with office and residential trending upwards.

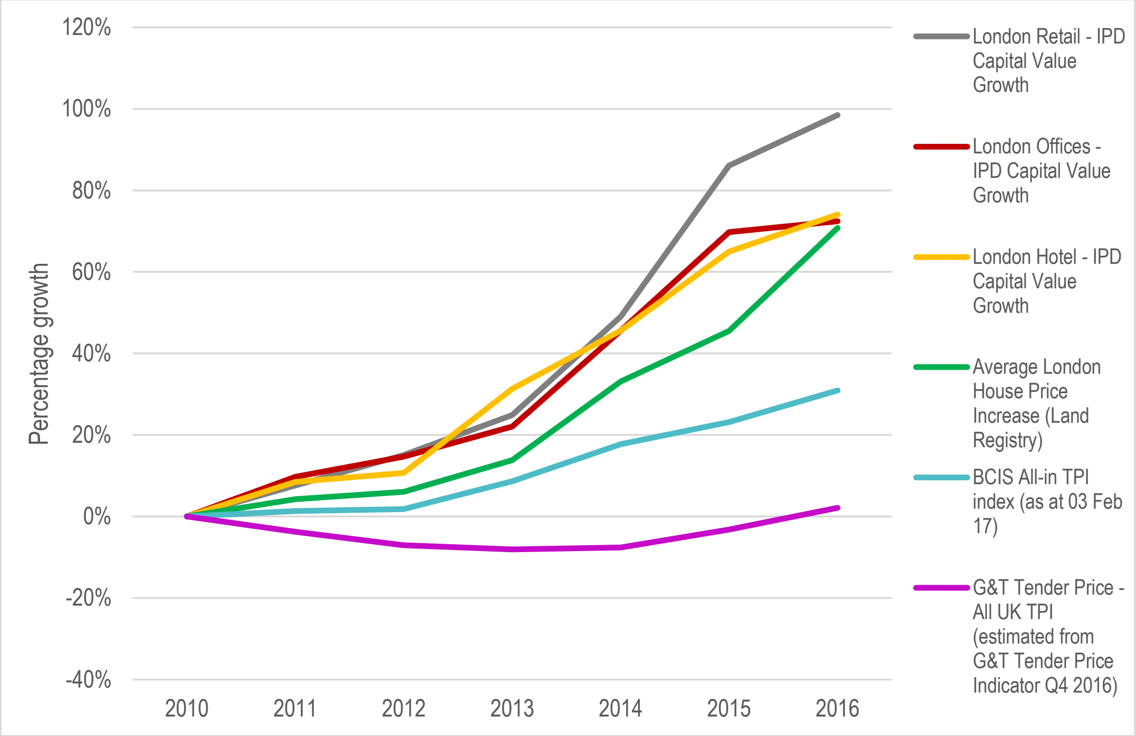
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL will be an important indicator of the likelihood of the ability for higher MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their 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 2017	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.

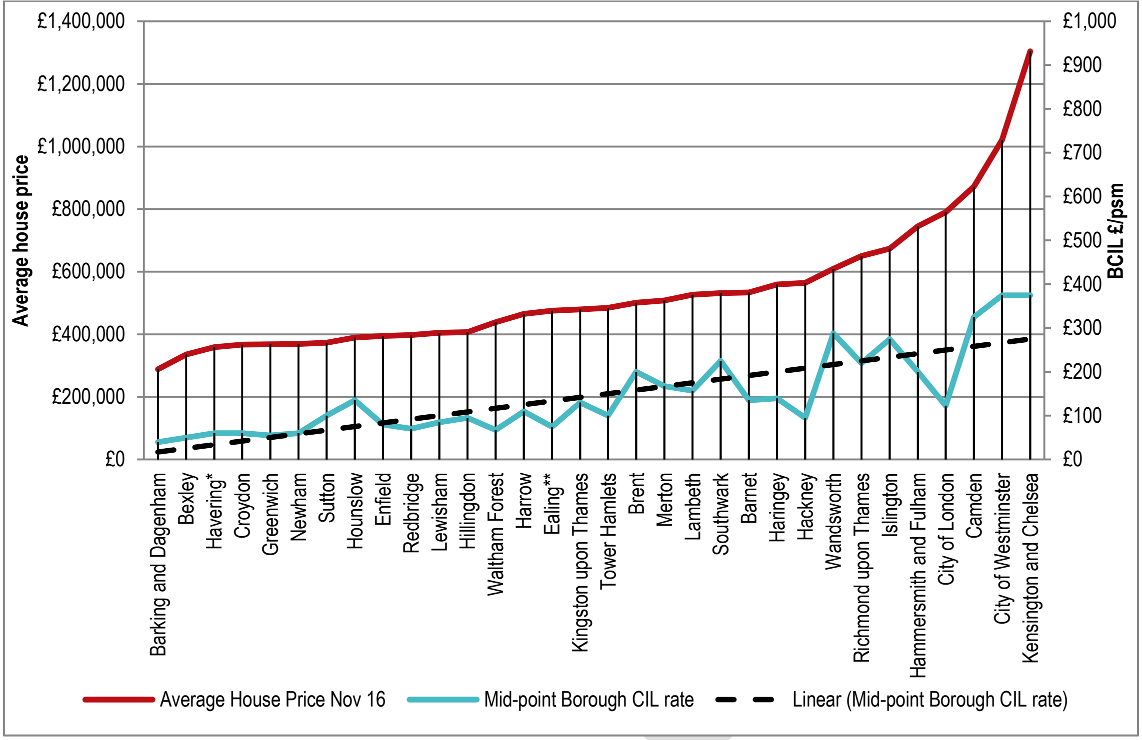
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and CIL rates.

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

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 mid-point residential 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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table 6 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.

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

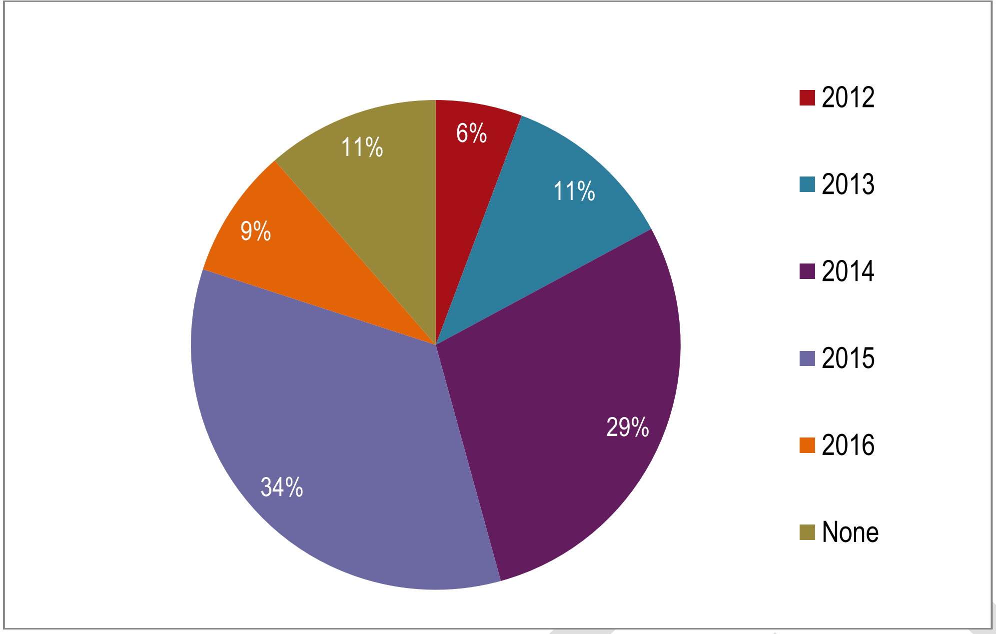
Table 6: MCIL receipts (excl. indexation) by revenues and net additional GIA in sq m to Q3 2016-17

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
Southwark	£20,134,067	£35	575,259
City of Westminster	£27,853,421	£50	557,068
Lambeth	£18,463,412	£35	527,526
Hammersmith and Fulham	£20,516,892	£50	410,338
Hackney	£12,847,714	£35	367,078
Wandsworth	£18,308,958	£50	366,179
Greenwich	£12,015,455	£35	343,299
Barnet	£11,391,709	£35	325,477
City of London	£14,506,765	£50	290,135
Hounslow	£10,046,845	£35	287,053
Brent	£9,547,160	£35	272,776
Camden	£12,476,615	£50	249,532
Islington	£11,729,324	£50	234,586
Hillingdon	£7,680,248	£35	219,436
LLDC	£7,639,096	£35/£20	218,260*
Newham	£3,780,260	£20	189,013
Enfield	£3,037,537	£20	151,877
Haringey	£4,787,390	£35	136,783
Bromley	£4,743,828	£35	135,538
Lewisham	£4,587,054	£35	131,059
Bexley	£2,619,413	£20	130,971
Croydon	£2,533,527	£20	126,676
Ealing	£3,995,905	£35	114,169
Kensington and Chelsea	£5,588,604	£50	111,772
Waltham Forest	£2,143,309	£20	107,165
Sutton	£1,994,814	£20	99,741
Merton	£3,184,001	£35	90,971
Harrow	£3,136,808	£35	89,623
Kingston upon Thames	£2,859,849	£35	81,710
Barking and Dagenham	£1,078,069	£20	53,903
Richmond upon Thames	£2,523,974	£50	50,479
Havering	£832,889	£20	41,644
Redbridge	£974,009	£35	27,829
OPDC	£149,473	£50/£35	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 overstated/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. Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

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 proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[5]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;
2. Removing all Central London and North Docklands rates and relying totally on Borough rates;
3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and
4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[5] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[6]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL 2 purposes.[7]

---

[6] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[7] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL ‘top ups’ as part of the combination of the S106 and MCIL into one MCIL 2 regime. The 1km 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 proposed MCIL 2 Central London charging area are considered further in chapter 10.

8.1.5 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)

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

8.1.7 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

	Central London				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 MCIL 2 rate (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 MCIL 2 rate (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**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

9.2 Original MCIL as a percentage of highest and lowest average house prices within each charging band

9.2.1 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 band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

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)

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

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

Band	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 band 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 band assuming 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

9.2.3 Since the original MCIL, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL 2 rate per Sq M	Proposed MCIL 2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

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

9.4 Analysis of proposed MCIL 2 rates

9.4.1 MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 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.

9.4.4 Across the charging bands 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 band 2 however, the proposed MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

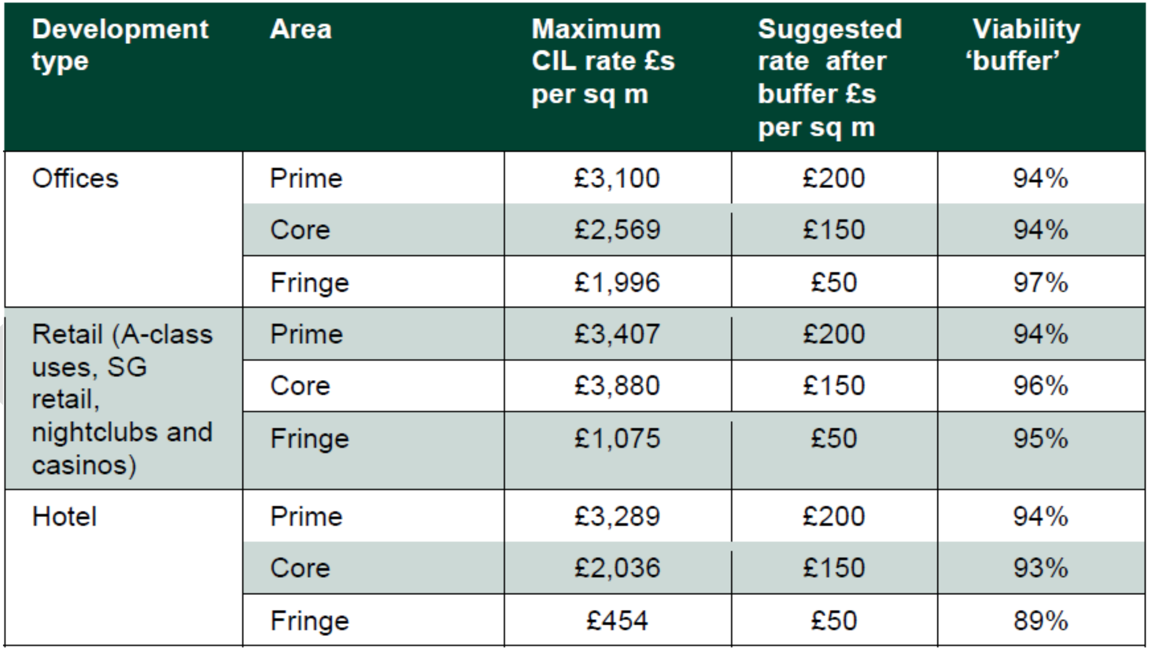
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London charging area.

9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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 17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed

use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [8]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [9]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[10]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

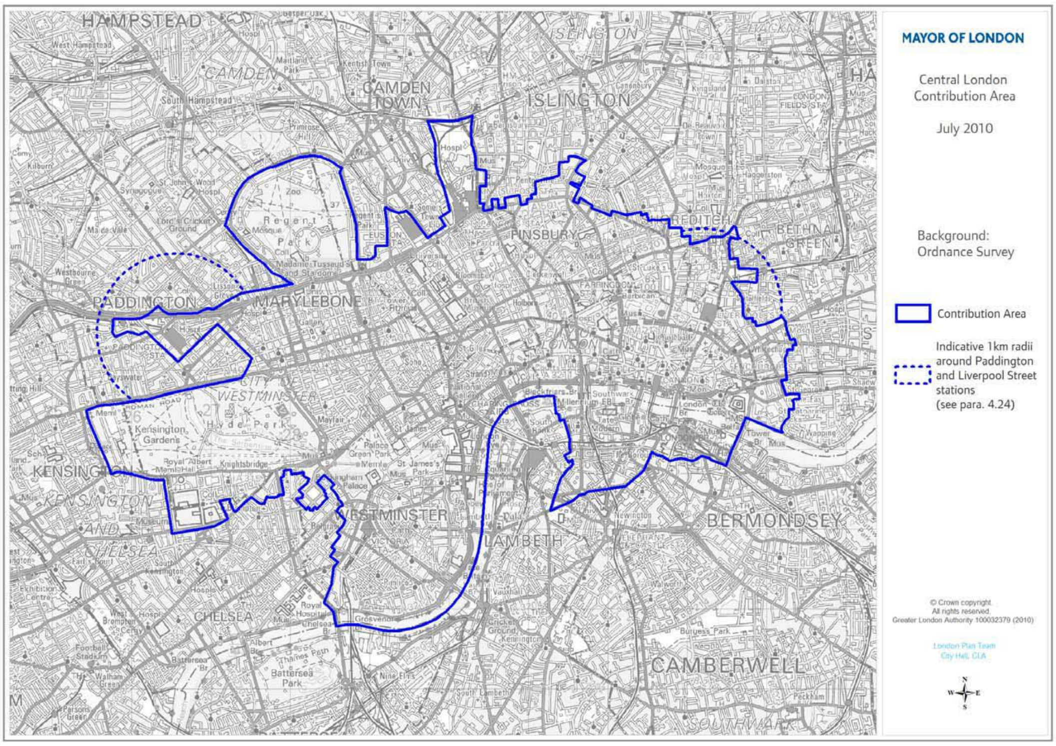
[8] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[9] *Ibid*

[10] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

10 MCIL 2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

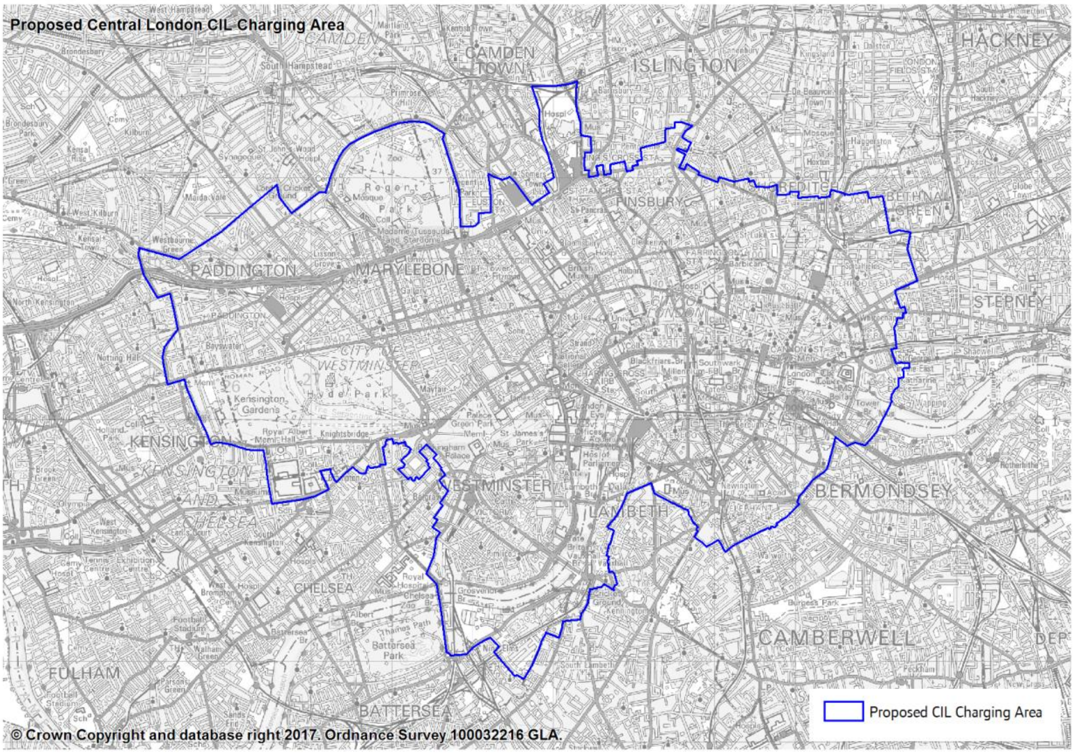


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have proposed an MCIL 2 Central London charging area 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. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)

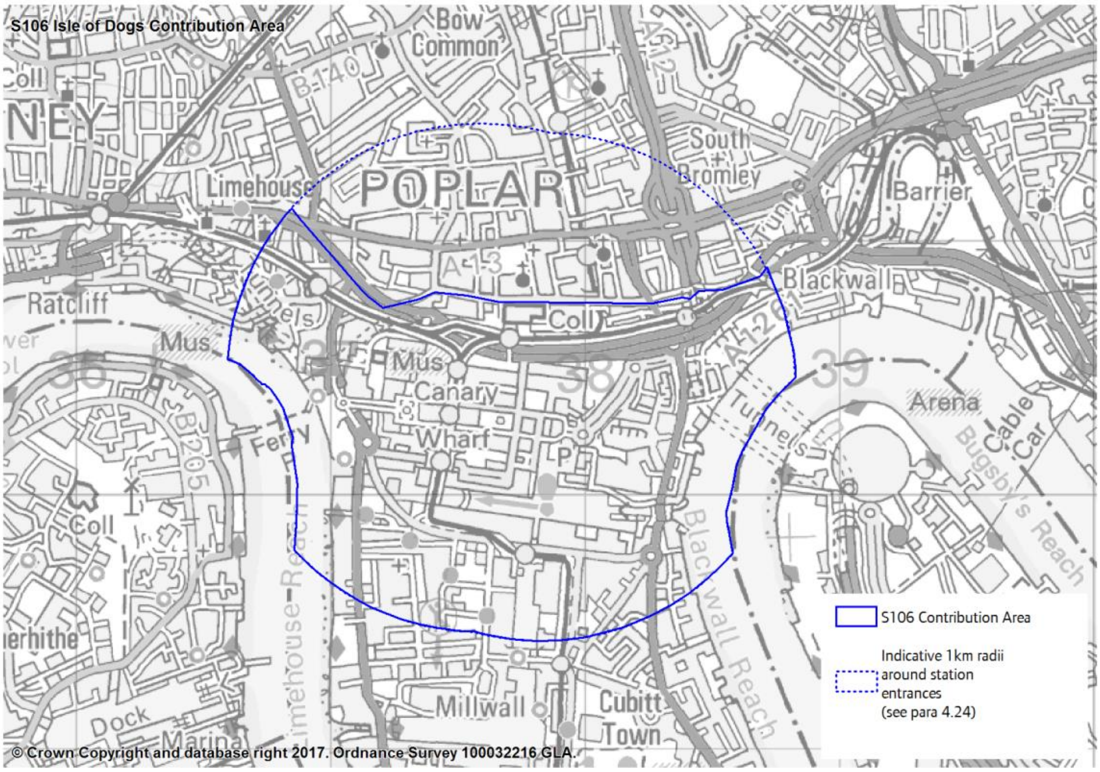
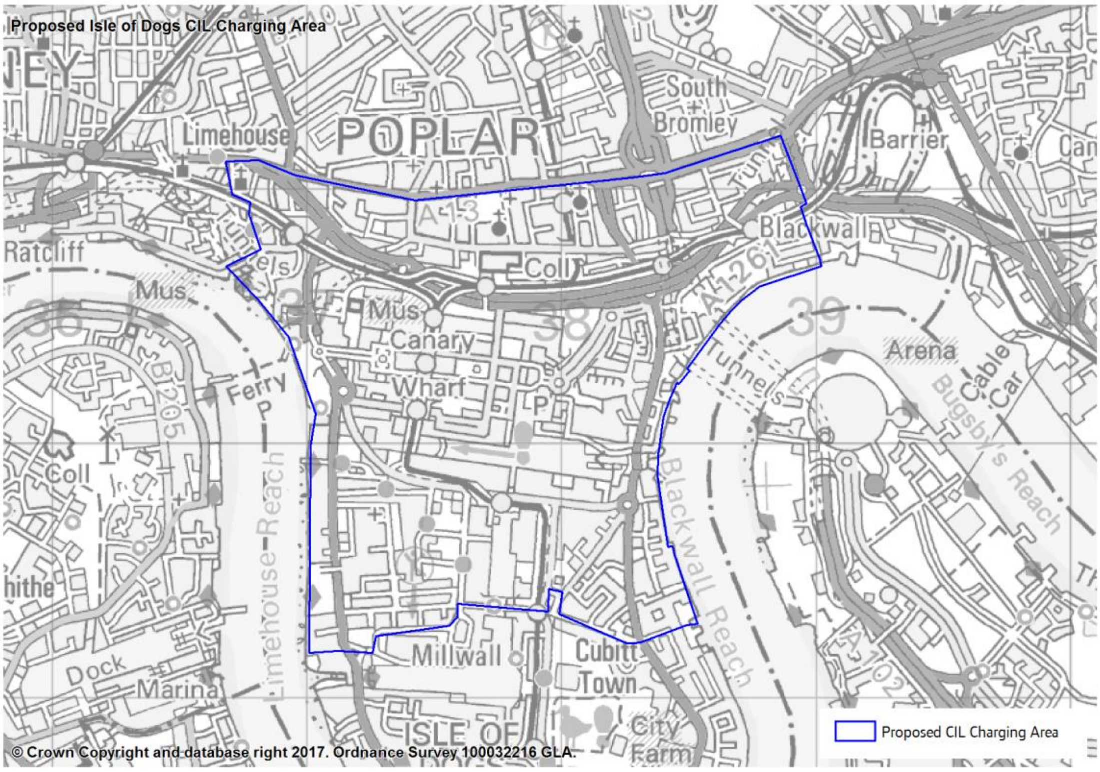


Figure 11: Proposed MCIL 2 Central London charging area – North Docklands



11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL rates, as a percentage of overall development costs MCIL remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL rate might make matters marginally worse, there will be many other instances where additional MCIL can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual affordable housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the MCIL rates. Therefore we conclude that the impact raising MCIL will have is likely to be minor.

Table 18: 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
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%)

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
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
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				
		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?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL 3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£80.00/£60.00	£89.35/£67.01	***£100.00***

*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)

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Prepared for TfL

Mayoral Community Infrastructure Levy 2 (~~27/~~03/04/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule ~~PDCS~~

March 2017

Contents

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Cover photo: Shutterstock

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 bands. 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

1.1.4 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.

Formatted: JLL_Heading Three

~~1.1.4~~1.1.5 The MCIL charging bands 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**

Formatted Table

~~1.1.5~~1.1.6 The London boroughs and LLDC (collecting authorities) started collecting MCIL on behalf of the Mayor in April 2012. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015.

~~1.1.6~~1.1.7 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.

~~1.1.7~~1.1.8 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations. Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

~~1.1.8~~1.1.9 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 and MCIL 1 arrangements, to only having MCIL, from 1 April 2019.

~~1.1.9~~1.1.10 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.

~~1.1.10~~1.1.11 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.

~~1.1.11~~1.1.12 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.’*

~~1.1.12~~1.1.13 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 of the 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.’*

~~1.1.13~~1.1.14 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 A**.

~~1.1.14~~1.1.15 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 Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.[1]

~~1.1.15~~1.1.16 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"*.[2]

~~1.1.16~~1.1.17 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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

1.2.1 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.

Formatted: JLL_Heading Three

~~1.2.1~~1.2.2 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~~1.2.3 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~~1.2.4 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

---

[1] *See 'Funding Crossrail 2,' London First (February 2014). Retrieved from: http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf last accessed 20/03/2017*

[2] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

that a correlation was sufficiently strong to make the residential value approach suitable for adoption generally across other uses. *(Para 12)*

~~1.2.4~~1.2.5 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~~1.2.6 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~~1.2.7 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~~1.2.8 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~~1.2.9 In the following sections of his report Mr Holland considers the Mayor's decision not to make use of the exceptional circumstances relief. 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~~1.2.10 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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 MCIL 2

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 for 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 In the report titled ‘*New Approach to Developer Contributions’* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[3]

2.1.5 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.’*[4]

Formatted: JLL_Heading Three

~~2.1.5~~2.1.6 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly

---

[3] *See: ‘A New Approach to Developer Contributions,’ CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[4] *Ibid*

for the provision of education as a school or college under the Education Acts or as an institution of higher education.

~~2.1.6~~2.1.7 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to roll these in to the MCIL 2 charging regime. At present because of the way the Mayor allows MCIL payments in the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a 'top-up' above the prevailing MCIL 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~~2.1.8 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 We set out in Figure 1 below our estimate 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 (estimated)

	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	-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

Formatted Table

Formatted Table

Source: TfL, GLA, JLL

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL 2 rates.

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 bands

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

Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left

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)
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

Formatted: Left

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 bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

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 residential values and other uses.

3.4.2 When considering the results of correlation coefficient analysis, the following ranges are typical:

- 0.90 to 1.00 – very high correlation

- 0.70 to 0.89 – high correlation

- 0.50 to 0.69 – moderate correlation

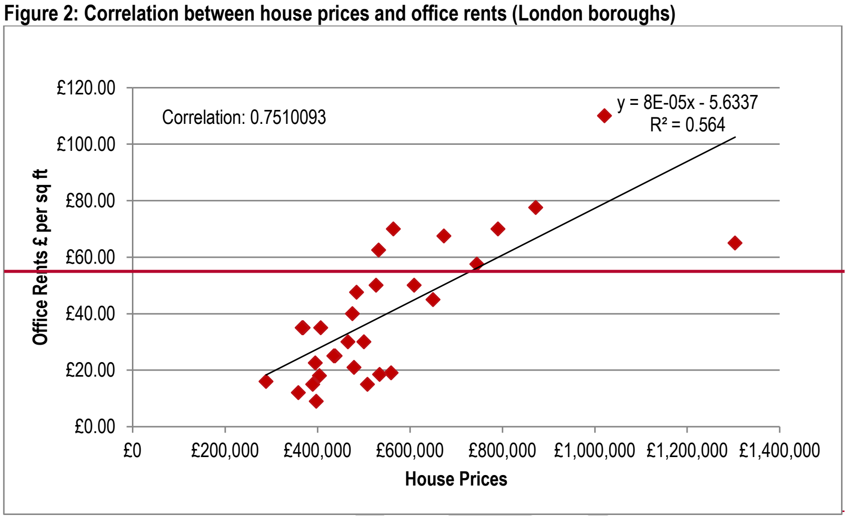
- 0.30 – 0.59 – low correlation

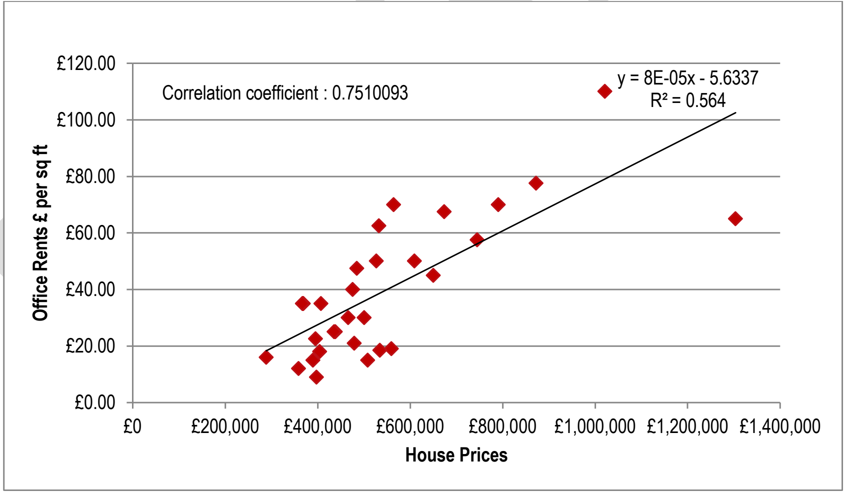
- 0.00 to 0.20 – little, if any correlation

~~3.4.2~~3.4.3 Offices

~~3.4.3~~3.4.4 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a ~~reasonably strong~~high correlation between office rents and house prices.

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





Source: Land Registry, CoStar, JLL

~~3.4.4~~3.4.5 Retail

Formatted: Tab stops: 2.75 cm, Left

~~3.4.5~~3.4.6 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 and Westminster.

There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

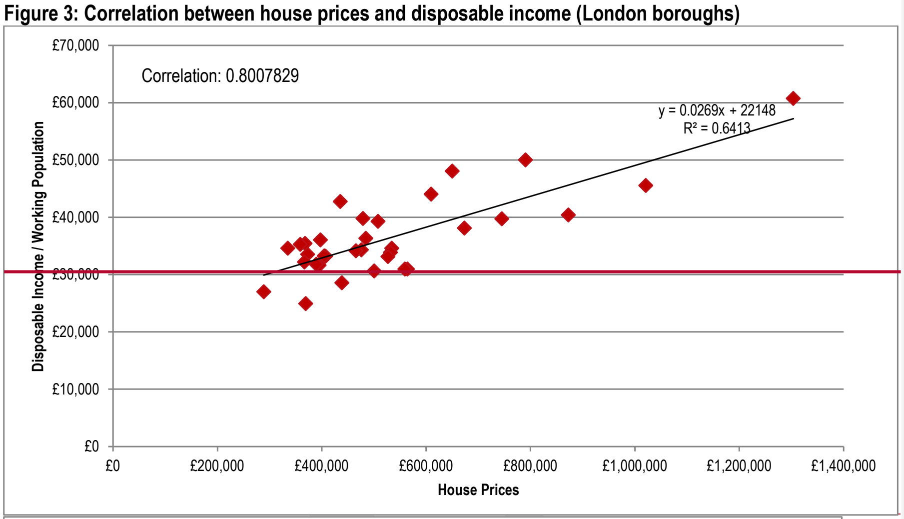
~~3.4.6~~3.4.7 Other ~~categories~~Categories

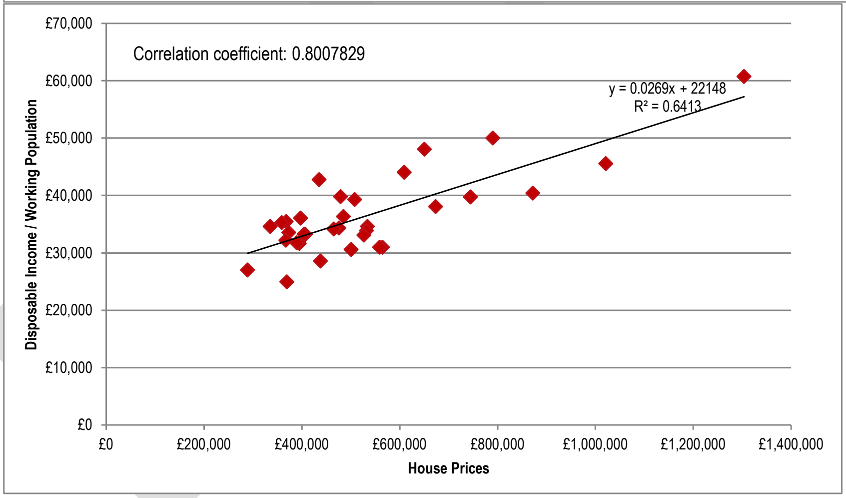
~~3.4.7~~3.4.8 ~~'~~'Other categories' include buildings such as those used for leisure and transport e.g. football stadia and airport terminal buildings.

~~3.4.8~~3.4.9 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~~3.4.10 We have confirmed this by comparing house ~~values~~prices with disposable income per person of working population in Figure 3 and Table 4 below, which shows a high correlation.

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





Source: Land Registry, Oxford Economics

~~3.4.10~~3.4.11 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~~3.4.12 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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

3.5 Conclusion

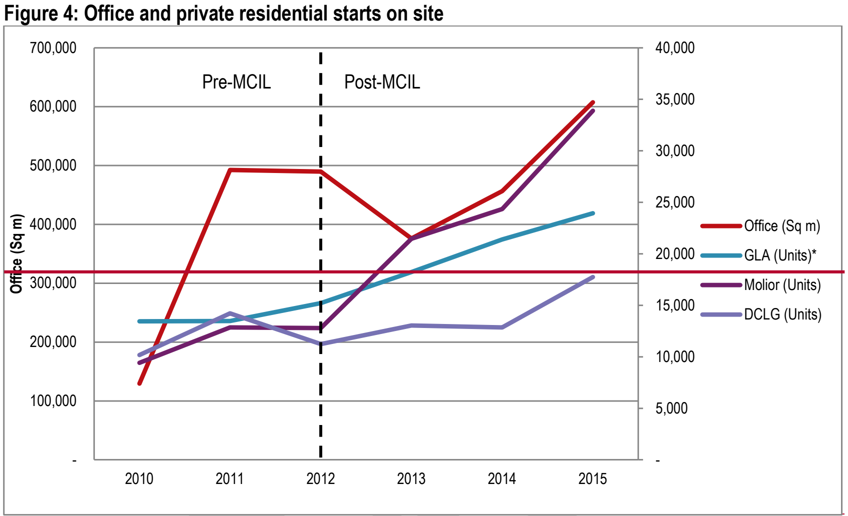
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

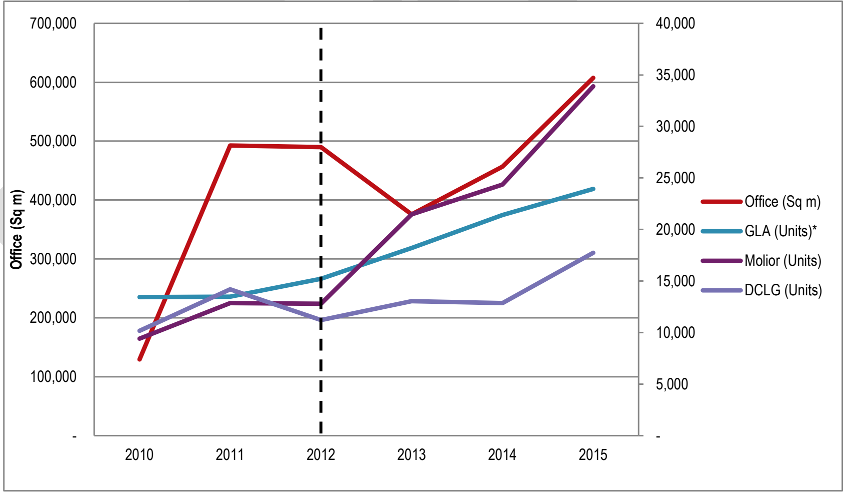
3.5.2 The average house price per Borough (mean) is still appropriate for assessing viability characteristics.

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, with office and residential trending upwards.

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 MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

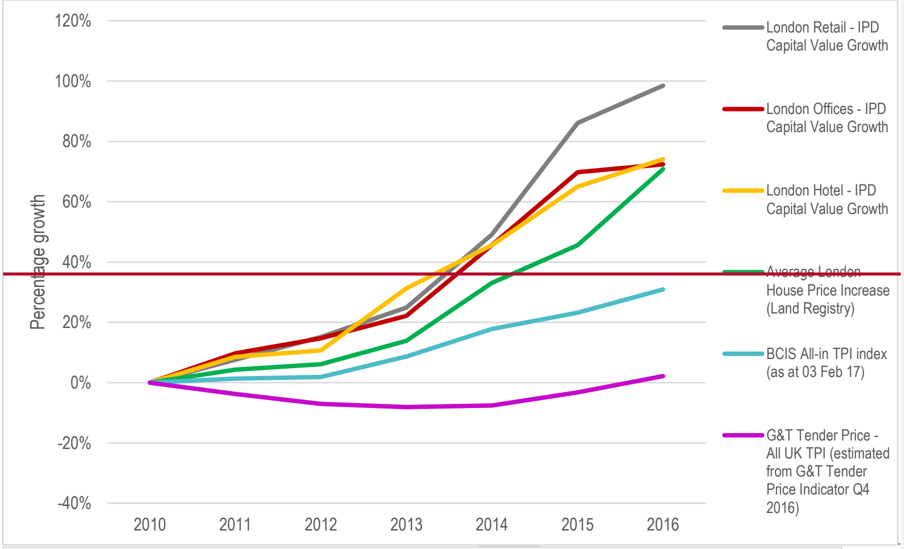
Table 4: Average house price growth compared with build cost growth 2010-2016

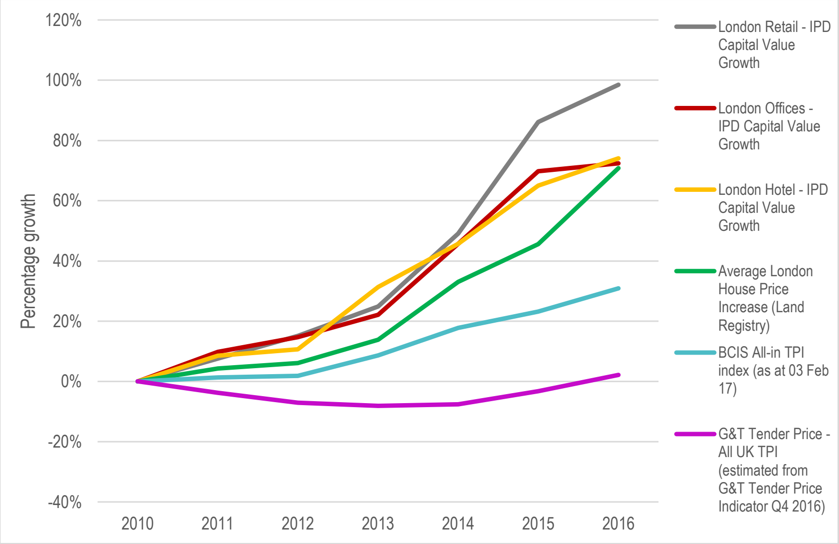
Borough	Average House Price Growth (as per rebased HPI data April 2010 to November 2016)	BCIS All in TPI Growth (Nov 2010-Nov 2016) as at 03 Feb 2017	Excess House price growth over BCIS building costs	G&T Tender Price - All UK TPI 2010-2016 (estimated from G&T Tender Price Indicator Q4 2016)	Excess House 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.

Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted: JLL_Heading Three, Indent: Left: 1.2 cm

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.

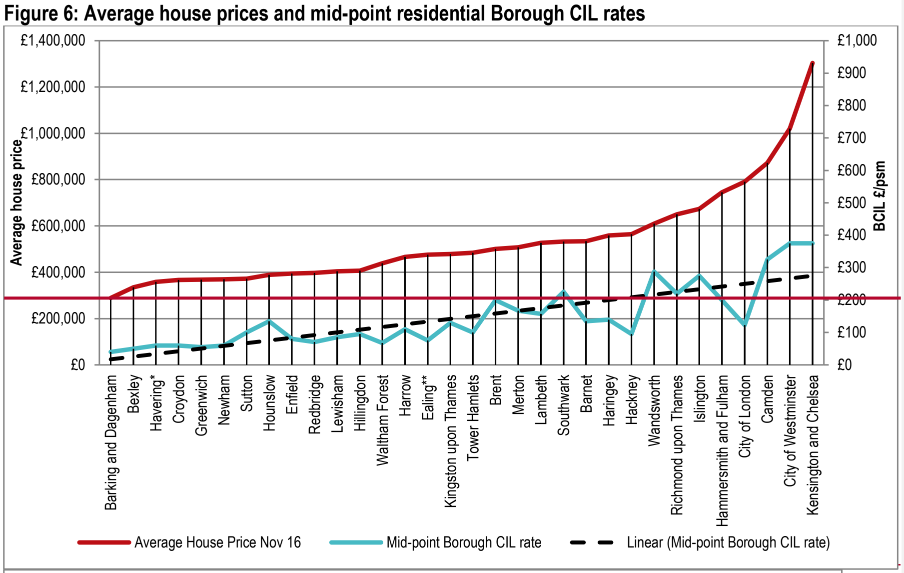
Table 5: Average house price and residential BCIL rates

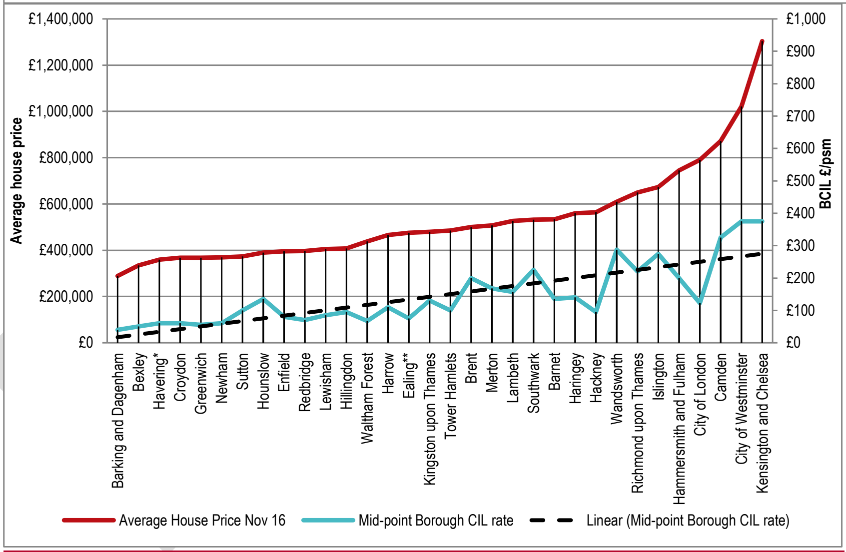
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
Kensington and Chelsea	£1,303,778	£0	£750	£375
City of Westminster	£1,021,027	£200	£550	£375
Camden	£872,390	£150	£500	£325
City of London	£790,439	£95	£150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

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)

Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table

Figure 6: Average house prices and mid-point residential 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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table 6 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.

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

Table 6: MCIL receipts (excl. 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
Southwark~~City of Westminster~~	£~~27,853,421~~20,134,067	£~~50~~35	~~557,068~~ 575,259
City of Westminster~~Hammersmith and Fulham~~	£~~20,516,892~~27,853,421	£50	~~410,338~~ 557,068
Lambeth~~Southwark~~	£~~20,134,067~~18,463,412	£35	~~575,259~~ 527,526
Hammersmith and Fulham~~Wandsworth~~	£~~18,308,958~~20,516,892	£50	~~366,179~~ 410,338
Hackney~~Lambeth~~	£~~18,463,412~~12,847,714	£35	~~527,526~~ 367,078
Wandsworth~~City of London~~	£~~14,506,765~~18,308,958	£50	~~290,135~~ 366,179
Greenwich~~Hackney~~	£12,~~847,714~~015,455	£35	~~367,078~~ 343,299
Barnet~~Camden~~	£~~12,476,615~~11,391,709	£~~50~~35	~~249,532~~ 325,477
City of London~~Greenwich~~	£~~12,015,455~~14,506,765	£~~35~~50	~~343,299~~ 290,135
Hounslow~~Islington~~	£~~11,729,324~~10,046,845	£~~50~~35	~~234,586~~ 287,053
Brent~~Barnet~~	£~~11,391,709~~9,547,160	£35	~~325,477~~ 272,776
Camden~~Hounslow~~	£~~10,046,845~~12,476,615	£~~35~~50	~~287,053~~ 249,532
Islington~~Brent~~	£~~9,547,160~~11,729,324	£~~35~~50	~~272,776~~ 234,586
Hillingdon	£7,680,248	£35	219,436
LLDC	£7,639,096	£35/£20	218,260*
Newham~~Kensington and Chelsea~~	£~~5,588,604~~3,780,260	£~~50~~20	~~111,772~~ 189,013
Enfield~~Haringey~~	£~~4,787,390~~3,037,537	£~~35~~20	~~136,783~~ 151,877
Haringey~~Bromley~~	£4,~~743,828~~787,390	£35	~~135,538~~ 136,783
Bromley~~Lewisham~~	£4,~~587,054~~743,828	£35	~~131,059~~ 135,538
Lewisham~~Ealing~~	£~~3,995t,905~~4,587,054	£35	~~114,169~~ 131,059
Bexley~~Newham~~	£~~3,780,260~~2,619,413	£20	~~189,013~~ 130,971
Croydon~~Harrow~~	£~~3,136,808~~2,533,527	£~~35~~20	~~89,623~~ 126,676
Ealing~~Merton~~	£3,~~184,001~~995,905	£35	~~90,971~~ 114,169
Kensington and Chelsea~~Enfield~~	£~~3,037,537~~5,588,604	£~~20~~50	~~151,877~~ 111,772
Waltham Forest~~Kingston upon Thames~~	£2,~~859,849~~143,309	£~~35~~20	~~81,710~~ 107,165
Sutton~~Bexley~~	£~~2,619,413~~1,994,814	£20	~~130,971~~ 99,741
Merton~~Richmond upon Thames~~	£~~2,523,974~~3,184,001	£~~50~~35	~~50,479~~ 90,971
Harrow~~Croydon~~	£~~2,533,527~~3,136,808	£~~20~~35	~~126,676~~ 89,623
Kingston upon Thames~~Waltham Forest~~	£2,~~143,309~~859,849	£~~20~~35	~~107,165~~ 81,710
Barking and Dagenham~~Sutton~~	£1,~~994,814~~078,069	£20	~~99,741~~ 53,903
Richmond upon Thames~~Barking and Dagenham~~	£~~1,078,069~~2,523,974	£~~20~~50	~~53,903~~ 50,479
Havering~~Redbridge~~	£~~974,009~~832,889	£~~35~~20	~~27,829~~ 41,644
Redbridge~~Havering~~	£~~832,889~~974,009	£~~20~~35	~~41,644~~ 27,829
OPDC	£149,473	£50/£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 overstated/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. Marked increases in

Formatted Table

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Bright Green

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Bright Green

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Bright Green

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Custom Color(RGB(0,51,204))

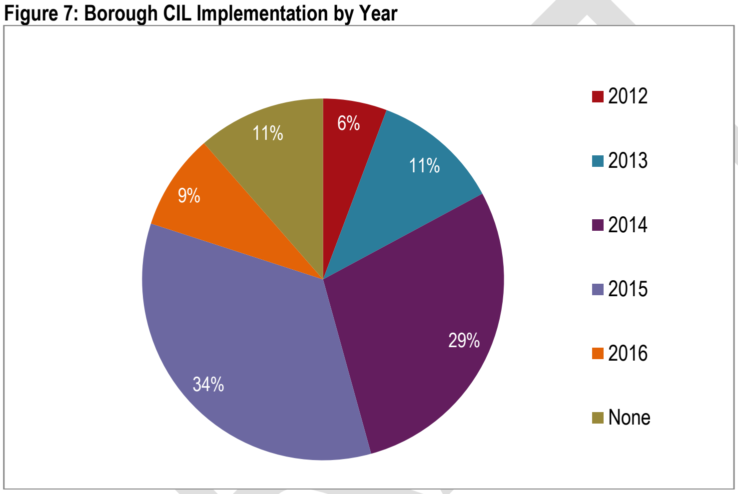
Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font: Not Bold

Formatted: Left

value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

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 proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[5]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;
2. Removing all Central London and North Docklands rates and relying totally on Borough rates;
3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and
4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[5] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[6]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL 2 purposes.[7]

---

[6] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[7] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

Formatted Table

8.1.3 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)

Formatted Table

8.1.4 In the proposed MCIL 2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The 1km 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 proposed MCIL 2 Central London charging area are considered further in chapter 10.

8.1.5 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)

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

8.1.7 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

Formatted Table

	Central London				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 MCIL 2 rate (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 MCIL 2 rate (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**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

9.2 Original MCIL as a percentage of highest and lowest average house prices within each charging band

9.2.1 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 band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

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)

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

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

Band	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 band 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 band assuming 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

Formatted Table

Formatted Table

Formatted Table

9.2.3 Since the original MCIL, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL 2 rate per Sq M	Proposed MCIL 2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

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

Formatted Table

9.4 Analysis of proposed MCIL 2 rates

9.4.1 MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 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.

9.4.4 Across the charging bands 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 band 2 however, the proposed MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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

Formatted Table

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.

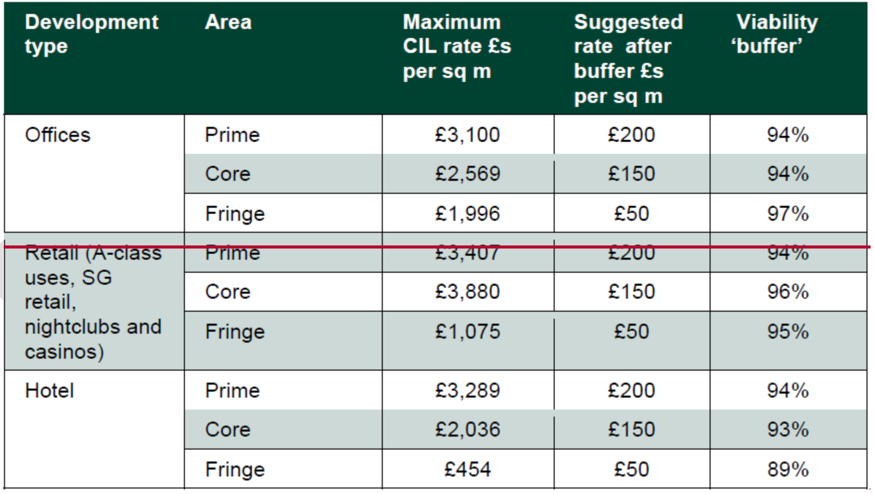
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London charging area.

