



Examination into the Draft Charging Schedule for the Havering Community Infrastructure Levy

Response from London Borough of Havering to Examiner's Question

Question EQ-2

February 18 2019

Havering Community Infrastructure Levy Draft Charging Schedule Examination

Council response to the EQ-2: Draft Residential Charges Zones A and B

1. Set out below is the Council's response to the questions received from the Examiner in response to the submitted Draft Charging Schedule ('DCS') and draft Residential Charges Zones A and B (document reference EQ-2). The response has been prepared by the Council's consultants (BNP Paribas Real Estate and Inner Circle Consulting) and approved by the Council.

Response to paragraph numbers 1 to 3

2. With respect to the queries set out at paras 1 to 3 of document EQ-2, relating to the comment that the 79% uplift from the PDCS is a misleading measure, the Council offers a further expansion on its reasoning as follows.
3. As the Examiner will be aware, the Council were responding to Quod's representation that the uplift in the Zone B rate published in the DCS was 10% from that in the Preliminary Draft Charging Schedule ('PDCS') and 79% for Zone A and that *"it is unclear why the Zone A rate has increased so significantly in comparison to Zone B"*. The Council also noted that no evidence was provided by Quod to support or identify the alleged impact on viability or deliverability to support their assertion that development in Zone A would be put at risk.
4. The Council appreciate that Quod's statement setting out the simple analysis of the percentage increase in the charges is methodologically correct. The reason for the Council's comment however, is that percentages of rate increases as described by Quod can be misleading as the increase is expressed by reference to the starting point charge, and provides no information as to the likely impact on development of such a charge.
5. To provide an example, if a rate of say £10 per sq m were to be increased by 50% this would take the charge up to £15 per sq ft. An increase of 50% appears to be significant, however this in fact only represents a £5 per sq m increase. More particularly however, the percentage uplift does not identify the impact on development viability of such a charge.
6. The Council's viability consultants (BNP Paribas Real Estate -BNPPRE) have identified that in their experience and opinion it is more important to consider the amount of the actual charge being proposed and the impact of this on residual land value of developments. The increase in the residential charge for the Zone B area is £5 per sq ft and accordingly the increase in the residential charge for the Zone A area is £55 per sq m.
7. BNPPRE have considered this carefully in providing their advice of proposed charges to the Council as the Charging Authority. As set out in their analysis of their appraisal testing (see the third bullet point under Para 1.8 and para 7.7 of

the October 2018 document CIL-CD03) they have identified that at £55 per sq m the charge amounts to between 1.6% and 3.6% of development value with an average of 2.3% in the residential Zone B (south of the A1306). BNPPRE's analysis of the proposed charge in the residential Zone A area (north of the A1306) is between 2.8% and 6% of development value with an average of 3.8%. On this basis, the Council as the Charging Authority and BNPPRE consider that the proposed charges are unlikely to adversely impact on the viability of development in the Borough.

8. As the Examiner has identified, the sales values are set out in Figure 2.14.1 on page 8 of the October 2018 document CIL-CD07 and Table 4.3 of the February 2015 document CIL-CD03¹. These identify that the residential Zone B area reflects an updated average figure of £320 per sq ft (£3,444.48 per sq m). This has increased from £250 per sq ft in the February 2015 Study which equates to a 28% uplift in average residential sales values.
9. Zone A now reflects an updated range of average values of £350 per sq ft to £475 per sq ft (£3,767.40 per sq m to £5,112.90 per sq m) with a general average of say £400 per sq ft (£4,305.60). The upper end of the 2015 range of values in the Borough achieved in Zone B was £400 per sq ft (£4,305.60), which reflects an increase of 18.75% to the new upper end of the 2018 range of values at £475 per sq ft (£5,112.90 per sq m).
10. The Council notes that when the proposed residential DCS CIL rates (£125 per sq m for Zone A and £55 per sq m for Zone B) are considered in the context of the updated average residential sales values figures (£4,305.60 per sq m for Zone A and £3,767.40 per sq m for Zone B) they amount to 2.9% of residential sales values for Zone A and 1.5% for Zone B respectively.
11. The Council as the Charging Authority and BNPPRE are of the opinion that this analysis provides a more useful metric to consider the impact and magnitude of the CIL rates as it identifies the amount of increase in sales values required to cover the cost of the proposed CIL charge. The Council as the Charging Authority considers that this analysis demonstrates the reasonable level at which the proposed charges are set at and moreover that such charges are unlikely to be the determining factor as to whether or not a developer brings forward a site for development.
12. Further information in relation to this issue is provided at para 7.13 of document CIL-CD07, which compares the impact of changes to different elements/inputs of appraisals.
13. Set out below is information on the impact on residual land values ('RLVs') for Typology 4 at 35% affordable housing, and therefore viability where:

¹ This document is identified as CIL SD03 on the Council's Website
(https://www.havering.gov.uk/info/20034/planning/183/planning_policy/4)

- 1) sales values are increased/decreased from £393 per sq ft but CIL is set at a consistent rate of £125 per sq m); and
- 2) CIL rate is increased and decreased by £75 per sq m from £125 per sq m, but residential sales values are held consistent at £393 per sq m.

14. This information is taken from the appraisal testing undertaken by BNPPRE in the October 2018 Viability Study (Appendix 1 of document CIL-CD07).

Table 14.1 – Results of appraisals with increased sales values only