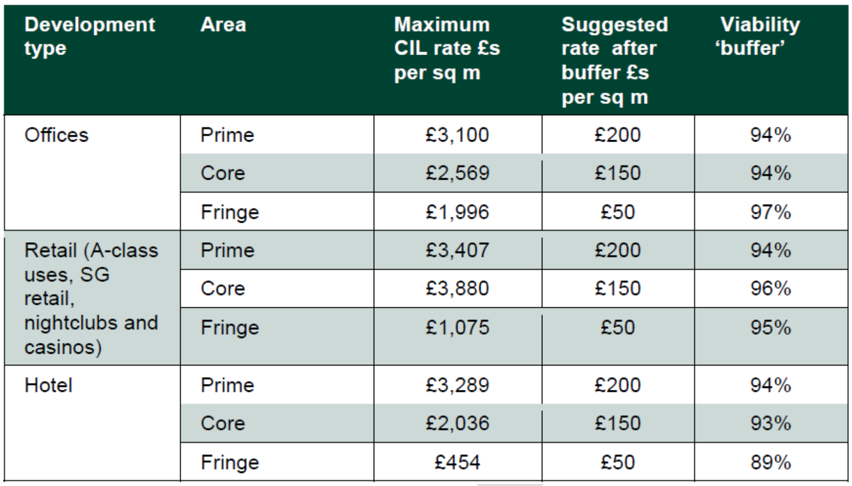
9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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 17: 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%



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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [8]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [9]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[10]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and

---

[8] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[9] *Ibid*

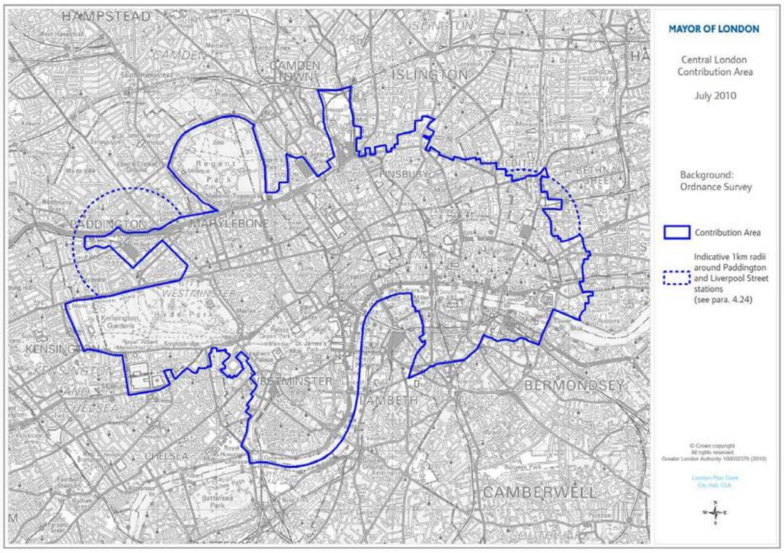
[10] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

10 MCIL 2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

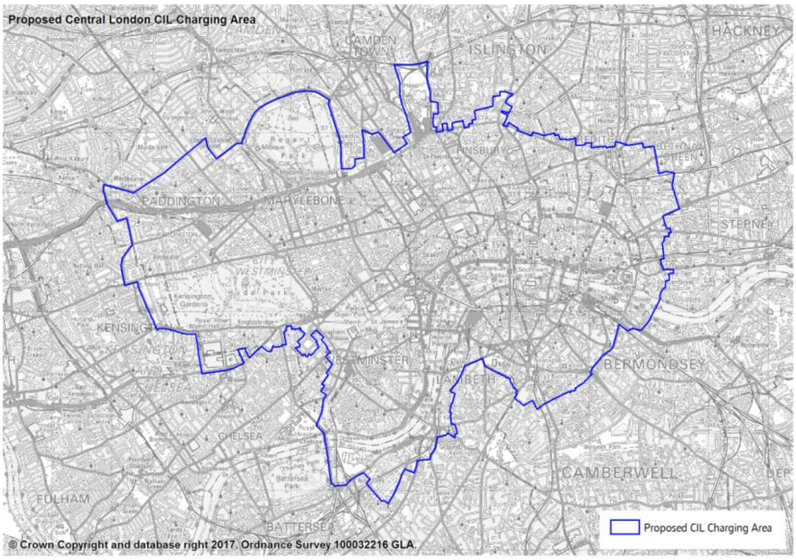


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have proposed an MCIL 2 Central London charging area 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. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)

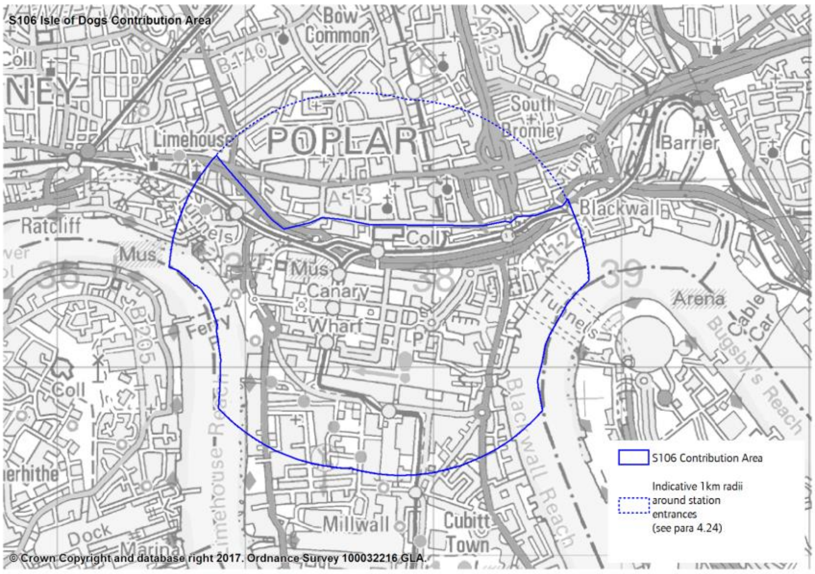
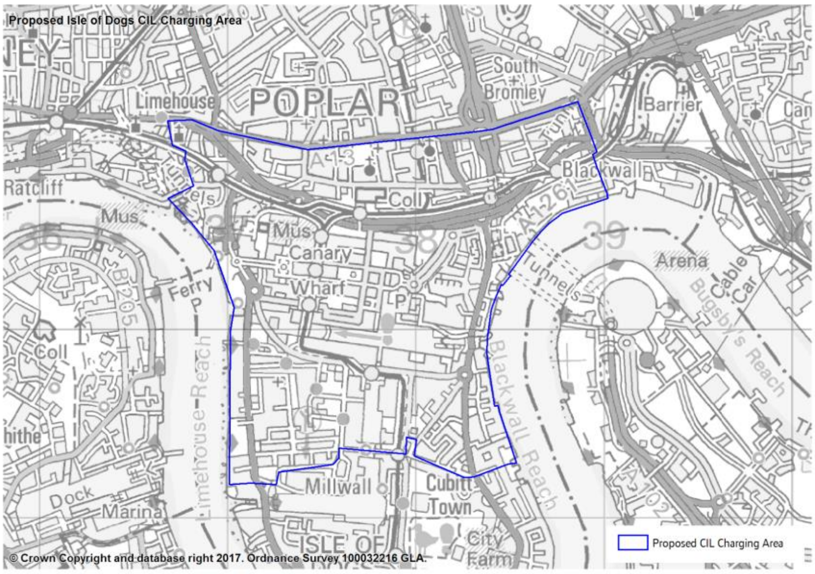


Figure 11: Proposed MCIL 2 Central London charging area – North Docklands



11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL rates, as a percentage of overall development costs MCIL remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL rate might make matters marginally worse, there will be many other instances where additional MCIL can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual affordable housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the MCIL rates. Therefore we conclude that the impact raising MCIL will have is likely to be minor.

Table 18: 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
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%)

Formatted Table

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
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%	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
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				
		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.

Formatted Table

Formatted: Character scale: 100%, Condensed by 0.3 pt

12 MCIL 3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL 3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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)

Formatted Table

Table 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£80.00/£60.00/~~£25.00~~	£89.35/£67.01/~~£27.92~~	***£100.00***

*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)

Formatted Table

Formatted: Font color: Red

Formatted: Font color: Red

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Jones Lang LaSalle

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	27 March 2017 17:42
To:	Hart Anna; 'Peter Heath'; Richard Linton; Ware Julian; Lees Neil; Gardiner Stephen; Jones, Richard (UK); Neil Hook; Vincett-Wilson Harriet; Sharples Elliot
Subject:	RE: MCIL2
Attachments:	20170327_MCIL2 working towards PDCS - DRAFT compared with 20170320 version.pdf; 20170327_MCIL2 working towards PDCS - DRAFT - Clean Version.pdf

Dear all,

Please find attached the latest copy of our document in advance of tomorrow's meeting.

Richard reviewed this over the weekend and found a further "practise" and a split infinitive!

I attach a version compared with the one we looked at in last week's meeting (dated 20/03/2017) and a clean copy with all changes accepted.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Gerrish, Ryan
Sent: 20 March 2017 19:14
To: 'Hart Anna' ; 'Peter Heath' ; Richard Linton ; Ware Julian ; Lees Neil ; Gardiner Stephen ; Jones, Richard (UK) ; Neil Hook ; Vincett-Wilson Harriet ; Sharples Elliot
Subject: MCIL2

Dear all,

In advance of our meeting tomorrow please find our latest working draft made during the past week in track changes.

Please note the new photograph and substantially rewritten MCIL 3? Section 12.

Kind regards,

Ryan & Richard

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 20 March 2017 16:08
To: 'Peter Heath' <[redacted]london.gov.uk>; Richard Linton <[redacted]london.gov.uk>; Ware Julian <[redacted]tfl.gov.uk>; Lees Neil <[redacted]tfl.gov.uk>; Gardiner Stephen <[redacted]Tfl.gov.uk>; Jones, Richard (UK) <[redacted]eu.jll.com>; Gerrish, Ryan

<[redacted]eu.jll.com>; Neil Hook <[redacted]london.gov.uk>; Vincett-Wilson Harriet <[redacted]tfl.gov.uk>; Sharples Elliot <[redacted]tfl.gov.uk>
Subject: RE: London Plan Transport policies for MCIL2

Dear all,

I had an initial go at preparing a draft PDCS document. Please, find this attached. The structure and majority of the text is as per the 2011 PDCS document. I've tracked the changes that I made to that original text and highlighted areas where I think text should be revised or possibly taken out altogether. I'd be grateful for your advice on the best approach.

Stephen – we will need your assistance to review all the legal/regulatory references in the text to make sure they are still up-to-date or need changing.

Please feel free to add/change as appropriate and we can discuss tomorrow afternoon.

Many thanks,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 14:15
To: Hart Anna; Richard Linton; Ware Julian; Lees Neil
Cc: Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Anna,

Why don't tfl comrades write as much as they can/want and rich and I tweak and recirculate??

Pete

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 14:00
To: Richard Linton; Julian Ware; Lees Neil
Cc: Peter Heath; Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Thanks Rich.

Were you happy with the action note that Harriet circulated earlier today and the suggested sections of the document to be drafted by you/Pete? Or did you want me to have a first go and then edit afterwards if needed?

Regards,
Anna

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 13:21
To: Hart Anna; Ware Julian; Lees Neil
Cc: Peter Heath
Subject: RE: London Plan Transport policies for MCIL2

CIB just facilitates sign off by DMs in the MD (mayoral decision) form process – it meets every week to deal with that week's MDs – from our point of view, we just need to look at it as an administrative stage…

So I/we will do the MD when your documents are ready (the PDCS and the evidence report) and sent to me – they will be annexes to the MD. I will then draft the MD and circulate it between us to check you are happy with it and the way it explains MCIL2…

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 11:27
To: Peter Heath; Julian Ware; Lees Neil; Richard Linton
Subject: RE: London Plan Transport policies for MCIL2

Many thanks Pete.

If you or Rich could also advise on the timescales for submitting papers to the CIB that would be great.

Kind regards,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 08:45
To: Hart Anna; Ware Julian; Lees Neil; Richard Linton
Subject: London Plan Transport policies for MCIL2

All,
Following policies from adopted London Plan Transport chapter may assist

Policy 6.1
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-18

Table 6.1
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/table

Policy 6.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-19

Policy 6.4
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/policy

As may this one on cross boundary cooperation and growth
Policy 2.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-two-londons-places/policy-22

Rich may think of some more.

Pete
#LondonIsOpen

#LondonIsOpen

GREATER LONDON AUTHORITY NOTICE:
The information in this email may contain confidential or privileged materials. For more information see https://www.london.gov.uk/about-us/email-notice/

Prepared for TfL

Mayoral Community Infrastructure Levy 2 (27/03/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule PDCS

March 2017

Contents

Cover photo: Shutterstock

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 bands. 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 bands 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**

1.1.5 The London boroughs and LLDC (collecting authorities) started collecting MCIL on behalf of the Mayor in April 2012. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015.

1.1.6 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.

1.1.7 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations. Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

1.1.8 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 and MCIL 1 arrangements, to only having MCIL, from 1 April 2019.

1.1.9 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.

1.1.10 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.

1.1.11 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.’*

1.1.12 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 of the 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.’*

1.1.13 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 A**.

1.1.14 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 Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.

1.1.15 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]

1.1.16 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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

---

[1] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

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 considers the Mayor's decision not to make use of the exceptional circumstances relief. 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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 MCIL 2

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 for 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 In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[2]

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.'*[3]

2.1.5 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.6 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to roll these in to the MCIL 2 charging regime. At present because of the way the Mayor allows MCIL payments in

---

[2] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[3] *Ibid*

the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a 'top-up' above the prevailing MCIL 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 We set out in Figure 1 below our estimate 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 (estimated)

	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	-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

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL 2 rates.

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 bands

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 bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***
- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

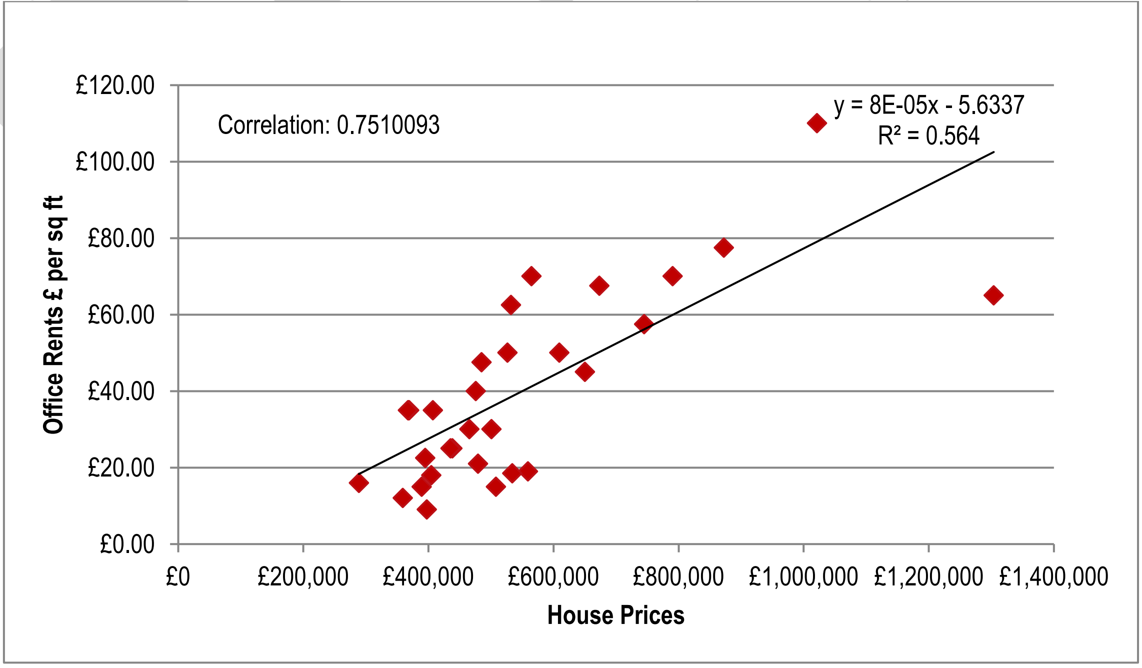
3.4 Are residential values a good lead indicator for high values in other sectors?

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 residential values 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 Figure 2 and Table 4). As can be seen, there is a reasonably strong correlation between office rents and house prices.

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 and Westminster. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

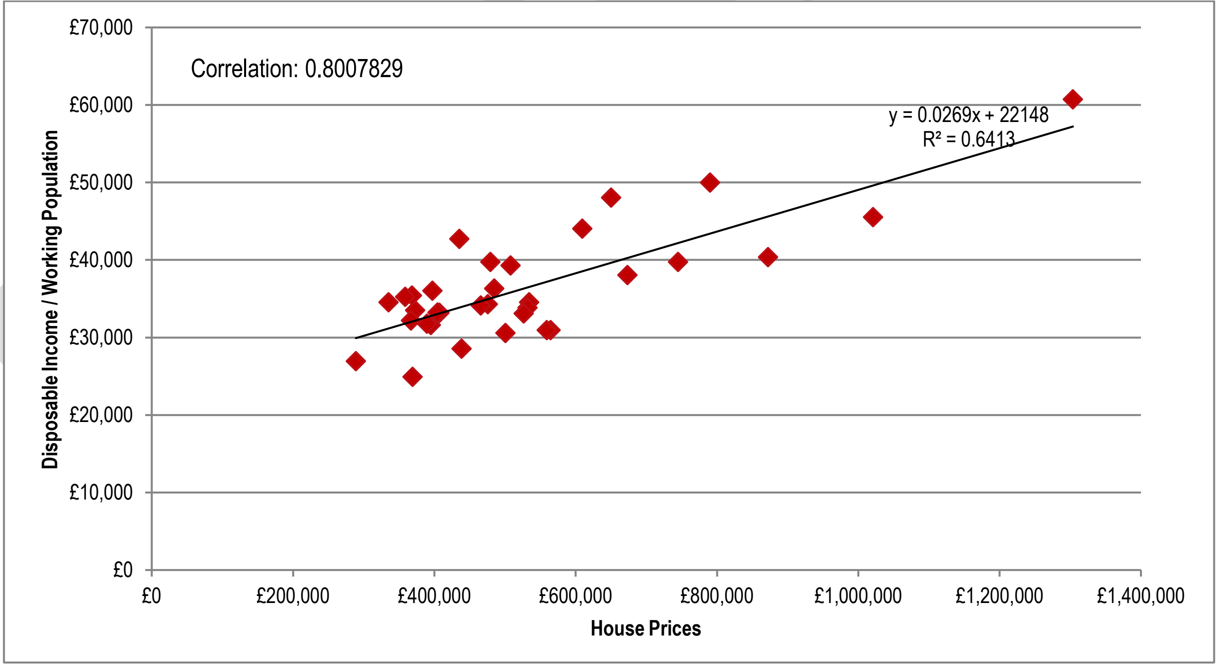
3.4.6 Other categories

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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

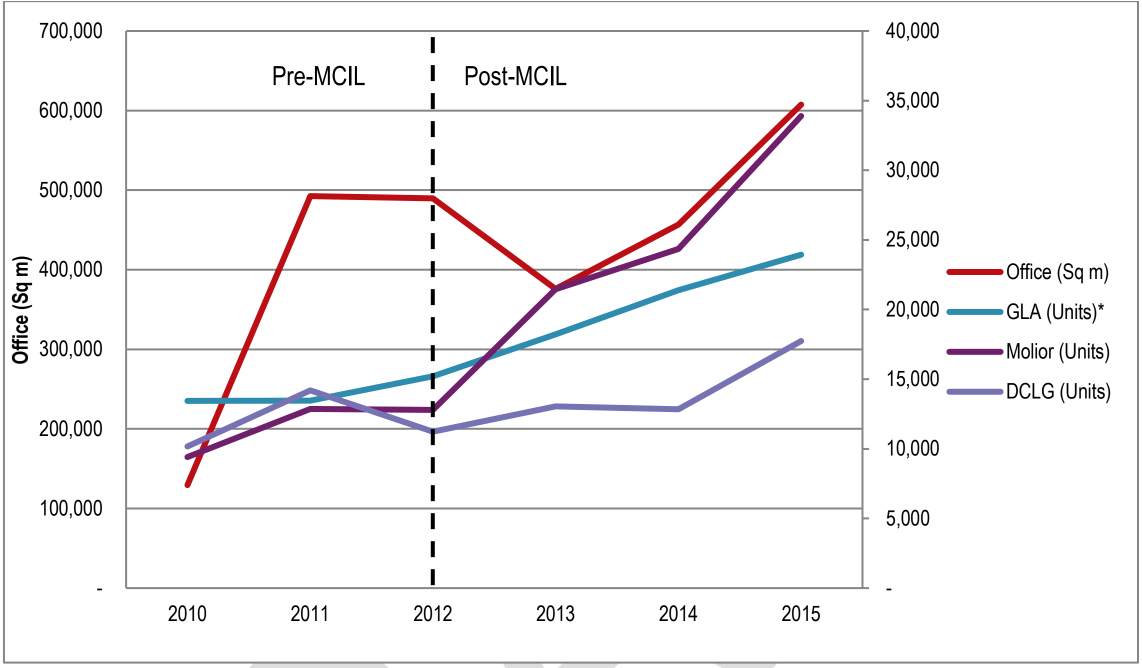
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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, with office and residential trending upwards.

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 MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

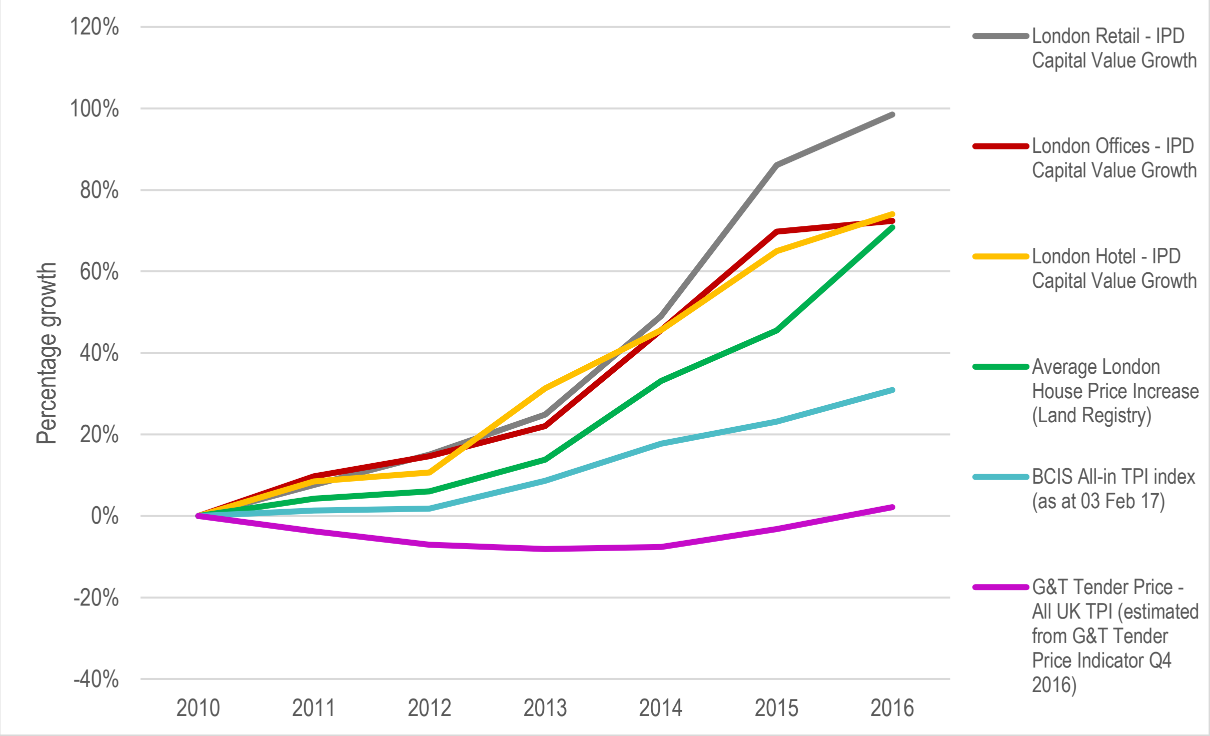
Table 4: Average house price growth compared with build cost growth 2010-2016

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 2017	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.

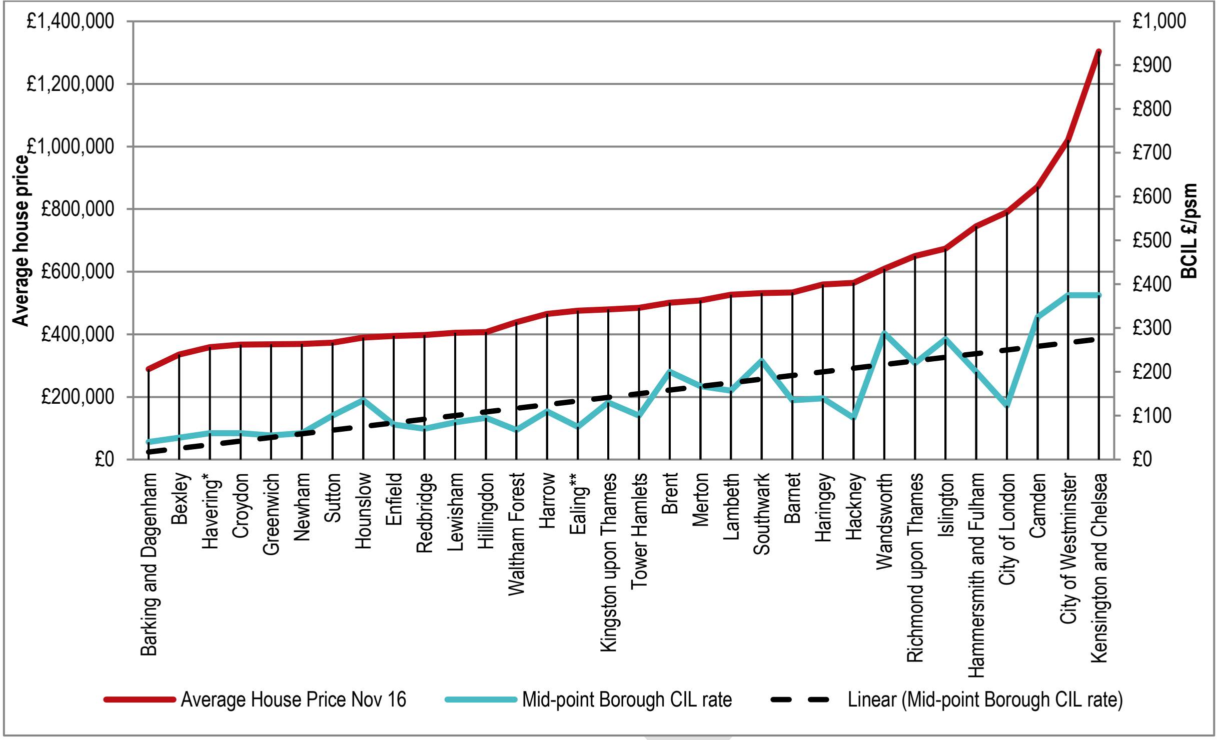
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and CIL rates.

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

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 mid-point residential 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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table 6 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.

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

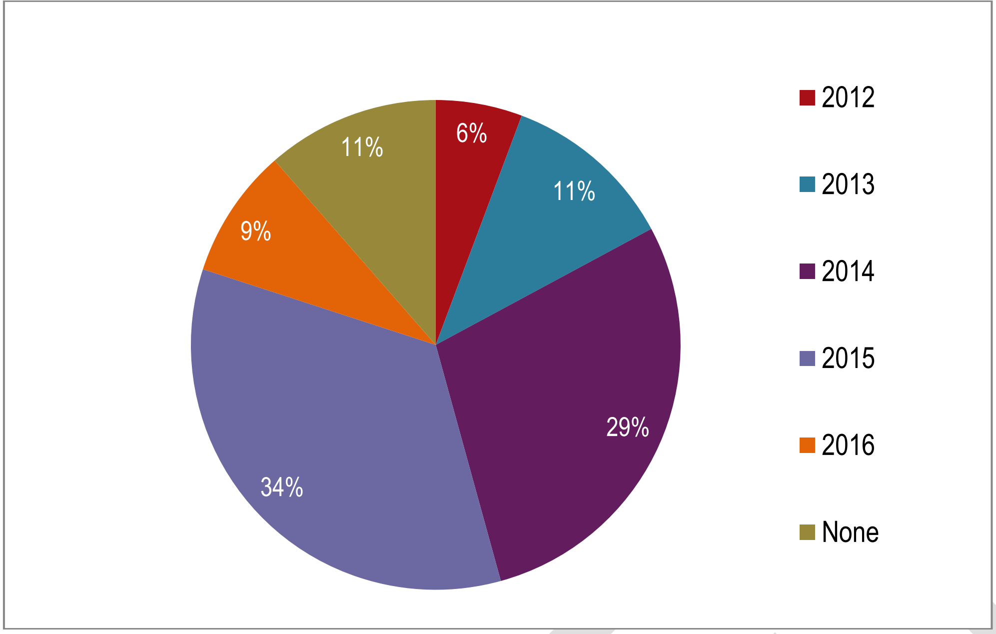
Table 6: MCIL receipts (excl. indexation) by revenues and net additional GIA in sq m to Q3 2016-17

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	£3,995t,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 overstated/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. Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

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 proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[4]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;
2. Removing all Central London and North Docklands rates and relying totally on Borough rates;
3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and
4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[4] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[5]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL 2 purposes.[6]

---

[5] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[6] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The 1km 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 proposed MCIL 2 Central London charging area are considered further in chapter 10.

8.1.5 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)

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

8.1.7 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

	Central London				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 MCIL 2 rate (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 MCIL 2 rate (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**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

9.2 Original MCIL as a percentage of highest and lowest average house prices within each charging band

9.2.1 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 band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

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)

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

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

Band	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 band 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 band assuming 100% net increase in GIA
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

9.2.3 Since the original MCIL, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL 2 rate per Sq M	Proposed MCIL 2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

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

9.4 Analysis of proposed MCIL 2 rates

9.4.1 MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 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.

9.4.4 Across the charging bands 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 band 2 however, the proposed MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

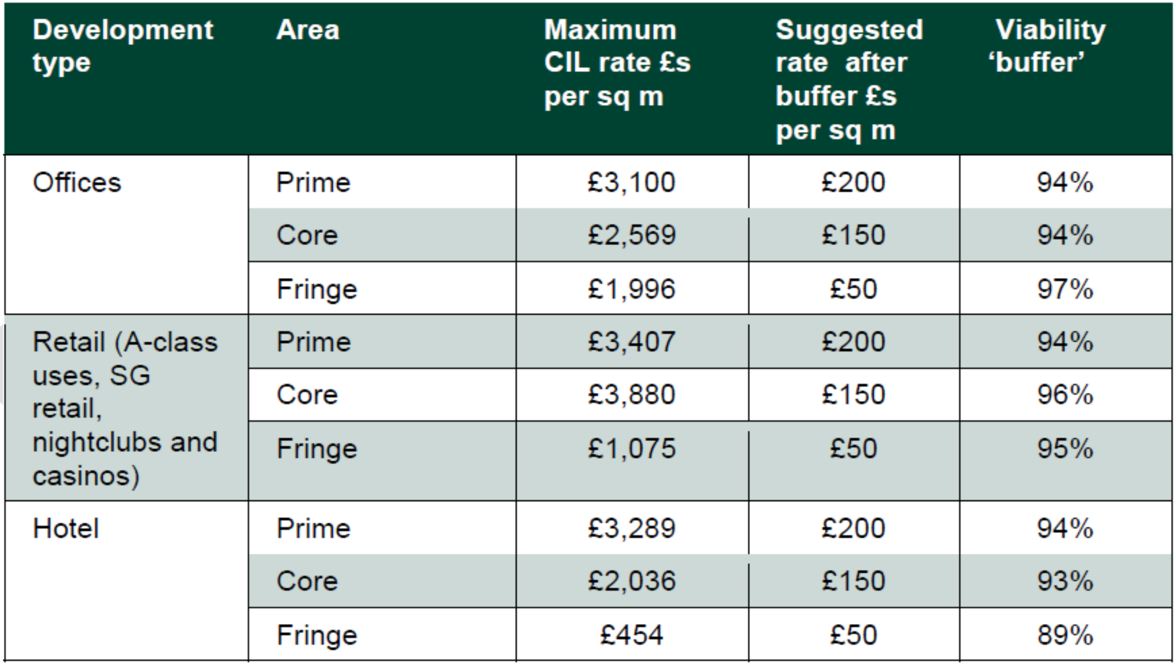
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London charging area.

9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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 17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed

use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [7]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [8]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[9]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

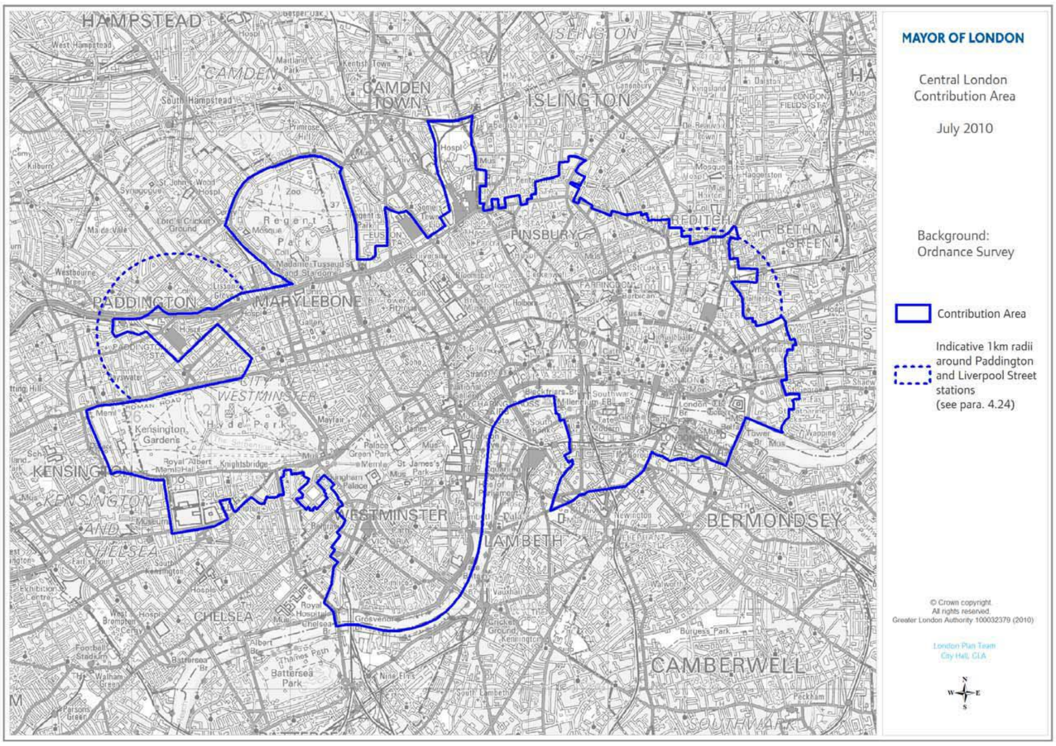
[7] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[8] *Ibid*

[9] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

10 MCIL 2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

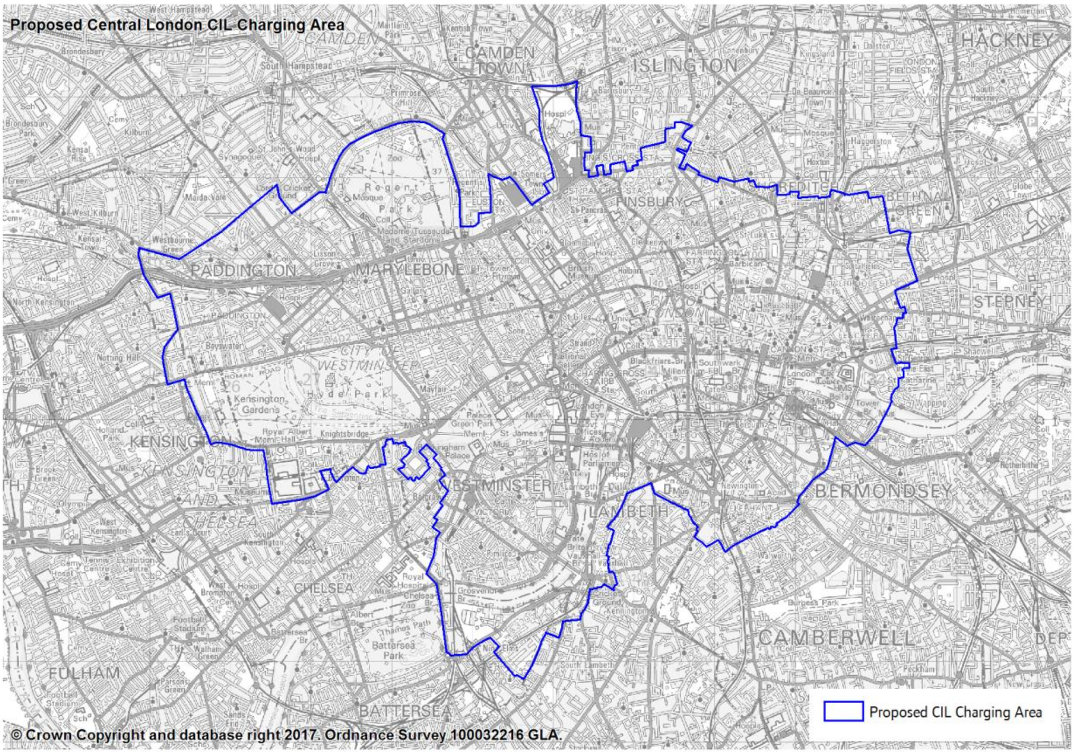


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have proposed an MCIL 2 Central London charging area 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. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

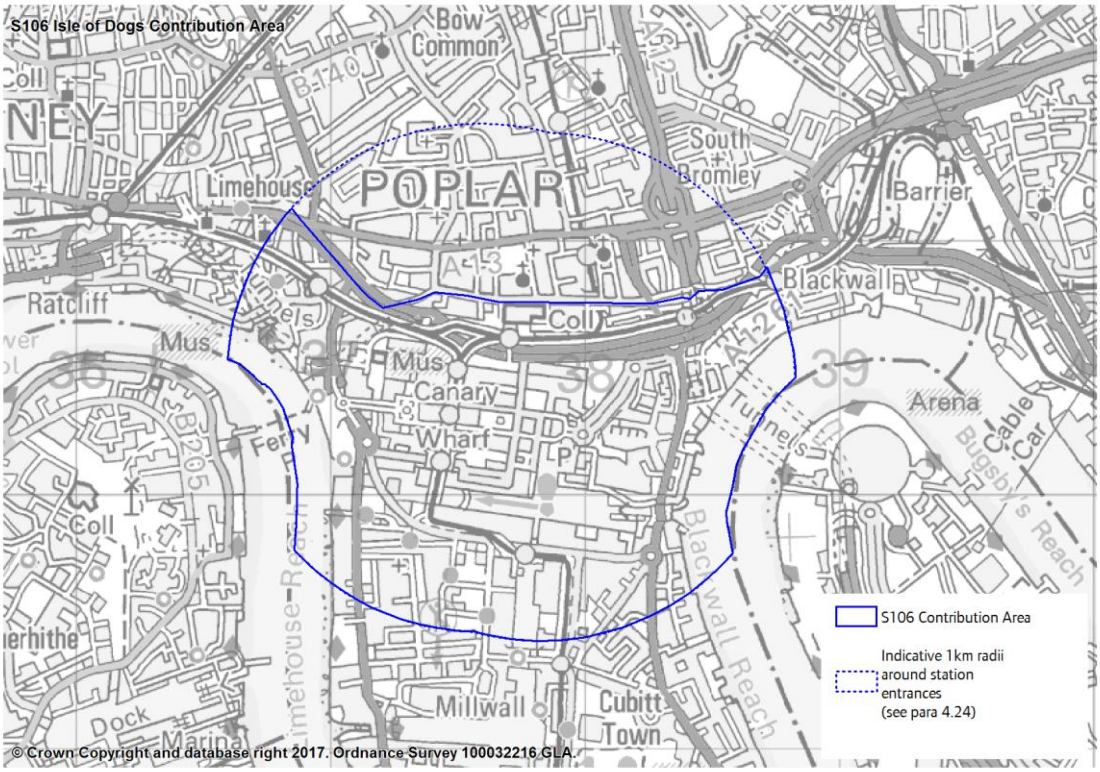
Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

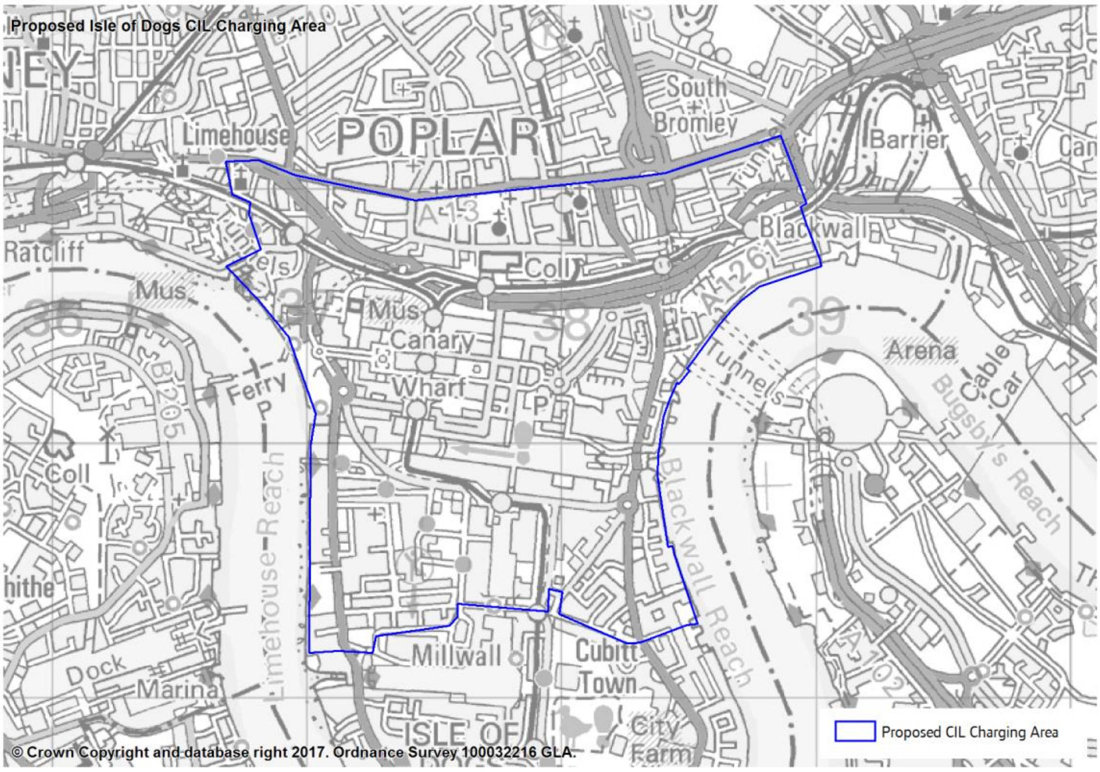
10.1.4 In a similar manner we have sought to rationalise and simplify the boundaries of the North Docklands area by using roads and river as boundaries rather than a circular zone around the Canary Wharf Station. The existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

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



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL rates, as a percentage of overall development costs MCIL remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL rate might make matters marginally worse, there will be many other instances where additional MCIL can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the MCIL rates. Therefore we conclude that the impact raising MCIL will have is likely to be minor.

Table 18: 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
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

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
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
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?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL 3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£60.00/£25.00	£67.01/£27.92	***£100.00***

*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)

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Prepared for TfL

Mayoral Community Infrastructure Levy ~~MCIL~~ 2 (~~20~~27/03/2017)

~~Working towards PDCS~~Viability Evidence Base for Preliminary Draft Charging Schedule PDCS

~~**DRAFT**~~**March 2017**

Contents

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

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

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~~bands. 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~~bands 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~~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:~~ The London boroughs and LLDC ~~started~~ (collecting ~~in [ ] and OPDC started collecting in [ ]. Other boroughs~~ authorities) started collecting MCIL on behalf of the Mayor in April 2012~~.~~

Commented [RWJ1]: Neil L do you have these dates?

1.1.5 ~~LLDC BCIL came into effect on 6th~~. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015. ~~OPDC has not yet started charging – PDCS consultation ran October/November 2016.~~

Formatted: JLL_Heading Three

~~1.1.5~~1.1.6 It can be seen that those boroughs which have seen the most development tend to be those where the CIL level is in ~~Bands~~bands 1 & 2 i.e. the highest and middle levels.

~~1.1.6~~1.1.7 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ~~), the~~) and an area covering North Docklands ~~and within a~~ on the Isle of Dogs as well as 1km radius ~~of~~zones around all ~~other~~ Greater London Crossrail stations. Since inception, ~~the~~total Crossrail ~~s106, total~~S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

~~1.1.7~~1.1.8 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~~and MCIL 1 arrangements, to only having ~~a~~ MCIL ~~2~~, from 1 April 2019.

~~1.1.8~~1.1.9 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~~1.1.10 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~~1.1.11 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~~1.1.12 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~~Plan. Paragraph 6.2 ~~plan~~of the 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~~1.1.13 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 A**~~ for a copy of table 6.1 of the London Plan~~.

Formatted: Not Highlight

~~1.1.13~~1.1.14 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~~. In addition, the intensification of development along the new Crossrail 2 route ~~providing~~is forecast to provide further economic benefit~~ of the scheme. ~~.

Formatted: Font: Italic

Formatted: Font: Not Italic

~~1.1.14~~1.1.15 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]

Formatted: Font: Not Italic

~~1.1.15~~1.1.16 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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~~boroughs to impose a Community Infrastructure Levy."*

Formatted: Font: Italic

Formatted: Font: Italic

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

---

[1] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

Formatted: Font: Times New Roman, 10 pt, Not Italic

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 Mayor's decision not to make use of the 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]~~Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty~~,~~ and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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~~. In addition, the Mayor has continued to push for ~~bigger~~higher 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 MCIL 2

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~~for 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~~borough CILs on MCIL 2 viability
- the impact of affordable housing policy

2.1.4 ~~A~~In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, ~~highlights~~ complexity is highlighted as one of the concerns about the way CIL is being implemented~~-~~, see in particular section 3.8 of the report.[2]

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.'*[3]

2.1.5 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.6 However commercial uses~~ within~~, covered by the ~~CAZ and North Docklands~~Crossrail S106 policy, have their own distinctive viability characteristics and developers are ~~already~~accustomed to paying ~~the~~ Crossrail S106 ~~which the~~contributions. The Mayor proposes to roll these in to the MCIL 2 ~~rates within the CAZ and North~~

---

[2] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[3] *Ibid*

Formatted: Font: Times New Roman, 10 pt, Not Italic

~~Docklands areas.~~charging regime. At present because of the way the Mayor allows ~~CIL~~MCIL payments in ~~CAZ and North Docklands~~the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a 'top-up' above the prevailing ~~CIL~~MCIL 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the ~~Boroughs~~boroughs. However, analysis of this data is ~~difficult due~~complicated by the need to make assumptions ~~that have~~ to ~~be made around~~account for indexation and instalment provisions.

3.1.3 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~~100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 ~~Total development – CIL receipts~~ We set out in Figure 1 below our ~~analysis~~estimate 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 (estimated)

	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

Formatted: Font: 10 pt
Formatted Table
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted Table
Formatted: Font: 10 pt

	Gross Internal Area	
Commercial CIL paying floor space	707,000	sq m
Total	2,950,000	sq m

Source: TfL, GLA, JLL

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be ~~the~~an appropriate starting ~~base~~point for our analysis in setting borough by borough MCIL 2 rates.

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~~bands

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

Formatted: Font: 10 pt

Formatted Table

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Outline numbered + Level: 3 + Numbering Style: 1, 2, 3, … + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Tab after: 1.2 cm + Indent at: 1.2 cm

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

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)
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).

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

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~~average price changes by MCIL charging ~~groups~~bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and ~~LLDC &~~ OPDC join the ~~group~~band and Greenwich leaves the ~~group~~band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the ~~group~~band and Greenwich ~~join~~joins the ~~group~~band)***

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

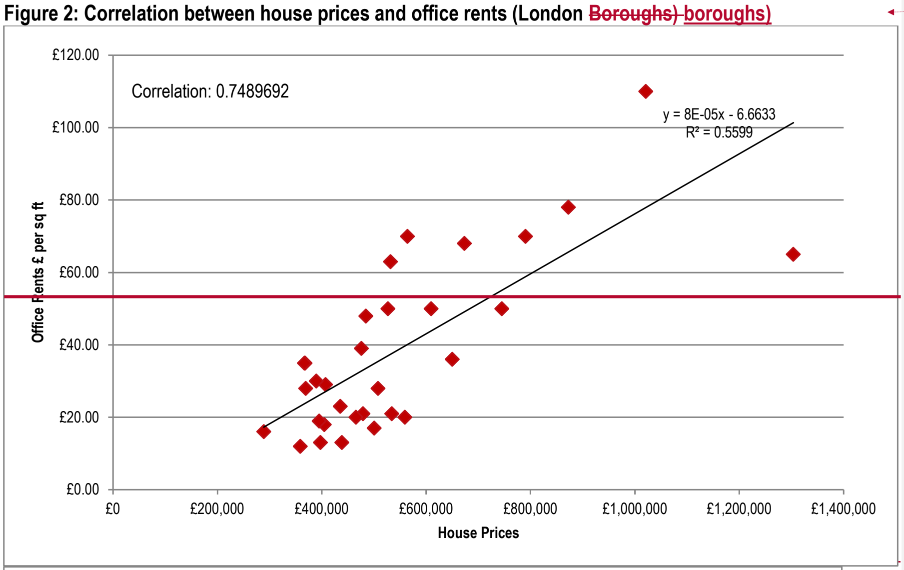
3.4.1 In order to establish a workable cross-London proxy for viability we have taken the likely major component of development (residential) and looked at the correlation between ~~this~~residential values and other uses.

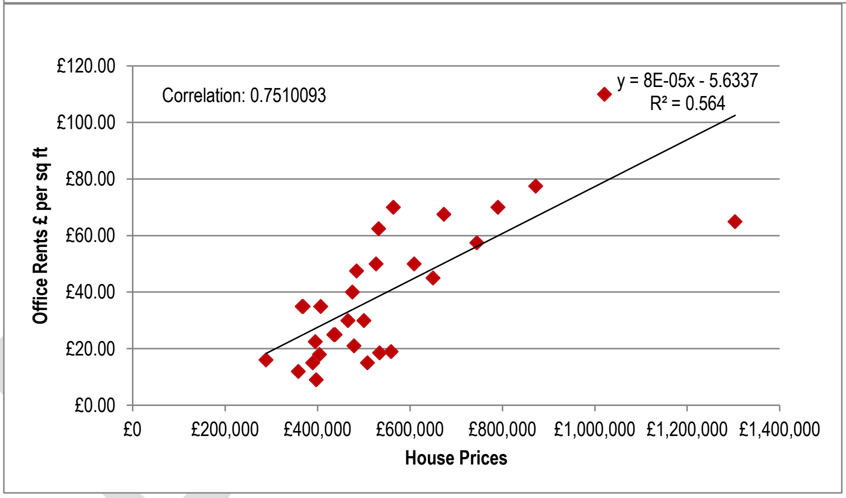
3.4.2 Offices

3.4.3 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a reasonably strong correlation between office rents and house prices.

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

Formatted: Line spacing: Exactly 14 pt





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~~borough by ~~Borough~~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~~,~~ and Westminster ~~and the City~~. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross~~).~~) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow,

Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight

Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton~~. The exceptions are the Westfield centre in Stratford and Croydon higher values are typically found in the boroughs in the Red and Blue MCIL charging bands.~~ for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

Formatted: Not Highlight

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.

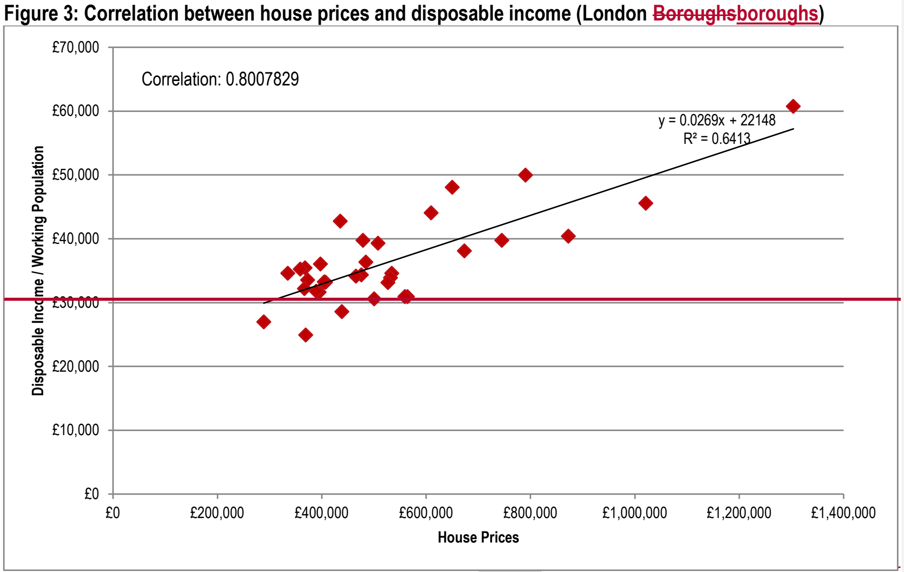
3.4.8 High house prices correlate with high disposal income and therefore, all other things being equal, the likely buying power for commercial activities and therefore the likely demand for this type of floor space in a ~~Borough~~borough.

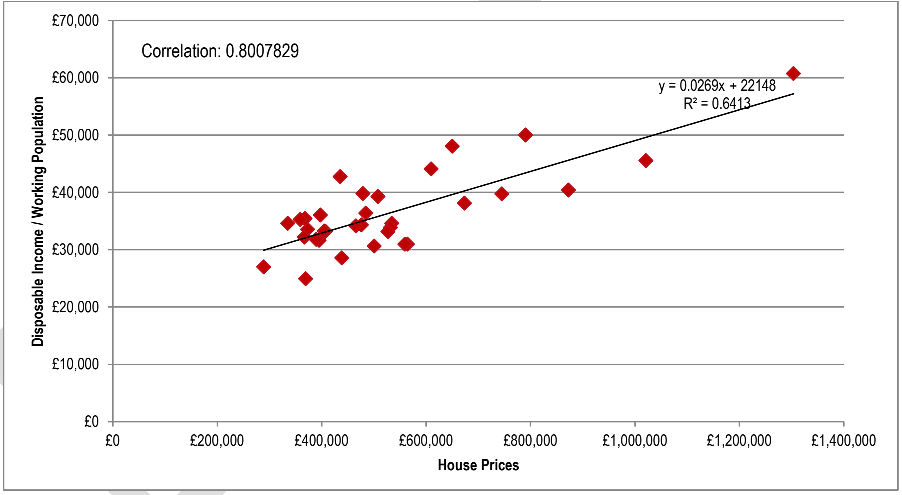
3.4.9 We have confirmed this by comparing house values with disposable income per person of working population in Figure 3 and Table 4 below.

Formatted: Not Highlight

Formatted: Not Highlight

Figure 3: Correlation between house prices and disposable income (London ~~Boroughs~~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 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	£57.50~~.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~~45.00	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~~00	Haringey	£559,173	£30,963
Barnet	£534,221	£~~21.42~~18.50	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~~15.00	Merton	£507,901	£39,311
Brent	£500,605	£~~16.70~~30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.~~43~~00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£~~38.50~~40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£~~20~~30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£~~12.90~~25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£~~22.85~~25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£~~28.88~~35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£~~17.95~~18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£~~12.95~~9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£~~19.00~~22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£~~30~~15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£~~28.19~~35.00	Newham	£369,236	£24,930
Greenwich	£368,226	£35.00	Greenwich	£368,226	£35,443
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.

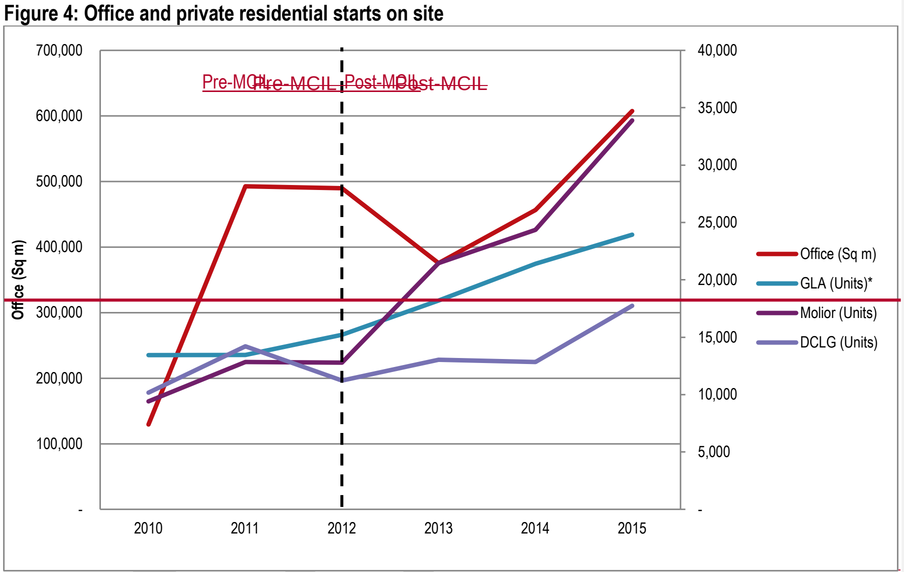
3.5.2 The average house price per Borough (mean) is still appropriate for assessing viability characteristics.

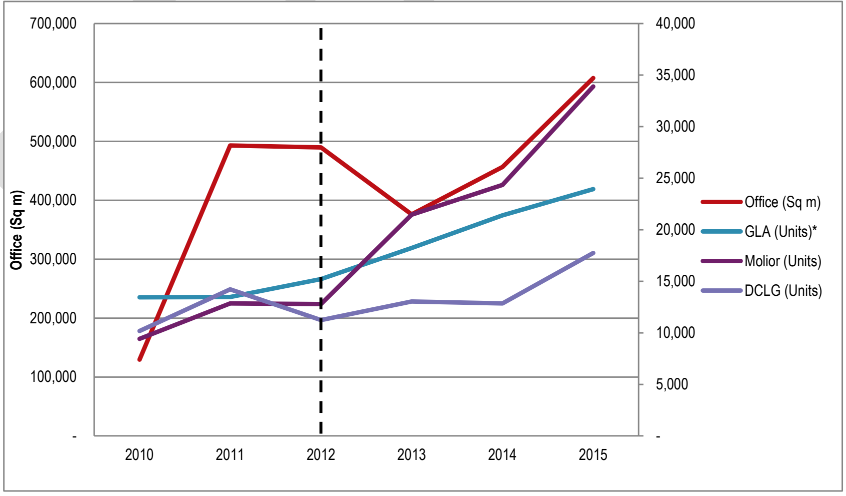
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...

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~~.~~, with office and residential trending upwards.

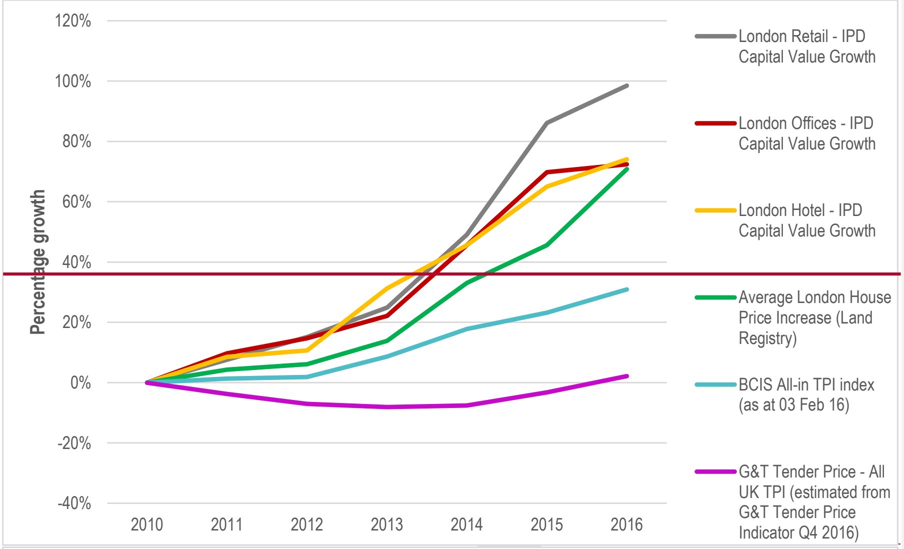
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL will be an important indicator of the likelihood of the ability for higher MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

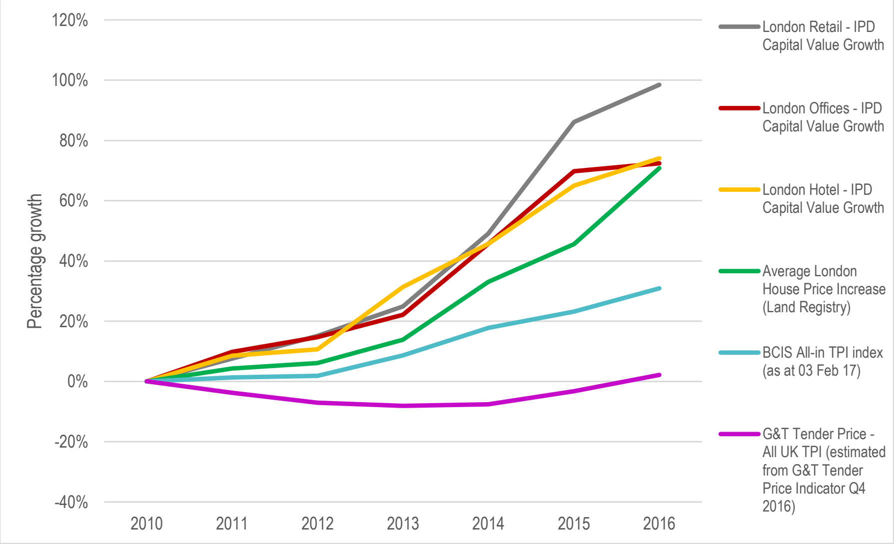
Table 4: Average house price growth compared with build cost growth 2010-2016

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~~2017	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

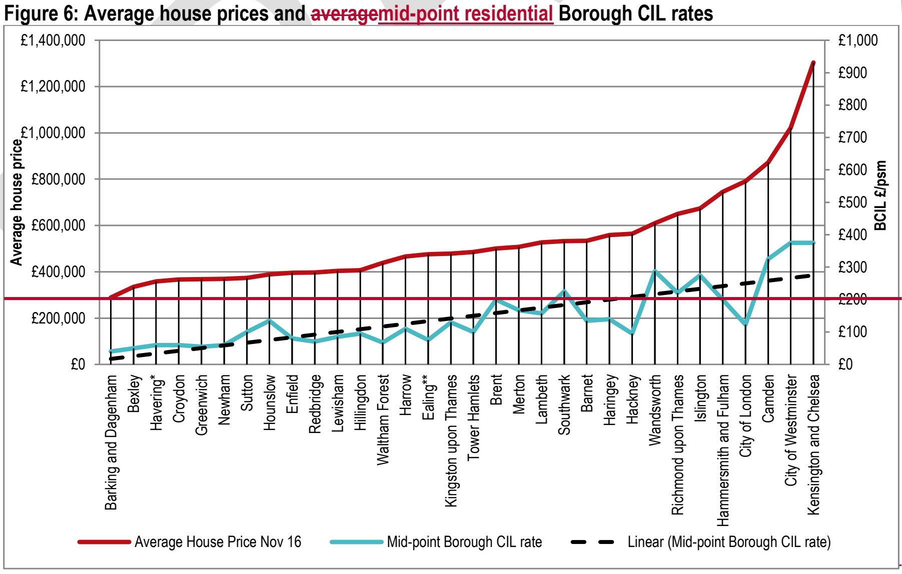
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
~~Barking and Dagenham~~	~~£288,873~~	~~£10~~	~~£70~~	~~£40~~
~~Bexley~~	~~£335,076~~	~~£40~~	~~£60~~	~~£50~~
~~Havering*~~	~~£358,805~~	~~£70~~	~~£50~~	~~£60~~
~~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
City of Westminster	£1,021,027	£200	£550	£375
Camden	£872,390	£150	£500	£325
City of London	£790,439	£95	£150	£123
Hammersmith and Fulham	£744,965	£0	£400	£200
Islington	£673,350	£250	£300	£275
Richmond upon Thames	£650,272	£190	£250	£220
Wandsworth	£609,373	£0	£575	£288
Hackney	£564,536	£0	£190	£95

Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted

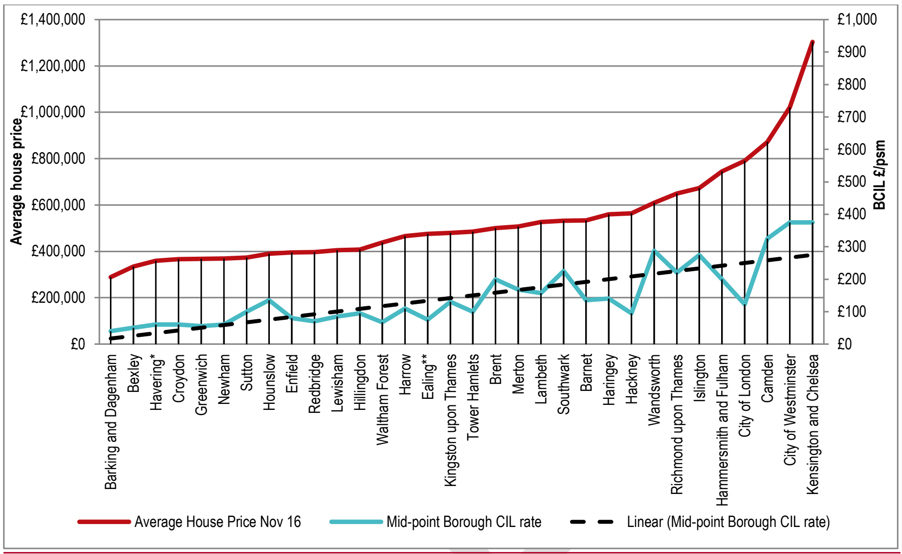
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
Haringey	£559,173	£15	£265	£140
Barnet	£534,221	£135	£135	£135
Southwark	£532,071	£50	£400	£225
Lambeth	£526,622	£50	£265	£158
Merton	£507,901	£115	£220	£168
Brent	£500,605	£200	£200	£200
Tower Hamlets	£484,861	£0	£200	£100
Kingston upon Thames	£479,238	£50	£210	£130
Ealing**	£475,704	£100	£50	£75
Harrow	£465,604	£110	£110	£110
Waltham Forest	£438,294	£65	£70	£68
Hillingdon	£407,202	£95	£95	£95
Lewisham	£404,616	£70	£100	£85
Redbridge	£397,413	£70	£70	£70
Enfield	£395,044	£40	£120	£80
Hounslow	£389,458	£70	£200	£135
Sutton	£372,926	£100	£100	£100
Newham	£369,236	£40	£80	£60
Greenwich	£368,226	£40	£70	£55
Croydon	£367,076	£0	£120	£60
Havering*	£358,805	£70	£50	£60
Bexley	£335,076	£40	£60	£50
Barking and Dagenham	£288,873	£10	£70	£40

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)~~
**Havering BCIL rates as per Preliminary Draft Charging Schedule (February 2015)

Figure 6: Average house prices and ~~average~~mid-point residential Borough CIL rates



Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted



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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table ~~[5]~~6 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.~~

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

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

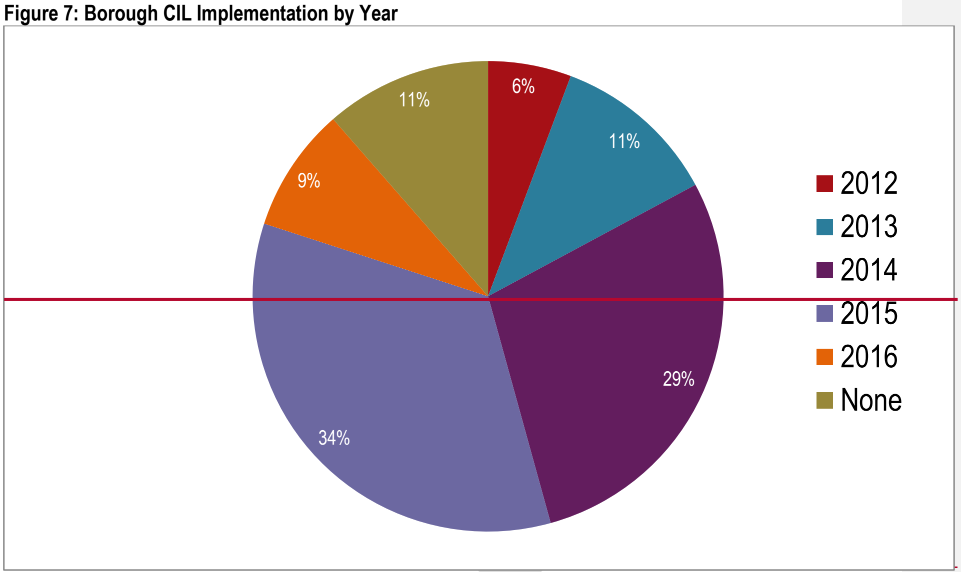
Borough	Total MCIL revenue excluding indexation to Q3 2016-17	MCIL rate per sq m (excluding indexation)	Net additional development (GIA sq m) to Q3 2016-17
Tower Hamlets	£33,226,940	£35	949,341
City of Westminster	£27,853,421	£50	557,068
Hammersmith and Fulham	£20,516,892	£50	410,338
Southwark	£20,134,067	£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~~995t,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**

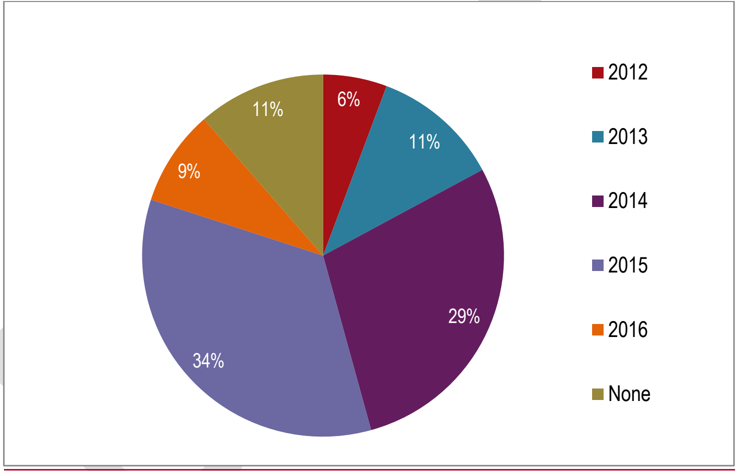
*For the purposes of this calculation we have assumed an MCIL rate of £35 per sq m for LLDC and OPDC. The area may be slightly overstated/understated as a result.

Formatted Table

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~~Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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~~.~~ (PDCS consultation ran October/November 2016).

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~~proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[4]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in ~~Borough~~borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;

2. Removing all Central London and North Docklands rates and relying totally on Borough rates;

3. Removing the distinction between North Docklands and the remainder of Central London but ~~returning to~~retaining differential rates for commercial uses in Central London/North Docklands above the ~~Borough~~borough rates; and

4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying ~~Borough~~borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/~~S016 policies~~S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation ~~is that doe~~for Central London is for the Mayor ~~should~~to retain differential rates ~~for commercial uses but one set of rates~~. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands~~.~~, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[4] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf *last accessed 17/03/2017.*

Formatted: Font: Times New Roman, 10 pt, Not Italic

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[5]

7.1.2 The Mayor also considered continuing with the ~~kilometre~~1km zones around Crossrail ~~station~~stations in outer London that were established in the ~~s106~~S106 policy~~ but~~. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity ~~it is proposed~~reinforced by the CIL Review Team in their report, we do not ~~to propose~~recommend imposing such zones for MCIL 2 purposes.[6]

~~5.~~

---

[5] See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017

[6] See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest~~, LLDC, OPDC~~	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London ~~(~~charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The ~~100m~~1km 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~~proposed MCIL 2 Central London charging area are considered further in chapter ~~9~~10.

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

Formatted: JLL_Heading Three

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~~borough rate (£80.00 / £60.00)

Commented [GR2]: Or an £80 per sq m rate for residential in the MCIL 2 Central London Contribution Area?

~~8.1.5~~8.1.6 These rates are applied to the chargeable net area floor space as set out in the CIL Regulations.

~~8.1.6~~8.1.7 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

Formatted Table

	~~CAZ~~Central London				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~~ MCIL 2 rate (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~~ MCIL 2 rate (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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

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

9.2.1 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~~band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption ~~of~~between 73% ~~in~~and 100% of 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.

9.2.2 We present the findings from the original viability evidence below in Tables ~~11~~12 and ~~12~~13.

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)

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

Formatted: Font: 10 pt

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

~~Group~~Band	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~~band 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~~band assuming 100% net increase in GIA**
~~Group~~Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
~~Group~~Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
~~Group~~Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
~~Group~~Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
~~Group~~Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
~~Group~~Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

~~9.2.3~~ Since the original MCIL ~~evidence was prepared~~ , current planning application data provided by the GLA ~~demonstrates~~suggests 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.~~

~~9.2.4 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%~~**

~~9.2.5~~9.2.3 ~~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.~~is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables ~~15~~14 and ~~16~~15:

Table 14: 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~~Band	Proposed MCIL 2 rate per Sq M	~~MCIL payable at 50% net increase in GIA~~	Proposed MCIL 2 payable at 100% net increase in GIA
~~Group~~Band 1	£80	~~£3,333~~	£6,667
~~Group~~Band 2	£60	~~£2,500~~	£5,000
~~Group~~Band 3	£25	~~£1,042~~	£2,083

Deleted Cells

Formatted Table

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by ~~Group assuming 50% and~~band at 100% net increase in GIA

~~Group~~Band	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~~at 100% Net increase in GIA	Proposed MCIL 2 as percentag lowest average house price in each ~~group assuming~~band at 100% net increase in GIA
~~Group~~Band 1 highest average house price	Kensington and Chelsea	£1,303,778	~~£3,333~~	~~0.26%~~	£6,667	
~~Group~~Band 1 lowest average house price	Wandsworth	£609,373	~~£3,333~~	~~0.55%~~	£6,667	1.09%
~~Group~~Band 2 highest average house price	Hackney	£564,536	~~£2,500~~	~~0.44%~~	£5,000	
~~Group~~Band 2 lowest average house price	Hounslow	£389,458	~~£2,500~~	~~0.64%~~	£5,000	1.28%
~~Group~~Band 3 highest average house price	Sutton	£372,926	~~£1,042~~	~~0.28%~~	£2,083	
~~Group~~Band 3 lowest average house price	Barking and Dagenham	£288,873	~~£1,042~~	~~0.36%~~	£2,083	0.72%

Deleted Cells

Deleted Cells

Formatted Table

Formatted Table

Formatted Table

~~9.3.2 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.~~

9.4 Analysis of proposed MCIL 2 rates

9.4.1 ~~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.~~

9.4.2 In all cases payments in the order of 0.~~26~~51% - 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.

9.4.3 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.

9.4.4 Across the charging ~~groups~~bands 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~~band 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~~a 100% net ~~off for any~~increase in the developable area over existing ~~floor area in a worst case scenario.~~area.

~~9.4.4~~

Formatted: JLL_Body Text

9.4.5 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.

9.4.6 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~~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.

9.4.7 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~~that a 20% developer's profit on cost would be required~~ to form the~~. To replicate the approach taken in the Council's evidence we have provided 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~~borough CIL and Mayoral CIL allowances have been deducted, with a viability buffer of £35 per sq m remaining~~.~~ (see table 16, below).

9.4.8 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.

9.4.9 We have ~~replicated~~reproduced the appraisal to reflect values and cost changes since the ~~Borough's~~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~~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~~15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London ~~contribution~~charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered ~~Borough~~borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London ~~contribution~~charging area.

9.5.2 Westminster's ~~Borough~~borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table ~~8~~17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m~~,~~.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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.~~17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and ~~[~~development schemes~~]~~. Of ~~[number of]~~the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [7]

9.5.6 Gerald Eve further comment ~~for~~on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [8]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore

---

[7] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from ~~https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017~~https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[8] *Ibid*

conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

~~9.5.7~~9.5.8 Turning to the North Docklands area, we have reviewed the ~~Borough~~borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[9]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In ~~practise~~practice Tower Hamlets are not charging ~~at~~ the maximum rates ~~and this together~~, combined with retail likely ~~to be a~~ supporting ~~component of~~ a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding ~~the prospect~~delivery of ~~a~~ development ~~being delivered~~.

~~9.5.8~~9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London ~~contribution~~charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

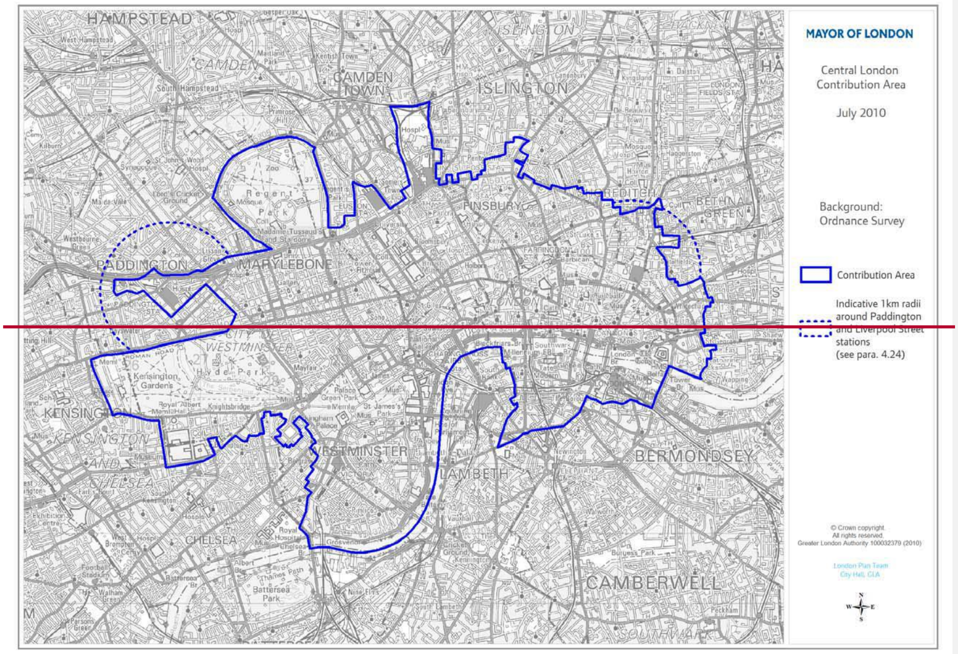
[9] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

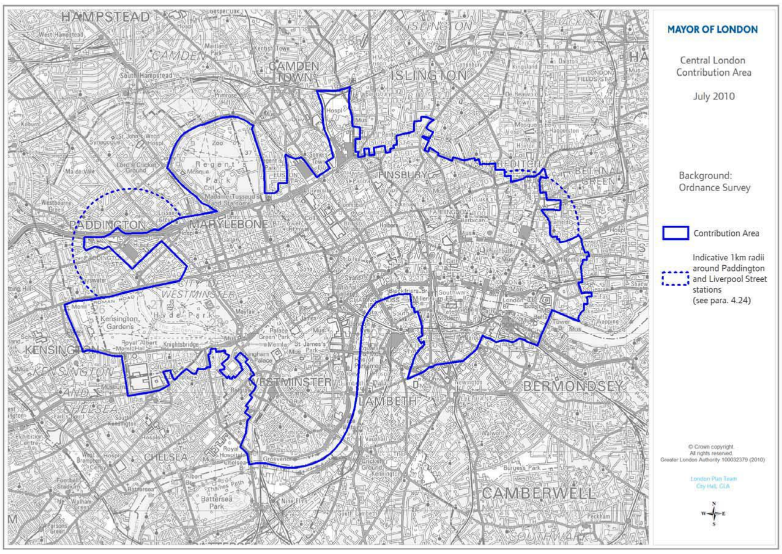
Formatted: Font: Times New Roman, 10 pt, Not Italic

10 MCIL 2 Central London ~~contribution~~charging area

Figure 8: **Current Central London Crossrail S.106 contribution area (excluding North Docklands)**

Commented [GR3]: Check definition



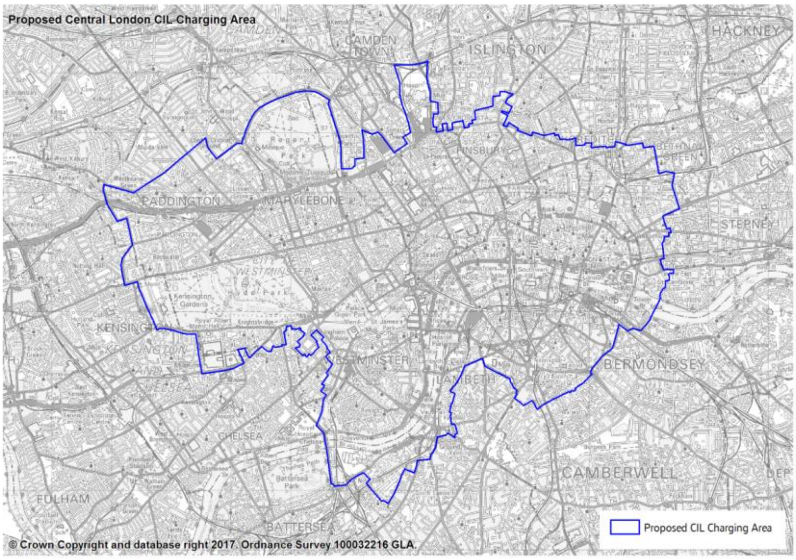


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have ~~prepared~~proposed an ~~updated~~ MCIL 2 Central London ~~contribution~~charging area 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.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)

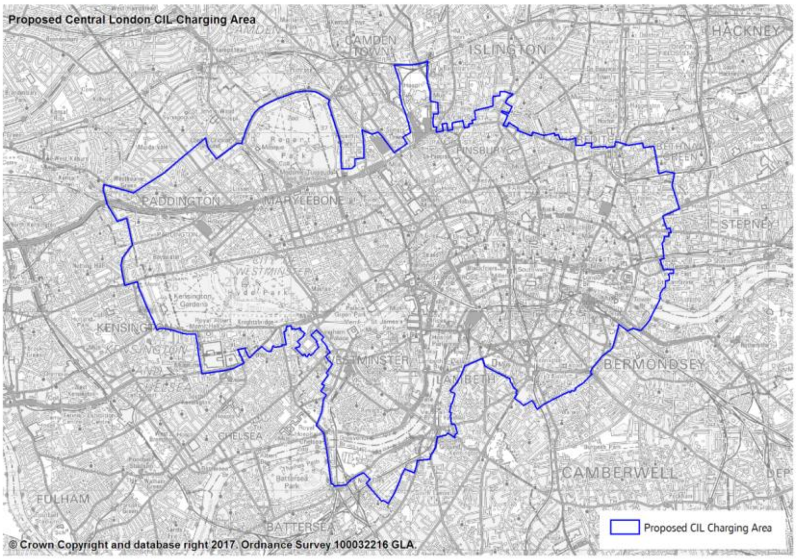


© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed ~~boundary is~~boundaries are shown ~~on Figure~~in Figures 10 and 11.

~~Figure 9: Proposed MCIL 2 Central London contribution area (excluding North Docklands)~~

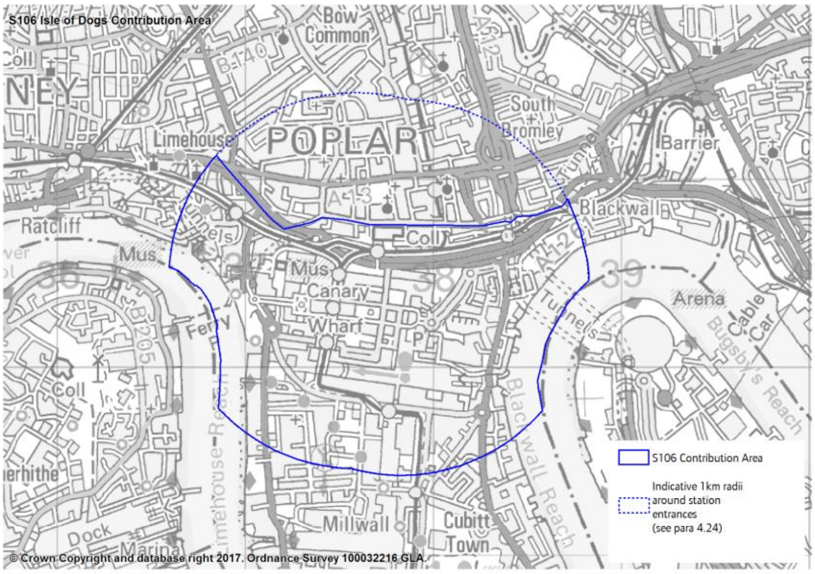
Formatted: Normal



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

Figure 10: Current Isle of Dogs ~~S106~~S.106 contribution area (North Docklands)

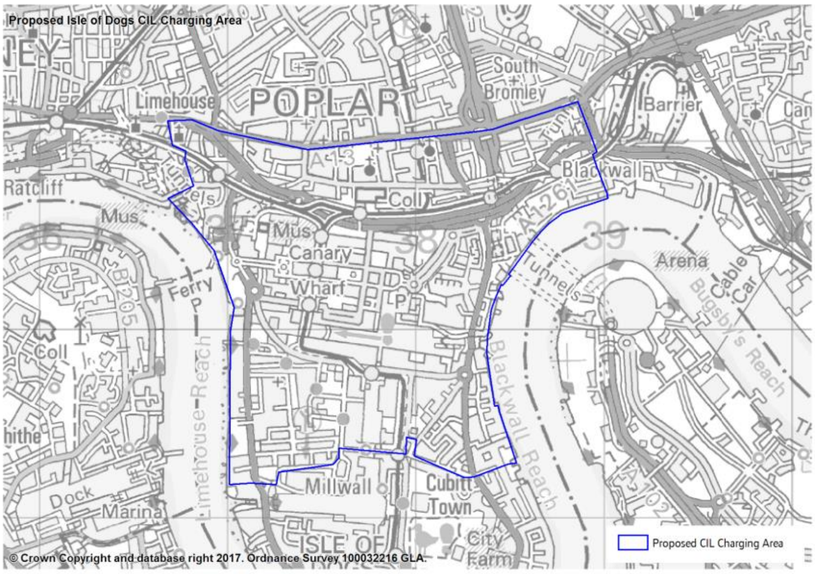
Commented [GR4]: Check definition/wording



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

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

Commented [GR5]: Check definition / wording



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

11 Affordable Housing

11.1.1 A review of ~~Borough~~borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target~~.~~ which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data ~~sifted~~ to ~~give~~create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% ~~was being~~has been 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 affordable housing and other policy requirements fully 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.~~ . The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with ~~the~~a view to ~~increase~~increasing the amount of affordable housing delivered through the planning system.

Commented [JP6]:

Commented [GR7]: Comments provided by Jennifer Peters in email 15/03/2017

~~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~~11.1.2 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~~. Whilst in some instances where underlying viability is an issue ~~it~~an increased MCIL rate might make matters marginally worse, there will be many other instances where ~~the~~ additional ~~CIL~~MCIL can easily be accommodated within ~~the~~development economics~~ of the transaction as has been shown~~, demonstrated by the "buffer analysis" undertaken ~~for some boroughs as part of their supporting documentation behind their Charging Schedules.~~ in chapter 9, above. Overall we suggest that ~~whether or not affordable~~actual housing percentages ~~that are~~ achieved ~~is~~are likely to be much more dependent on housing policy, the grant regime and the cost of ~~building housing~~construction rather than the MCIL rates~~ and therefore~~. Therefore we conclude that ~~whatever~~the impact raising MCIL will have ~~it~~ is likely to be minor.

Table 18: Affordable Housing Policy by ~~Borough~~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

Formatted Table

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

Formatted Table

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
London Legacy Development Corporation			35% minimum (July 2015)	n/a
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.

Formatted Table

12 MCIL 3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible ~~MCIL3~~MCIL 3 rates and ~~approach~~approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 ~~regime~~regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying ~~Borough~~borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In ~~setting~~ proposing possible~~Band 3~~ rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and ~~protect~~protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Formatted: Font: 10 pt

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£60.00/£25.00	£67.01/£27.92	***£100.00***

*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)

Formatted: Font color: Auto

Formatted: Indent: Left: 0 cm

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
~~jll.co.uk~~jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
~~jll.co.uk~~jll.co.uk

jll.com

From: Gerrish, Ryan <[redacted]eu.jll.com>
Sent: 20 March 2017 19:14
To: Hart Anna; 'Peter Heath'; Richard Linton; Ware Julian; Lees Neil; Gardiner Stephen; Jones, Richard (UK); Neil Hook; Vincett-Wilson Harriet; Sharples Elliot
Subject: MCIL2
Attachments: 20170320_MCIL2 working towards PDCS - DRAFT.docx

Dear all,

In advance of our meeting tomorrow please find our latest working draft made during the past week in track changes.

Please note the new photograph and substantially rewritten MCIL 3? Section 12.

Kind regards,

Ryan & Richard

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 20 March 2017 16:08
To: 'Peter Heath' ; Richard Linton ; Ware Julian ; Lees Neil ; Gardiner Stephen ; Jones, Richard (UK) ; Gerrish, Ryan ; Neil Hook ; Vincett-Wilson Harriet ; Sharples Elliot
Subject: RE: London Plan Transport policies for MCIL2

Dear all,

I had an initial go at preparing a draft PDCS document. Please, find this attached. The structure and majority of the text is as per the 2011 PDCS document. I've tracked the changes that I made to that original text and highlighted areas where I think text should be revised or possibly taken out altogether. I'd be grateful for your advice on the best approach.

Stephen – we will need your assistance to review all the legal/regulatory references in the text to make sure they are still up-to-date or need changing.

Please feel free to add/change as appropriate and we can discuss tomorrow afternoon.

Many thanks,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 14:15
To: Hart Anna; Richard Linton; Ware Julian; Lees Neil

Cc: Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Anna,

Why don't tfl comrades write as much as they can/want and rich and I tweak and recirculate??

Pete

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 14:00
To: Richard Linton; Julian Ware; Lees Neil
Cc: Peter Heath; Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Thanks Rich.

Were you happy with the action note that Harriet circulated earlier today and the suggested sections of the document to be drafted by you/Pete? Or did you want me to have a first go and then edit afterwards if needed?

Regards,
Anna

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 13:21
To: Hart Anna; Ware Julian; Lees Neil
Cc: Peter Heath
Subject: RE: London Plan Transport policies for MCIL2

CIB just facilitates sign off by DMs in the MD (mayoral decision) form process – it meets every week to deal with that week's MDs – from our point of view, we just need to look at it as an administrative stage…

So I/we will do the MD when your documents are ready (the PDCS and the evidence report) and sent to me – they will be annexes to the MD. I will then draft the MD and circulate it between us to check you are happy with it and the way it explains MCIL2…

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 11:27
To: Peter Heath; Julian Ware; Lees Neil; Richard Linton
Subject: RE: London Plan Transport policies for MCIL2

Many thanks Pete.

If you or Rich could also advise on the timescales for submitting papers to the CIB that would be great.

Kind regards,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 08:45
To: Hart Anna; Ware Julian; Lees Neil; Richard Linton
Subject: London Plan Transport policies for MCIL2

All,
Following policies from adopted London Plan Transport chapter may assist

Policy 6.1

https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-18

Table 6.1
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/table

Policy 6.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-19

Policy 6.4
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/policy

As may this one on cross boundary cooperation and growth
Policy 2.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-two-londons-places/policy-22

Rich may think of some more.

Pete
#LondonIsOpen

#LondonIsOpen

#LondonIsOpen

GREATER LONDON AUTHORITY NOTICE:
The information in this email may contain confidential or privileged materials. For more information see https://www.london.gov.uk/about-us/email-notice/

Jones Lang LaSalle Limited
Registered in England and Wales Number 1188567
Registered office at 30 Warwick Street, London, W1B 5NH

Prepared for TfL

Mayoral Community Infrastructure Levy 2 (27/03/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule PDCS

March 2017

Contents

Cover photo: Shutterstock

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 bands. 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 bands 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**

1.1.5 The London boroughs and LLDC (collecting authorities) started collecting MCIL on behalf of the Mayor in April 2012. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015.

1.1.6 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.

1.1.7 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations. Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

1.1.8 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 and MCIL 1 arrangements, to only having MCIL, from 1 April 2019.

1.1.9 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.

1.1.10 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.

1.1.11 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.'*

1.1.12 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 of the 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.'*

1.1.13 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 A**.

1.1.14 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 Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.

1.1.15 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]

1.1.16 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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

---

[1] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

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 considers the Mayor's decision not to make use of the exceptional circumstances relief. 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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 MCIL 2

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 for 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 In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[2]

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.'*[3]

2.1.5 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.6 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to roll these in to the MCIL 2 charging regime. At present because of the way the Mayor allows MCIL payments in

---

[2] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[3] *Ibid*

the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a ‘top-up’ above the prevailing MCIL 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 We set out in Figure 1 below our estimate 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 (estimated)

	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	-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

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL 2 rates.

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 bands

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 bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

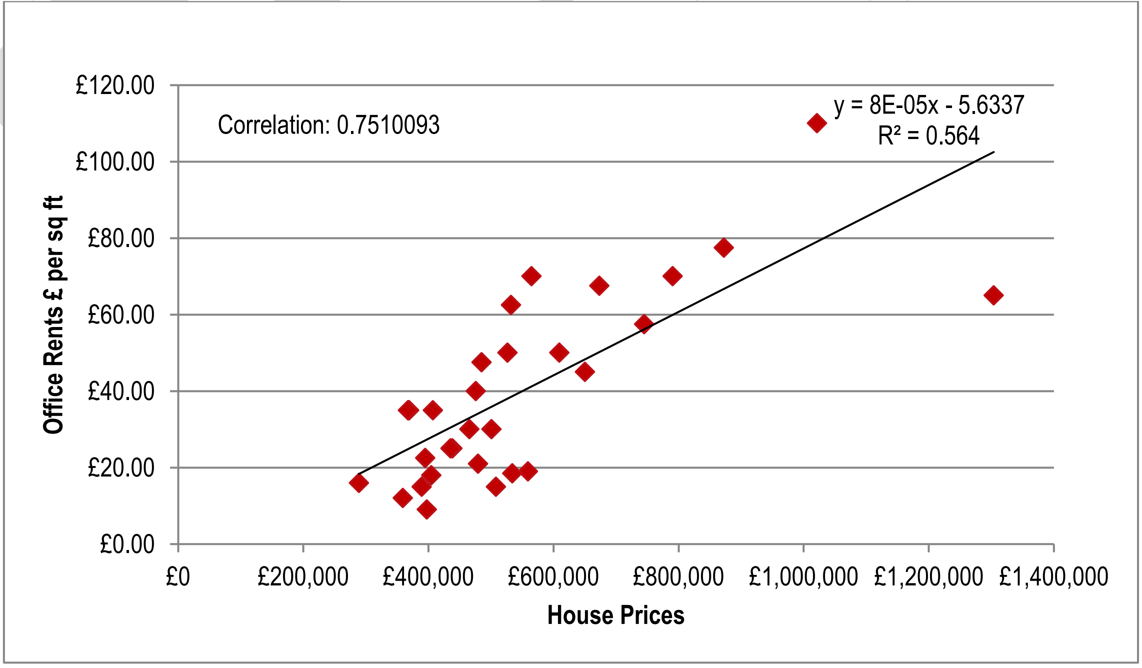
3.4 Are residential values a good lead indicator for high values in other sectors?

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 residential values 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 Figure 2 and Table 4). As can be seen, there is a reasonably strong correlation between office rents and house prices.

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 and Westminster. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

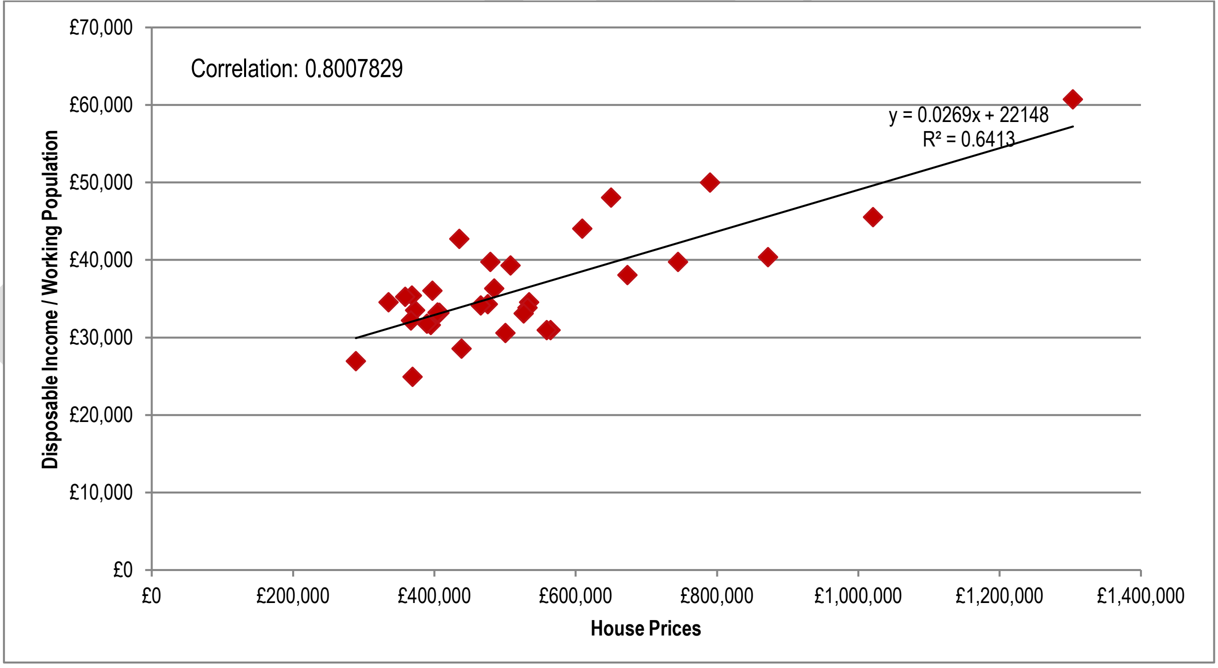
3.4.6 Other categories

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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

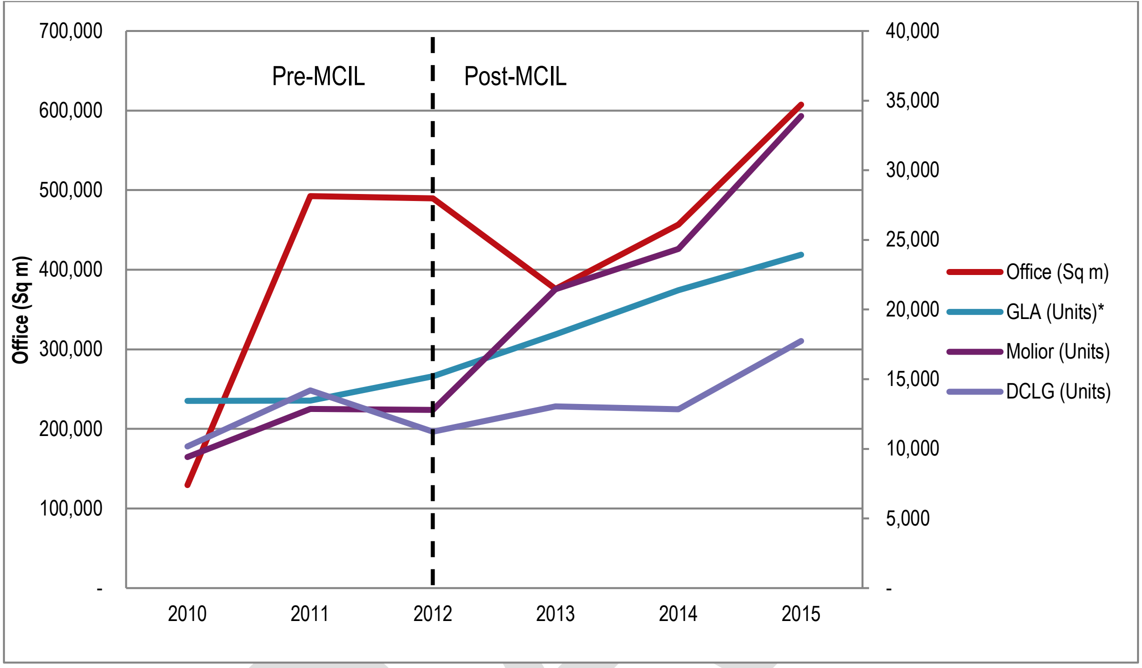
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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, with office and residential trending upwards.

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 MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

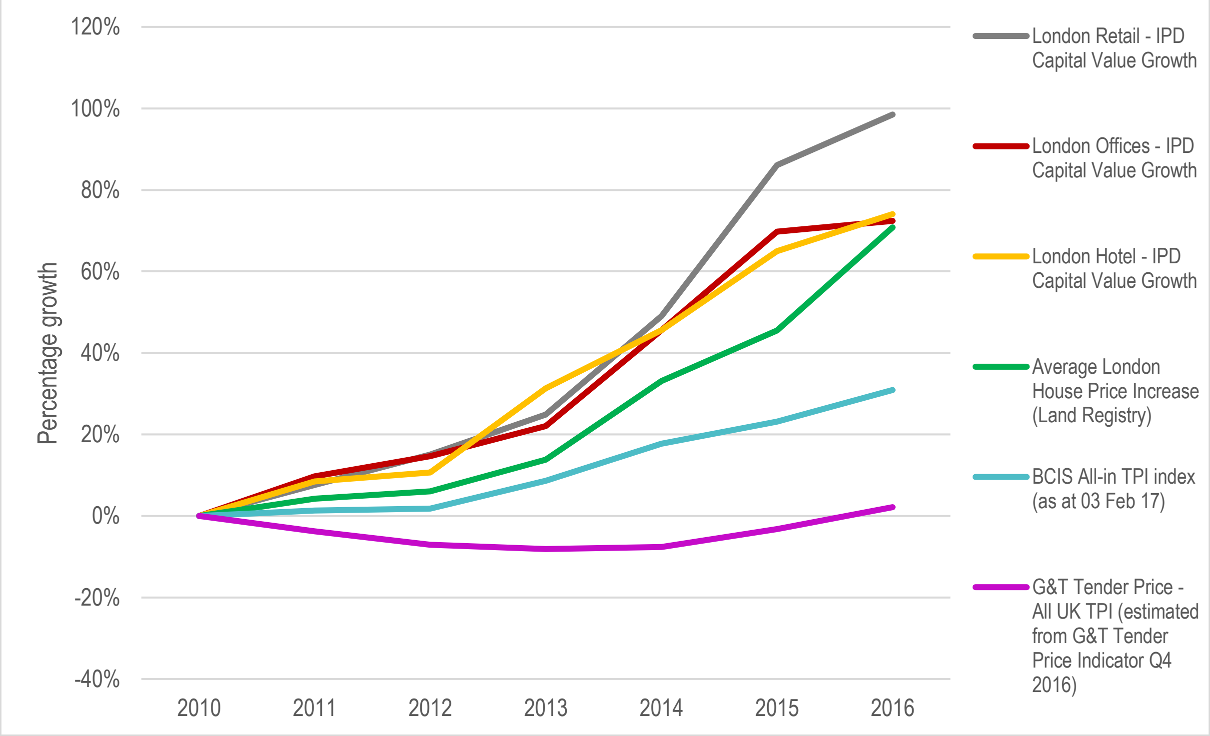
Table 4: Average house price growth compared with build cost growth 2010-2016

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 2017	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.

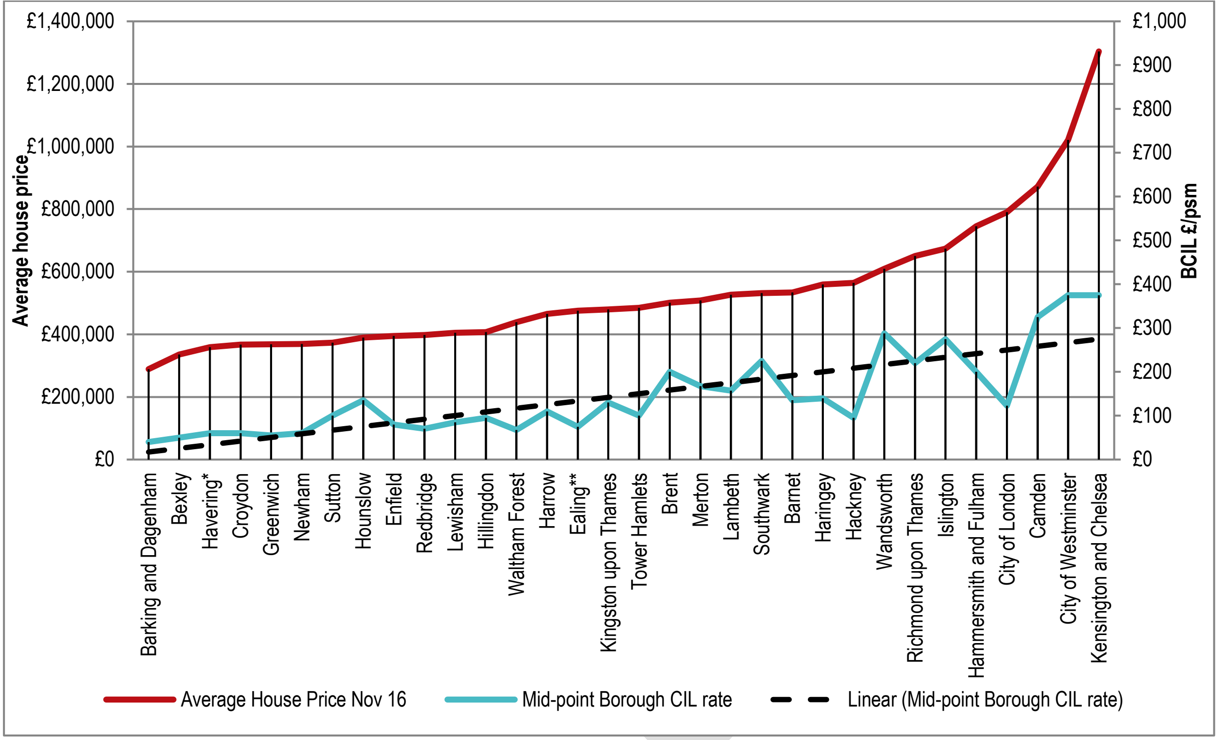
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and CIL rates.

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

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 mid-point residential 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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table 6 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.

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

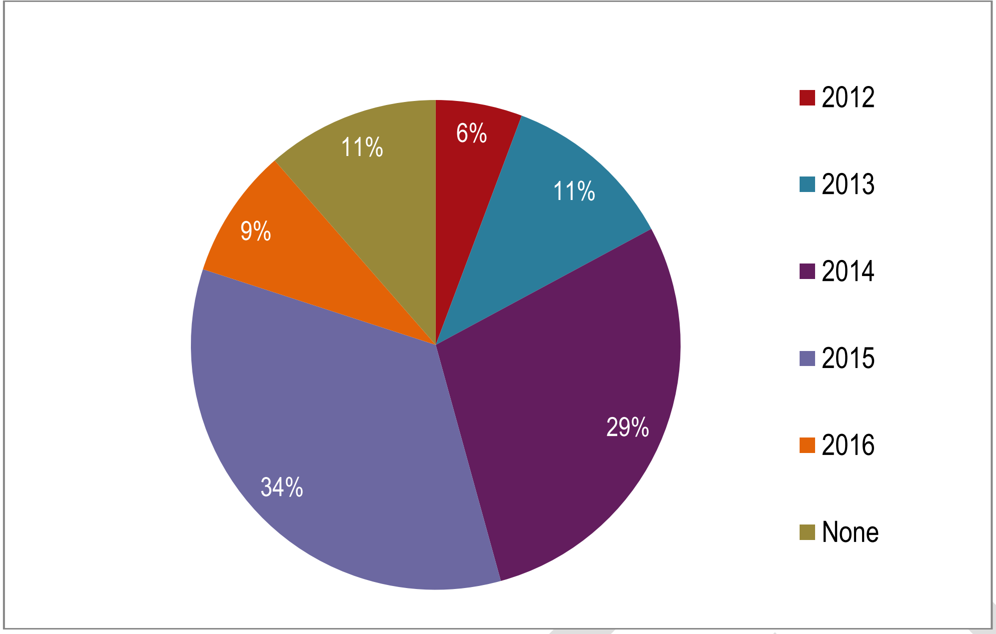
Table 6: MCIL receipts (excl. indexation) by revenues and net additional GIA in sq m to Q3 2016-17

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	£3,995t,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 overstated/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. Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

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 proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[4]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;

2. Removing all Central London and North Docklands rates and relying totally on Borough rates;

3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and

4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[4] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[5]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL 2 purposes.[6]

---

[5] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[6] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The 1km 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 proposed MCIL 2 Central London charging area are considered further in chapter 10.

8.1.5 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)

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

8.1.7 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

	Central London				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 MCIL 2 rate (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 MCIL 2 rate (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**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

9.2 Original MCIL as a percentage of highest and lowest average house prices within each charging band

9.2.1 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 band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

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)

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

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

Band	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 band 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 band assuming 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

9.2.3 Since the original MCIL, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL 2 rate per Sq M	Proposed MCIL 2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

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

9.4 Analysis of proposed MCIL 2 rates

9.4.1 MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 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.

9.4.4 Across the charging bands 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 band 2 however, the proposed MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

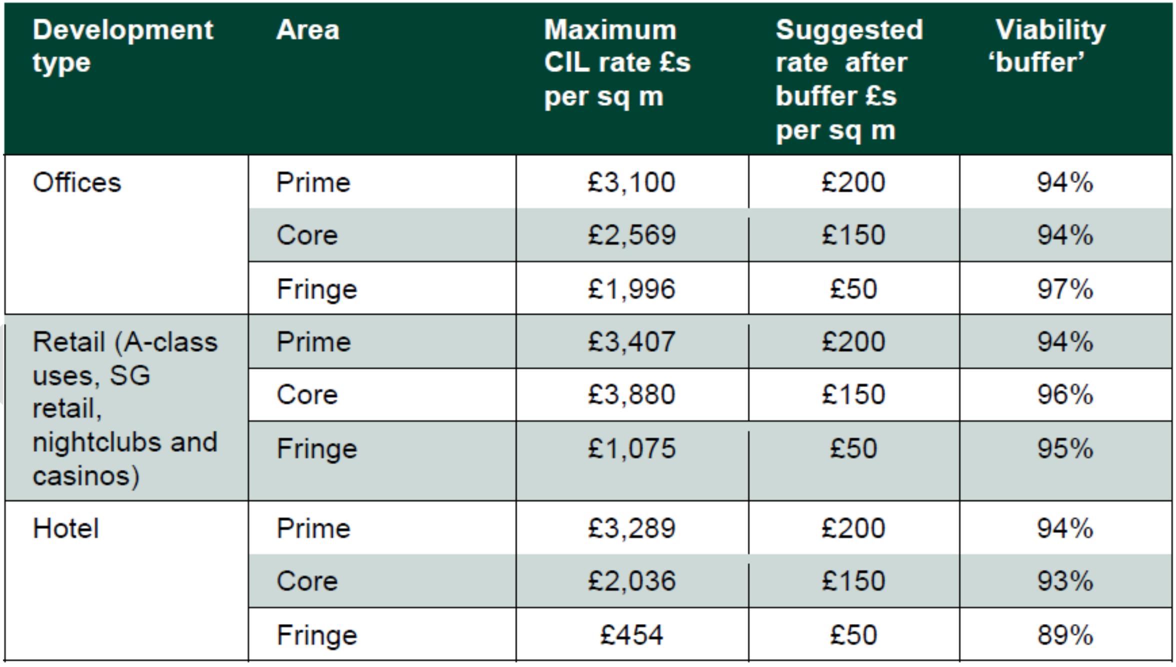
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London charging area.

9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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 17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed

use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [7]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [8]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[9]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

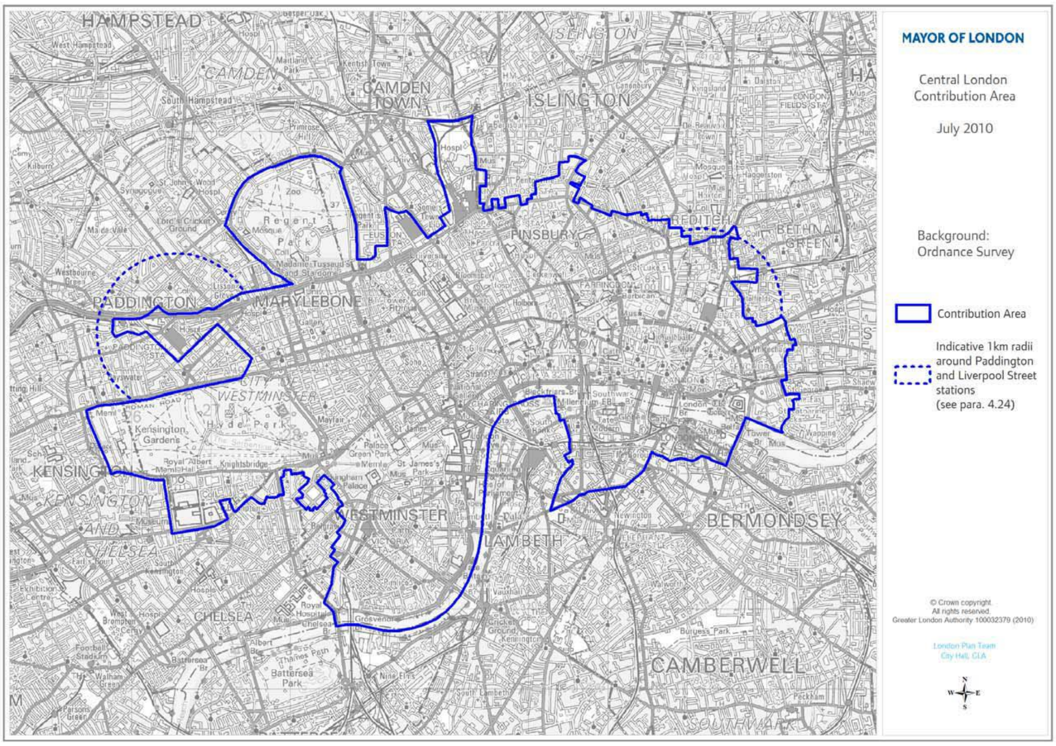
[7] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[8] *Ibid*

[9] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

10 MCIL 2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

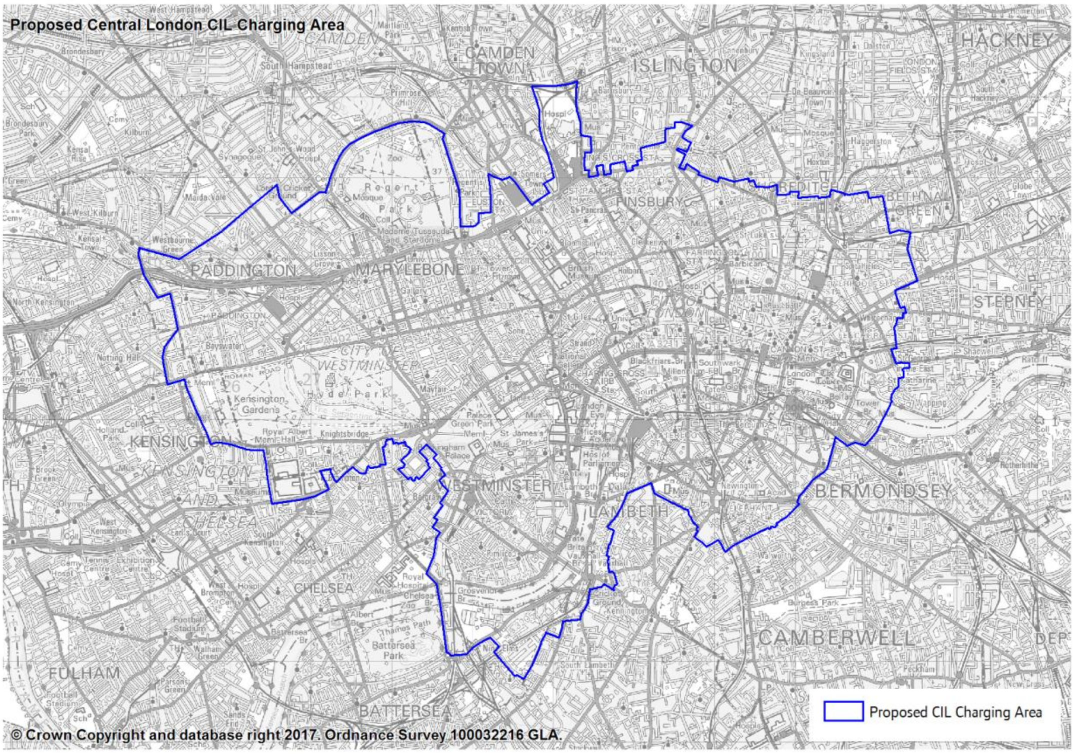


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have proposed an MCIL 2 Central London charging area 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. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)

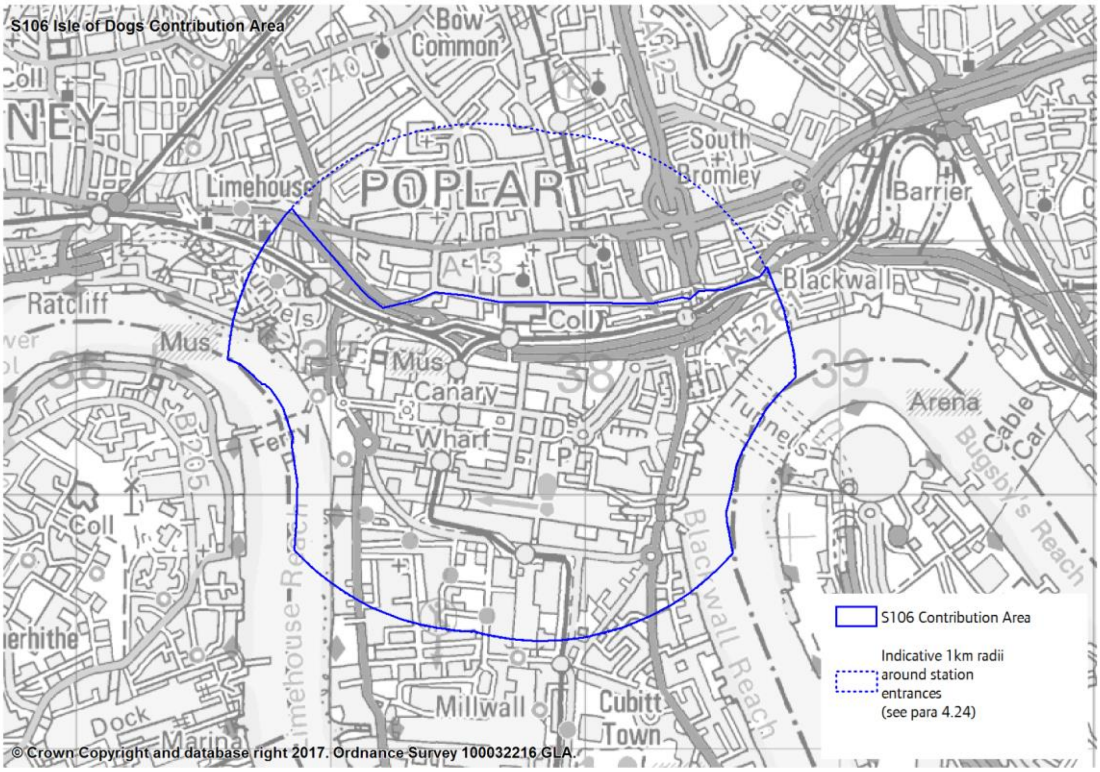
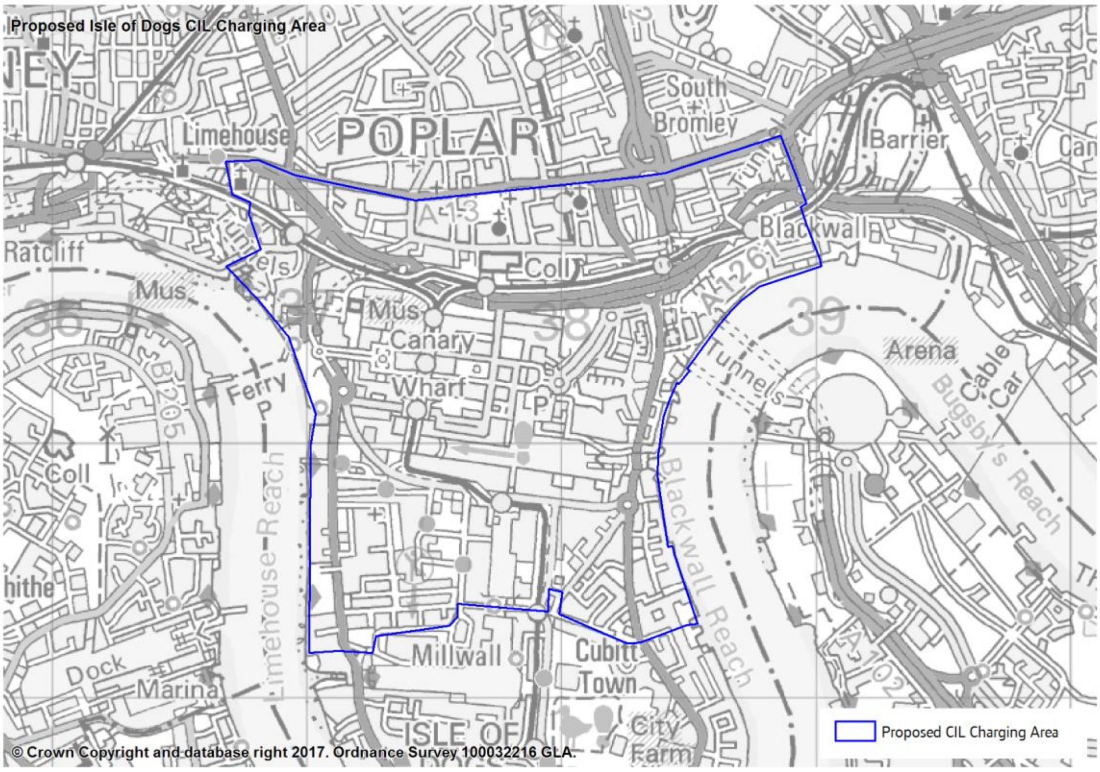


Figure 11: Proposed MCIL 2 Central London charging area – North Docklands



11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL rates, as a percentage of overall development costs MCIL remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL rate might make matters marginally worse, there will be many other instances where additional MCIL can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the MCIL rates. Therefore we conclude that the impact raising MCIL will have is likely to be minor.

Table 18: 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
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

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
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
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				
Westminster	-	50% overall	30% (Nov 2013)	Currently Emerging

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

12 MCIL 3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL 3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£60.00/£25.00	£67.01/£27.92	***£100.00***

*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)

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Prepared for TfL

Mayoral Community Infrastructure Levy ~~MCIL~~ 2 (~~20~~27/03/2017)

~~Working towards PDCS~~Viability Evidence Base for Preliminary Draft Charging Schedule PDCS

~~DRAFT~~March 2017

Contents

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

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

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~~bands. 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~~bands 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~~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:~~ The London boroughs and LLDC ~~started~~ (collecting ~~in [ ] and OPDC started collecting in [ ]. Other boroughs~~ authorities) started collecting MCIL on behalf of the Mayor in April 2012~~.~~

Commented [RWJ1]: Neil L do you have these dates?

1.1.5 ~~LLDC BCIL came into effect on 6th~~. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015. ~~OPDC has not yet started charging – PDCS consultation ran October/November 2016.~~

Formatted: JLL_Heading Three

~~1.1.5~~1.1.6 It can be seen that those boroughs which have seen the most development tend to be those where the CIL level is in ~~Bands~~bands 1 & 2 i.e. the highest and middle levels.

~~1.1.6~~1.1.7 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ~~), the~~) and an area covering North Docklands ~~and within a~~ on the Isle of Dogs as well as 1km radius ~~of~~zones around all ~~other~~ Greater London Crossrail stations. Since inception, ~~the~~total Crossrail ~~s106, total~~S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

~~1.1.7~~1.1.8 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~~and MCIL 1 arrangements, to only having ~~a~~ MCIL ~~2~~, from 1 April 2019.

~~1.1.8~~1.1.9 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~~1.1.10 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~~1.1.11 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~~1.1.12 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~~Plan. Paragraph 6.2 ~~plan~~of the 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~~1.1.13 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 A** ~~for a copy of table 6.1 of the London Plan~~.

Formatted: Not Highlight

~~1.1.13~~1.1.14 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~~. In addition, the intensification of development along the new Crossrail 2 route ~~providing~~is forecast to provide further economic benefit ~~of the scheme.~~ .

Formatted: Font: Italic

Formatted: Font: Not Italic

~~1.1.14~~1.1.15 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]

Formatted: Font: Not Italic

~~1.1.15~~1.1.16 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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~~boroughs to impose a Community Infrastructure Levy."*

Formatted: Font: Italic

Formatted: Font: Italic

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

---

[1] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

Formatted: Font: Times New Roman, 10 pt, Not Italic

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 Mayor's decision not to make use of the 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]~~Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty~~,~~ and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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~~. In addition, the Mayor has continued to push for ~~bigger~~higher 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 MCIL 2

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~~for 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~~borough CILs on MCIL 2 viability
- the impact of affordable housing policy

2.1.4 ~~A~~In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, ~~highlights~~ complexity is highlighted as one of the concerns about the way CIL is being implemented~~-~~, see in particular section 3.8 of the report.[2]

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.'*[3]

2.1.5 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.6 However commercial uses ~~within~~, covered by the ~~CAZ and North Docklands~~Crossrail S106 policy, have their own distinctive viability characteristics and developers are ~~already~~accustomed to paying ~~the~~ Crossrail S106 ~~which the~~contributions. The Mayor proposes to roll these in to the MCIL 2 ~~rates within the CAZ and North~~

---

[2] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[3] *Ibid*

Formatted: Font: Times New Roman, 10 pt, Not Italic

~~Docklands areas.~~charging regime. At present because of the way the Mayor allows ~~CIL~~MCIL payments in ~~CAZ and North Docklands~~the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a 'top-up' above the prevailing ~~CIL~~MCIL 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the ~~Boroughs~~boroughs. However, analysis of this data is ~~difficult due~~complicated by the need to make assumptions ~~that have~~ to ~~be made around~~account for indexation and instalment provisions.

3.1.3 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~~100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 ~~Total development – CIL receipts~~ We set out in Figure 1 below our ~~analysis~~estimate 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 (estimated)

	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

Formatted: Font: 10 pt
Formatted Table
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted: Font: 10 pt
Formatted Table
Formatted: Font: 10 pt

	Gross Internal Area	
Commercial CIL paying floor space	707,000	sq m
Total	2,950,000	sq m

Source: TfL, GLA, JLL

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be ~~the~~an appropriate starting ~~base~~point for our analysis in setting borough by borough MCIL 2 rates.

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~~bands

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

Formatted: Font: 10 pt

Formatted Table

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Outline numbered + Level: 3 + Numbering Style: 1, 2, 3, … + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Tab after: 1.2 cm + Indent at: 1.2 cm

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

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)
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).

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

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~~average price changes by MCIL charging ~~groups~~bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and ~~LLDC &~~ OPDC join the ~~group~~band and Greenwich leaves the ~~group~~band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the ~~group~~band and Greenwich ~~join~~joins the ~~group~~band)***

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

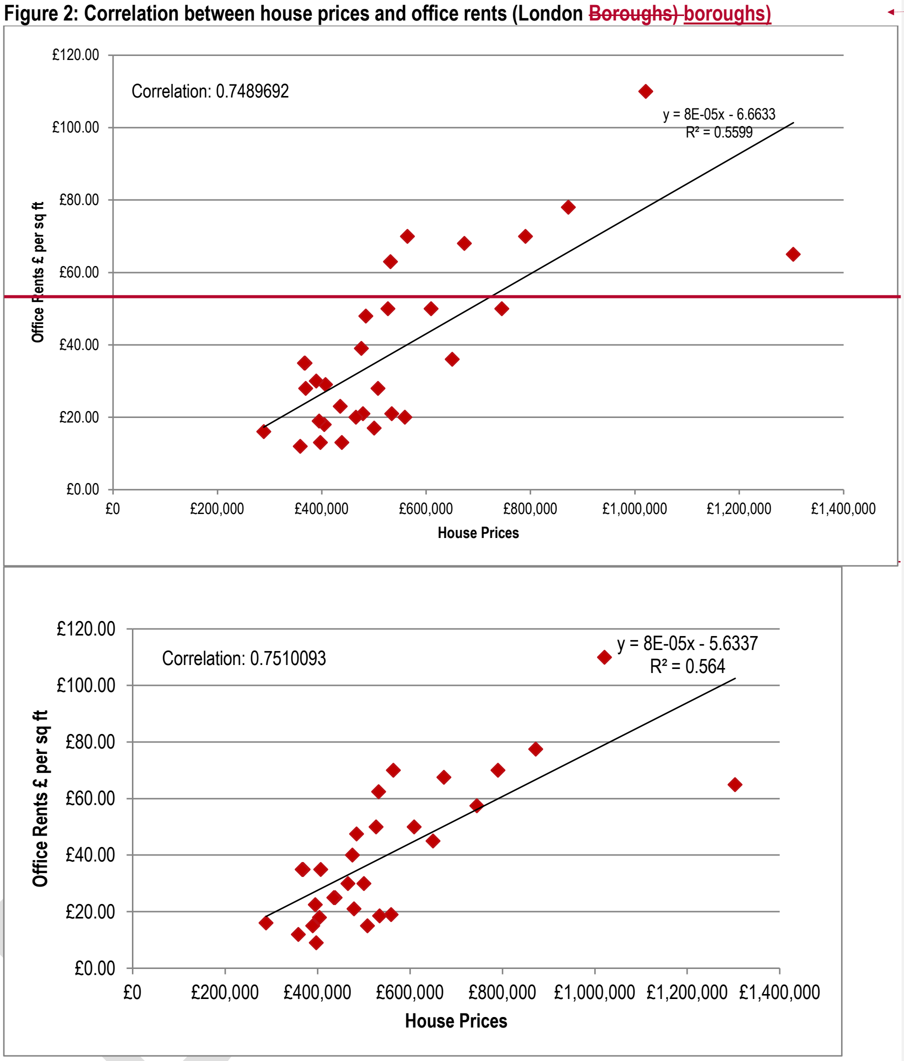
3.4.1 In order to establish a workable cross-London proxy for viability we have taken the likely major component of development (residential) and looked at the correlation between ~~this~~residential values and other uses.

3.4.2 Offices

3.4.3 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a reasonably strong correlation between office rents and house prices.

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

Formatted: Line spacing: Exactly 14 pt



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~~borough by ~~Borough~~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~~,~~ and Westminster ~~and the City~~. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross~~).~~) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow,

Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight
Formatted: Not Highlight

Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton~~. The exceptions are the Westfield centre in Stratford and Croydon higher values are typically found in the boroughs in the Red and Blue MCIL charging bands.~~ for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

Formatted: Not Highlight

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.

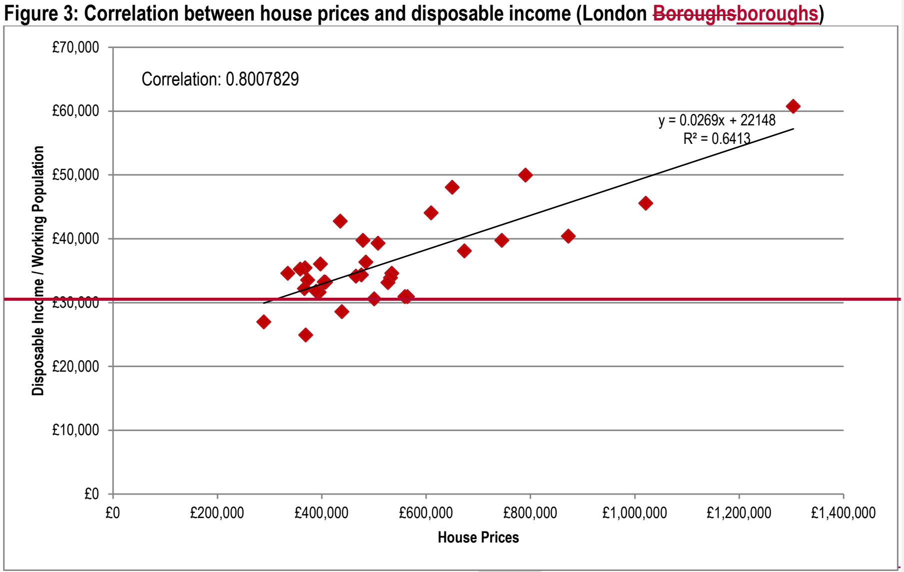
3.4.8 High house prices correlate with high disposal income and therefore, all other things being equal, the likely buying power for commercial activities and therefore the likely demand for this type of floor space in a ~~Borough~~borough.

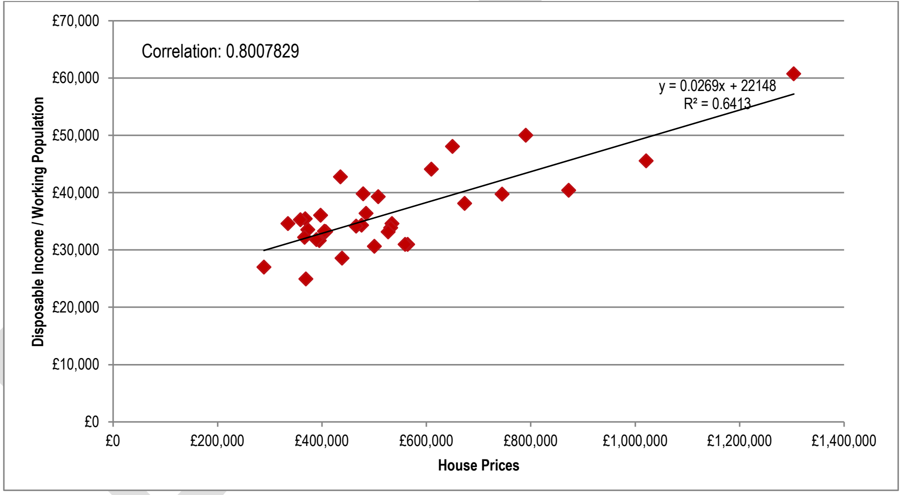
3.4.9 We have confirmed this by comparing house values with disposable income per person of working population in Figure 3 and Table 4 below.

Formatted: Not Highlight

Formatted: Not Highlight

Figure 3: Correlation between house prices and disposable income (London ~~Boroughs~~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 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	£57.50~~.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~~45.00	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~~00	Haringey	£559,173	£30,963
Barnet	£534,221	£~~21.42~~18.50	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~~15.00	Merton	£507,901	£39,311
Brent	£500,605	£~~16.70~~30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.~~43~~00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£~~38.50~~40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£~~20~~30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£~~12.90~~25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£~~22.85~~25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£~~28.88~~35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£~~17.95~~18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£~~12.95~~9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£~~19.00~~22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£~~30~~15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£~~28.19~~35.00	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.

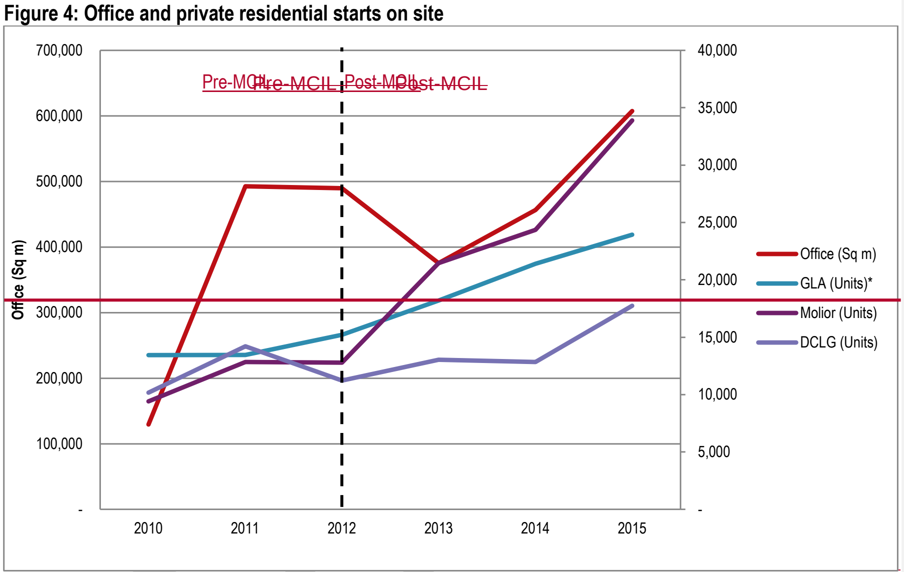
3.5.2 The average house price per Borough (mean) is still appropriate for assessing viability characteristics.

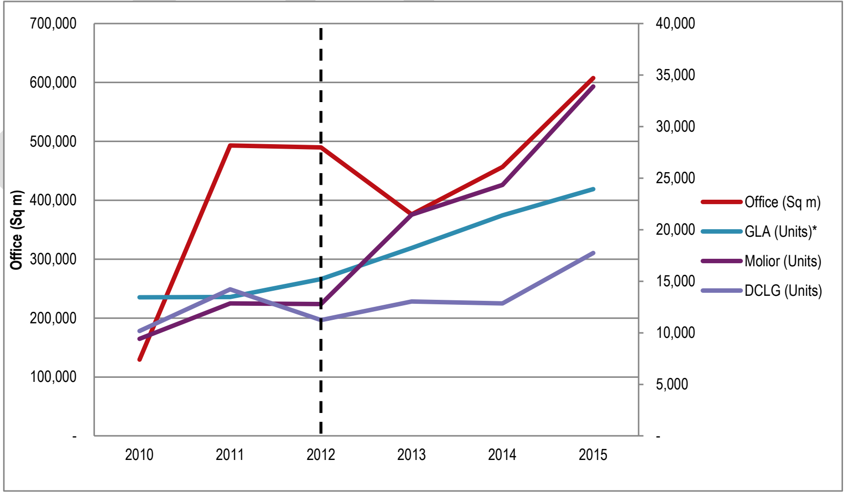
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...

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~~.~~, with office and residential trending upwards.

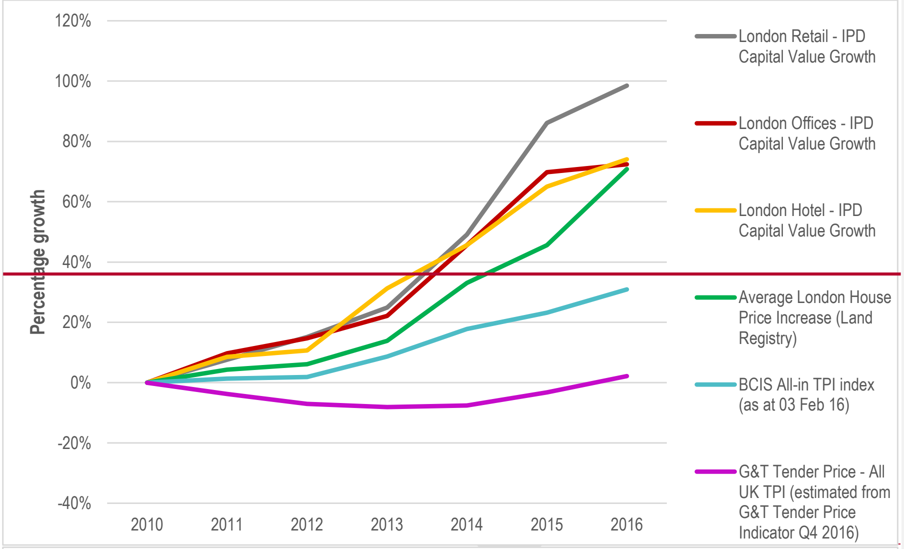
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL will be an important indicator of the likelihood of the ability for higher MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

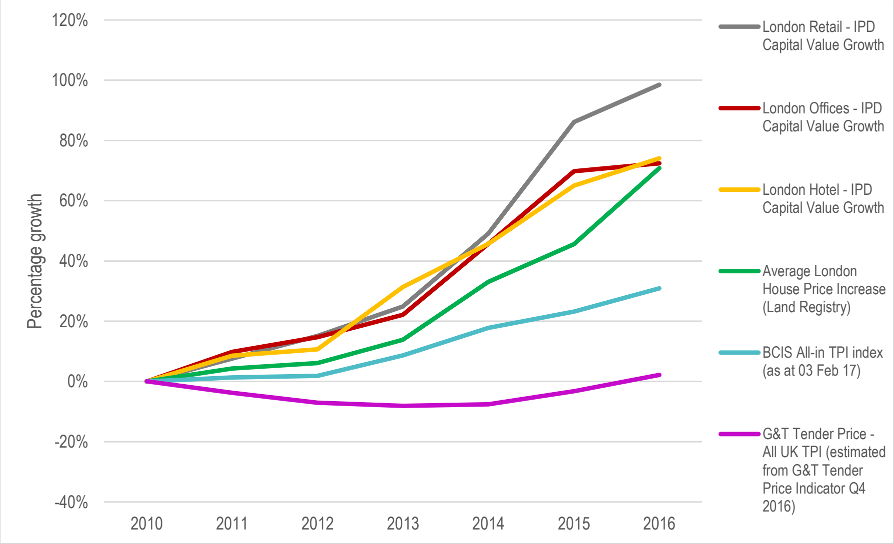
Table 4: Average house price growth compared with build cost growth 2010-2016

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~~2017	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

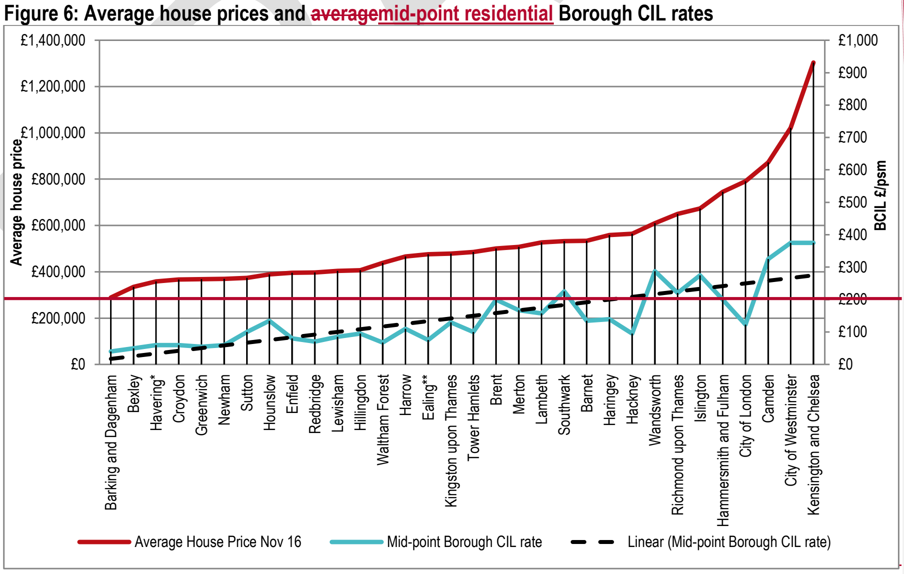
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
~~Barking and Dagenham~~	~~£288,873~~	~~£10~~	~~£70~~	~~£40~~
~~Bexley~~	~~£335,076~~	~~£40~~	~~£60~~	~~£50~~
~~Havering*~~	~~£358,805~~	~~£70~~	~~£50~~	~~£60~~
~~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
City of Westminster	£1,021,027	£200	£550	£375
Camden	£872,390	£150	£500	£325
City of London	£790,439	£95	£150	£123
Hammersmith and Fulham	£744,965	£0	£400	£200
Islington	£673,350	£250	£300	£275
Richmond upon Thames	£650,272	£190	£250	£220
Wandsworth	£609,373	£0	£575	£288
Hackney	£564,536	£0	£190	£95

Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted

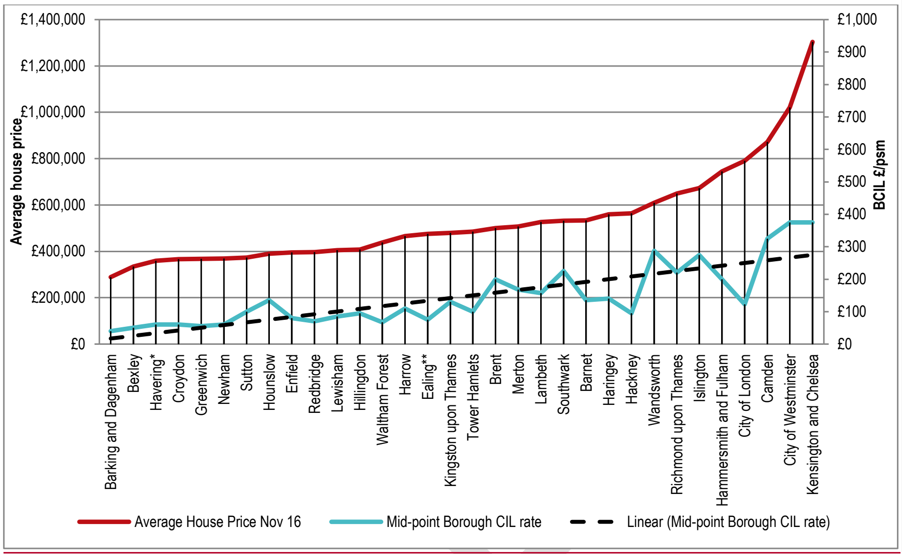
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
Haringey	£559,173	£15	£265	£140
Barnet	£534,221	£135	£135	£135
Southwark	£532,071	£50	£400	£225
Lambeth	£526,622	£50	£265	£158
Merton	£507,901	£115	£220	£168
Brent	£500,605	£200	£200	£200
Tower Hamlets	£484,861	£0	£200	£100
Kingston upon Thames	£479,238	£50	£210	£130
Ealing**	£475,704	£100	£50	£75
Harrow	£465,604	£110	£110	£110
Waltham Forest	£438,294	£65	£70	£68
Hillingdon	£407,202	£95	£95	£95
Lewisham	£404,616	£70	£100	£85
Redbridge	£397,413	£70	£70	£70
Enfield	£395,044	£40	£120	£80
Hounslow	£389,458	£70	£200	£135
Sutton	£372,926	£100	£100	£100
Newham	£369,236	£40	£80	£60
Greenwich	£368,226	£40	£70	£55
Croydon	£367,076	£0	£120	£60
Havering*	£358,805	£70	£50	£60
Bexley	£335,076	£40	£60	£50
Barking and Dagenham	£288,873	£10	£70	£40

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)~~
**Havering BCIL rates as per Preliminary Draft Charging Schedule (February 2015)

Figure 6: Average house prices and ~~average~~mid-point residential Borough CIL rates



Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted
Formatted
Formatted
Formatted
Formatted
Formatted Table
Formatted



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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table ~~[5]~~6 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.~~

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

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

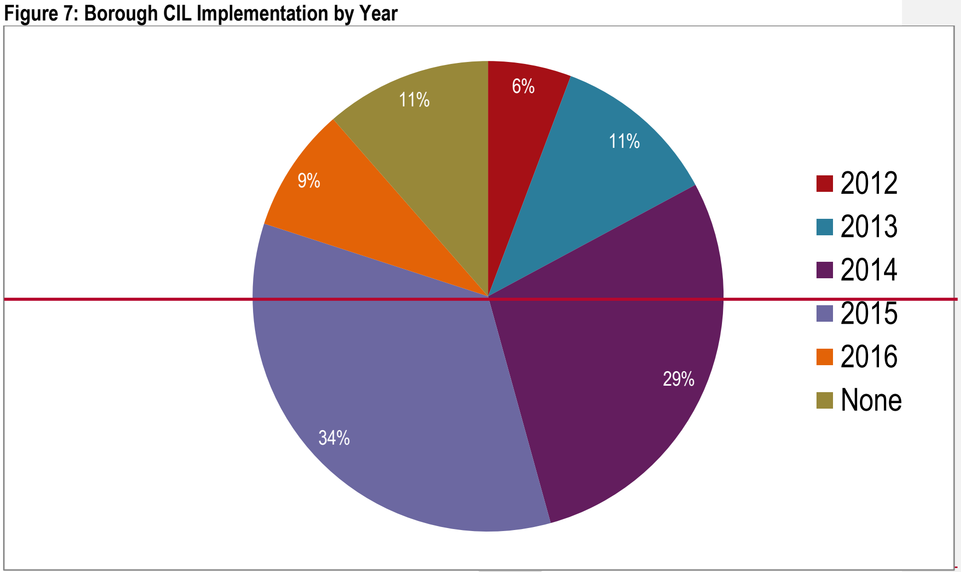
Borough	Total MCIL revenue excluding indexation to Q3 2016-17	MCIL rate per sq m (excluding indexation)	Net additional development (GIA sq m) to Q3 2016-17
Tower Hamlets	£33,226,940	£35	949,341
City of Westminster	£27,853,421	£50	557,068
Hammersmith and Fulham	£20,516,892	£50	410,338
Southwark	£20,134,067	£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~~995t,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**

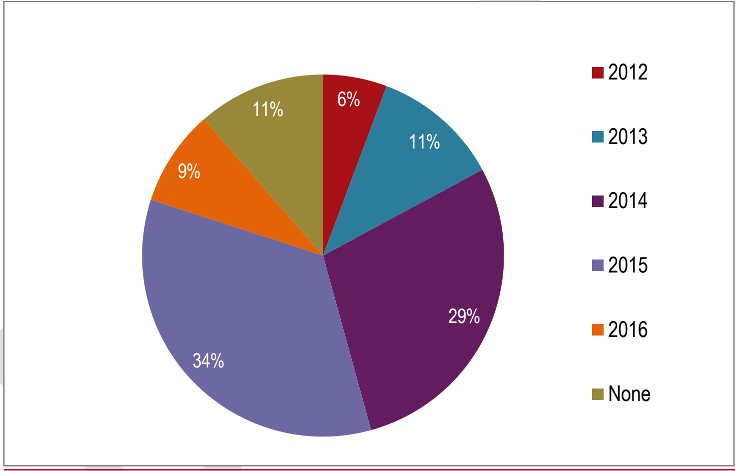
*For the purposes of this calculation we have assumed an MCIL rate of £35 per sq m for LLDC and OPDC. The area may be slightly overstated/understated as a result.

Formatted Table

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~~Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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~~.~~ (PDCS consultation ran October/November 2016).

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~~proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[4]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in ~~Borough~~borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;
2. Removing all Central London and North Docklands rates and relying totally on Borough rates;
3. Removing the distinction between North Docklands and the remainder of Central London but ~~returning to~~retaining differential rates for commercial uses in Central London/North Docklands above the ~~Borough~~borough rates; and
4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying ~~Borough~~borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/~~S016 policies~~S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation ~~is that doe~~for Central London is for the Mayor ~~should~~to retain differential rates ~~for commercial uses but one set of rates~~. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands~~.~~, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[4] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

Formatted: Font: Times New Roman, 10 pt, Not Italic

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[5]

7.1.2 The Mayor also considered continuing with the ~~kilometre~~1km zones around Crossrail ~~station~~stations in outer London that were established in the ~~s106~~S106 policy ~~but~~. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity ~~it is proposed~~reinforced by the CIL Review Team in their report, we do not ~~to propose~~recommend imposing such zones for MCIL 2 purposes.[6]

~~5.~~

---

[5] *See: ‘Memorandum of Understanding on further devolution to London,’ Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[6] *See: ‘A New Approach to Developer Contributions,’ CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest~~, LLDC, OPDC~~	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London ~~(~~charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The ~~100m~~1km 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~~proposed MCIL 2 Central London charging area are considered further in chapter ~~9~~10.

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

Formatted: JLL_Heading Three

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~~borough rate (£80.00 / £60.00)

Commented [GR2]: Or an £80 per sq m rate for residential in the MCIL 2 Central London Contribution Area?

~~8.1.5~~8.1.6 These rates are applied to the chargeable net area floor space as set out in the CIL Regulations.

~~8.1.6~~8.1.7 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

Formatted Table

	~~CAZ~~Central London				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~~ MCIL 2 rate (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~~ MCIL 2 rate (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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

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

9.2.1 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~~band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption ~~of~~between 73% ~~in~~and 100% of 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.

9.2.2 We present the findings from the original viability evidence below in Tables ~~11~~12 and ~~12~~13.

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)

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

Formatted: Font: 10 pt

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

~~Group~~Band	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~~band 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~~band assuming 100% net increase in GIA**
~~Group~~Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
~~Group~~Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
~~Group~~Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
~~Group~~Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
~~Group~~Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
~~Group~~Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

~~9.2.3~~ Since the original MCIL ~~evidence was prepared~~ , current planning application data provided by the GLA ~~demonstrates~~suggests 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.~~

~~9.2.4 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%~~**

~~9.2.5~~9.2.3 ~~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.~~is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables ~~15~~14 and ~~16~~15:

Table 14: 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~~Band	Proposed MCIL 2 rate per Sq M	~~MCIL payable at 50% net increase in GIA~~	Proposed MCIL 2 payable at 100% net increase in GIA
~~Group~~Band 1	£80	~~£3,333~~	£6,667
~~Group~~Band 2	£60	~~£2,500~~	£5,000
~~Group~~Band 3	£25	~~£1,042~~	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by ~~Group assuming 50% and~~band at 100% net increase in GIA

~~Group~~Band	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~~at 100% Net increase in GIA	Proposed MCIL 2 as percentag lowest average house price in each ~~group assuming~~band at 100% net increase in GIA
~~Group~~Band 1 highest average house price	Kensington and Chelsea	£1,303,778	~~£3,333~~	~~0.26%~~	£6,667	
~~Group~~Band 1 lowest average house price	Wandsworth	£609,373	~~£3,333~~	~~0.55%~~	£6,667	1.09%
~~Group~~Band 2 highest average house price	Hackney	£564,536	~~£2,500~~	~~0.44%~~	£5,000	
~~Group~~Band 2 lowest average house price	Hounslow	£389,458	~~£2,500~~	~~0.64%~~	£5,000	1.28%
~~Group~~Band 3 highest average house price	Sutton	£372,926	~~£1,042~~	~~0.28%~~	£2,083	
~~Group~~Band 3 lowest average house price	Barking and Dagenham	£288,873	~~£1,042~~	~~0.36%~~	£2,083	0.72%

Deleted Cells

Formatted Table

Deleted Cells

Deleted Cells

Formatted Table

Formatted Table

Formatted Table

~~9.3.2 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.~~

9.4 Analysis of proposed MCIL 2 rates

9.4.1 ~~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.~~

9.4.2 In all cases payments in the order of 0.~~26~~51% - 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.

9.4.3 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.

9.4.4 Across the charging ~~groups~~bands 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~~band 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~~a 100% net ~~off for any~~increase in the developable area over existing ~~floor area in a worst case scenario.~~area.

~~9.4.4~~

Formatted: JLL_Body Text

9.4.5 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.

9.4.6 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~~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.

9.4.7 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~~that a 20% developer's profit on cost would be required ~~to form the~~. To replicate the approach taken in the Council's evidence we have provided 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~~borough CIL and Mayoral CIL allowances have been deducted, with a viability buffer of £35 per sq m remaining~~.~~ (see table 16, below).

9.4.8 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.

9.4.9 We have ~~replicated~~reproduced the appraisal to reflect values and cost changes since the ~~Borough's~~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~~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~~15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

9.5 Testing commercial viability

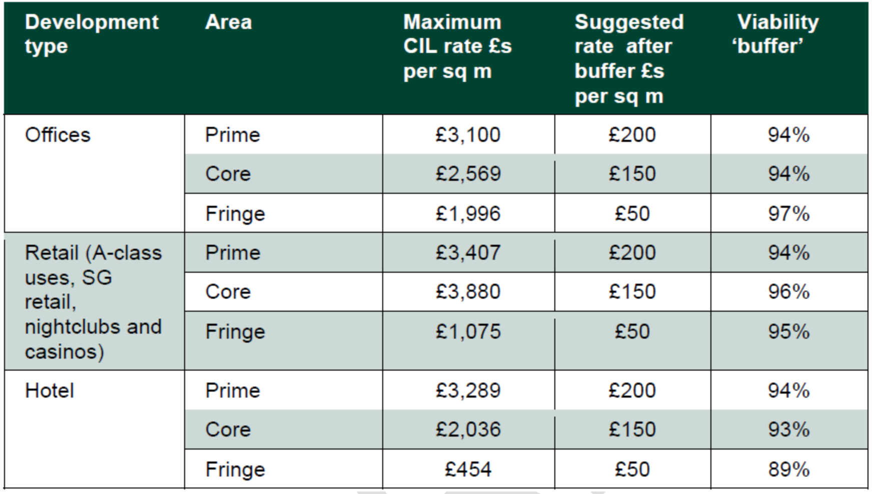
9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London ~~contribution~~charging area – for boundaries see the following chapter - (Central London and North Docklands) are a consolidation of the MCIL and S106 policies. However, the rates for retail and hotel have been increased to reflect a better fit with viability (the S106 policy was set relative to the adverse impacts of congestion on the transport network). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered ~~Borough~~borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London ~~contribution~~charging area.

9.5.2 Westminster's ~~Borough~~borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table ~~8~~17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m~~,~~.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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.~~17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and ~~[~~development schemes~~]~~. Of ~~[number of~~]the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [7]

9.5.6 Gerald Eve further comment ~~for~~on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [8]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore

---

[7] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from ~~https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017~~https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017*.

[8] *Ibid*

conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

~~9.5.7~~9.5.8 Turning to the North Docklands area, we have reviewed the ~~Borough~~borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[9]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In ~~practise~~practice Tower Hamlets are not charging ~~at~~ the maximum rates ~~and this together~~, combined with retail likely ~~to be a~~ supporting ~~component of~~ a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding ~~the prospect~~delivery of ~~a~~ development ~~being delivered~~.

~~9.5.8~~9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London ~~contribution~~charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

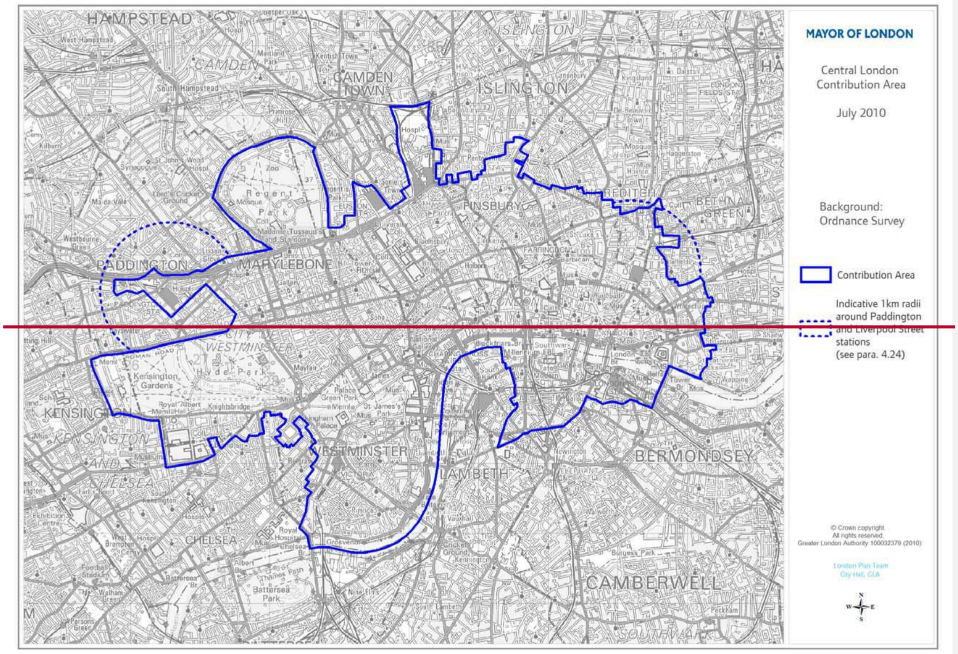
[9] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

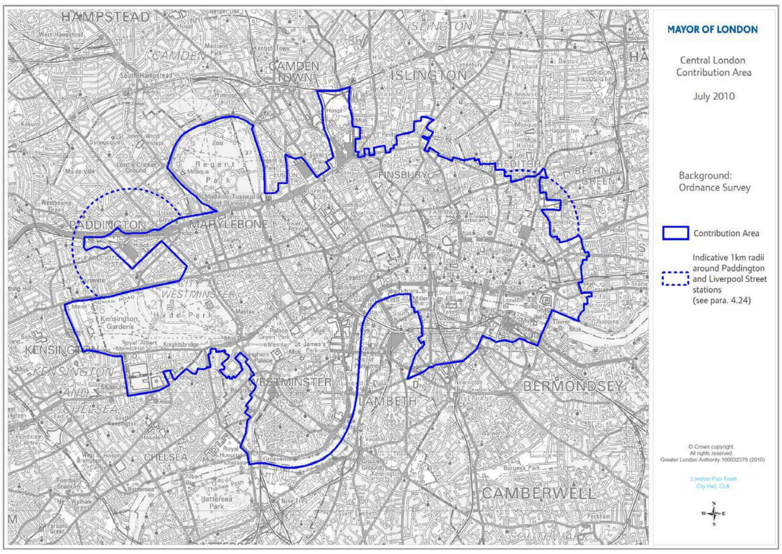
Formatted: Font: Times New Roman, 10 pt, Not Italic

10 MCIL 2 Central London ~~contribution~~charging area

Figure 8: **Current Central London Crossrail S.106 contribution area (excluding North Docklands)**

Commented [GR3]: Check definition



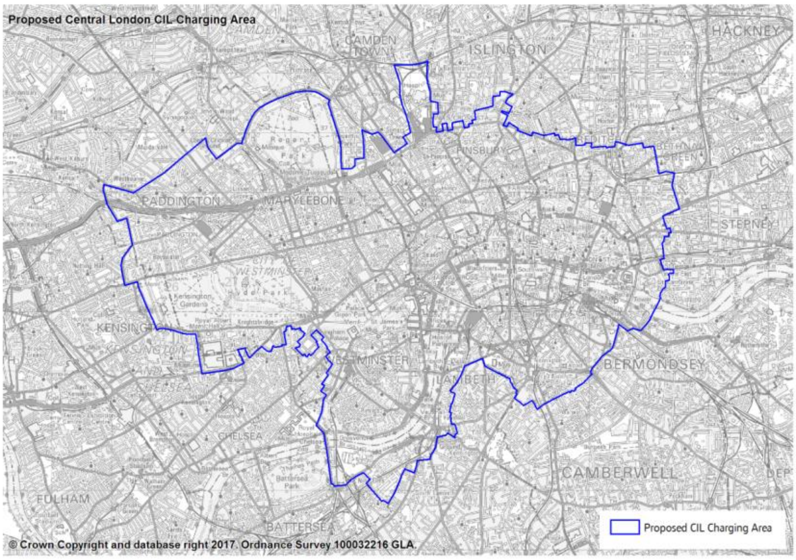


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have ~~prepared~~proposed an ~~updated~~ MCIL 2 Central London ~~contribution~~charging area 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.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)

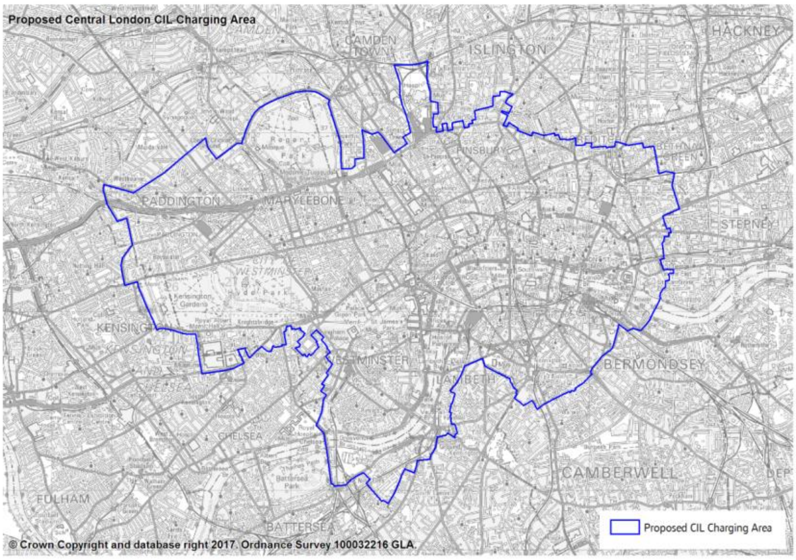


© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed ~~boundary is~~boundaries are shown ~~on Figure~~in Figures 10 and 11.

~~**Figure 9: Proposed MCIL 2 Central London contribution area (excluding North Docklands)**~~

Formatted: Normal



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

Figure 10: Current Isle of Dogs ~~S106~~S.106 contribution area (North Docklands)

Commented [GR4]: Check definition/wording

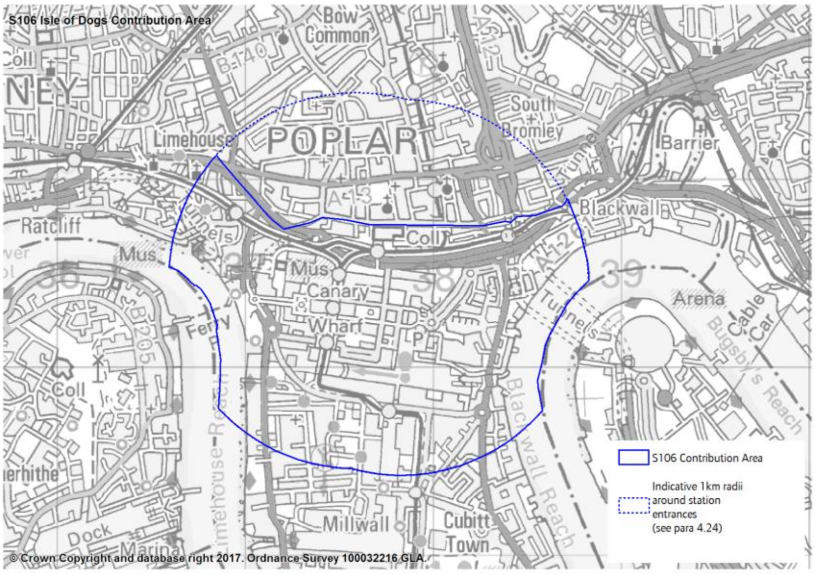
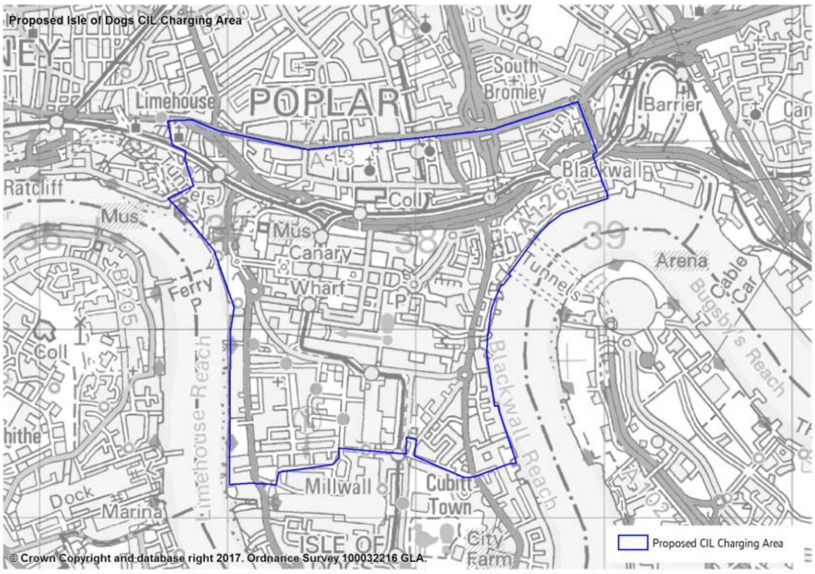


Figure 11: Proposed MCIL 2 Central London ~~contribution~~charging area – North Docklands

Commented [GR5]: Check definition / wording



11 Affordable Housing

11.1.1 A review of ~~Borough~~borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target~~.~~ which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data ~~sifted~~ to ~~give~~create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% ~~was being~~has been 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 affordable housing and other policy requirements fully 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. ~~. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with ~~the~~a view to ~~increase~~increasing the amount of affordable housing delivered through the planning system.

~~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~~11.1.2 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~~. Whilst in some instances where underlying viability is an issue ~~it~~an increased MCIL rate might make matters marginally worse, there will be many other instances where ~~the~~ additional ~~CIL~~MCIL can easily be accommodated within ~~the~~development economics~~ of the transaction as has been shown~~, demonstrated by the "buffer analysis" undertaken ~~for some boroughs as part of their supporting documentation behind their Charging Schedules.~~ in chapter 9, above. Overall we suggest that ~~whether or not affordable~~actual housing percentages ~~that are~~ achieved ~~is~~are likely to be much more dependent on housing policy, the grant regime and the cost of ~~building housing~~construction rather than the MCIL rates~~ and therefore~~. Therefore we conclude that ~~whatever~~the impact raising MCIL will have ~~it~~ is likely to be minor.

Table 18: Affordable Housing Policy by ~~Borough~~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

Commented [JP6]:

Commented [GR7]: Comments provided by Jennifer Peters in email 15/03/2017

Formatted Table

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

Formatted Table

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
London Legacy Development Corporation			35% minimum (July 2015)	n/a
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.

Formatted Table

12 MCIL 3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible ~~MCIL3~~MCIL 3 rates and ~~approach~~approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 ~~regime~~regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying ~~Borough~~borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In ~~setting~~ proposing possible~~Band 3~~ rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and ~~protect~~protecting affordable housing percentages in the boroughs with the lowest house prices.~~-~~ The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£60.00/£25.00	£67.01/£27.92	***£100.00***

*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)

Formatted: Font: 10 pt

Formatted: Font color: Auto

Formatted: Indent: Left: 0 cm

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
~~jll.co.uk~~jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
~~jll.co.uk~~jll.co.uk

jll.com

Jones Lang LaSalle

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	14 March 2017 14:41
To:	Hart Anna; Sharples Elliot; Vincett-Wilson Harriet; Gardiner Stephen; Lees Neil; Neil Hook; Peter Heath; Jones, Richard (UK); Ware Julian; Richard Linton
Cc:	Turner Lucinda
Subject:	RE: CIL SG action note 14/2/17
Attachments:	20170314_MCIL2 working towards PDCS - DRAFT.pdf

Dear All,

Please find attached the working towards PDCS document. We have been making amendments and changes particularly in connection with the Central London rates (rather than separate CAZ and North Docklands rates) for both MCIL 2 and the proposed MCIL 3, although we still need to review the text that accompanies the tables to ensure this is clear.

We will discuss this and the possible Central London rate for MCIL 3 in the meeting.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 14 March 2017 12:09
To: Sharples Elliot ; Vincett-Wilson Harriet ; Gardiner Stephen ; Lees Neil ; Neil Hook ; Peter Heath ; Jones, Richard (UK) ; Gerrish, Ryan ; Ware Julian ; Richard Linton
Cc: Turner Lucinda
Subject: FW: CIL SG action note 14/2/17

All,

Can I add an item for discussion this afternoon - the drafting of the MCIL 2 PDCS document. We touched on this before but I don’t think divided up the writing tasks. I circulated the below document structure earlier and it would be good to discuss how we approach the drafting.

Thanks,
Anna

From: Hart Anna
Sent: 15 February 2017 11:35
To: Sharples Elliot; Vincett-Wilson Harriet; Gardiner Stephen; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Ryan Gerrish; Ware Julian; Richard Linton

Cc: Turner Lucinda
Subject: RE: CIL SG action note 14/2/17

All,

Please, find attached the preliminary draft charging schedule we prepared for MCIL in 2010/2011. Julian – is this the document you had in mind?

It is split into 6 chapters plus an annex:

1. **Introduction** – purpose of the document and the required consultation procedures
2. **Crossrail and the CIL** – background and benefits of the project, funding arrangements, use of CIL for project and project implementation
3. **The MCIL PDCS** – including maps, the relevant extracts from regulations
4. **Evidence base** – JLL's section
5. **Conclusions** – Mayor's conclusions on the PDCS, equality statement
6. **Responding to this document**

Annex 1. Strategic Environmental Assessment

My initial feeling is that TfL/GLA will need to draft chapters 1-3 and 5-6, if we want to keep the same format. We'll need Stephen's help to make sure we're in line with the appropriate Regulations. Chapter 2 will require most effort from our side and I think we'll need to divide up drafting. Is it worth involving the Crossrail 2 team to describe the project in the appropriate level of detail?

It would be good to agree if this is a point for discussion next week or if we should aim to have started drafting the relevant sections by next Tuesday.

Kind regards,
Anna

Anna Hart

Telephone: [redacted] | Auto: [redacted] | Mobile: [redacted]

From: Sharples Elliot
Sent: 15 February 2017 10:35
To: Vincett-Wilson Harriet; Alan Benson; Gardiner Stephen; Hart Anna; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Richard Linton ; Ryan Gerrish; Turner Lucinda; Ware Julian
Subject: CIL SG action note 14/2/17

Good morning All,

Please find attached an action note from CIL SG on Tuesday 14/2/17.

Kindest regards,

Elliot Sharples

Planning Obligations I Borough Planning
Transport for London
T: [redacted] Auto: [redacted] E: [redacted]tfl.gov.uk
A: 10 Floor, Windsor House, 42-50 Victoria Street,
London SW1H 0TL

For more information regarding the TfL Borough Planning team, including TfL's *Transport Assessment Best Practice Guidance,* and pre-application advice please visit http://www.tfl.gov.uk/businessandpartners/15393.aspx. For TfL's new *Travel Planning Guidance* please see http://www.lscp.org.uk/newwaytoplan/default.html.

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.

Commented [RWJ1]: Neil L do you have these dates?

Formatted: Superscript

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.

Commented [GR2]: JLL to explain Figure 1 in more details including:
- 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.

3.1.4 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.

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)***

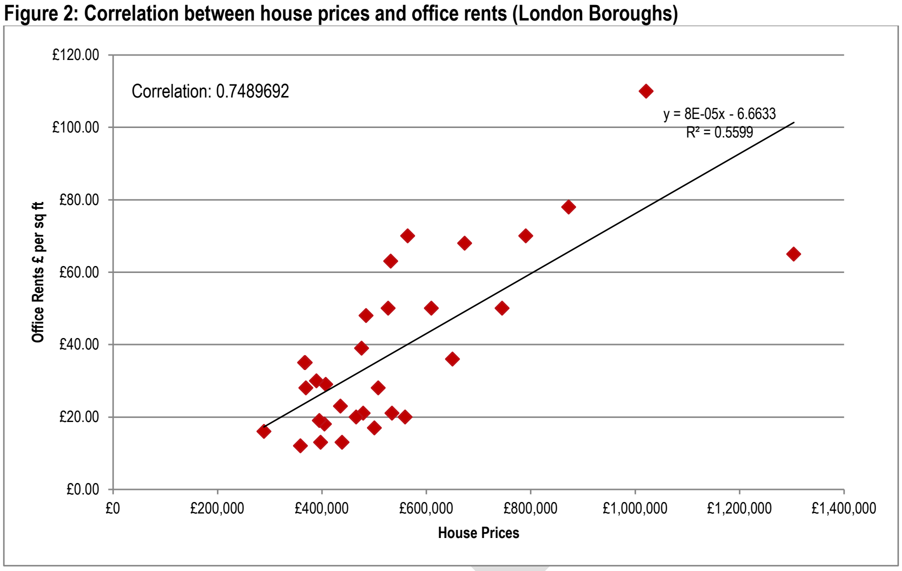
3.4 Are residential values a good lead indicator for high values in other sectors?

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.

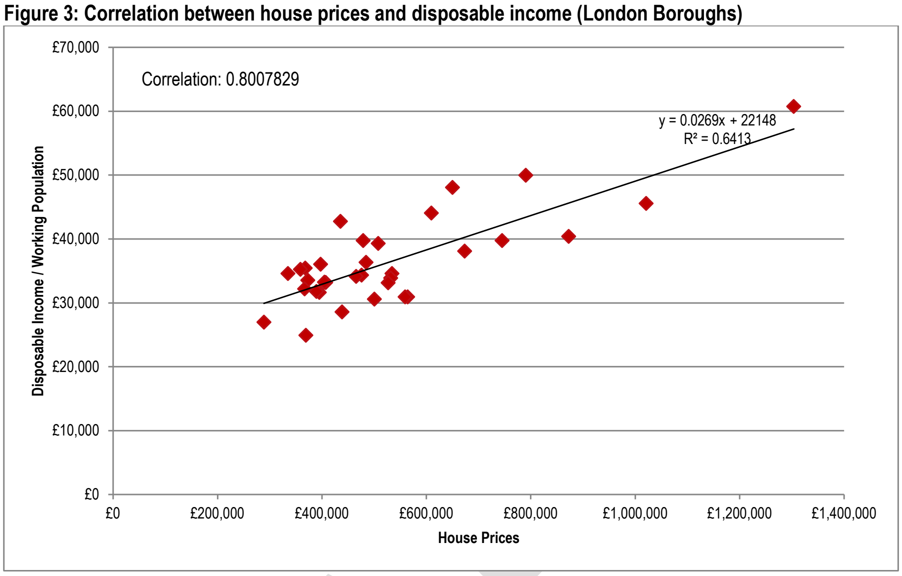
3.4.6 Other categories

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

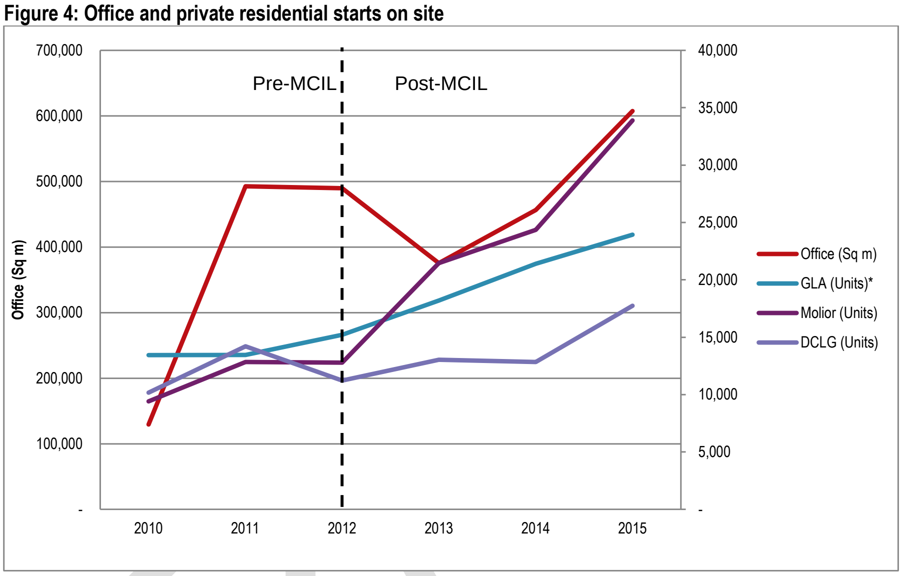
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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.

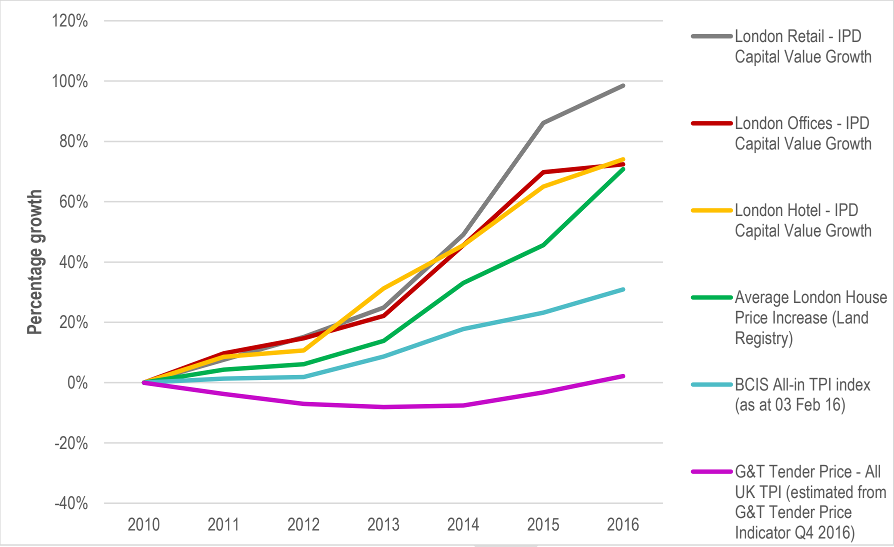
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL will be an important indicator of the likelihood of the ability for higher MCIL2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions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

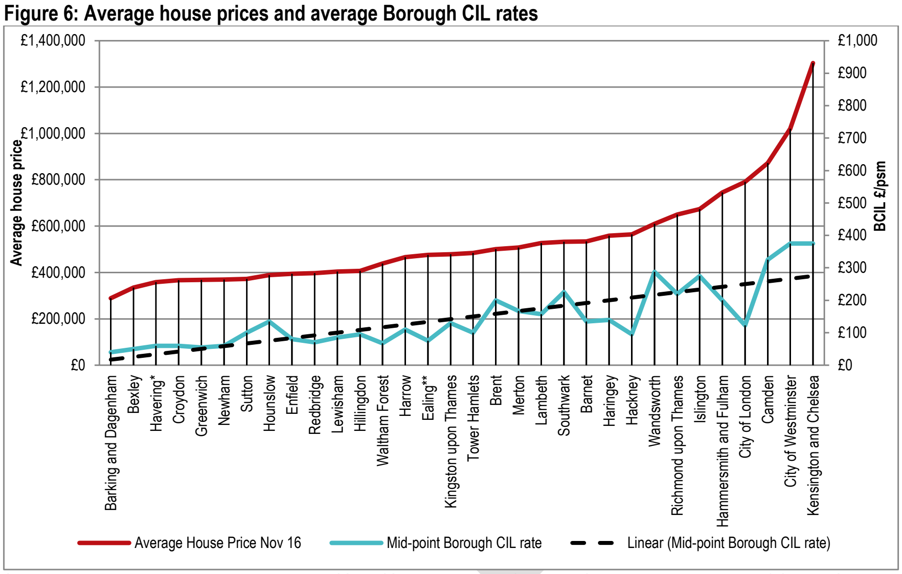
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and CIL rates.

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.

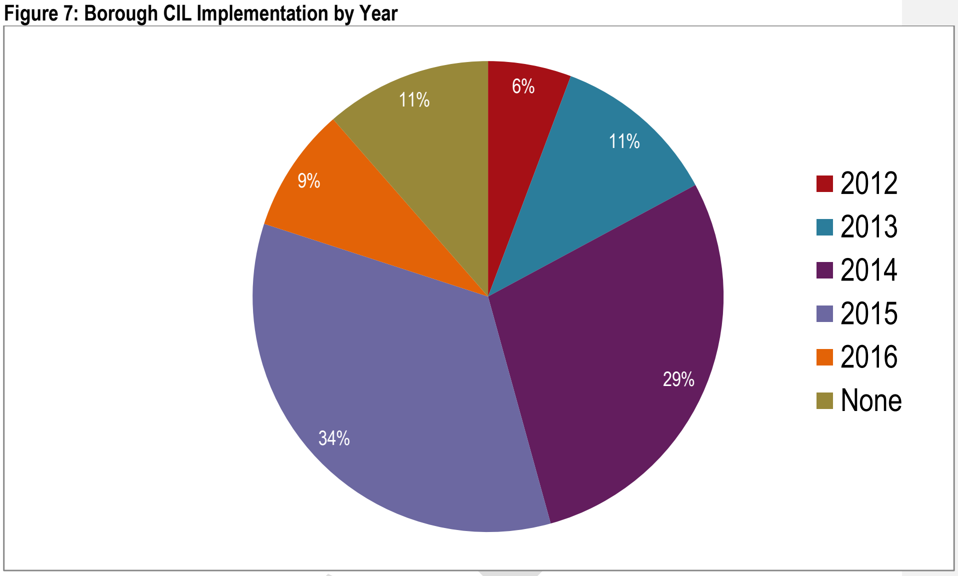
Table 6: MCIL receipts (excluding indexation) by revenues and net additional GIA in sq m to Q3 2016-17

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.

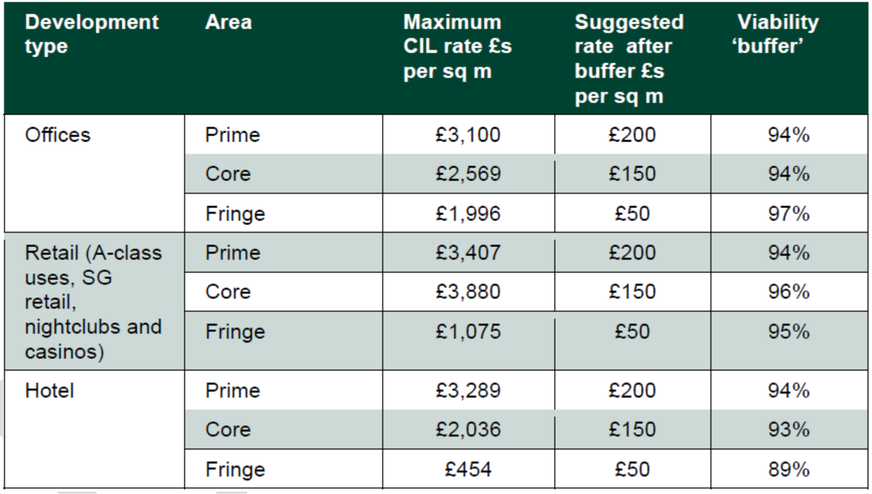
BCIS All-in TPI index as at 03 February 2017: November 2016 index (288) and February 2014 (247) reflects an increase of 17% in costs.

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]

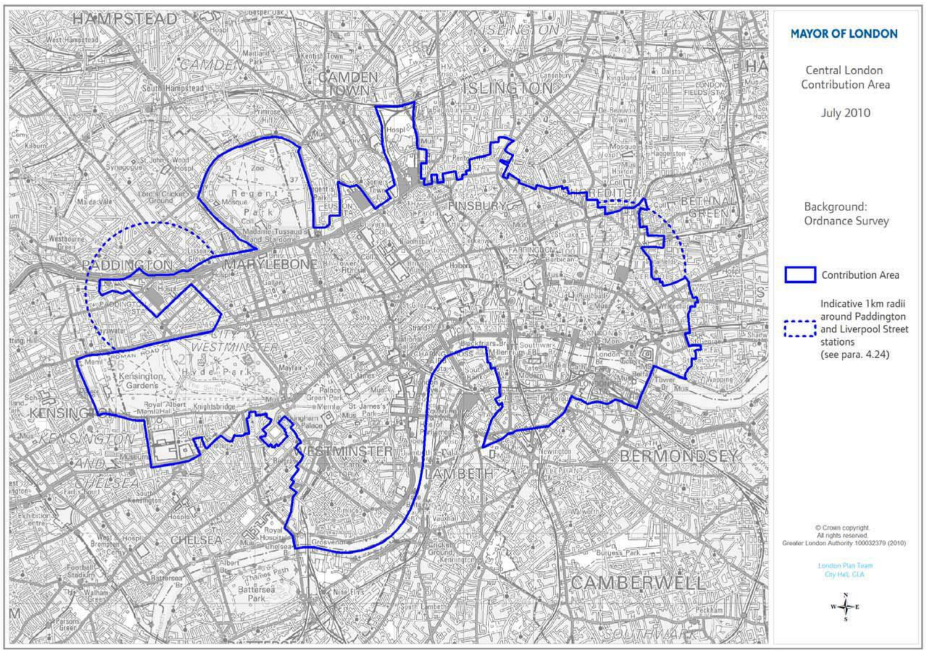
[Tower Hamlets]

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.

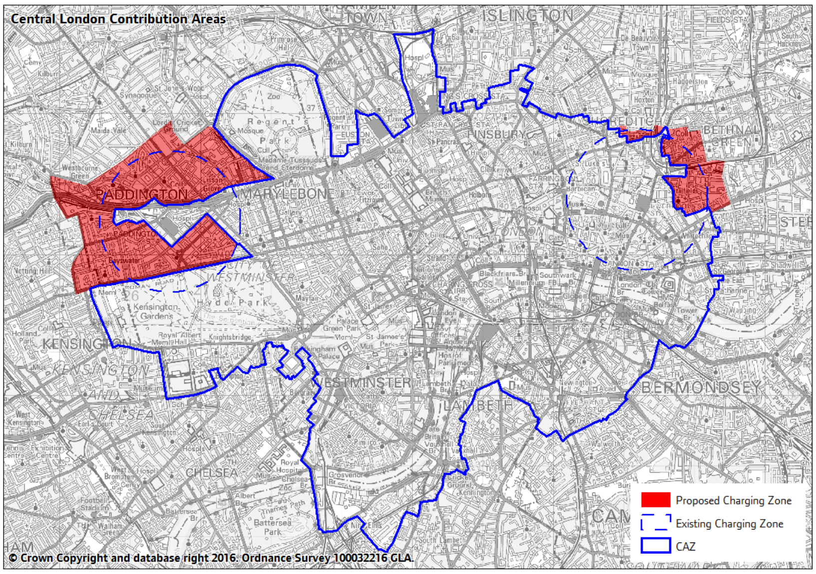
9.1.2 As part of the MCIL 2 viability analysis we have prepared an updated MCIL 2 Central London Commercial Zone that reinstates part of Lambeth, Wandsworth and Southwark as per the London Plan CAZ boundary and that incorporates the 1km zones around Paddington and Liverpool Street stations along natural 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

Commented [PS4]: Key to be amended

Commented [PS5]: Map to be amended to include small triangle close to Marble Arch

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.

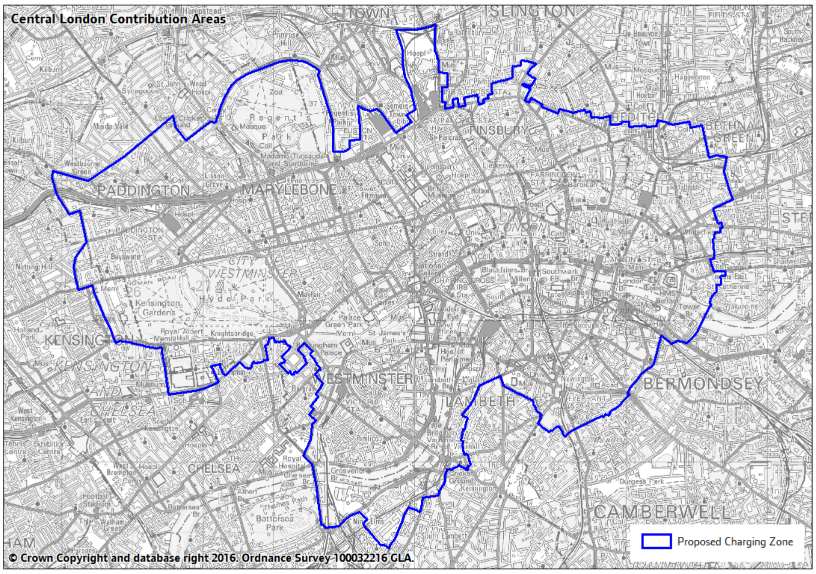


Figure 11: Current Isle of Dogs S106 contribution area (North Docklands)

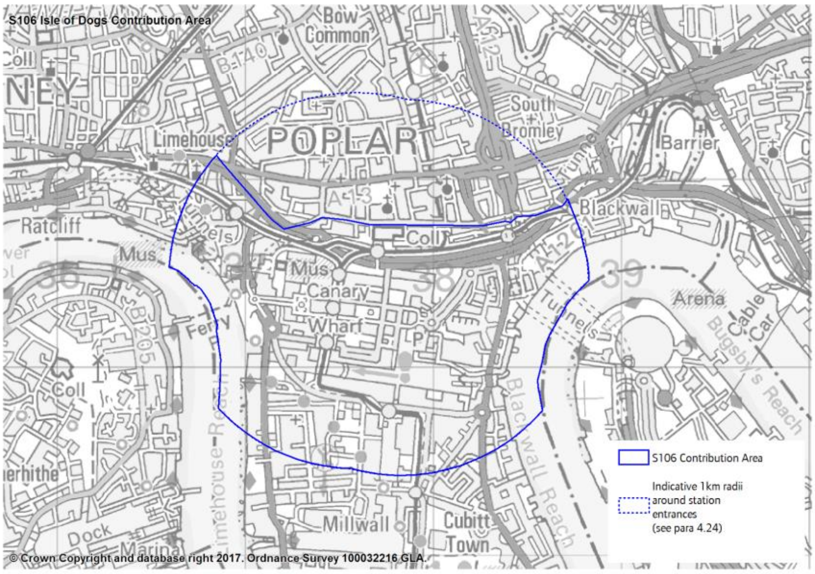
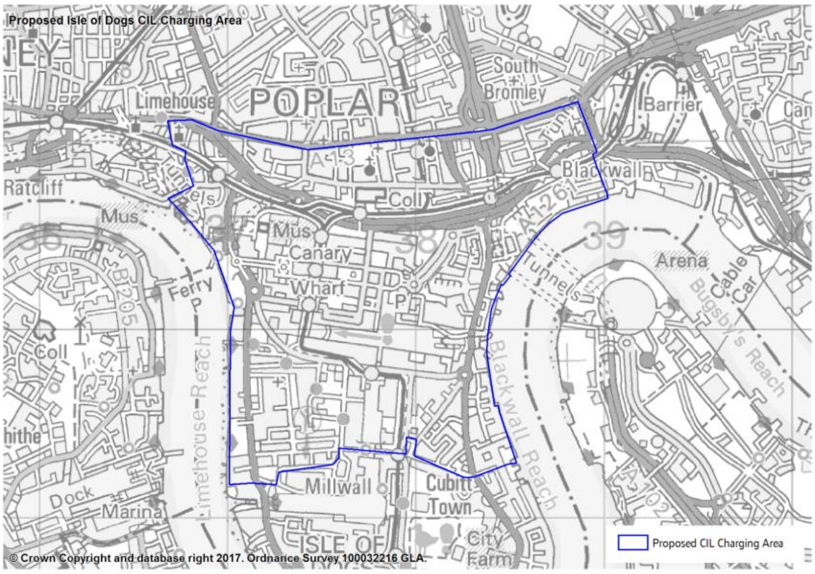


Figure 11: Proposed MCIL 2 Central London contribution area – North Docklands



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

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Jones Lang LaSalle

From:	Gerrish, Ryan <[redacted]eu.jll.com>
Sent:	03 April 2017 14:46
To:	Hart Anna; 'Neil Hook'; Gardiner Stephen; Vincett-Wilson Harriet; Lees Neil; Peter Heath; Jones, Richard (UK); Richard Linton; Sharples Elliot; Turner Lucinda; Ware Julian
Subject:	RE: MCIL 2 PDCS documents - latest drafts
Attachments:	20170403_MCIL2 working towards PDCS - DRAFT (Clean).pdf; 20170403_MCIL2 working towards PDCS compared with 20170327 - DRAFT.pdf

Dear All,

Please find attached the latest version of the JLL document.

The main points of change are:

- 3.4.2 – we include a description of what ranges of correlation coefficient are considered, high, moderate, low etc before showing the correlation analysis charts.
- Table 6 – this has been reordered by net additional development (highest to lowest)

The other changes are mainly formatting tweaks/minor corrections.

I attach a clean version and a track changes version with the document dated 27/03/17 circulated for last weeks' SG meeting for reference.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 03 April 2017 14:11
To: 'Neil Hook' ; Gardiner Stephen ; Vincett-Wilson Harriet ; Lees Neil ; Peter Heath ; Jones, Richard (UK) ; Richard Linton ; Gerrish, Ryan ; Sharples Elliot ; Turner Lucinda ; Ware Julian
Subject: MCIL 2 PDCS documents - latest drafts

Hi all,

Please find attached the latest set of the PDCS documents – charging schedule, further information and the MDF. These documents incorporate the suggestions made over the past week.

Richard J – there are a couple of areas in the text that need your attention – page 10 of PDCS on exemptions and para 28 in the MDF on viability advice.

Stephen – please could you check the extracts from the CIL Guidance in para 3.2 of the further information document. Updated version of the Guidance no longer has the following phrase '*charging authorities should "take a strategic view across their area and not focus on the potential implications of setting a CIL for individual development sites within a charging authority's area*'. I replaced with an extract that to me made most sense.

I'm liaising with the CR2 team on the project cost figure that we should use. **Julian** – I specified the PWC 2014 report in the affordable housing section.

Kind regards,
Anna

Anna Hart

Telephone: [redacted] | Auto: [redacted] | Mobile: [redacted]

From: Neil Hook [mailto:[redacted]london.gov.uk]
Sent: 03 April 2017 11:36
To: Gardiner Stephen; Vincett-Wilson Harriet; Hart Anna; Lees Neil; Peter Heath; 'Richard Jones'; Richard Linton; 'Ryan Gerrish'; Sharples Elliot; Turner Lucinda; Ware Julian
Subject: RE: CIL Steering Action Note- 28/3

Hi all,

Picking up on this and my actions – please find attached and below the extract from the draft SPG on BTR:

(2) AFFORDABLE HOUSING TENURE

4.19 The second element of the Build to Rent pathway is the affordable housing offer, in which the aim is to maintain the integrity of the Build to Rent development, with unified ownership and management of all the homes. Where a developer is proposing a Build to Rent development which meets the definition set out above, the affordable housing offer can be entirely discounted market rent (DMR), managed by the Build to Rent provider and delivered without grant, i.e. entirely through planning gain. As it is not necessary to be a Local Authority or a Registered Provider to deliver or manage intermediate rented homes that are delivered without grant, these units can be owned and/or managed by Build to Rent landlords themselves.

4.20 Discounted market rent is also better suited to Build to Rent than other affordable products because units can more easily be tenure blind and "pepper potted" through the development. In addition, some discounted market rented products not let by local authorities/ registered providers can also qualify for mandatory CIL relief.[27]

4.25 All affordable housing, including discounted market rent/ London Living Rent, secured though planning should be affordable in perpetuity in line with the requirements of the NPPF. Therefore, should the developments be sold onto the open market at any time, during or after the covenant period, then a commuted sum would need to be paid to the LPA to secure the affordable housing provision in perpetuity, or replacement affordable housing would need to be provided of an equivalent value.

Does the existing framework allow DMR as described in the SPG (above) to be exempted as an affordable product, or do we need to take specific action / make reference in the PDCS and accompanying MD?

Thanks,

Neil

Neil Hook
Senior Area Manager (North East London)
Housing and Land Directorate

GREATER **LONDON** AUTHORITY
City Hall, 3rd Floor
The Queen's Walk
London
SE1 2AA

T: [redacted]
M: [redacted]
E: [redacted]london.gov.uk

From: Gardiner Stephen [mailto:[redacted]Tfl.gov.uk]
Sent: 30 March 2017 14:05
To: Vincett-Wilson Harriet; Alan Benson; Hart Anna; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Richard Linton; Ryan Gerrish; Sharples Elliot; Lucinda Turner; Julian Ware
Subject: RE: CIL Steering Action Note- 28/3

Neil

On item 2 and the definition of Affordable Housing, you will note that Regulation 49 does not use that terminology but refers to “qualifying dwellings” or “qualifying communal development”.

To be a qualifying dwelling one of he 5 conditions in the section have to be met, and to by a qualifying communal development the requirements set out in S.49C have to be met.

Best regards.

Stephen Gardiner | Principal Solicitor - Planning and Highways | Legal
Transport for London | 6th Floor, Windsor House | 42-50 Victoria Street, London | SW1H 0TL
[redacted]tfl.gov.uk | Tel: [redacted] (ext. [redacted] | Fax: [redacted] (ext. [redacted]

From: Vincett-Wilson Harriet
Sent: 30 March 2017 12:43
To: Alan Benson; Gardiner Stephen; Hart Anna; Lees Neil; Neil Hook; Peter Heath; Richard Jones; Richard Linton ; Ryan Gerrish; Sharples Elliot; Turner Lucinda; Ware Julian
Subject: CIL Steering Action Note- 28/3

Hi All,

Please find attached an action note from CIL SG on Tuesday.

Many thanks,
Harriet.

Harriet Vincett-Wilson I Assistant Planner - Planning Obligations
TfL Planning *Transport For London*

T: [redacted] Auto: [redacted] **E:** [redacted]tfl.gov.uk
10th Floor, Windsor House, 50 Victoria Street,
London, SW1H 0TL

Prepared for TfL

Mayoral Community Infrastructure Levy 2 (03/04/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule

March 2017

Contents

Cover photo: Shutterstock

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 bands. 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

1.1.4 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.

1.1.5 The MCIL charging bands 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**

1.1.6 The London boroughs and LLDC (collecting authorities) started collecting MCIL on behalf of the Mayor in April 2012. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015.

1.1.7 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.

1.1.8 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations. Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

1.1.9 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 and MCIL 1 arrangements, to only having MCIL, from 1 April 2019.

1.1.10 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.

1.1.11 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.

1.1.12 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.'*

1.1.13 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 of the 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.'*

1.1.14 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 A**.

1.1.15 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 Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.[1]

1.1.16 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".*[2]

1.1.17 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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

1.2.1 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.

1.2.2 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."*

1.2.3 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.

1.2.4 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

---

[1] *See 'Funding Crossrail 2,' London First (February 2014). Retrieved from: http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf last accessed 20/03/2017*

[2] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

that a correlation was sufficiently strong to make the residential value approach suitable for adoption generally across other uses. *(Para 12)*

1.2.5 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)*

1.2.6 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."*

1.2.7 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."*

1.2.8 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".*

1.2.9 In the following sections of his report Mr Holland considers the Mayor's decision not to make use of the exceptional circumstances relief. 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."*

1.2.10 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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 MCIL 2

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 for 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 In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[3]

2.1.5 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.'*[4]

2.1.6 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.7 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to

---

[3] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[4] *Ibid*

roll these in to the MCIL 2 charging regime. At present because of the way the Mayor allows MCIL payments in the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a 'top-up' above the prevailing MCIL 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.

2.1.8 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 We set out in Figure 1 below our estimate 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 (estimated)

	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	-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

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL 2 rates.

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 bands

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 bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***
- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

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 residential values and other uses.

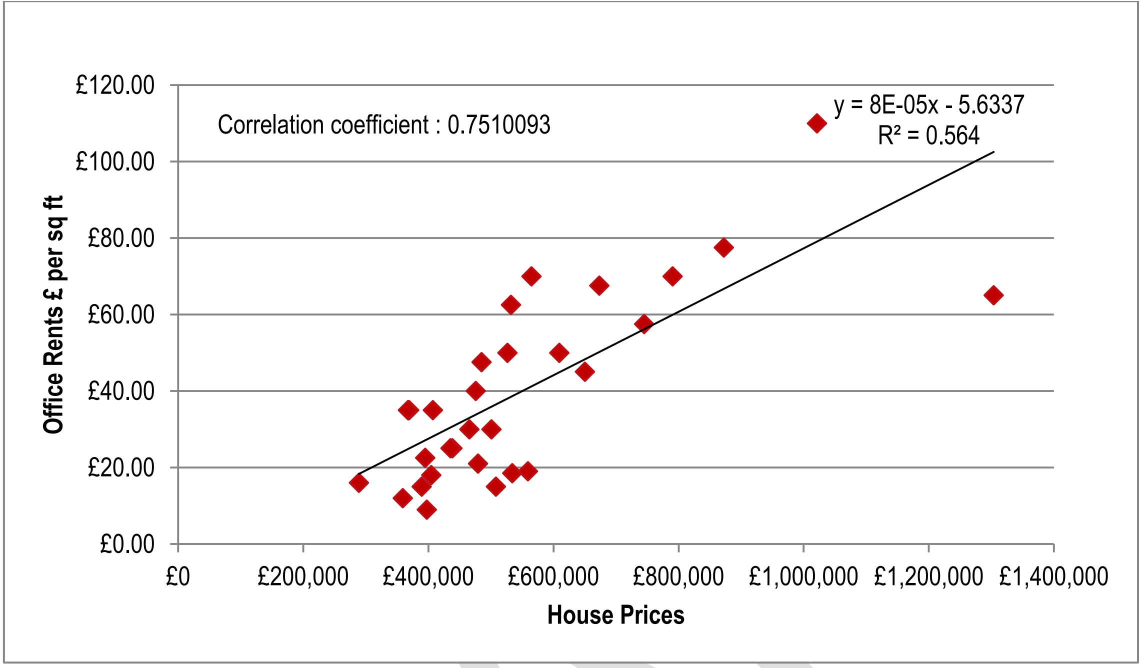
3.4.2 When considering the results of correlation coefficient analysis, the following ranges are typical:

- 0.90 to 1.00 – very high correlation
- 0.70 to 0.89 – high correlation
- 0.50 to 0.69 – moderate correlation
- 0.30 – 0.59 – low correlation
- 0.00 to 0.20 – little, if any correlation

3.4.3 Offices

3.4.4 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a high correlation between office rents and house prices.

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



Source: Land Registry, CoStar, JLL

3.4.5 Retail

3.4.6 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 and Westminster. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

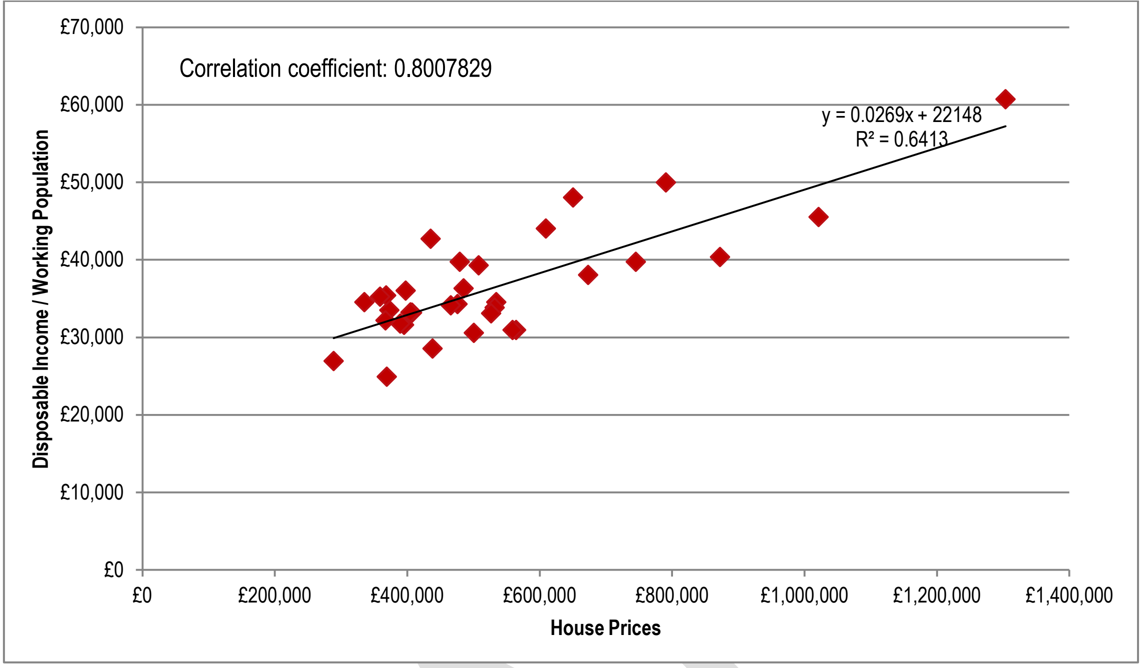
3.4.7 Other Categories

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

3.4.9 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.

3.4.10 We have confirmed this by comparing house prices with disposable income per person of working population in Figure 3 and Table 4 below, which shows a high correlation.

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



Source: Land Registry, Oxford Economics

3.4.11 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.

3.4.12 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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

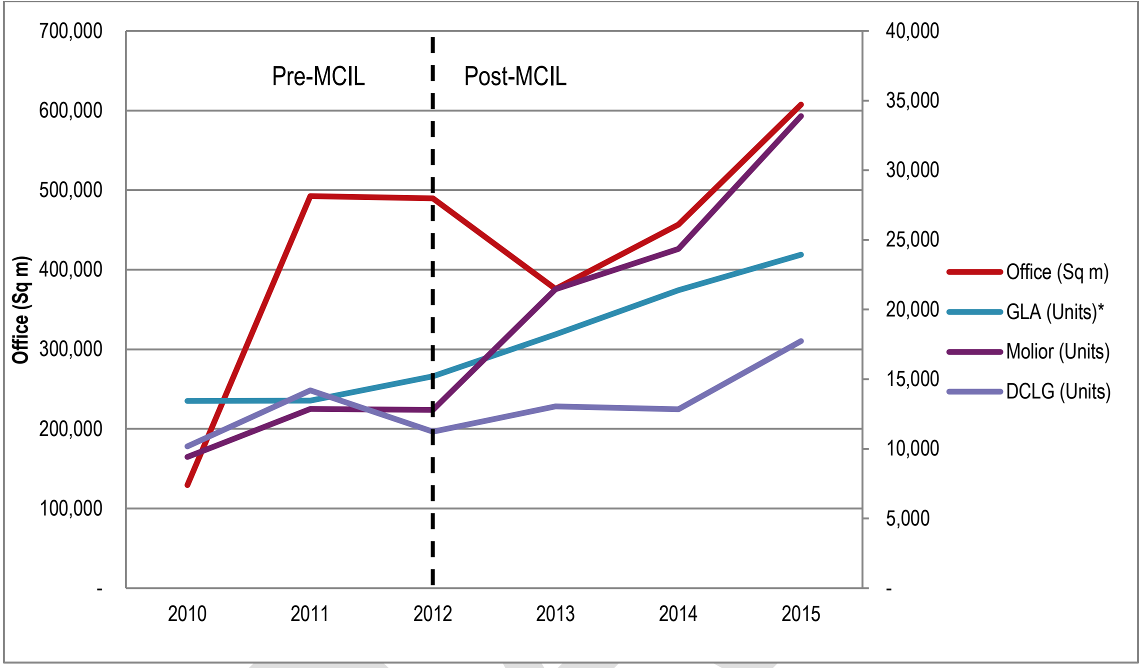
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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, with office and residential trending upwards.

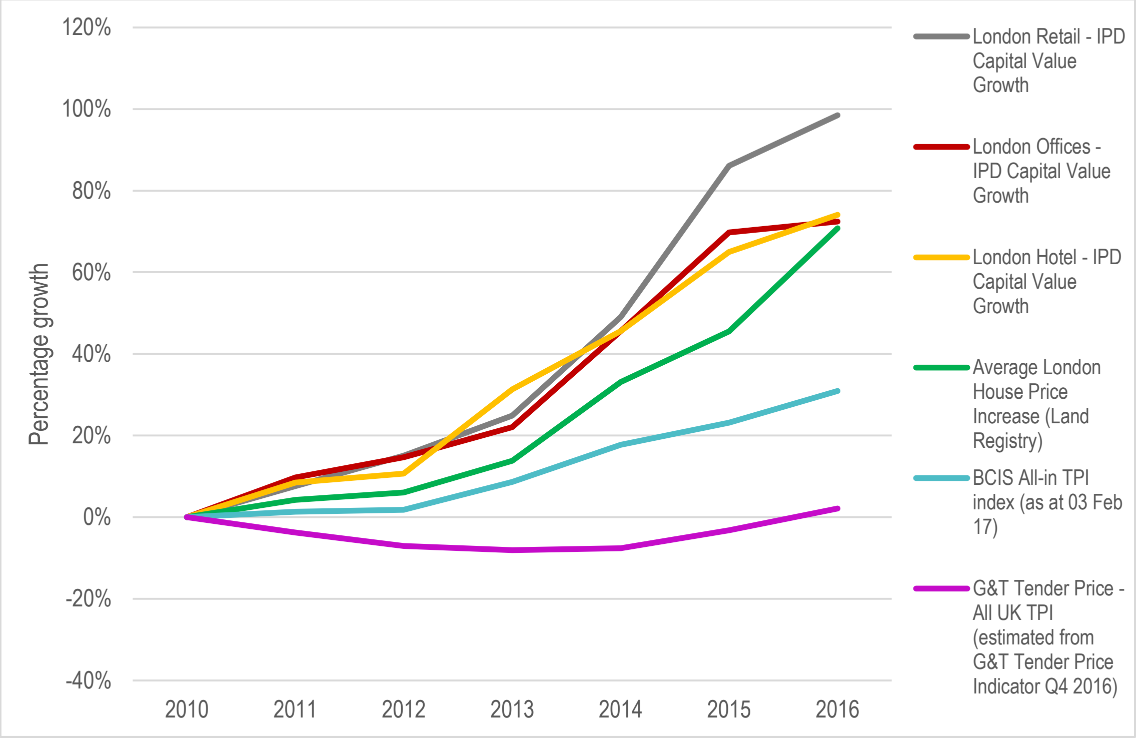
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL will be an important indicator of the likelihood of the ability for higher MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their 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 2017	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.

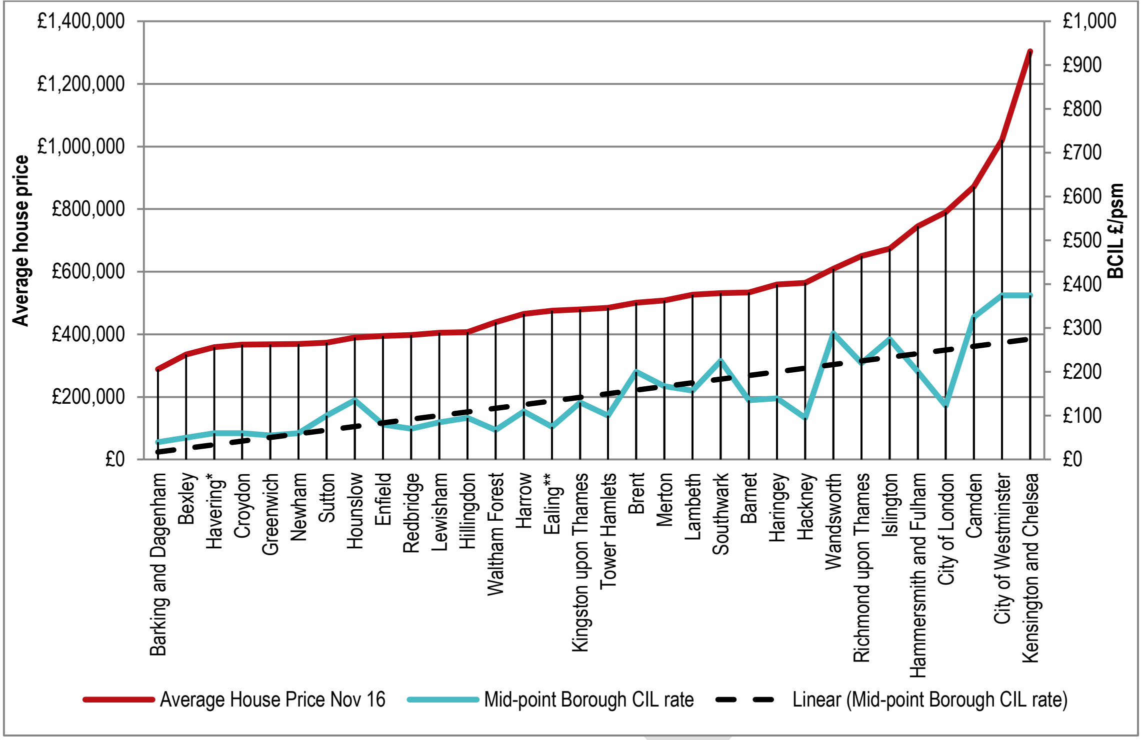
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and CIL rates.

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

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 mid-point residential 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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table 6 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.

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

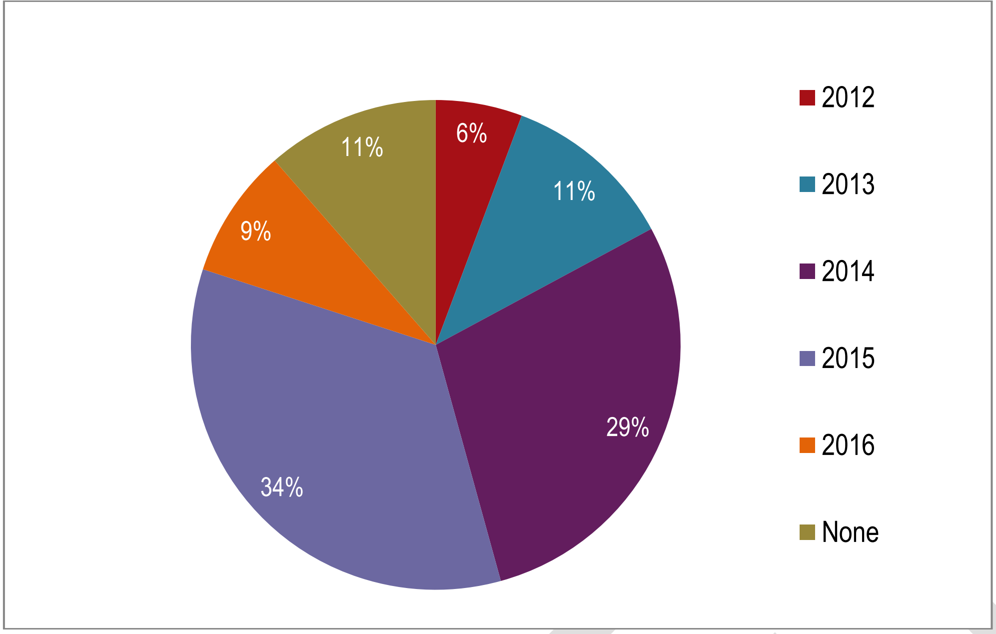
Table 6: MCIL receipts (excl. indexation) by revenues and net additional GIA in sq m to Q3 2016-17

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
Southwark	£20,134,067	£35	575,259
City of Westminster	£27,853,421	£50	557,068
Lambeth	£18,463,412	£35	527,526
Hammersmith and Fulham	£20,516,892	£50	410,338
Hackney	£12,847,714	£35	367,078
Wandsworth	£18,308,958	£50	366,179
Greenwich	£12,015,455	£35	343,299
Barnet	£11,391,709	£35	325,477
City of London	£14,506,765	£50	290,135
Hounslow	£10,046,845	£35	287,053
Brent	£9,547,160	£35	272,776
Camden	£12,476,615	£50	249,532
Islington	£11,729,324	£50	234,586
Hillingdon	£7,680,248	£35	219,436
LLDC	£7,639,096	£35/£20	218,260*
Newham	£3,780,260	£20	189,013
Enfield	£3,037,537	£20	151,877
Haringey	£4,787,390	£35	136,783
Bromley	£4,743,828	£35	135,538
Lewisham	£4,587,054	£35	131,059
Bexley	£2,619,413	£20	130,971
Croydon	£2,533,527	£20	126,676
Ealing	£3,995,905	£35	114,169
Kensington and Chelsea	£5,588,604	£50	111,772
Waltham Forest	£2,143,309	£20	107,165
Sutton	£1,994,814	£20	99,741
Merton	£3,184,001	£35	90,971
Harrow	£3,136,808	£35	89,623
Kingston upon Thames	£2,859,849	£35	81,710
Barking and Dagenham	£1,078,069	£20	53,903
Richmond upon Thames	£2,523,974	£50	50,479
Havering	£832,889	£20	41,644
Redbridge	£974,009	£35	27,829
OPDC	£149,473	£50/£35	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 overstated/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. Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

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 proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[5]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;
2. Removing all Central London and North Docklands rates and relying totally on Borough rates;
3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and
4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[5] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[6]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL 2 purposes.[7]

---

[6] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[7] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The 1km 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 proposed MCIL 2 Central London charging area are considered further in chapter 10.

8.1.5 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)

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

8.1.7 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

	Central London				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 MCIL 2 rate (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 MCIL 2 rate (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**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

9.2 Original MCIL as a percentage of highest and lowest average house prices within each charging band

9.2.1 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 band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

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)

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

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

Band	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 band 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 band assuming 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

9.2.3 Since the original MCIL, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL 2 rate per Sq M	Proposed MCIL 2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

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

9.4 Analysis of proposed MCIL 2 rates

9.4.1 MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 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.

9.4.4 Across the charging bands 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 band 2 however, the proposed MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

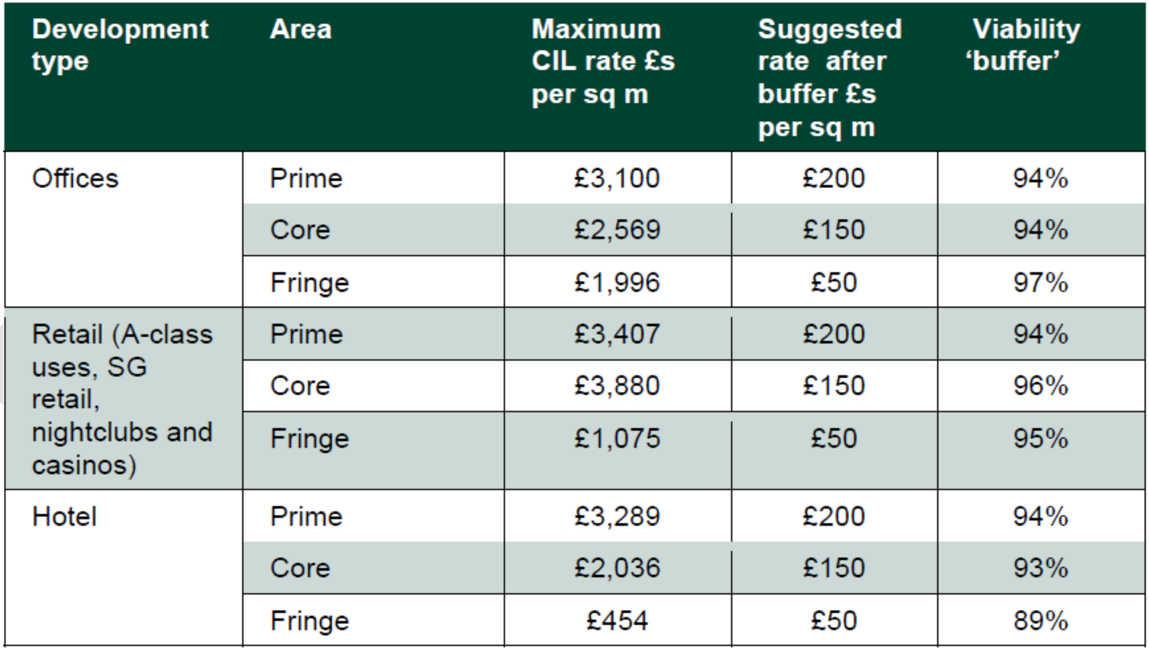
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London charging area.

9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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 17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed

use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [8]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [9]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[10]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

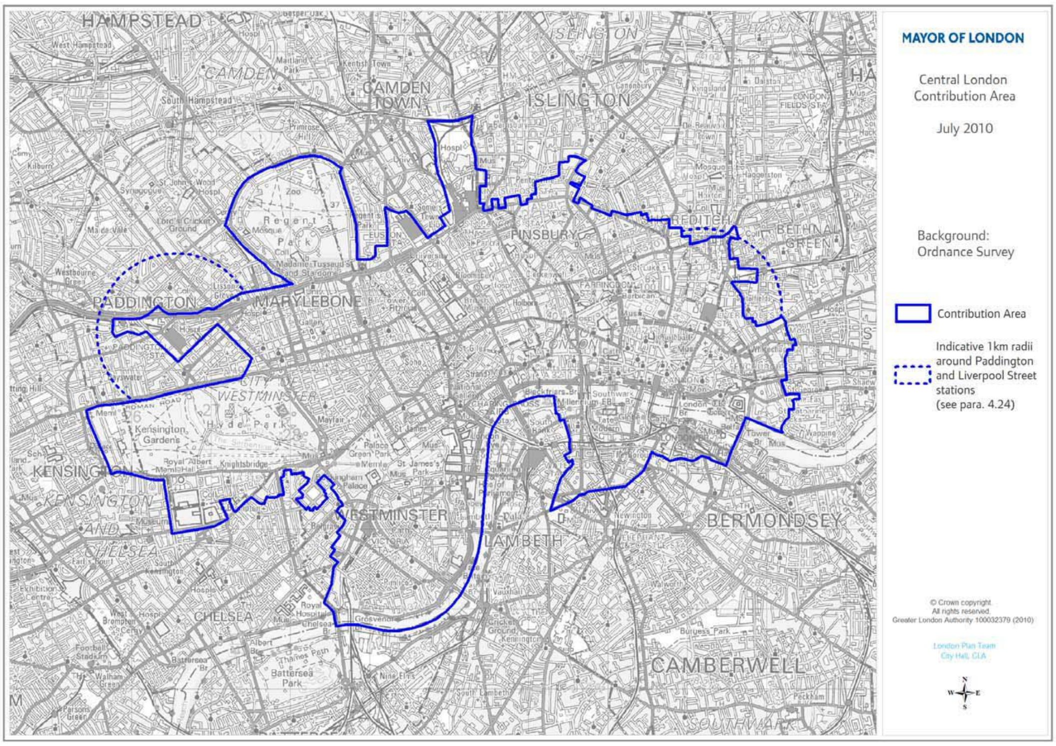
[8] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[9] *Ibid*

[10] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

10 MCIL 2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

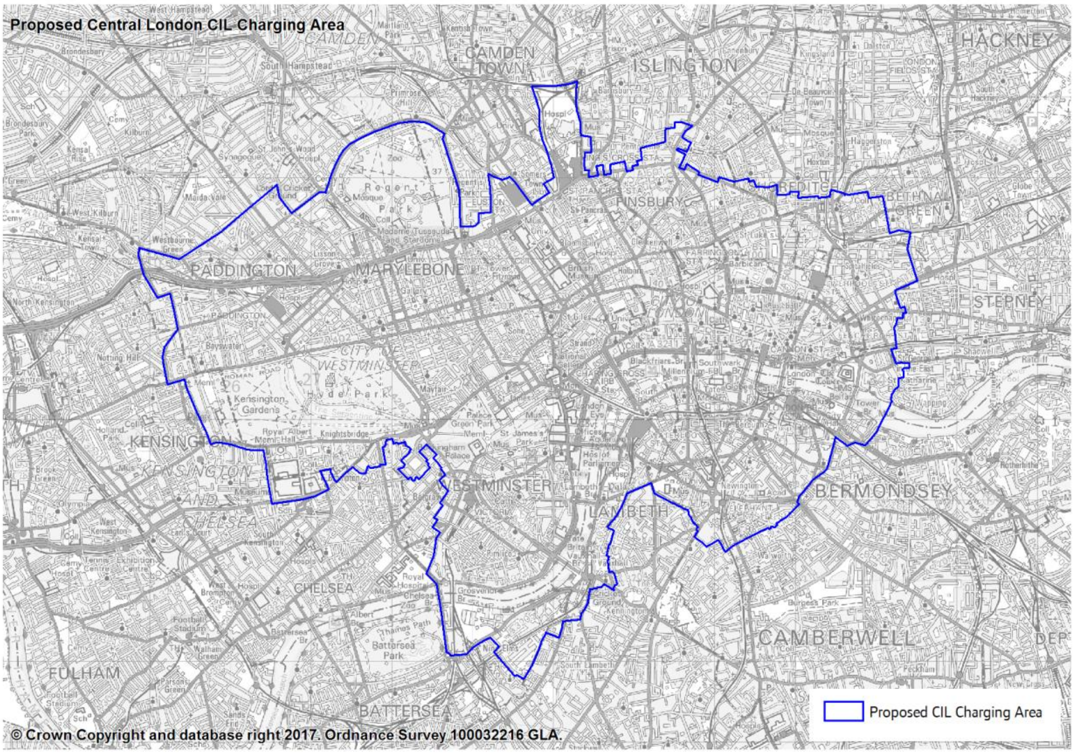


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have proposed an MCIL 2 Central London charging area 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. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

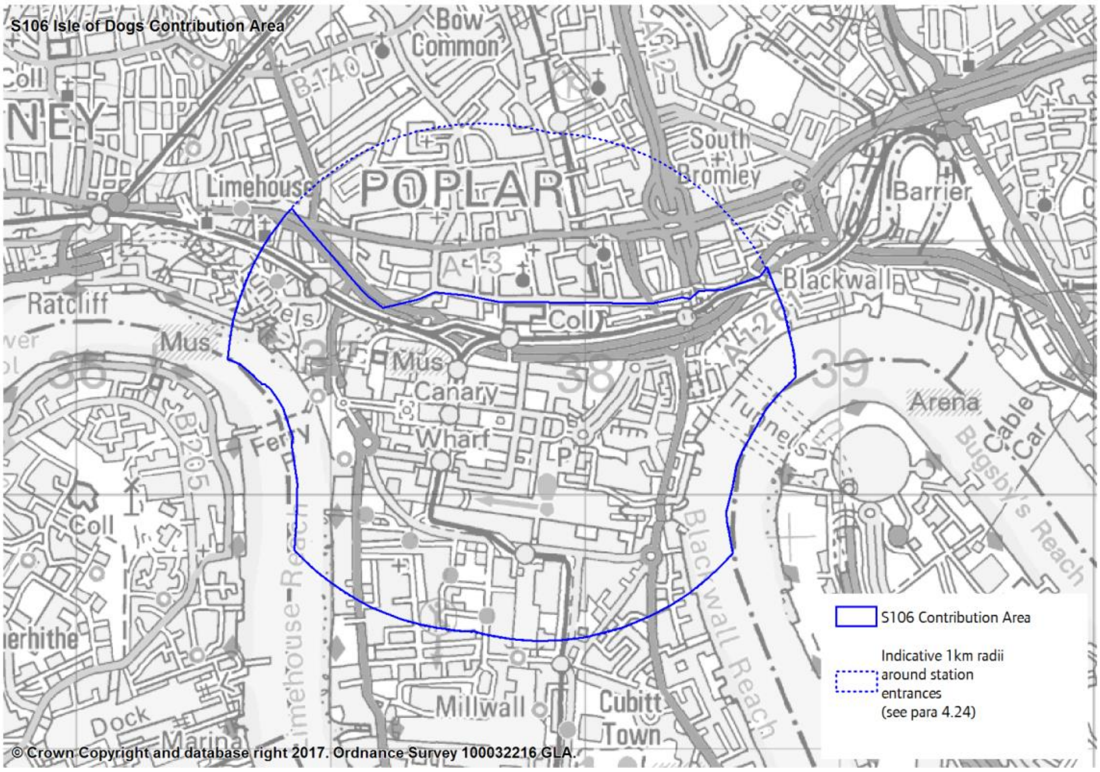
Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

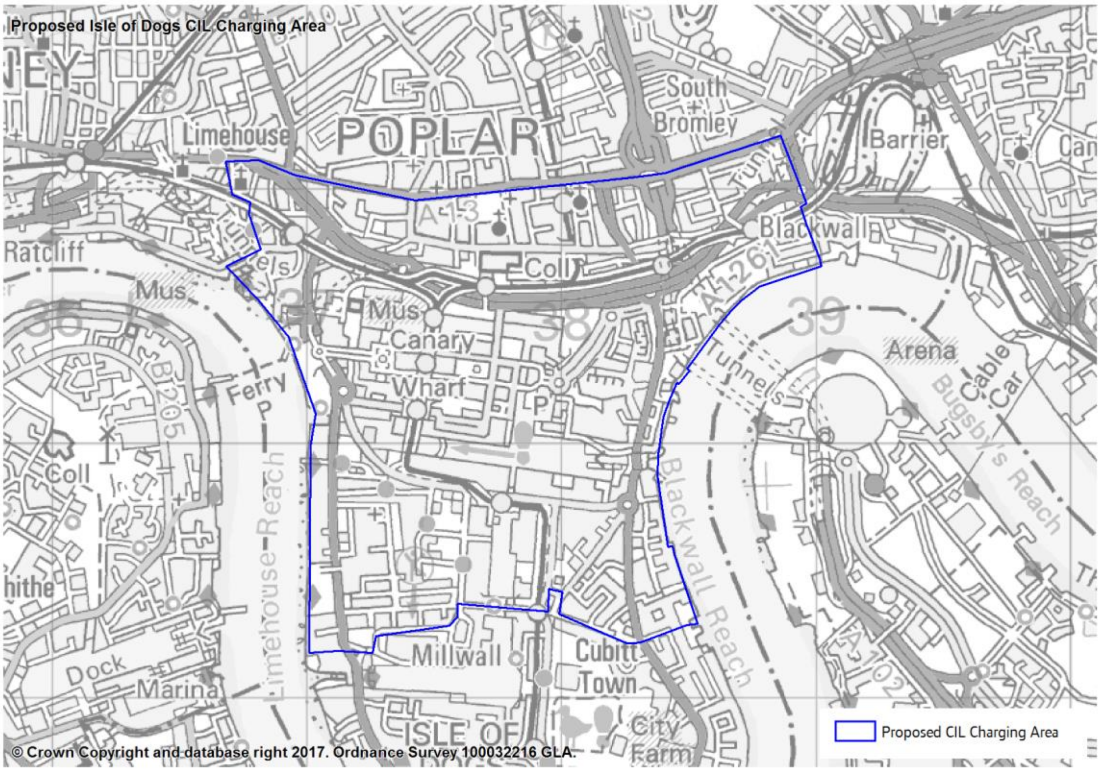
10.1.4 In a similar manner we have sought to rationalise and simplify the boundaries of the North Docklands area by using roads and river as boundaries rather than a circular zone around the Canary Wharf Station. The existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

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



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL rates, as a percentage of overall development costs MCIL remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL rate might make matters marginally worse, there will be many other instances where additional MCIL can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual affordable housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the MCIL rates. Therefore we conclude that the impact raising MCIL will have is likely to be minor.

Table 18: 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
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%)

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
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
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				
		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?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL 3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£80.00/£60.00	£89.35/£67.01	***£100.00***

*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)

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Prepared for TfL

Mayoral Community Infrastructure Levy 2 (~~27/~~03/04/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule~~ PDCS~~

March 2017

Contents

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Cover photo: Shutterstock

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 bands. 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

1.1.4 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.

Formatted: JLL_Heading Three

~~1.1.4~~1.1.5 The MCIL charging bands 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

Formatted Table

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**

~~1.1.5~~1.1.6 The London boroughs and LLDC (collecting authorities) started collecting MCIL on behalf of the Mayor in April 2012. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015.

~~1.1.6~~1.1.7 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.

~~1.1.7~~1.1.8 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations. Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

~~1.1.8~~1.1.9 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 and MCIL 1 arrangements, to only having MCIL, from 1 April 2019.

~~1.1.9~~1.1.10 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.

~~1.1.10~~1.1.11 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.

~~1.1.11~~1.1.12 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.’*

~~1.1.12~~1.1.13 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 of the 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.’*

~~1.1.13~~1.1.14 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 A**.

~~1.1.14~~1.1.15 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 Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.[1]

~~1.1.15~~1.1.16 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"*.[2]

~~1.1.16~~1.1.17 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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

1.2.1 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.

Formatted: JLL_Heading Three

~~1.2.1~~1.2.2 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~~1.2.3 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~~1.2.4 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

---

[1] *See 'Funding Crossrail 2,' London First (February 2014). Retrieved from: http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf last accessed 20/03/2017*

[2] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

that a correlation was sufficiently strong to make the residential value approach suitable for adoption generally across other uses. *(Para 12)*

~~1.2.4~~1.2.5 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~~1.2.6 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~~1.2.7 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~~1.2.8 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~~1.2.9 In the following sections of his report Mr Holland considers the Mayor's decision not to make use of the exceptional circumstances relief. 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~~1.2.10 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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 MCIL 2

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 for 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 In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[3]

2.1.5 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.'*[4]

Formatted: JLL_Heading Three

~~2.1.5~~2.1.6 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly

---

[3] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[4] *Ibid*

for the provision of education as a school or college under the Education Acts or as an institution of higher education.

~~2.1.6~~2.1.7 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to roll these in to the MCIL 2 charging regime. At present because of the way the Mayor allows MCIL payments in the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a 'top-up' above the prevailing MCIL 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~~2.1.8 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 We set out in Figure 1 below our estimate 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 (estimated)

	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	-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

Formatted Table

Formatted Table

Source: TfL, GLA, JLL

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL 2 rates.

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 bands

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

Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left
Formatted: Left

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)
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).

Formatted: Left

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 bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

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 residential values and other uses.

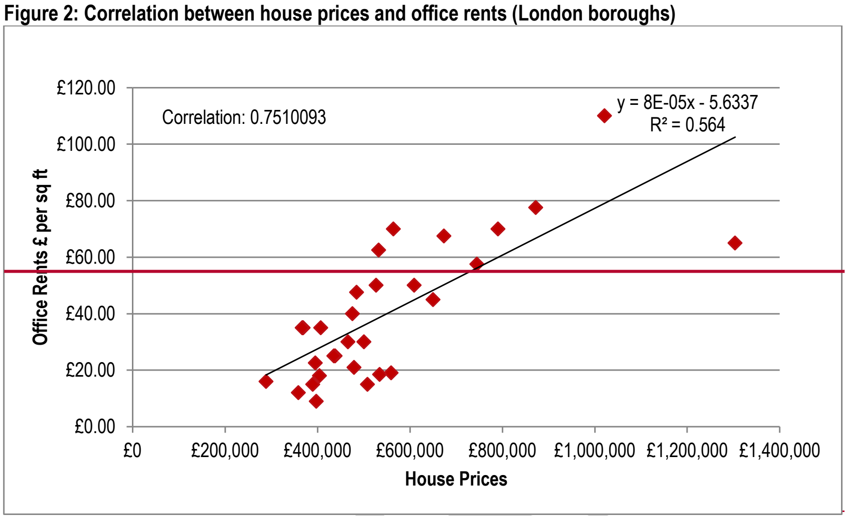
3.4.2 When considering the results of correlation coefficient analysis, the following ranges are typical:

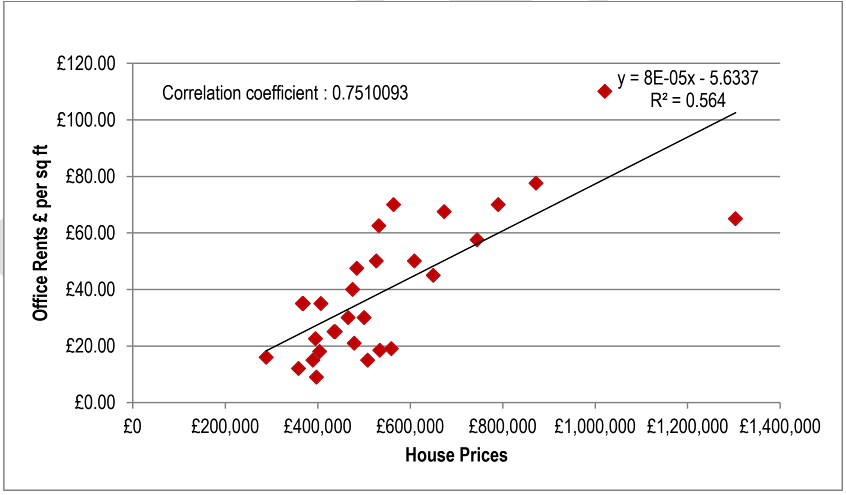
- 0.90 to 1.00 – very high correlation
- 0.70 to 0.89 – high correlation
- 0.50 to 0.69 – moderate correlation
- 0.30 – 0.59 – low correlation
- 0.00 to 0.20 – little, if any correlation

~~3.4.2~~3.4.3 Offices

~~3.4.3~~3.4.4 We have looked at the correlation between residential prices and office rents (where available – see Figure 2 and Table 4). As can be seen, there is a ~~reasonably strong~~high correlation between office rents and house prices.

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





Source: Land Registry, CoStar, JLL

~~3.4.4~~3.4.5 Retail

Formatted: Tab stops: 2.75 cm, Left

~~3.4.5~~3.4.6 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 and Westminster.

There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

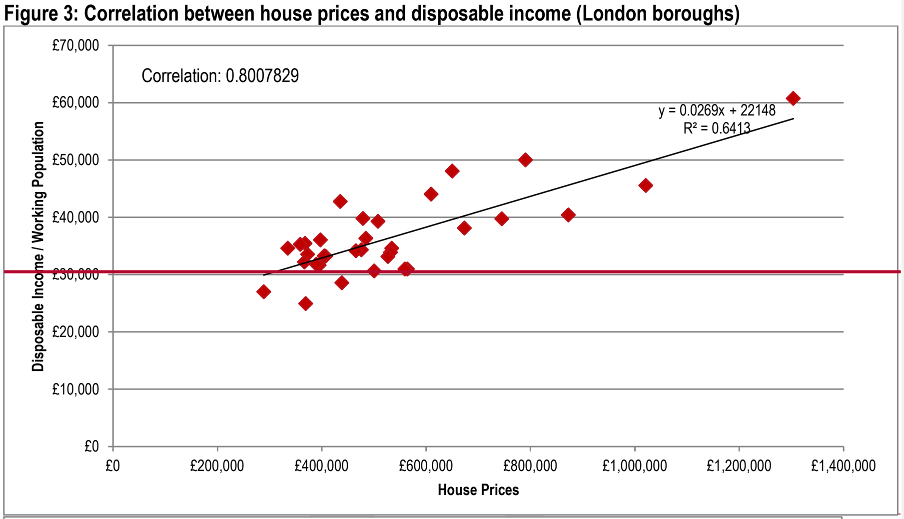
~~3.4.6~~3.4.7 Other ~~categories~~Categories

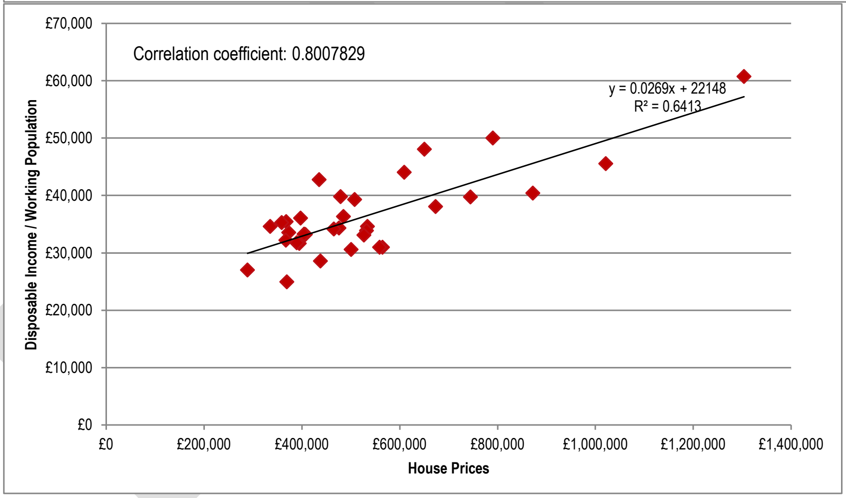
~~3.4.7~~3.4.8 ~~'~~'Other categories' include buildings such as those used for leisure and transport e.g. football stadia and airport terminal buildings.

~~3.4.8~~3.4.9 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~~3.4.10 We have confirmed this by comparing house ~~values~~prices with disposable income per person of working population in Figure 3 and Table 4 below, which shows a high correlation.

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





Source: Land Registry, Oxford Economics

~~3.4.10~~3.4.11 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~~3.4.12 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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

3.5 Conclusion

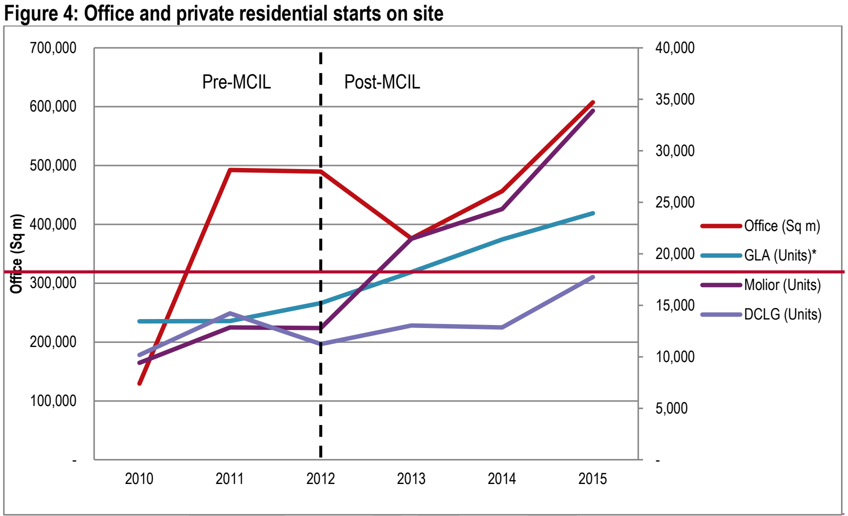
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

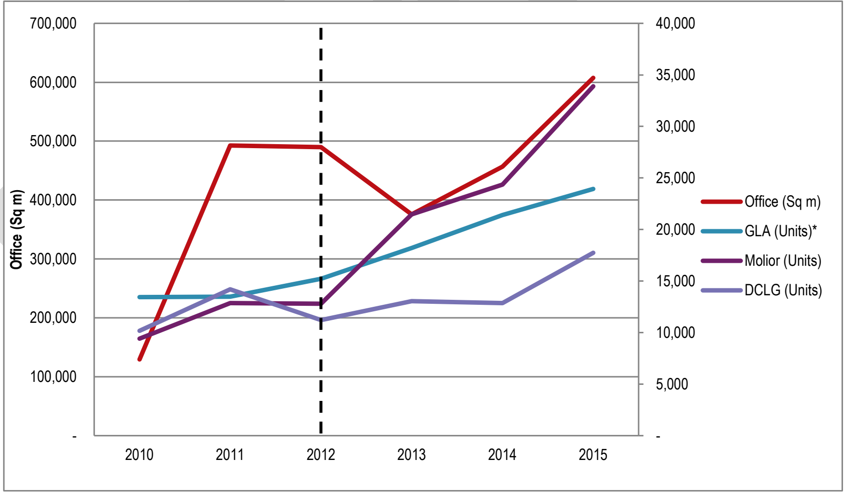
3.5.2 The average house price per Borough (mean) is still appropriate for assessing viability characteristics.

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, with office and residential trending upwards.

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 MCIL 2 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 2017	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.

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

Formatted Table

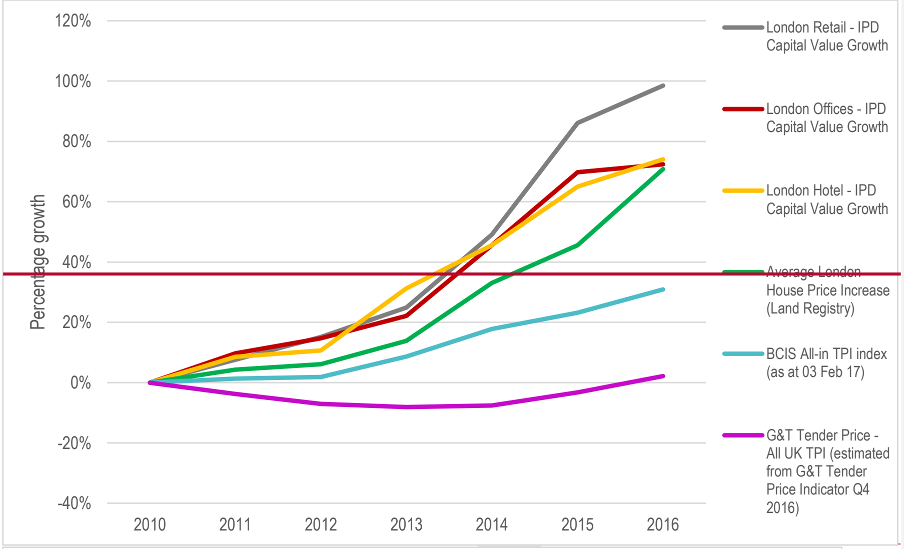
Formatted Table

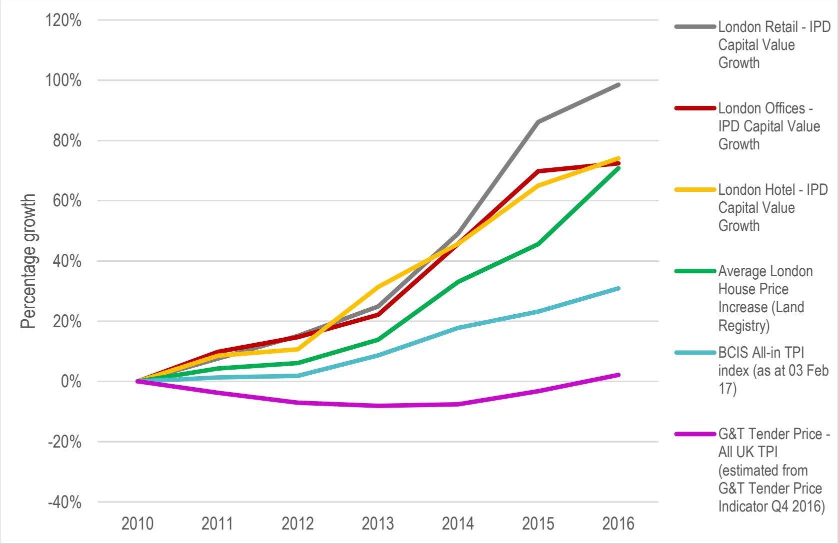
Formatted Table

Formatted Table

Formatted: JLL_Heading Three, Indent: Left: 1.2 cm

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.

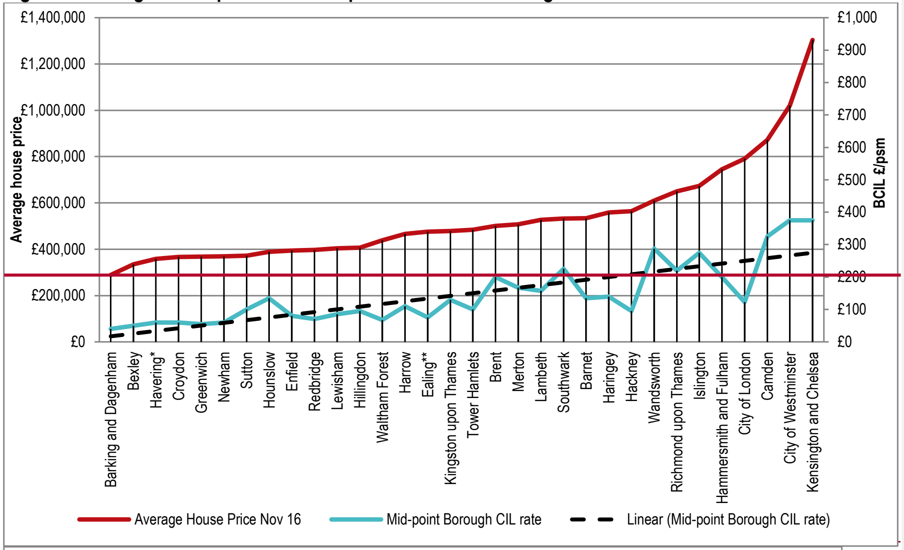
Table 5: Average house price and residential BCIL rates

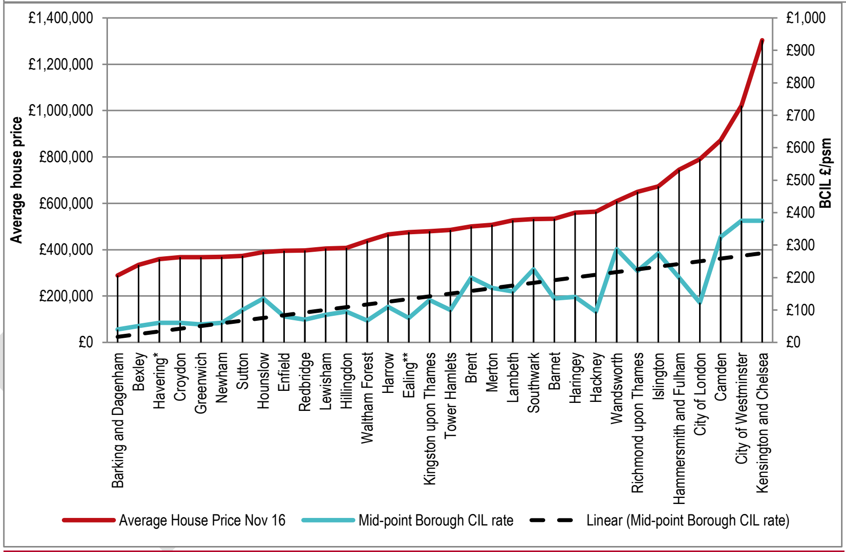
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
Kensington and Chelsea	£1,303,778	£0	£750	£375
City of Westminster	£1,021,027	£200	£550	£375
Camden	£872,390	£150	£500	£325
City of London	£790,439	£95	£150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

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)

Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table
Formatted Table

Figure 6: Average house prices and mid-point residential 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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table 6 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.

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

Table 6: MCIL receipts (excl. 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
Southwark~~City of Westminster~~	£~~27,853,421~~20,134,067	£~~50~~35	~~557,068~~ 575,259
City of Westminster~~Hammersmith and Fulham~~	£~~20,516,892~~27,853,421	£50	~~410,338~~ 557,068
Lambeth~~Southwark~~	£~~20,134,067~~18,463,412	£35	~~575,259~~ 527,526
Hammersmith and Fulham~~Wandsworth~~	£~~18,308,958~~20,516,892	£50	~~366,179~~ 410,338
Hackney~~Lambeth~~	£~~18,463,412~~12,847,714	£35	~~527,526~~ 367,078
Wandsworth~~City of London~~	£~~14,506,765~~18,308,958	£50	~~290,135~~ 366,179
Greenwich~~Hackney~~	£12,~~847,714~~015,455	£35	~~367,078~~ 343,299
Barnet~~Camden~~	£~~12,476,615~~11,391,709	£~~50~~35	~~249,532~~ 325,477
City of London~~Greenwich~~	£~~12,015,455~~14,506,765	£~~35~~50	~~343,299~~ 290,135
Hounslow~~Islington~~	£~~11,729,324~~10,046,845	£~~50~~35	~~234,586~~ 287,053
Brent~~Barnet~~	£~~11,391,709~~9,547,160	£35	~~325,477~~ 272,776
Camden~~Hounslow~~	£~~10,046,845~~12,476,615	£~~35~~50	~~287,053~~ 249,532
Islington~~Brent~~	£~~9,547,160~~11,729,324	£~~35~~50	~~272,776~~ 234,586
Hillingdon	£7,680,248	£35	219,436
LLDC	£7,639,096	£35/£20	218,260*
Newham~~Kensington and Chelsea~~	£~~5,588,604~~3,780,260	£~~50~~20	~~111,772~~ 189,013
Enfield~~Haringey~~	£~~4,787,390~~3,037,537	£~~35~~20	~~136,783~~ 151,877
Haringey~~Bromley~~	£4,~~743,828~~787,390	£35	~~135,538~~ 136,783
Bromley~~Lewisham~~	£4,~~587,054~~743,828	£35	~~131,059~~ 135,538
Lewisham~~Ealing~~	£~~3,995t,905~~4,587,054	£35	~~114,169~~ 131,059
Bexley~~Newham~~	£~~3,780,260~~2,619,413	£20	~~189,013~~ 130,971
Croydon~~Harrow~~	£~~3,136,808~~2,533,527	£~~35~~20	~~89,623~~ 126,676
Ealing~~Merton~~	£3,~~184,001~~995,905	£35	~~90,971~~ 114,169
Kensington and Chelsea~~Enfield~~	£~~3,037,537~~5,588,604	£~~20~~50	~~151,877~~ 111,772
Waltham Forest~~Kingston upon Thames~~	£2,~~859,849~~143,309	£~~35~~20	~~81,710~~ 107,165
Sutton~~Bexley~~	£~~2,619,413~~1,994,814	£20	~~130,971~~ 99,741
Merton~~Richmond upon Thames~~	£~~2,523,974~~3,184,001	£~~50~~35	~~50,479~~ 90,971
Harrow~~Croydon~~	£~~2,533,527~~3,136,808	£~~20~~35	~~126,676~~ 89,623
Kingston upon Thames~~Waltham Forest~~	£2,~~143,309~~859,849	£~~20~~35	~~107,165~~ 81,710
Barking and Dagenham~~Sutton~~	£1,~~994,814~~078,069	£20	~~99,741~~ 53,903
Richmond upon Thames~~Barking and Dagenham~~	£~~1,078,069~~2,523,974	£~~20~~50	~~53,903~~ 50,479
Havering~~Redbridge~~	£~~974,009~~832,889	£~~35~~20	~~27,829~~ 41,644
Redbridge~~Havering~~	£~~832,889~~974,009	£~~20~~35	~~41,644~~ 27,829
OPDC	£149,473	£50/£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 overstated/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. Marked increases in

Formatted Table

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Bright Green

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Bright Green

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font color: Bright Green

Formatted: Font color: Red

Formatted: Font color: Red

Formatted: Font color: Green

Formatted: Font color: Bright Green

Formatted: Font color: Custom Color(RGB(0,51,204))

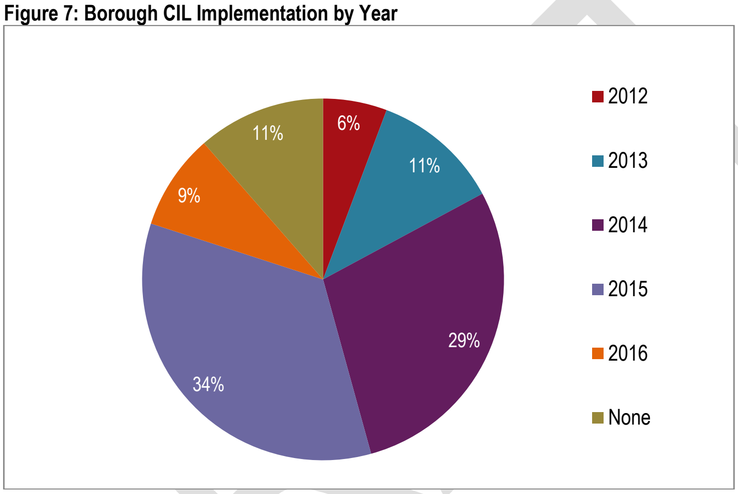
Formatted: Font color: Custom Color(RGB(0,51,204))

Formatted: Font: Not Bold

Formatted: Left

value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

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 proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[5]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;
2. Removing all Central London and North Docklands rates and relying totally on Borough rates;
3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and
4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[5] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[6]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL 2 purposes.[7]

---

[6] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[7] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

Formatted Table

8.1.3 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)

Formatted Table

8.1.4 In the proposed MCIL 2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The 1km 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 proposed MCIL 2 Central London charging area are considered further in chapter 10.

8.1.5 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)

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

8.1.7 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

Formatted Table

	Central London				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 MCIL 2 rate (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 MCIL 2 rate (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**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

9.2 Original MCIL as a percentage of highest and lowest average house prices within each charging band

9.2.1 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 band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

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)

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

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

Band	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 band 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 band assuming 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

Formatted Table

Formatted Table

Formatted Table

9.2.3 Since the original MCIL, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL 2 rate per Sq M	Proposed MCIL 2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

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

Formatted Table

9.4 Analysis of proposed MCIL 2 rates

9.4.1 MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 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.

9.4.4 Across the charging bands 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 band 2 however, the proposed MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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

Formatted Table

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.

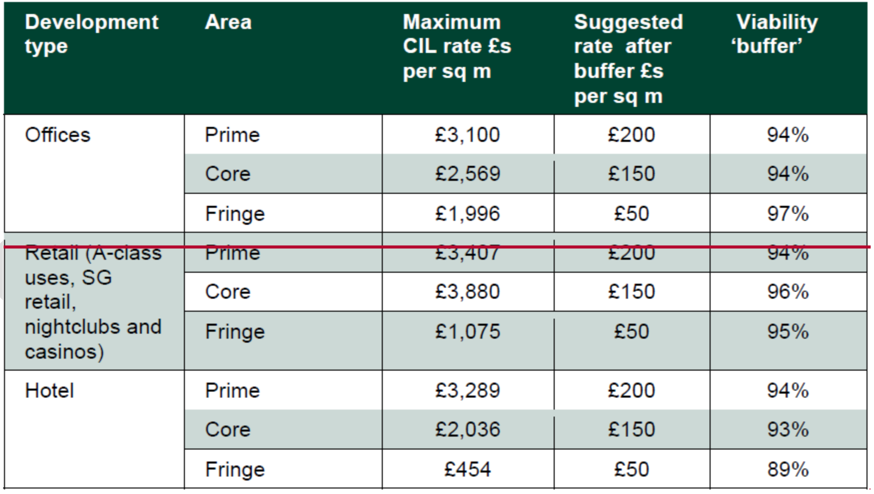
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London charging area.

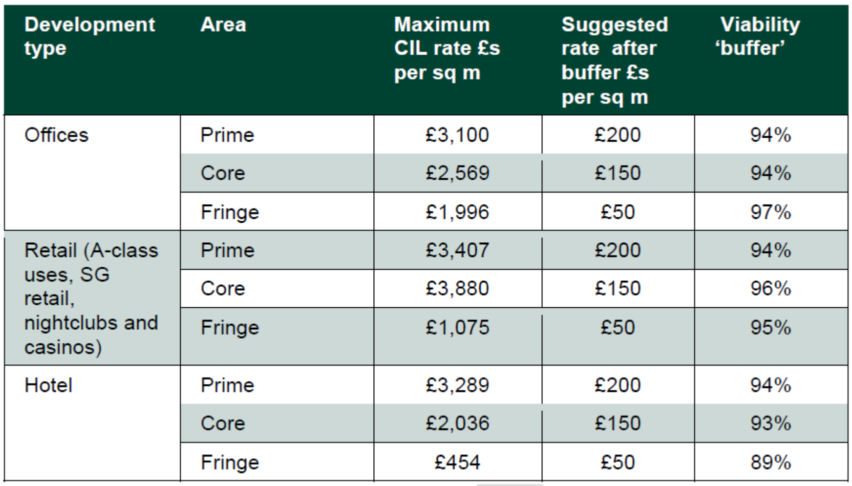
9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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 17: 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%



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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [8]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [9]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[10]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and

---

[8] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[9] *Ibid*

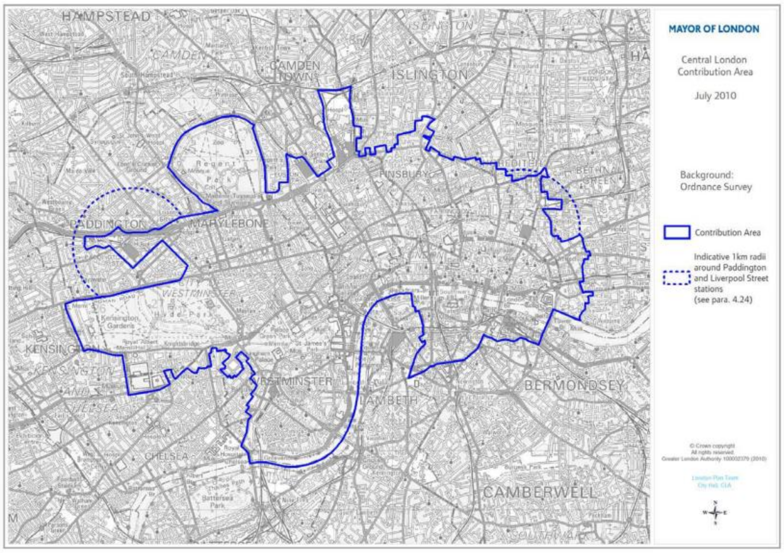
[10] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

10 MCIL 2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

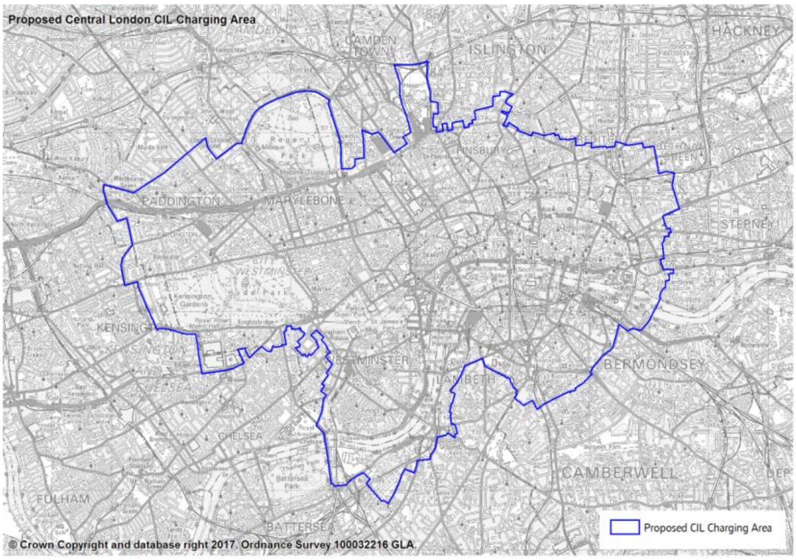


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have proposed an MCIL 2 Central London charging area 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. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)

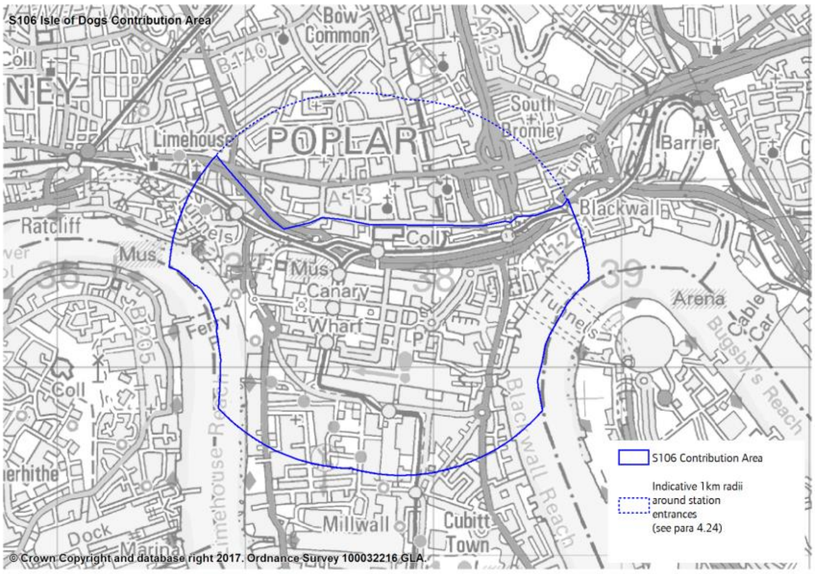
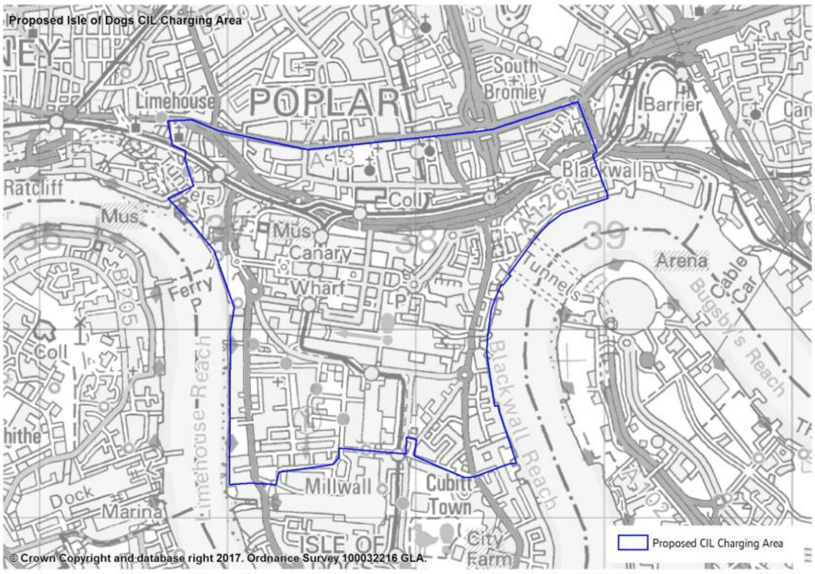


Figure 11: Proposed MCIL 2 Central London charging area – North Docklands



11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL rates, as a percentage of overall development costs MCIL remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL rate might make matters marginally worse, there will be many other instances where additional MCIL can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual affordable housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the MCIL rates. Therefore we conclude that the impact raising MCIL will have is likely to be minor.

Table 18: 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
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%)

Formatted Table

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
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%	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
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				
		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.

Formatted Table

Formatted: Character scale: 100%, Condensed by 0.3 pt

12 MCIL 3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL 3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£80.00/£60.00~~/£25.00~~	£89.35/£67.01~~/£27.92~~	***£100.00***

*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)

Formatted Table

Formatted Table

Formatted: Font color: Red

Formatted: Font color: Red

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Jones Lang LaSalle

From: Gerrish, Ryan <[redacted]eu.jll.com>
Sent: 27 March 2017 17:42
To: Hart Anna; 'Peter Heath'; Richard Linton; Ware Julian; Lees Neil; Gardiner Stephen; Jones, Richard (UK); Neil Hook; Vincett-Wilson Harriet; Sharples Elliot
Subject: RE: MCIL2
Attachments: 20170327_MCIL2 working towards PDCS - DRAFT compared with 20170320 version.pdf; 20170327_MCIL2 working towards PDCS - DRAFT - Clean Version.pdf

Dear all,

Please find attached the latest copy of our document in advance of tomorrow's meeting.

Richard reviewed this over the weekend and found a further "practise" and a split infinitive!

I attach a version compared with the one we looked at in last week's meeting (dated 20/03/2017) and a clean copy with all changes accepted.

Kind regards,

Ryan

Ryan Gerrish
Senior Surveyor - Development Consulting
JLL
30 Warwick Street | London W1B 5NH

T: [redacted]
M: [redacted]
[redacted]eu.jll.com
jll.co.uk

From: Gerrish, Ryan
Sent: 20 March 2017 19:14
To: 'Hart Anna' ; 'Peter Heath' ; Richard Linton ; Ware Julian ; Lees Neil ; Gardiner Stephen ; Jones, Richard (UK) ; Neil Hook ; Vincett-Wilson Harriet ; Sharples Elliot
Subject: MCIL2

Dear all,

In advance of our meeting tomorrow please find our latest working draft made during the past week in track changes.

Please note the new photograph and substantially rewritten MCIL 3? Section 12.

Kind regards,

Ryan & Richard

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 20 March 2017 16:08
To: 'Peter Heath' <[redacted]london.gov.uk>; Richard Linton <[redacted]london.gov.uk>; Ware Julian <[redacted]tfl.gov.uk>; Lees Neil <[redacted]tfl.gov.uk>; Gardiner Stephen <[redacted]Tfl.gov.uk>; Jones, Richard (UK) <[redacted]eu.jll.com>; Gerrish, Ryan

<[redacted]eu.jll.com>; Neil Hook <[redacted]london.gov.uk>; Vincett-Wilson Harriet <[redacted]tfl.gov.uk>; Sharples Elliot <[redacted]tfl.gov.uk>
Subject: RE: London Plan Transport policies for MCIL2

Dear all,

I had an initial go at preparing a draft PDCS document. Please, find this attached. The structure and majority of the text is as per the 2011 PDCS document. I've tracked the changes that I made to that original text and highlighted areas where I think text should be revised or possibly taken out altogether. I'd be grateful for your advice on the best approach.

Stephen – we will need your assistance to review all the legal/regulatory references in the text to make sure they are still up-to-date or need changing.

Please feel free to add/change as appropriate and we can discuss tomorrow afternoon.

Many thanks,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 14:15
To: Hart Anna; Richard Linton; Ware Julian; Lees Neil
Cc: Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Anna,

Why don't tfl comrades write as much as they can/want and rich and I tweak and recirculate??

Pete

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 14:00
To: Richard Linton; Julian Ware; Lees Neil
Cc: Peter Heath; Vincett-Wilson Harriet
Subject: RE: London Plan Transport policies for MCIL2

Thanks Rich.

Were you happy with the action note that Harriet circulated earlier today and the suggested sections of the document to be drafted by you/Pete? Or did you want me to have a first go and then edit afterwards if needed?

Regards,
Anna

From: Richard Linton [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 13:21
To: Hart Anna; Ware Julian; Lees Neil
Cc: Peter Heath
Subject: RE: London Plan Transport policies for MCIL2

CIB just facilitates sign off by DMs in the MD (mayoral decision) form process – it meets every week to deal with that week's MDs – from our point of view, we just need to look at it as an administrative stage…

So I/we will do the MD when your documents are ready (the PDCS and the evidence report) and sent to me – they will be annexes to the MD. I will then draft the MD and circulate it between us to check you are happy with it and the way it explains MCIL2…

From: Hart Anna [mailto:[redacted]tfl.gov.uk]
Sent: 16 March 2017 11:27
To: Peter Heath; Julian Ware; Lees Neil; Richard Linton
Subject: RE: London Plan Transport policies for MCIL2

Many thanks Pete.

If you or Rich could also advise on the timescales for submitting papers to the CIB that would be great.

Kind regards,
Anna

From: Peter Heath [mailto:[redacted]london.gov.uk]
Sent: 16 March 2017 08:45
To: Hart Anna; Ware Julian; Lees Neil; Richard Linton
Subject: London Plan Transport policies for MCIL2

All,
Following policies from adopted London Plan Transport chapter may assist

Policy 6.1
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-18

Table 6.1
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/table

Policy 6.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/pol-19

Policy 6.4
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-six-londons-transport/policy

As may this one on cross boundary cooperation and growth
Policy 2.2
https://www.london.gov.uk/what-we-do/planning/london-plan/current-london-plan/london-plan-chapter-two-londons-places/policy-22

Rich may think of some more.

Pete
#LondonIsOpen

****

****

#LondonIsOpen

#LondonIsOpen

GREATER LONDON AUTHORITY NOTICE:
The information in this email may contain confidential or privileged materials. For more information see https://www.london.gov.uk/about-us/email-notice/

Prepared for TfL

Mayoral Community Infrastructure Levy 2 (27/03/2017)

Viability Evidence Base for Preliminary Draft Charging Schedule PDCS

March 2017

Contents

Cover photo: Shutterstock

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 bands. 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 bands 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**

1.1.5 The London boroughs and LLDC (collecting authorities) started collecting MCIL on behalf of the Mayor in April 2012. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015.

1.1.6 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.

1.1.7 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ) and an area covering North Docklands on the Isle of Dogs as well as 1km radius zones around all Greater London Crossrail stations. Since inception, total Crossrail S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

1.1.8 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 and MCIL 1 arrangements, to only having MCIL, from 1 April 2019.

1.1.9 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.

1.1.10 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.

1.1.11 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.'*

1.1.12 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 of the 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.'*

1.1.13 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 A**.

1.1.14 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 Crossrail Section 106 as being possible sources of funding. In addition, the intensification of development along the new Crossrail 2 route is forecast to provide further economic benefit.

1.1.15 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]

1.1.16 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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

---

[1] *See: 'Transport for a world city,' National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

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 considers the Mayor's decision not to make use of the exceptional circumstances relief. 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. Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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. In addition, the Mayor has continued to push for higher 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 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 MCIL 2

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 for 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 In the report titled '*New Approach to Developer Contributions'* published by the CIL Review Team (October 2016) and chaired by Liz Peace, complexity is highlighted as one of the concerns about the way CIL is being implemented, see in particular section 3.8 of the report.[2]

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.'*[3]

2.1.5 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.6 However commercial uses, covered by the Crossrail S106 policy, have their own distinctive viability characteristics and developers are accustomed to paying Crossrail S106 contributions. The Mayor proposes to roll these in to the MCIL 2 charging regime. At present because of the way the Mayor allows MCIL payments in

---

[2] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[3] *Ibid*

the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a ‘top-up’ above the prevailing MCIL 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the boroughs. However, analysis of this data is complicated by the need to make assumptions to account for indexation and instalment provisions.

3.1.3 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 100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 We set out in Figure 1 below our estimate 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 (estimated)

	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	-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

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be an appropriate starting point for our analysis in setting borough by borough MCIL 2 rates.

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 bands

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 bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and OPDC join the band and Greenwich leaves the band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the band and Greenwich joins the band)***

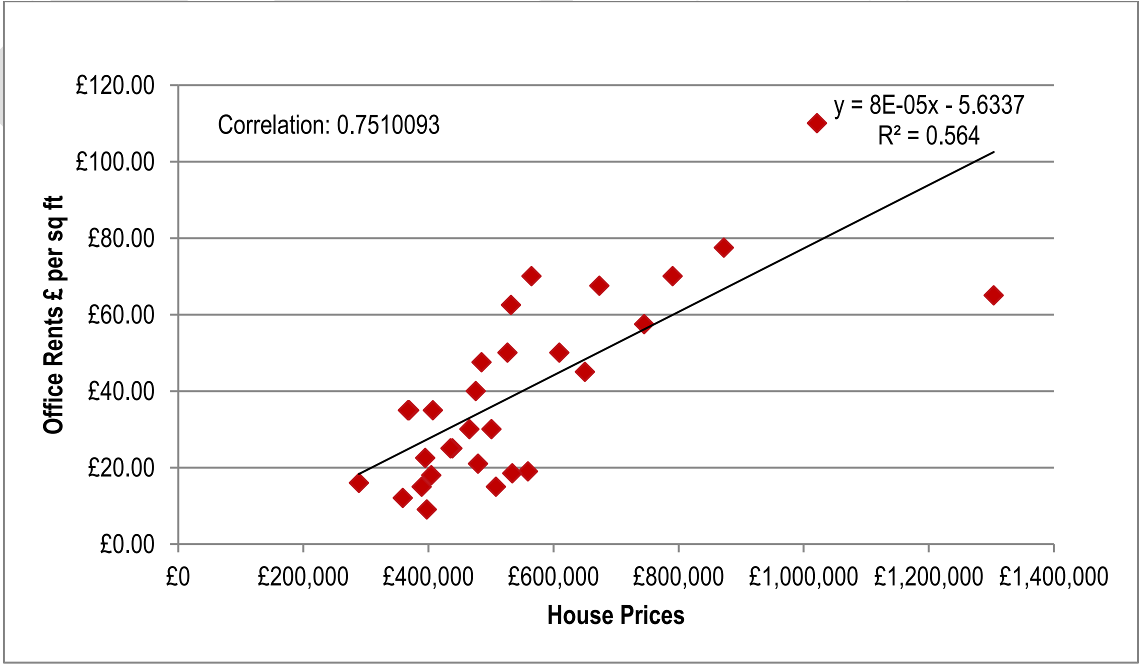
3.4 Are residential values a good lead indicator for high values in other sectors?

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 residential values 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 Figure 2 and Table 4). As can be seen, there is a reasonably strong correlation between office rents and house prices.

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 and Westminster. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow, Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

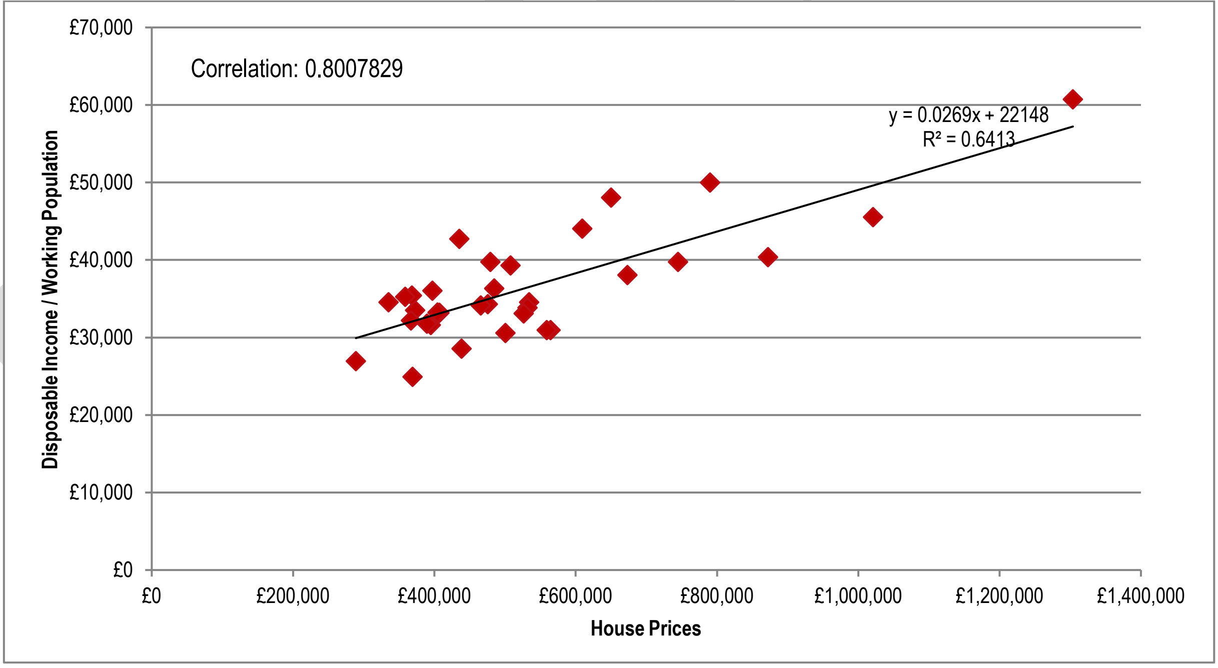
3.4.6 Other categories

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 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	£57.50	Hammersmith and Fulham	£744,965	£39,756
Islington	£673,350	£67.50	Islington	£673,350	£38,093
Richmond upon Thames	£650,272	£45.00	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	£19.00	Haringey	£559,173	£30,963
Barnet	£534,221	£18.50	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	£15.00	Merton	£507,901	£39,311
Brent	£500,605	£30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£35.00	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

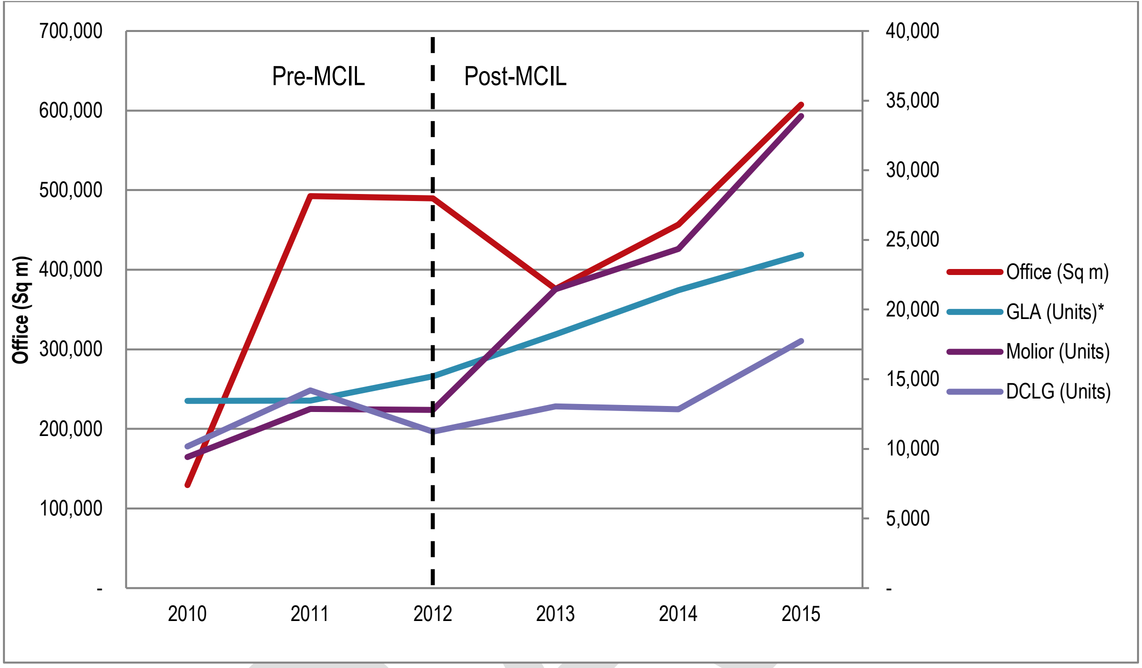
3.5.1 Residential values are still a good proxy for viability characteristics of non-residential uses.

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, with office and residential trending upwards.

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 MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

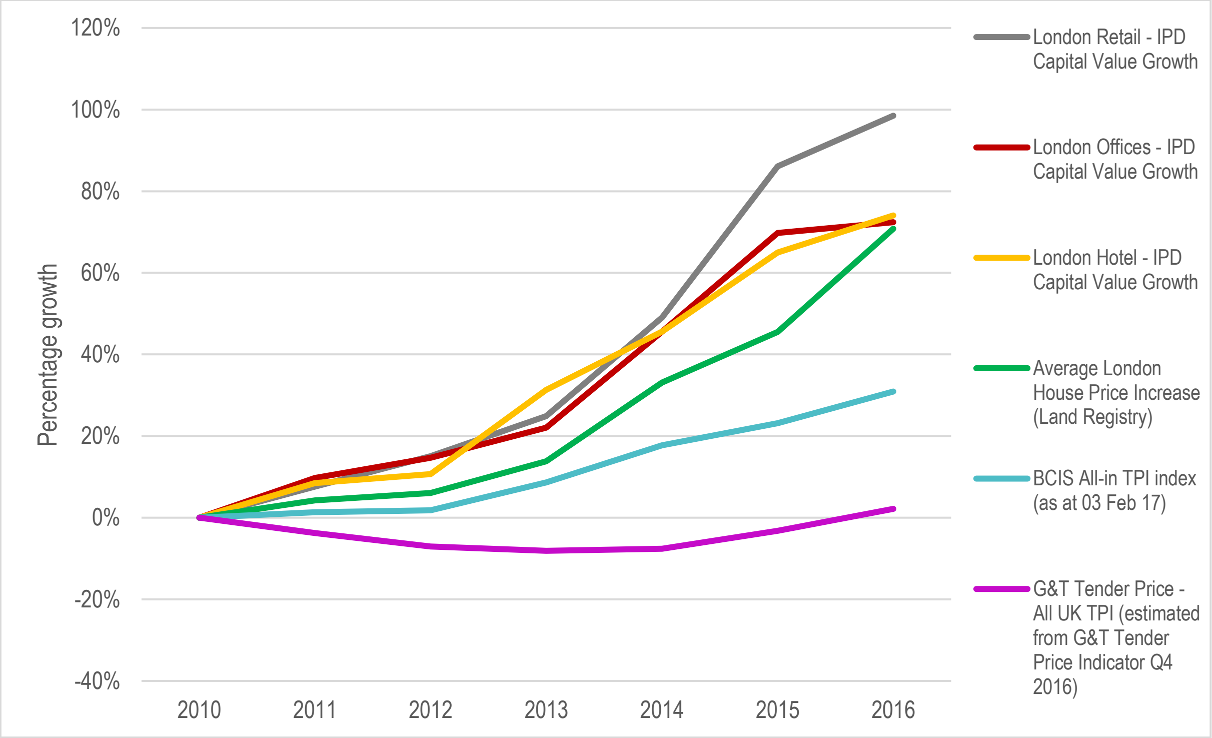
Table 4: Average house price growth compared with build cost growth 2010-2016

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 2017	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.

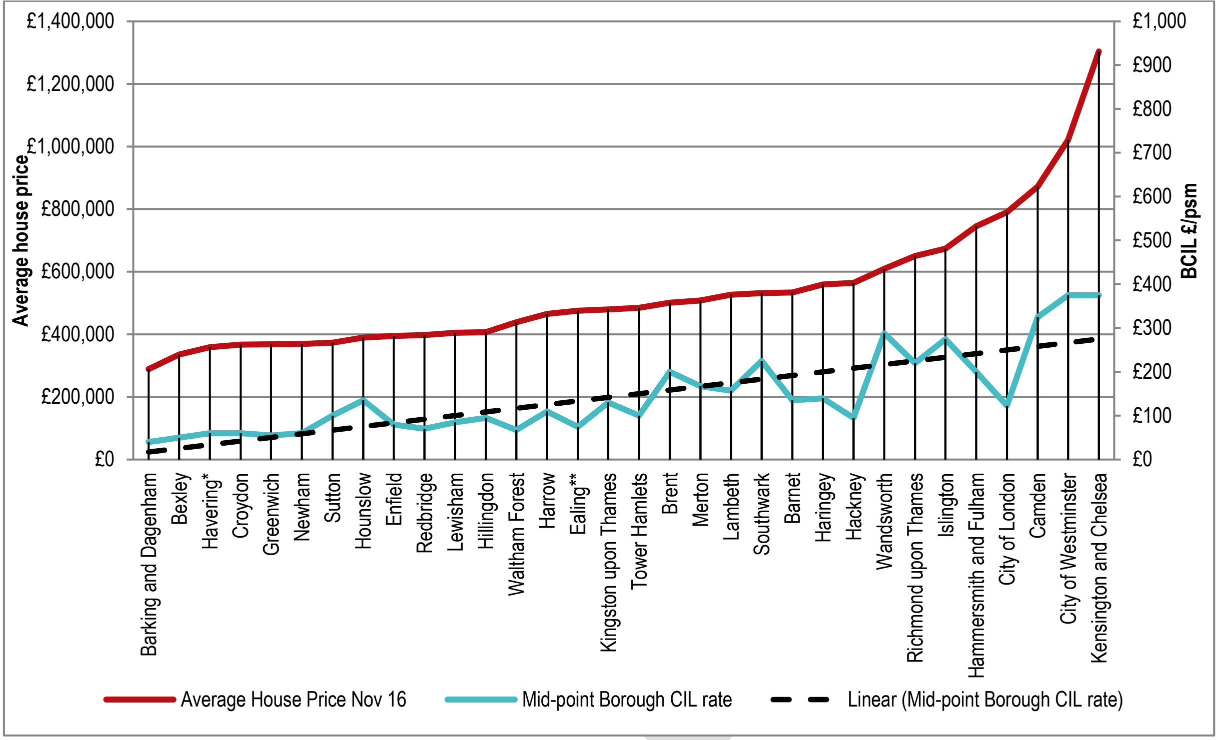
5.1.2 We have reviewed the residential Borough CIL rates and have looked at the relationship between the 2016 average house price and CIL rates.

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

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 mid-point residential 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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table 6 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.

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

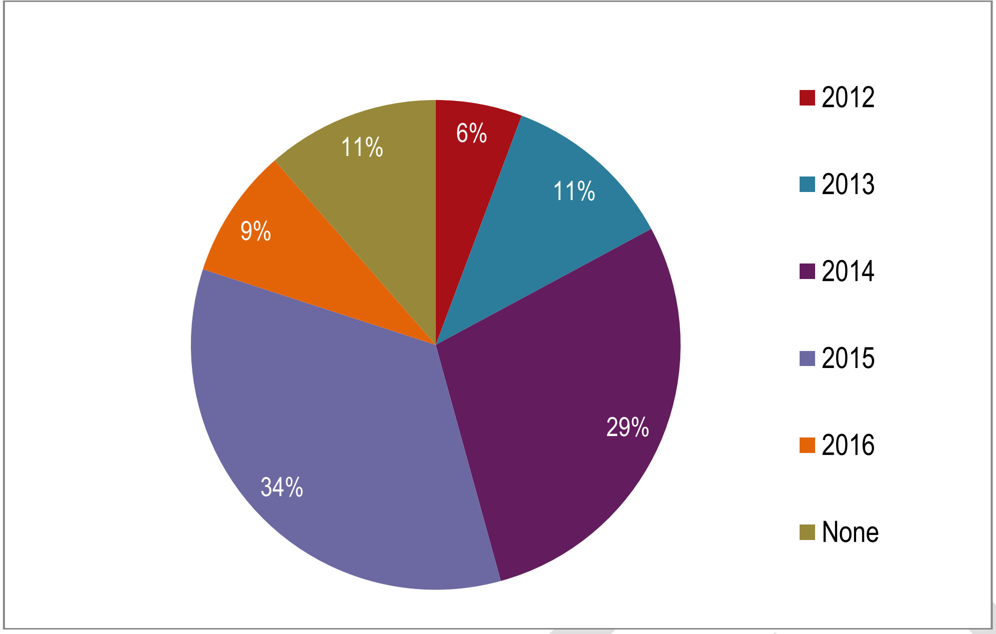
Table 6: MCIL receipts (excl. indexation) by revenues and net additional GIA in sq m to Q3 2016-17

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	£3,995t,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 overstated/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. Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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 (PDCS consultation ran October/November 2016).

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 proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[4]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;

2. Removing all Central London and North Docklands rates and relying totally on Borough rates;

3. Removing the distinction between North Docklands and the remainder of Central London but retaining differential rates for commercial uses in Central London/North Docklands above the borough rates; and

4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation for Central London is for the Mayor to retain differential rates. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[4] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[5]

7.1.2 The Mayor also considered continuing with the 1km zones around Crossrail stations in outer London that were established in the S106 policy. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity reinforced by the CIL Review Team in their report, we do not recommend imposing such zones for MCIL 2 purposes.[6]

---

[5] *See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017*

[6] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The 1km 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 proposed MCIL 2 Central London charging area are considered further in chapter 10.

8.1.5 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)

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

8.1.7 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

	Central London				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 MCIL 2 rate (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 MCIL 2 rate (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**
Retail								
S106 rate / Central London MCIL 2 rate	£90.00	£98.85	£104.20	**£165.00**	£121.00	£132.90	£140.09	**£165.00**
Hotel								
S106 rate / Central London MCIL 2 rate	£61.00	£67.00	£70.62	**£140.00**	£84.00	£92.26	£97.25	**£140.00**

*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)

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

9.2 Original MCIL as a percentage of highest and lowest average house prices within each charging band

9.2.1 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 band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption between 73% and 100% of gross internal 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.

9.2.2 We present the findings from the original viability evidence below in Tables 12 and 13.

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)

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

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

Band	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 band 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 band assuming 100% net increase in GIA**
Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

9.2.3 Since the original MCIL, current planning application data provided by the GLA suggests that 100% net increase is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables 14 and 15:

Table 14: Proposed MCIL 2 payable on a typical residential unit of 83.33 sq m GIA at 100% net increase in GIA

Band	Proposed MCIL 2 rate per Sq M	Proposed MCIL 2 payable at 100% net increase in GIA
Band 1	£80	£6,667
Band 2	£60	£5,000
Band 3	£25	£2,083

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by band at 100% net increase in GIA

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

9.4 Analysis of proposed MCIL 2 rates

9.4.1 MCIL 2 proposals do in some cases exceed 1.00% (but no higher than 1.28%) of average house prices.

9.4.2 In all cases payments in the order of 0.51% - 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.

9.4.3 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.

9.4.4 Across the charging bands 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 band 2 however, the proposed MCIL payable increase modestly from 1.13% on the original rates of the average house price to 1.28%, assuming a 100% net increase in the developable area over existing area.

9.4.5 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.

9.4.6 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.

9.4.7 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 that a 20% developer's profit on cost would be required. To replicate the approach taken in the Council's evidence we have provided an illustrative appraisal based on 1 sq m of floor space and assuming a 100% net increase in GIA. The 2014 scenario we have undertaken calculates 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 (see table 16, below).

9.4.8 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.

9.4.9 We have reproduced 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 15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

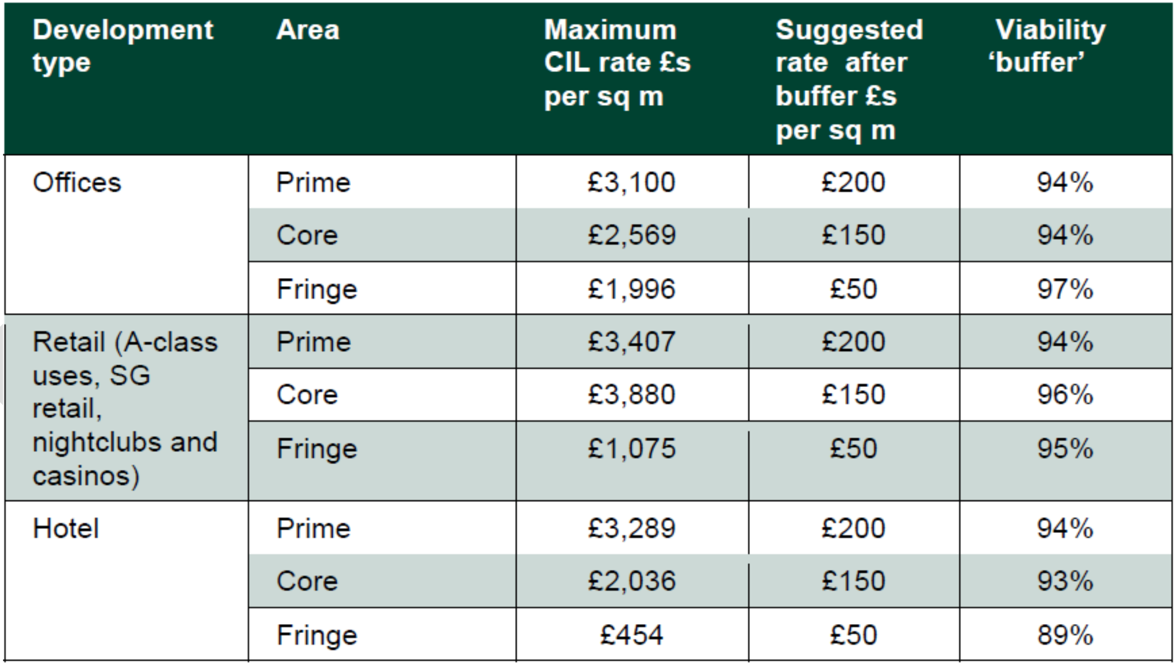
9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London charging area.

9.5.2 Westminster's borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table 17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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 17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and development schemes. Of the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed

use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [7]

9.5.6 Gerald Eve further comment on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [8]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

9.5.8 Turning to the North Docklands area, we have reviewed the borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[9]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In practice Tower Hamlets are not charging the maximum rates, combined with retail likely supporting a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding delivery of development.

9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

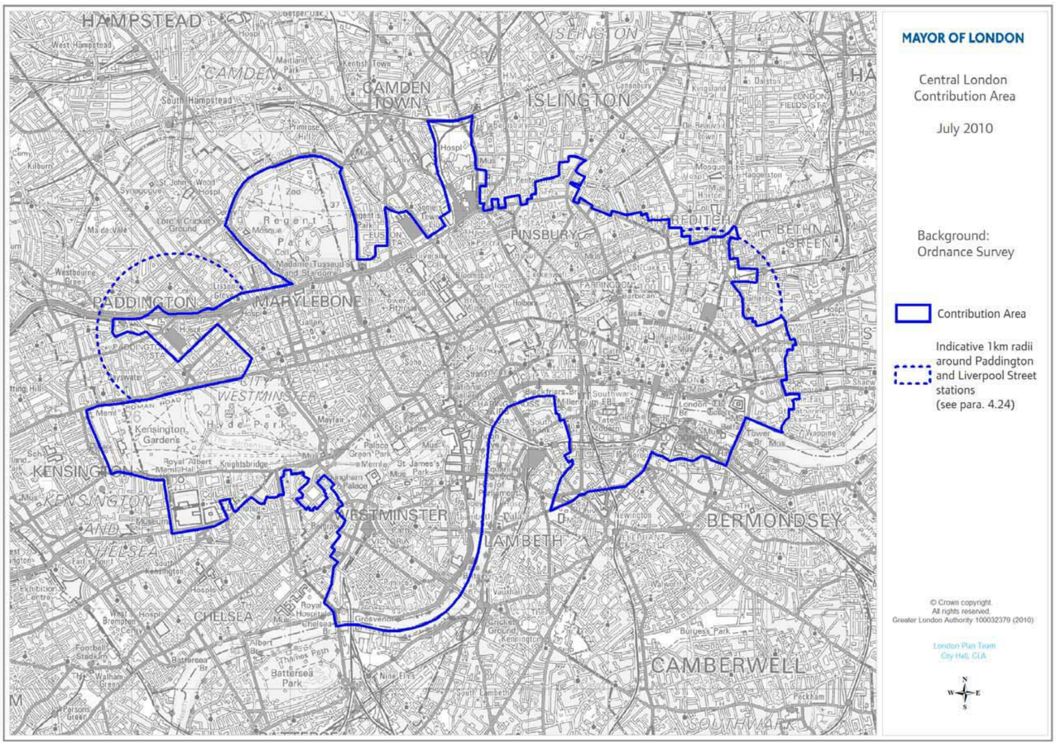
[7] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[8] *Ibid*

[9] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

10 MCIL 2 Central London charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

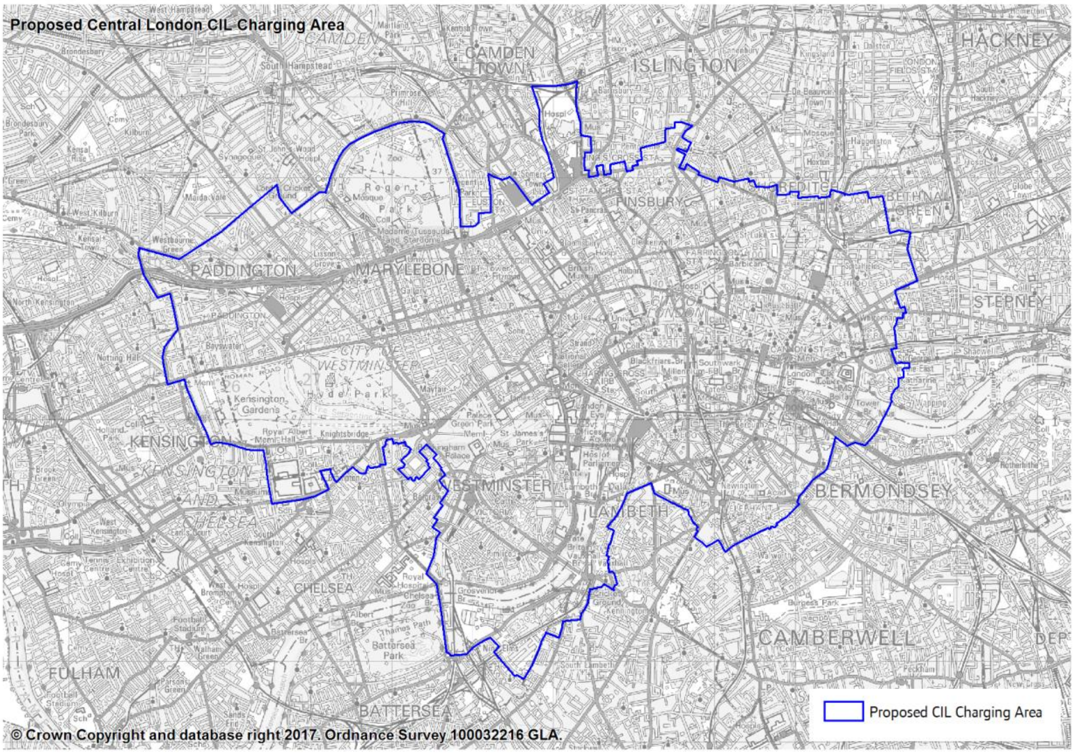


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have proposed an MCIL 2 Central London charging area 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. A consolidated boundary for MCIL 2 purposes (excluding North Docklands) is presented in Figure 9.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed boundaries are shown in Figures 10 and 11.

Figure 10: Current Isle of Dogs S.106 contribution area (North Docklands)

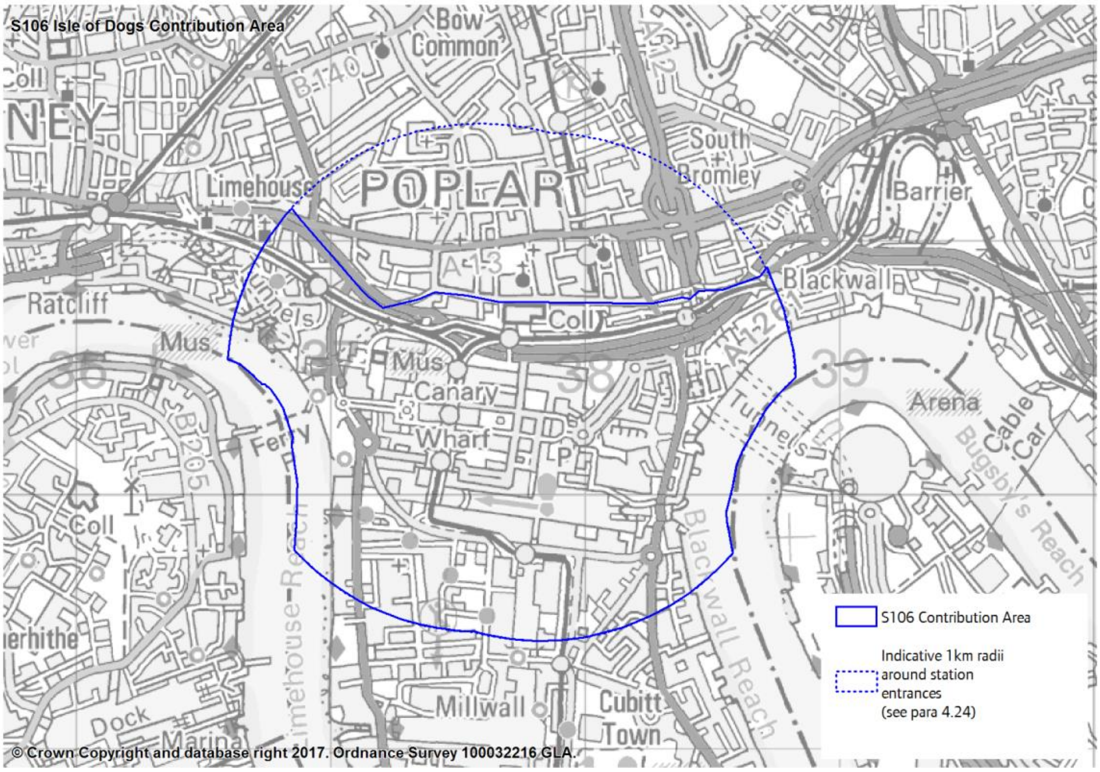
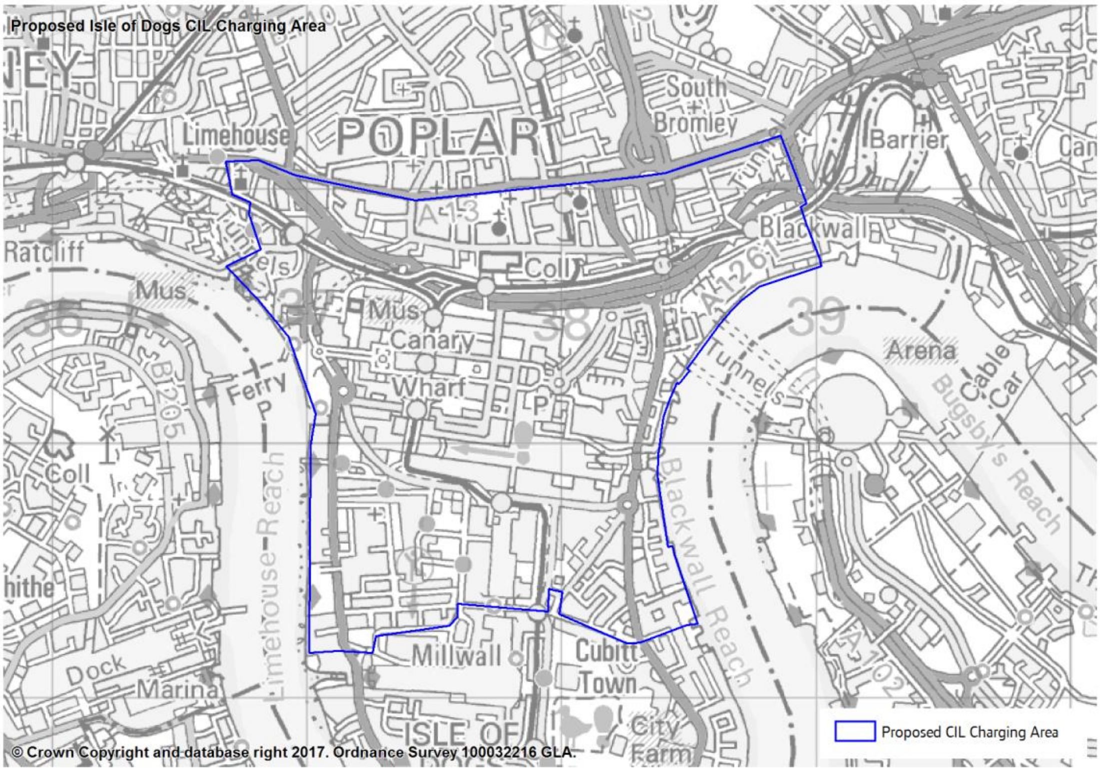


Figure 11: Proposed MCIL 2 Central London charging area – North Docklands



11 Affordable Housing

11.1.1 A review of borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data to create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% has been 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 affordable housing and other policy requirements fully into account when bidding for sites. The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with a view to increasing the amount of affordable housing delivered through the planning system.

11.1.2 Whatever changes are made to the MCIL rates, as a percentage of overall development costs MCIL remains a very small element. Whilst in some instances where underlying viability is an issue an increased MCIL rate might make matters marginally worse, there will be many other instances where additional MCIL can easily be accommodated within development economics, demonstrated by the "buffer analysis" undertaken in chapter 9, above. Overall we suggest that actual housing percentages achieved are likely to be much more dependent on housing policy, the grant regime and the cost of construction rather than the MCIL rates. Therefore we conclude that the impact raising MCIL will have is likely to be minor.

Table 18: 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
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

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
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
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?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible MCIL 3 rates and approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In proposing possible rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and protecting affordable housing percentages in the boroughs with the lowest house prices. The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£60.00/£25.00	£67.01/£27.92	***£100.00***

*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)

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
jll.co.uk

jll.com

Jones Lang LaSalle

Prepared for TfL

Mayoral Community Infrastructure Levy ~~MCIL~~ 2 (~~20~~27/03/2017)

~~Working towards PDCS~~Viability Evidence Base for Preliminary Draft Charging Schedule PDCS

~~DRAFT~~March 2017

Contents

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

Field Code Changed

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

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~~bands. 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~~bands 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~~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:~~ The London boroughs and LLDC ~~started~~ (collecting ~~in [ ] and OPDC started collecting in [ ]. Other boroughs~~ authorities) started collecting MCIL on behalf of the Mayor in April 2012~~.~~

Commented [RWJ1]: Neil L do you have these dates?

1.1.5 ~~LLDC BCIL came into effect on 6th~~. OPDC devolved the collection of MCIL to its underlying boroughs upon its creation in April 2015. ~~OPDC has not yet started charging – PDCS consultation ran October/November 2016.~~

Formatted: JLL_Heading Three

~~1.1.5~~1.1.6 It can be seen that those boroughs which have seen the most development tend to be those where the CIL level is in ~~Bands~~bands 1 & 2 i.e. the highest and middle levels.

~~1.1.6~~1.1.7 The Crossrail S106 charge was introduced in April 2010. Crossrail S106 is charged on commercial development in the Central London Crossrail S106 contribution area. The S106 contribution area is a modified version of the Central Activities Zone (CAZ~~), the~~) and an area covering North Docklands ~~and within a~~ on the Isle of Dogs as well as 1km radius ~~of~~zones around all ~~other~~ Greater London Crossrail stations. Since inception, ~~the~~total Crossrail ~~s106, total~~S106, contributions have reached £96m drawn from around 150 different developments with, we are instructed, no significant issues needing to be addressed in respect of viability implications.

~~1.1.7~~1.1.8 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~~and MCIL 1 arrangements, to only having ~~a~~ MCIL ~~2~~, from 1 April 2019.

~~1.1.8~~1.1.9 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~~1.1.10 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~~1.1.11 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~~1.1.12 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~~Plan. Paragraph 6.2 ~~plan~~of the 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~~1.1.13 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 A**~~ for a copy of table 6.1 of the London Plan~~.

Formatted: Not Highlight

~~1.1.13~~1.1.14 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~~. In addition, the intensification of development along the new Crossrail 2 route ~~providing~~is forecast to provide further economic benefit~~ of the scheme. ~~.

Formatted: Font: Italic

Formatted: Font: Not Italic

~~1.1.14~~1.1.15 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]

Formatted: Font: Not Italic

~~1.1.15~~1.1.16 GLA and TfL have instructed JLL to provide background viability evidence in support of MCIL 2 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~~boroughs to impose a Community Infrastructure Levy.”*

Formatted: Font: Italic

Formatted: Font: Italic

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

---

[1] *See: ‘Transport for a world city,’ National Infrastructure Commission (March 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506633/Transport_for_a_world_city_-_100316.pdf last accessed 20/03/2017*

Formatted: Font: Times New Roman, 10 pt, Not Italic

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 Mayor's decision not to make use of the 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]~~Outside of Central London the health of the retail market varies on a location by location basis, and is dependent on local market characteristics and competition. 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 those relating to stamp duty~~,~~ and the uncertainty around Brexit have led to weaker investment demand from overseas as well as from 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~~. In addition, the Mayor has continued to push for ~~bigger~~higher 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 MCIL 2

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~~for 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~~borough CILs on MCIL 2 viability
- the impact of affordable housing policy

2.1.4 ~~A~~In the report titled ‘*New Approach to Developer Contributions’* published by the CIL Review Team (October 2016) and chaired by Liz Peace, ~~highlights~~ complexity is highlighted as one of the concerns about the way CIL is being implemented~~-~~, see in particular section 3.8 of the report.[2]

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.’*[3]

2.1.5 In light of the above, the Mayor proposes retaining a borough wide flat rate with a zero rate for development used wholly or mainly for the provision of any medical or health services except the use of premises attached to the residence of the consultant or practitioner and for development used wholly or mainly for the provision of education as a school or college under the Education Acts or as an institution of higher education.

2.1.6 However commercial uses ~~within~~, covered by the ~~CAZ and North Docklands~~Crossrail S106 policy, have their own distinctive viability characteristics and developers are ~~already~~accustomed to paying ~~the~~ Crossrail S106 ~~which the~~contributions. The Mayor proposes to roll these in to the MCIL 2 ~~rates within the CAZ and North~~

---

[2] *See: ‘A New Approach to Developer Contributions,’ CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

[3] *Ibid*

Formatted: Font: Times New Roman, 10 pt, Not Italic

~~Docklands areas.~~charging regime. At present because of the way the Mayor allows ~~CIL~~MCIL payments in ~~CAZ and North Docklands~~the Crossrail S106 contribution areas in central London and the Isle of Dogs to be set off against Crossrail S106 liabilities, the S106 is effectively a ‘top-up’ above the prevailing ~~CIL~~MCIL 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 In order to estimate the quantum of development activity and the split between residential and commercial uses we have drawn upon a number of data sources.

3.1.2 The most reliable data source is the net additional CIL paying floor space since this information is based on MCIL receipts at known rates per sq m across the ~~Boroughs~~boroughs. However, analysis of this data is ~~difficult due~~complicated by the need to make assumptions ~~that have~~ to ~~be made around~~account for indexation and instalment provisions.

3.1.3 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~~100% increase in density on site. This evidence suggests that total development in 2015-16 amounted to circa 5.9 million sq m.

3.1.4 Since collecting authorities do not report a breakdown of floor space by use, we have had to make estimates as to how floor area is split between uses drawing on various sources of information including the GLA (housing), CoStar (retail), AM:PM (hotels) and JLL (offices and other uses).

3.1.5 We recognise that there is likely to be inaccuracy in our calculations, however, the purpose of calculating the numbers in Figure 1 is not to provide precise data for analysis, but rather to gauge the orders of magnitude in terms of proportion of residential to commercial development.

3.1.6 ~~Total development – CIL receipts~~ We set out in Figure 1 below our ~~analysis~~estimate 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 (estimated)

	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

Formatted: Font: 10 pt

Formatted Table

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted Table

Formatted: Font: 10 pt

	Gross Internal Area	
Commercial CIL paying floor space	707,000	sq m
Total	2,950,000	sq m

Source: TfL, GLA, JLL

3.1.7 This analysis suggests that circa 24% of all development in 2015-16 was commercial compared with 76% being residential. We conclude that residential remains the dominant development type in London and therefore continues to be ~~the~~an appropriate starting ~~base~~point for our analysis in setting borough by borough MCIL 2 rates.

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~~bands

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

Formatted: Font: 10 pt

Formatted Table

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Font: 10 pt

Formatted: Outline numbered + Level: 3 + Numbering Style: 1, 2, 3, … + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Tab after: 1.2 cm + Indent at: 1.2 cm

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

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)
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).

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

Formatted: Font: 7.5 pt

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~~average price changes by MCIL charging ~~groups~~bands) 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest ***(change: Waltham Forest, Enfield, LLDC and ~~LLDC &~~ OPDC join the ~~group~~band and Greenwich leaves the ~~group~~band)***

- **Band 3** – Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton ***(change: Waltham Forest and Enfield leave the ~~group~~band and Greenwich ~~join~~joins the ~~group~~band)***

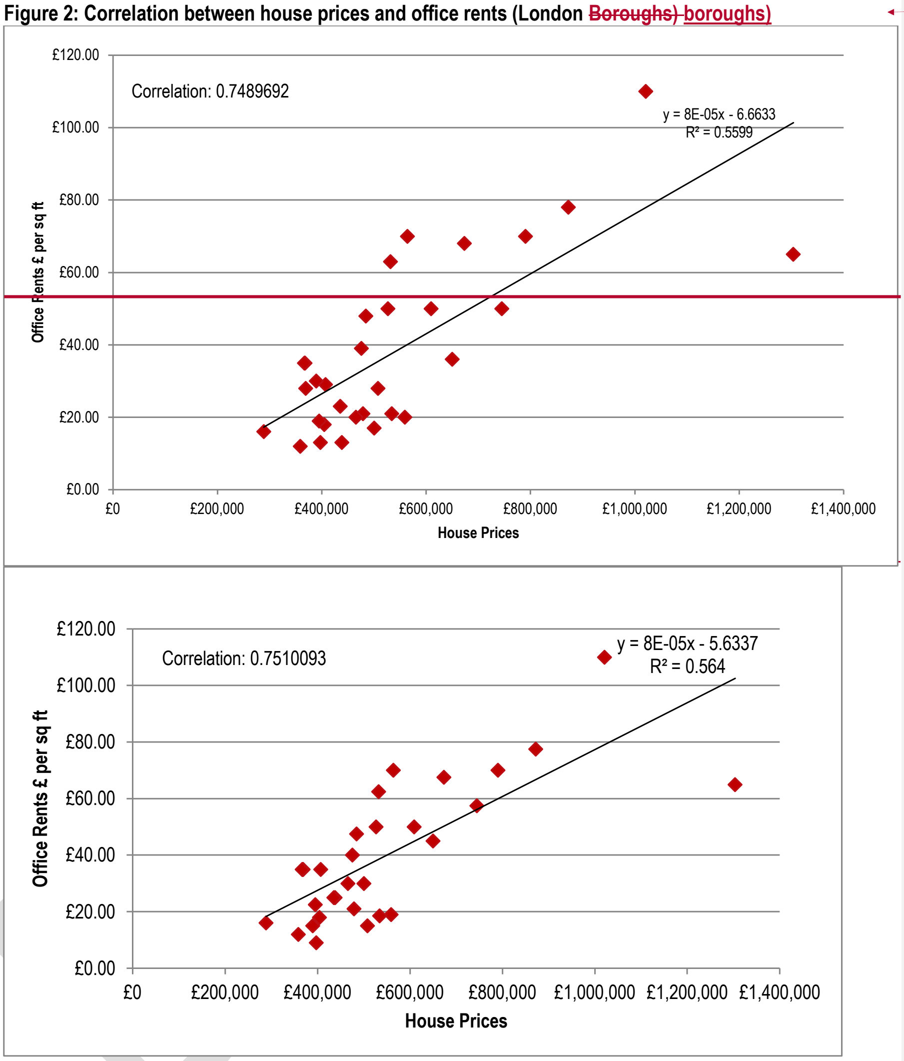
3.4 Are residential values a good lead indicator for high values in other sectors?

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~~residential values 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 Figure 2 and Table 4). As can be seen, there is a reasonably strong correlation between office rents and house prices.

Figure 2: Correlation between house prices and office rents (London ~~Boroughs)~~ 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~~borough by ~~Borough~~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~~,~~ and Westminster ~~and the City~~. There are outlying covered shopping centres in the LLDC (Westfield, Stratford), Hammersmith & Fulham (Westfield London) and Barnet (Brent Cross~~).~~) for example, that have generally higher rents than boroughs with similar average house prices but without the covered shopping centre provision. There are also significant retail town centres in Richmond, Kingston, Croydon, Bromley, Ealing, Wood Green, Harrow,

Formatted: Line spacing: Exactly 14 pt

Formatted: Not Highlight

Formatted: Not Highlight

Formatted: Not Highlight

Formatted: Not Highlight

Formatted: Not Highlight

Formatted: Not Highlight

Formatted: Not Highlight

Romford, Uxbridge, Hounslow, Stratford, Ilford and Sutton~~. The exceptions are the Westfield centre in Stratford and Croydon higher values are typically found in the boroughs in the Red and Blue MCIL charging bands.~~ for instance, that also have higher retail rents than boroughs with similar average house prices but that lack a focussed retail provision. Nevertheless, with one or two exceptions, boroughs with significant retail provision tend to be in the proposed middle and highest value MCIL bands.

Formatted: Not Highlight

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.

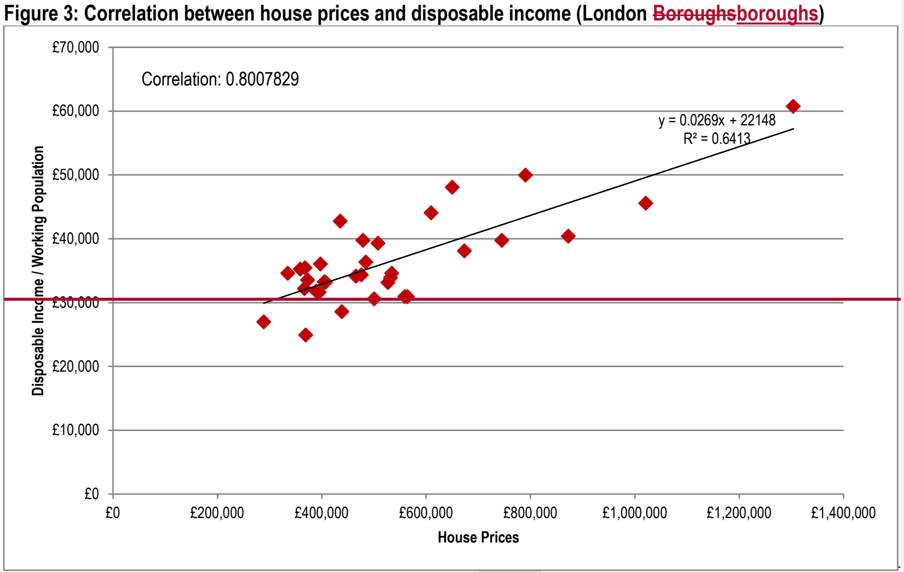
3.4.8 High house prices correlate with high disposal income and therefore, all other things being equal, the likely buying power for commercial activities and therefore the likely demand for this type of floor space in a ~~Borough~~borough.

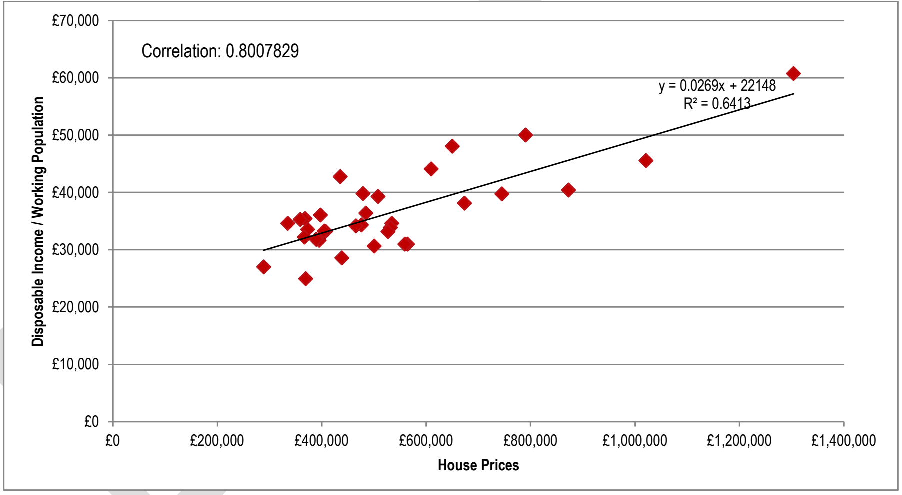
3.4.9 We have confirmed this by comparing house values with disposable income per person of working population in Figure 3 and Table 4 below.

Formatted: Not Highlight

Formatted: Not Highlight

Figure 3: Correlation between house prices and disposable income (London ~~Boroughs~~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 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	£57.50~~.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~~45.00	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~~00	Haringey	£559,173	£30,963
Barnet	£534,221	£~~21.42~~18.50	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~~15.00	Merton	£507,901	£39,311
Brent	£500,605	£~~16.70~~30.00	Brent	£500,605	£30,610
Tower Hamlets	£484,861	£47.50	Tower Hamlets	£484,861	£36,356
Kingston upon Thames	£479,238	£21.~~43~~00	Kingston upon Thames	£479,238	£39,779
Ealing	£475,704	£~~38.50~~40.00	Ealing	£475,704	£34,324
Harrow	£465,604	£~~20~~30.00	Harrow	£465,604	£34,134
Waltham Forest	£438,294	£~~12.90~~25.00	Waltham Forest	£438,294	£28,564
Bromley	£435,465	£~~22.85~~25.00	Bromley	£435,465	£42,757
Hillingdon	£407,202	£~~28.88~~35.00	Hillingdon	£407,202	£33,200
Lewisham	£404,616	£~~17.95~~18.00	Lewisham	£404,616	£33,248
Redbridge	£397,413	£~~12.95~~9.00	Redbridge	£397,413	£36,061
Enfield	£395,044	£~~19.00~~22.50	Enfield	£395,044	£31,653
Hounslow	£389,458	£~~30~~15.00	Hounslow	£389,458	£31,782
Sutton	£372,926	N/M	Sutton	£372,926	£33,535
Newham	£369,236	£~~28.19~~35.00	Newham	£369,236	£24,930
Greenwich	£368,226	£35.00	Greenwich	£368,226	£35,443
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.

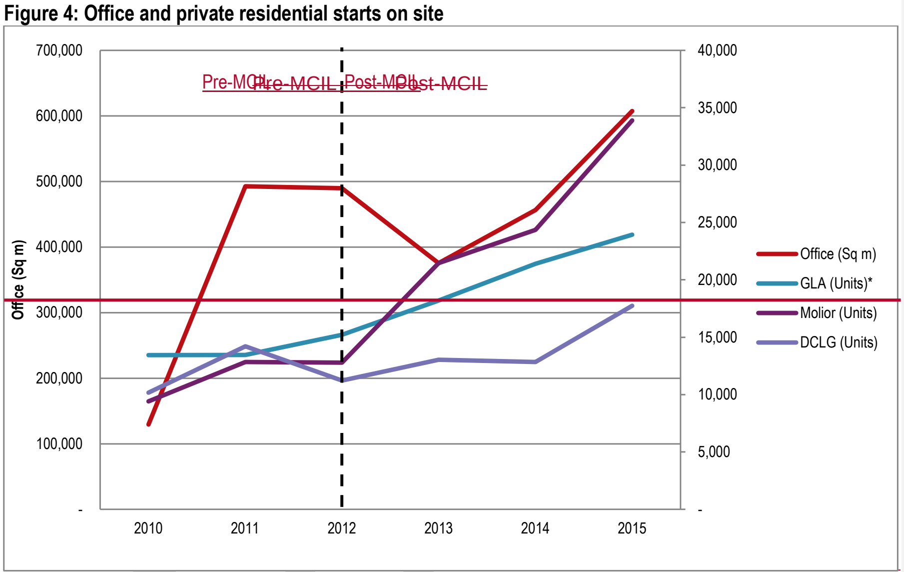
3.5.2 The average house price per Borough (mean) is still appropriate for assessing viability characteristics.

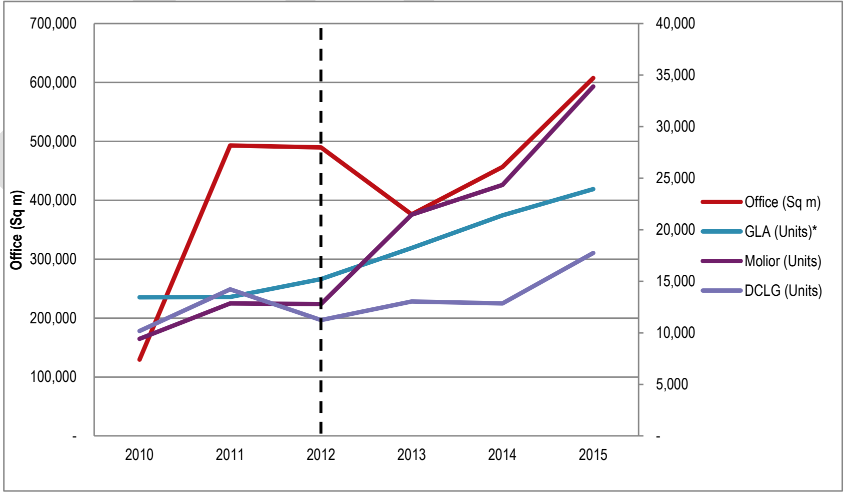
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...

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~~.~~, with office and residential trending upwards.

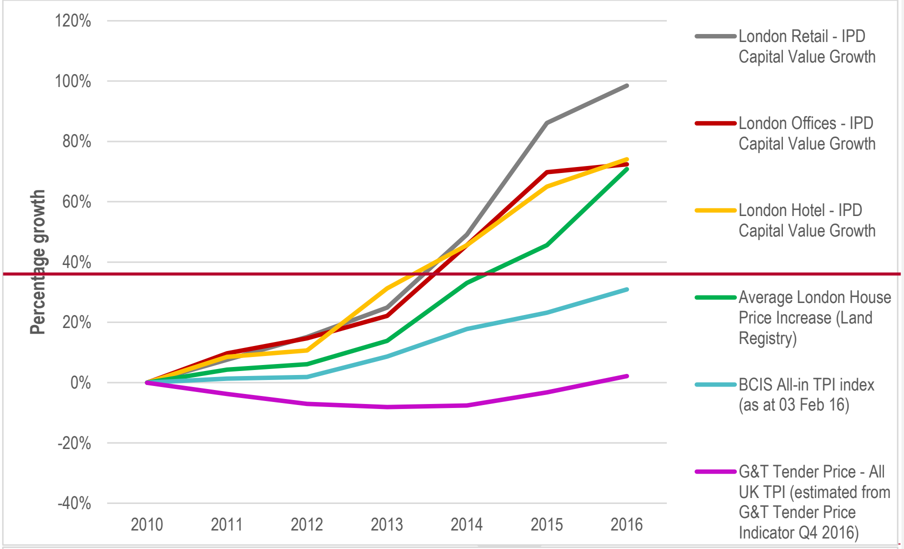
4.1.3 Whether the gap between value and cost has widened since the evidence used to support the introduction of MCIL will be an important indicator of the likelihood of the ability for higher MCIL 2 rates to be absorbed within development appraisals. BCIS and G&T report tender price growth but their conclusions are markedly different.

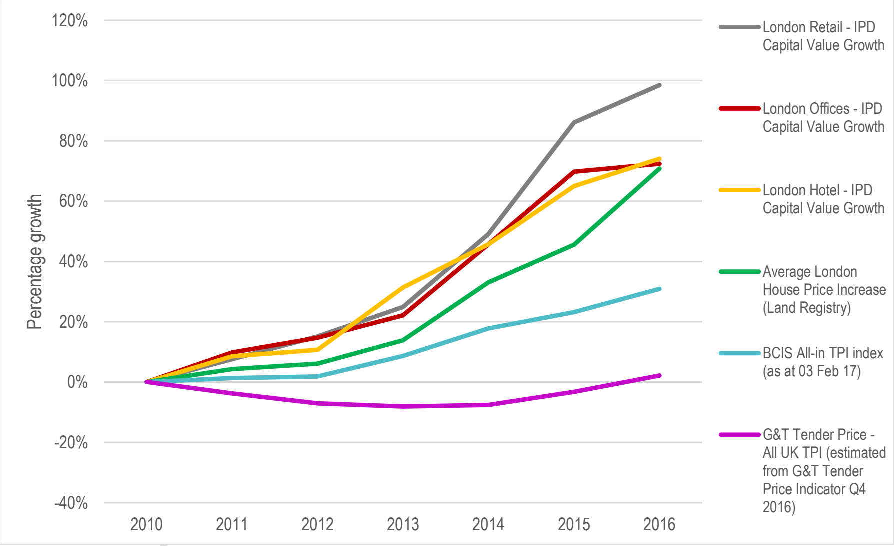
Table 4: Average house price growth compared with build cost growth 2010-2016

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~~2017	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

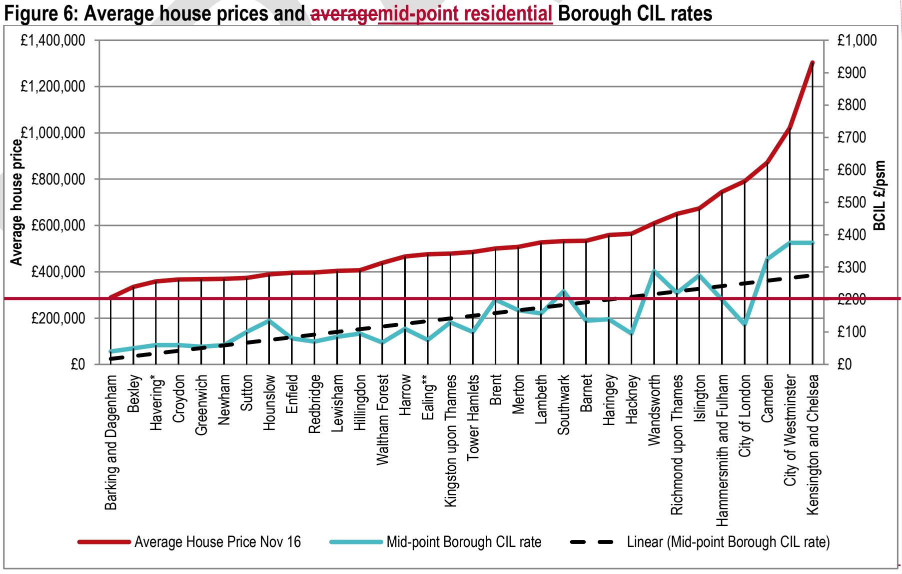
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
~~Barking and Dagenham~~	~~£288,873~~	~~£10~~	~~£70~~	~~£40~~
~~Bexley~~	~~£335,076~~	~~£40~~	~~£60~~	~~£50~~
~~Havering*~~	~~£358,805~~	~~£70~~	~~£50~~	~~£60~~
~~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
City of Westminster	£1,021,027	£200	£550	£375
Camden	£872,390	£150	£500	£325
City of London	£790,439	£95	£150	£123
Hammersmith and Fulham	£744,965	£0	£400	£200
Islington	£673,350	£250	£300	£275
Richmond upon Thames	£650,272	£190	£250	£220
Wandsworth	£609,373	£0	£575	£288
Hackney	£564,536	£0	£190	£95

Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...

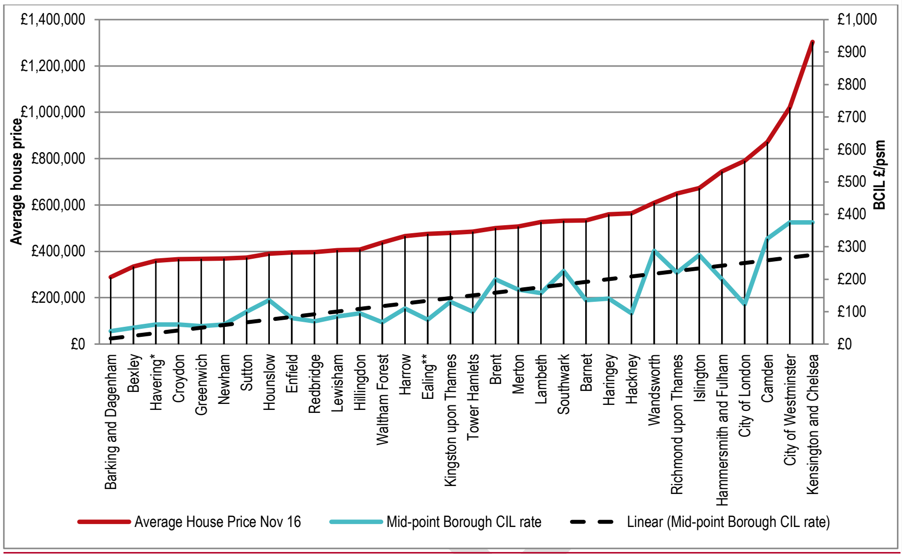
Borough	Average House Price November 2016	Low Residential BCIL £ per sq m	High Residential BCIL £ per sq m	Mid-point Residential BCIL £ per sq m
Haringey	£559,173	£15	£265	£140
Barnet	£534,221	£135	£135	£135
Southwark	£532,071	£50	£400	£225
Lambeth	£526,622	£50	£265	£158
Merton	£507,901	£115	£220	£168
Brent	£500,605	£200	£200	£200
Tower Hamlets	£484,861	£0	£200	£100
Kingston upon Thames	£479,238	£50	£210	£130
Ealing**	£475,704	£100	£50	£75
Harrow	£465,604	£110	£110	£110
Waltham Forest	£438,294	£65	£70	£68
Hillingdon	£407,202	£95	£95	£95
Lewisham	£404,616	£70	£100	£85
Redbridge	£397,413	£70	£70	£70
Enfield	£395,044	£40	£120	£80
Hounslow	£389,458	£70	£200	£135
Sutton	£372,926	£100	£100	£100
Newham	£369,236	£40	£80	£60
Greenwich	£368,226	£40	£70	£55
Croydon	£367,076	£0	£120	£60
Havering*	£358,805	£70	£50	£60
Bexley	£335,076	£40	£60	£50
Barking and Dagenham	£288,873	£10	£70	£40

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)~~
**Havering BCIL rates as per Preliminary Draft Charging Schedule (February 2015)

Figure 6: Average house prices and ~~average~~mid-point residential Borough CIL rates



Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted ...
Formatted Table ...
Formatted ...



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 part of 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. In order to calculate approximate levels of additional floor space we have removed indexation from the CIL receipts shown earlier in Table 1. By examining the data in Table ~~[5]~~6 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.~~

5.1.6 For the green boroughs, relatively low levels of MCIL has not led to greater development activity, leading to the conclusion that other factors are having a greater viability influence on viability than the prevailing MCIL charging rates.

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

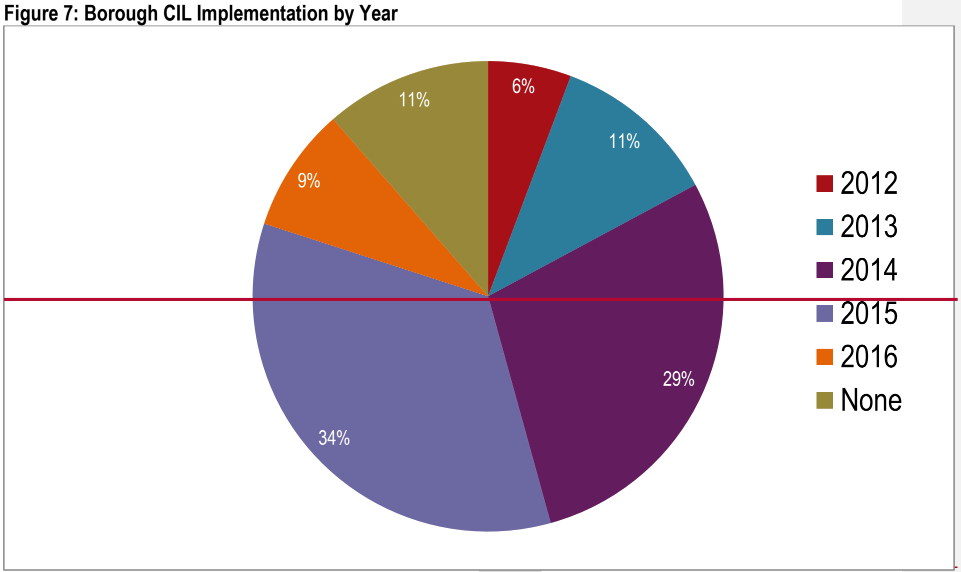
Formatted Table

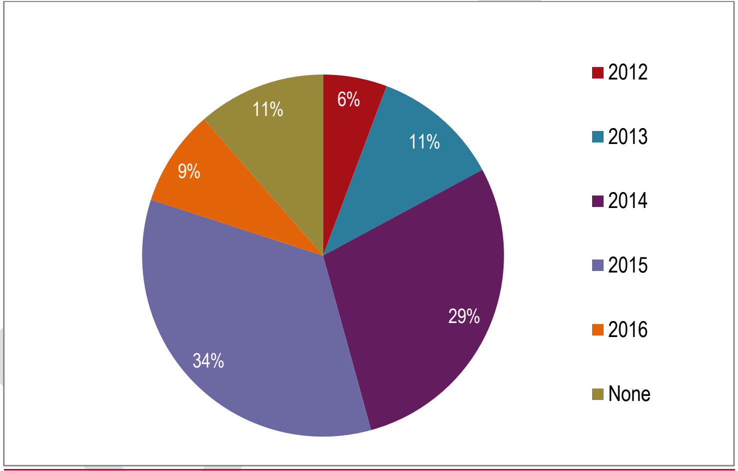
Borough	Total MCIL revenue excluding indexation to Q3 2016-17	MCIL rate per sq m (excluding indexation)	Net additional development (GIA sq m) to Q3 2016-17
Tower Hamlets	£33,226,940	£35	949,341
City of Westminster	£27,853,421	£50	557,068
Hammersmith and Fulham	£20,516,892	£50	410,338
Southwark	£20,134,067	£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~~995t,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 overstated/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~~Marked increases in value over cost occurred in 2015 and 2016 (see Figure 5, 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~~.~~ (PDCS consultation ran October/November 2016).

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~~proposals for MCIL 2. This conclusion is corroborated by the findings of the CIL Review Team in their report.[4]

6.1.4 We considered the following:

1. Consolidating the extant CIL and Crossrail S106 policy approach resulting in ~~Borough~~borough rates with additional charges in Central London and North Docklands for offices, retail and hotels;

2. Removing all Central London and North Docklands rates and relying totally on Borough rates;

3. Removing the distinction between North Docklands and the remainder of Central London but ~~returning to~~retaining differential rates for commercial uses in Central London/North Docklands above the ~~Borough~~borough rates; and

4. Unifying all residential and commercial rates in Central London/North Docklands, ignoring underlying ~~Borough~~borough rates, with borough rates to have effect only outside of Central London/North Docklands.

6.1.5 We had to balance the preference for simplicity against significant changes to the existing cumulative impact of the CIL/~~S016 policies~~S106 policies on viability, particularly for retail and hotel uses where sharp changes in MCIL rates at this stage could cause issues.

6.1.6 Our recommendation ~~is that doe~~for Central London is for the Mayor ~~should~~to retain differential rates~~ for commercial uses but one set of rates~~. These should apply to office, retail and hotel uses and apply across the proposed MCIL 2 Central London charging area, including North Docklands~~.~~, where rents for offices, for example, are typically at or below West End and City levels. All other uses to be charged at the borough rates.

---

[4] *See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.*

Formatted: Font: Times New Roman, 10 pt, Not Italic

7 Other zones considered

7.1.1 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 at this stage 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.
- The Mayor is exploring proposal for land value capture with could contain other mechanisms for capturing value outside of the CIL regime.[5]

7.1.2 The Mayor also considered continuing with the ~~kilometre~~1km zones around Crossrail ~~station~~stations in outer London that were established in the ~~s106~~S106 policy ~~but~~. He has considered differential charges within these zones for office and/or residential uses. However, in the interest of simplicity ~~it is proposed~~reinforced by the CIL Review Team in their report, we do not ~~to propose~~recommend imposing such zones for MCIL 2 purposes.[6]

~~5.~~

---

[5] See: 'Memorandum of Understanding on further devolution to London,' Department of Communities and Local Government, HM Treasury, The Rt Hon Philip Hammond MP and Gavin Barwell MP (8 March 2017) as part of the Spring Budget 2017. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597291/London-Devolution-MoU.pdf last accessed 22/03/2017

[6] See: 'A New Approach to Developer Contributions,' CIL Review Team (October 2016). Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589637/CIL_REPORT_2016.pdf last accessed 17/03/2017.

8 Proposed MCIL 2 charging schedule

8.1.1 We have established that there should be room for some increases in MCIL 2 rates above the present levels and that based on high level analysis this should not impact significantly on development volumes.

8.1.2 We set out below in Table 8 the proposed core rates for MCIL 2 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, LLDC, Merton, OPDC, Redbridge, Southwark, Tower Hamlets, Waltham Forest~~, LLDC, OPDC~~	£60
Band 3	Barking and Dagenham, Bexley, Croydon, Greenwich, Havering, Newham, Sutton	£25

8.1.3 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)

8.1.4 In the proposed MCIL 2 Central London ~~(~~charging area (which incorporates a modified version of the CAZ & an area of North Docklands) the Mayor proposes additional MCIL 'top ups' as part of the combination of the S106 and MCIL into one MCIL 2 regime. The ~~100m~~1km 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~~proposed MCIL 2 Central London charging area are considered further in chapter ~~9~~10.

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

Formatted: JLL_Heading Three

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~~borough rate (£80.00 / £60.00)

~~8.1.5~~8.1.6 These rates are applied to the chargeable net area floor space as set out in the CIL Regulations.

~~8.1.6~~8.1.7 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~~Central London				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~~ MCIL 2 rate (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~~ MCIL 2 rate (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)

Commented [GR2]: Or an £80 per sq m rate for residential in the MCIL 2 Central London Contribution Area?

Formatted Table

9 Assessment of impact on economic viability

9.1 Testing the impact of the proposed MCIL 2 rates

9.1.1 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.

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

9.2.1 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~~band (i.e. £50, £35 and £30 per sq m). We undertook this analysis adopting a net increase assumption ~~of~~between 73% ~~in~~and 100% of 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.

9.2.2 We present the findings from the original viability evidence below in Tables ~~11~~12 and ~~12~~13.

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)

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

Formatted: Font: 10 pt

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

~~Group~~Band	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~~band 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~~band assuming 100% net increase in GIA**
~~Group~~Band 1 highest average house price	Kensington and Chelsea	£866,295	£3,050	**0.35%**	£4,167	**0.48%**
~~Group~~Band 1 lowest average house price	Wandsworth	£373,641	£3,050	**0.82%**	£4,167	**1.12%**
~~Group~~Band 2 highest average house price	Hackney	£361,035	£2,135	**0.59%**	£2,917	**0.81%**
~~Group~~Band 2 lowest average house price	Hillingdon	£259,175	£2,135	**0.82%**	£2,917	**1.13%**
~~Group~~Band 3 highest average house price	Havering	£256,611	£1,220	**0.48%**	£1,667	**0.65%**
~~Group~~Band 3 lowest average house price	Barking and Dagenham	£213,777	£1,220	**0.57%**	£1,667	**0.78%**

~~9.2.3~~ Since the original MCIL ~~evidence was prepared~~ , current planning application data provided by the GLA ~~demonstrates~~suggests 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.~~

~~9.2.4 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%~~**

~~9.2.5~~9.2.3 ~~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.~~is more appropriate so our analysis concentrates on this assumption.

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

9.3.1 We have undertaken the same analysis to test the current MCIL 2 proposals and our findings are presented in Tables ~~15~~14 and ~~16~~15:

Table 14: 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~~Band	Proposed MCIL 2 rate per Sq M	~~MCIL payable at 50% net increase in GIA~~	Proposed MCIL 2 payable at 100% net increase in GIA
~~Group~~Band 1	£80	~~£3,333~~	£6,667
~~Group~~Band 2	£60	~~£2,500~~	£5,000
~~Group~~Band 3	£25	~~£1,042~~	£2,083

Deleted Cells

Formatted Table

Table 15: Proposals for MCIL 2 as a percentage of highest and lowest average house prices by ~~Group assuming 50% and~~band at 100% net increase in GIA

~~Group~~Band	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~~at 100% Net increase in GIA	Proposed MCIL 2 as percentag lowest average house price in each ~~group assuming~~band at 100% net increase in GIA
~~Group~~Band 1 highest average house price	Kensington and Chelsea	£1,303,778	~~£3,333~~	~~0.26%~~	£6,667	
~~Group~~Band 1 lowest average house price	Wandsworth	£609,373	~~£3,333~~	~~0.55%~~	£6,667	1.09%
~~Group~~Band 2 highest average house price	Hackney	£564,536	~~£2,500~~	~~0.44%~~	£5,000	
~~Group~~Band 2 lowest average house price	Hounslow	£389,458	~~£2,500~~	~~0.64%~~	£5,000	1.28%
~~Group~~Band 3 highest average house price	Sutton	£372,926	~~£1,042~~	~~0.28%~~	£2,083	
~~Group~~Band 3 lowest average house price	Barking and Dagenham	£288,873	~~£1,042~~	~~0.36%~~	£2,083	0.72%

Deleted Cells

Deleted Cells

Formatted Table

Formatted Table

Formatted Table

~~9.3.2 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.~~

9.4 Analysis of proposed MCIL 2 rates

9.4.1 ~~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.~~

9.4.2 In all cases payments in the order of 0.~~26~~51% - 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.

9.4.3 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.

9.4.4 Across the charging ~~groups~~bands 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~~band 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~~a 100% net ~~off for any~~increase in the developable area over existing ~~floor area in a worst case scenario.~~area.

~~9.4.4~~

Formatted: JLL_Body Text

9.4.5 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.

9.4.6 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~~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.

9.4.7 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~~that a 20% developer's profit on cost would be required~~ to form the~~. To replicate the approach taken in the Council's evidence we have provided 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~~borough CIL and Mayoral CIL allowances have been deducted, with a viability buffer of £35 per sq m remaining~~.~~ (see table 16, below).

9.4.8 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.

9.4.9 We have ~~replicated~~reproduced the appraisal to reflect values and cost changes since the ~~Borough's~~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~~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~~15 above) there is enough buffer to be able to cater for the level of proposed increase.

Table 16: 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.

9.5 Testing commercial viability

9.5.1 For the most part the higher rates in the proposed MCIL 2 Central London ~~contribution~~charging area – for boundaries see the following chapter - (Central London and North 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). In order to consider the possible impacts of the increased levels of the proposed Central London MCIL 2 (compared to the Crossrail S106 liability) we have considered ~~Borough~~borough CIL viability evidence in Westminster, the City of London and Tower Hamlets which make up the majority of the proposed Central London MCIL 2 Central London ~~contribution~~charging area.

9.5.2 Westminster's ~~Borough~~borough CIL viability was prepared by BNP Paribas Real Estate in June 2015 ahead of the examination in public. We consider in particular the amount of 'buffer' between the maximum rates and the adopted rates for retail and hotels. The 'buffer' left after BCIL is detailed in their table 1.14.2 (inserted as table ~~8~~17 below). For retail, the proposed increase in MCIL over the extant S106 policy moves the current rate (including indexation) of £104.20 up to £165.00 per sq m. The hotel rate increases from £70.62 to £140.00 per sq m~~,~~.

9.5.3 The increase of circa £60.80-£69.38 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 MCIL 2 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.~~17: 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)

9.5.4 In compiling our London Retail Development Map 2017, JLL identified key retail areas, other retail areas and ~~[~~development schemes~~].~~. Of ~~[number of]~~the 76 development schemes we recorded the vast majority were in Westminster and of these a substantial majority are mixed use. It is likely therefore that most retail schemes will in fact be mixed use where the other uses are key factors in assessing viability. Typically these other uses are offices, residential and occasionally hotel.

9.5.5 This view is shared by Gerald Eve, who in preparing the City of London CIL viability assessment state at paragraph 7.12 that *'as retail units predominantly comprise a small element of larger office, residential or hotel schemes in the City we have not separately appraised retail development but incorporated it as the ground floor use in other schemes."* [7]

9.5.6 Gerald Eve further comment ~~for~~on both retail and hotel development at 10.14 *"given the limited amount of development in isolation of these uses, they are usually either as part of mixed use schemes or ancillary to the predominant use. Either way, it is considered, after viability testing in both isolation and as part of a scheme, that these uses should have a rate similar to that of offices."* [8]

9.5.7 We are content that retail and hotel uses are for the most part likely to be within mixed use schemes where the viability of other uses will be the major determinant of the viability of the scheme in question. We therefore

---

[7] *See 'Community Infrastructure Levy: Economic Viability Study on behalf of: The City of London Corporation,' Gerald Eve (January 2013)., Retrieved from ~~https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017~~https://www.cityoflondon.gov.uk/services/environment-and-planning/planning/planning-policy/local-development-framework/Documents/CIL-viability-assessment.pdf last accessed 17/03/2017.*

[8] *Ibid*

conclude that increases in retail and hotel MCIL 2 rates are unlikely to affect significantly the viability of schemes with retail or hotel content.

~~9.5.7~~9.5.8 Turning to the North Docklands area, we have reviewed the ~~Borough~~borough CIL viability evidence prepared by BNP Paribas Real Estate in March 2013[9]. On page 7, the summary of possible maximum borough CIL rates in North Docklands for retail uses (A1-A5) is £150 per sq m and for convenience based supermarkets, superstores and retail warehousing is £310 per sq m borough-wide. In ~~practise~~practice Tower Hamlets are not charging ~~at~~ the maximum rates ~~and this together~~, combined with retail likely ~~to be a~~ supporting ~~component of~~ a mixed use scheme, should mean that MCIL 2 rates at the level proposed can be absorbed into development appraisals without impeding ~~the prospect~~delivery of ~~a~~ development ~~being delivered~~.

~~9.5.8~~9.5.9 In conclusion, in our opinion the rates proposed for offices, retail and hotels in the proposed MCIL 2 Central London ~~contribution~~charging area should be capable of absorption within development appraisals without hindering to any material extent the amount of development constructed.

---

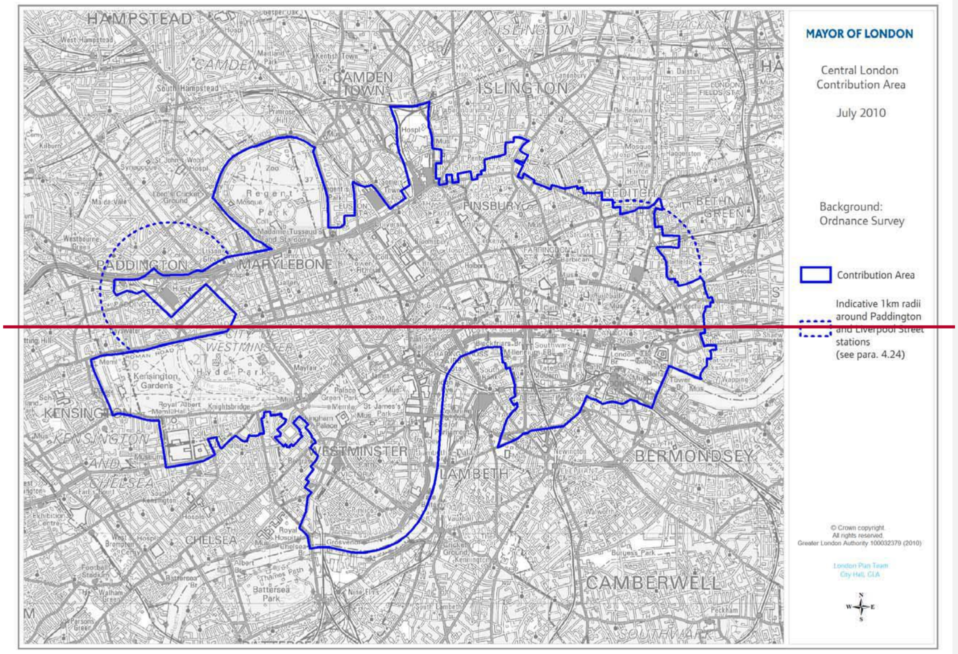
[9] *See 'Community Infrastructure Levy: Viability Study prepared for London Borough of Tower Hamlets,' BNP Paribas Real Estate (March 2013). Retrieved from http://www.towerhamlets.gov.uk/Documents/Planning-and-building-control/Development-control/Planning-obligations/ED1.2-LBTH-CIL-Viability-Study.pdf last accessed 17/03/2017.*

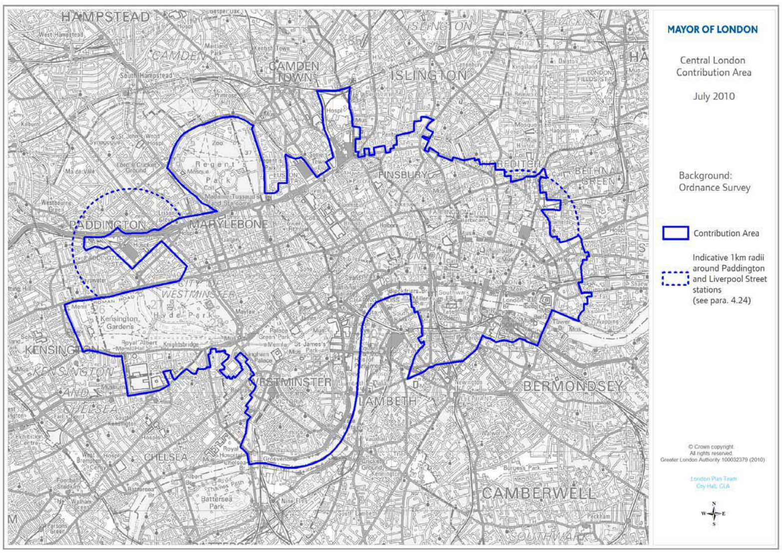
Formatted: Font: Times New Roman, 10 pt, Not Italic

10 MCIL 2 Central London ~~contribution~~charging area

Figure 8: Current Central London Crossrail S.106 contribution area (excluding North Docklands)

Commented [GR3]: Check definition



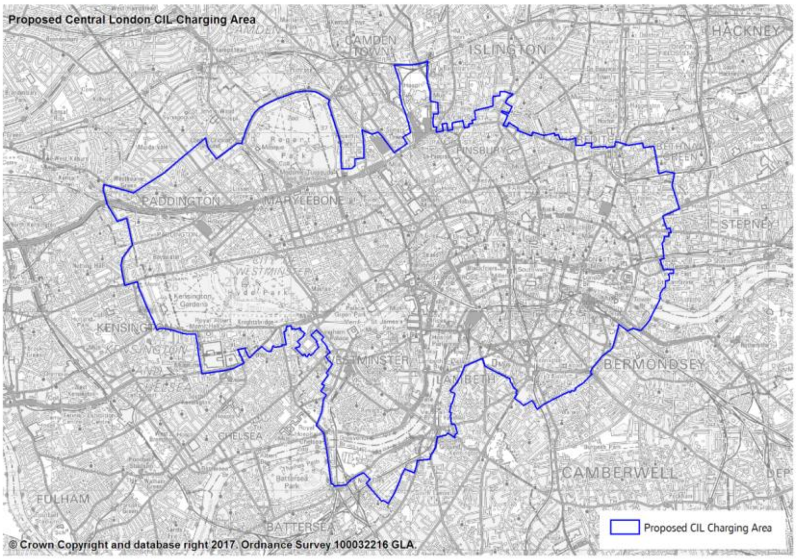


10.1.1 The current Crossrail S106 boundary (excluding North Docklands) is an amended version the Central Activities Zone (CAZ) defined in the London Plan. The boundary was modified during the examination process to remove areas of Lambeth and Wandsworth due to viability concerns at the time. 1 kilometre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

10.1.2 As part of the MCIL 2 viability analysis we have ~~prepared~~proposed an ~~updated~~ MCIL 2 Central London ~~contribution~~charging area 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.

10.1.3 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.

Figure 9: Proposed MCIL 2 Central London charging area (excluding North Docklands)



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

10.1.4 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 existing and proposed ~~boundary is~~boundaries are shown ~~on Figure~~in Figures 10 and 11.

~~**Figure 9: Proposed MCIL 2 Central London contribution area (excluding North Docklands)**~~

Formatted: Normal

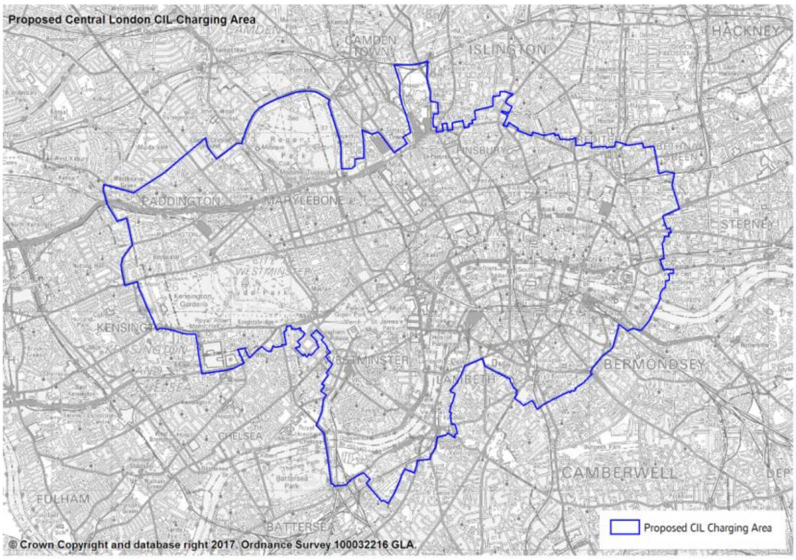
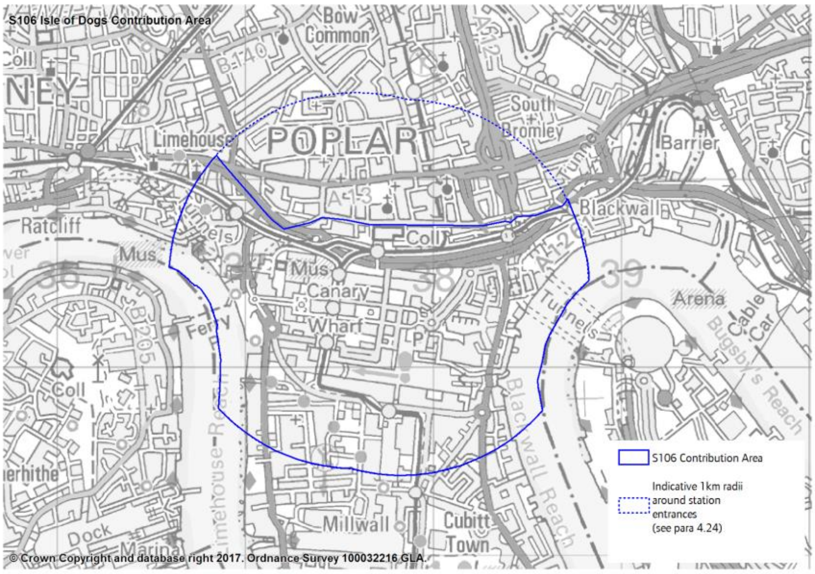


Figure 10: Current Isle of Dogs ~~S106~~S.106 contribution area (North Docklands)

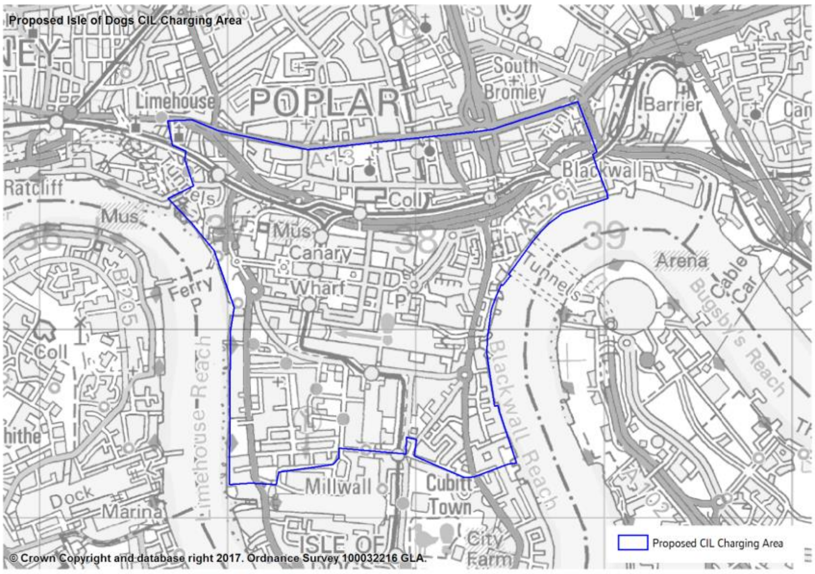
Commented [GR4]: Check definition/wording



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

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

Commented [GR5]: Check definition / wording



© Crown Copyright and database right 2017. Ordnance Survey 100032216 GLA.

11 Affordable Housing

11.1.1 A review of ~~Borough~~borough Affordable Housing Policies (see table 18, below) shows that the vast majority of boroughs have 35% or more affordable housing as their target~~.~~ which is consistent with the Mayor's policy aspirations. The reality is that when looking at past data ~~sifted~~ to ~~give~~create a proxy for affordable housing procured through S106 Agreements it seems that much less than 35% ~~was being~~has been 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 affordable housing and other policy requirements fully 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.~~ . The Mayor's recent draft, Affordable Housing and Viability Supplementary Planning Guidance, seeks to address some of these issues with ~~the~~a view to ~~increase~~increasing the amount of affordable housing delivered through the planning system.

Commented [JP6]:

Commented [GR7]: Comments provided by Jennifer Peters in email 15/03/2017

~~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~~11.1.2 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~~. Whilst in some instances where underlying viability is an issue ~~it~~an increased MCIL rate might make matters marginally worse, there will be many other instances where ~~the~~ additional ~~CIL~~MCIL can easily be accommodated within ~~the~~development economics~~ of the transaction as has been shown~~, demonstrated by the "buffer analysis" undertaken ~~for some boroughs as part of their supporting documentation behind their Charging Schedules.~~ in chapter 9, above. Overall we suggest that ~~whether or not affordable~~actual housing percentages ~~that are~~ achieved ~~is~~are likely to be much more dependent on housing policy, the grant regime and the cost of ~~building housing~~construction rather than the MCIL rates~~ and therefore~~. Therefore we conclude that ~~whatever~~the impact raising MCIL will have ~~it~~ is likely to be minor.

Table 18: Affordable Housing Policy by ~~Borough~~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

Formatted Table

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

Formatted Table

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
London Legacy Development Corporation			35% minimum (July 2015)	n/a
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.

Formatted Table

12 MCIL 3?

12.1.1 The following is not evidence for the Preliminary Draft Charging Schedule. However, the Mayor appreciates that property development may take many years between inception and completion and so wishes to assist the property industry by providing some forward guidance on possible ~~MCIL3~~MCIL 3 rates and ~~approach~~approaches assumed to take effect in 2024 subject to viability and the outcome of a further EiP.

12.1.2 MCIL 2 is a transitional charging schedule where viability issues are judged not only on fundamentals but also on what the market has factored into its thinking as a result of the combination of MCIL and the Crossrail S106 ~~regime~~regimes.

12.1.3 MCIL 3 is likely to be a simpler proposition. We would envisage one Central London area with one set of rates applying to all chargeable development within its boundary regardless of the underlying ~~Borough~~borough.

12.1.4 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, Belgravia, Victoria/Pimlico and areas north of the Euston Road.

12.1.5 Other possibilities include having a single commercial charge for all uses in Central London and inclusion of Crossrail 2 station zones. We can see the attraction of one single rate at say £150 per sq m applied to all uses in Central London. The position will be monitored. However, for the purposes of providing this guidance we have adopted variable rates in Central London reflecting the fact that CIL must live alongside the Affordable Housing Policy.

12.1.6 In ~~setting~~ proposing possible~~Band 3~~ rates for MCIL 2, the Mayor has chosen to keep rates low to encourage development and ~~protect~~protecting affordable housing percentages in the boroughs with the lowest house prices.~~-~~ The MCIL 3 rates, if adopted, would restore the relativities to those in the current Charging Schedule.

Formatted: Font: 10 pt

Table 19: 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 20: Proposed Central London MCIL 3 charging rates from April 2024

Charging band	Proposed MCIL 2 Central London rate in 2019 (per sq m)	Proposed MCIL 2 rate to Q2 2024 including indexation*	***Proposed MCIL 3 rate at Q2 2024***
Office	£185.00	£206.62	***£210.00***
Retail	£165.00	£184.28	***£185.00***
Hotel	£140.00	£156.36	***£150.00***
Residential	£60.00/£25.00	£67.01/£27.92	***£100.00***

*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)

Formatted: Font color: Auto

Formatted: Indent: Left: 0 cm

Richard Jones
Lead Director
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
~~jll.co.uk~~jll.co.uk

Ryan Gerrish
Senior Surveyor
Development Consulting
JLL
30 Warwick Street
London W1B 5NH

[redacted]eu.jll.com
~~jll.co.uk~~jll.co.uk

jll.com

Jones Lang LaSalle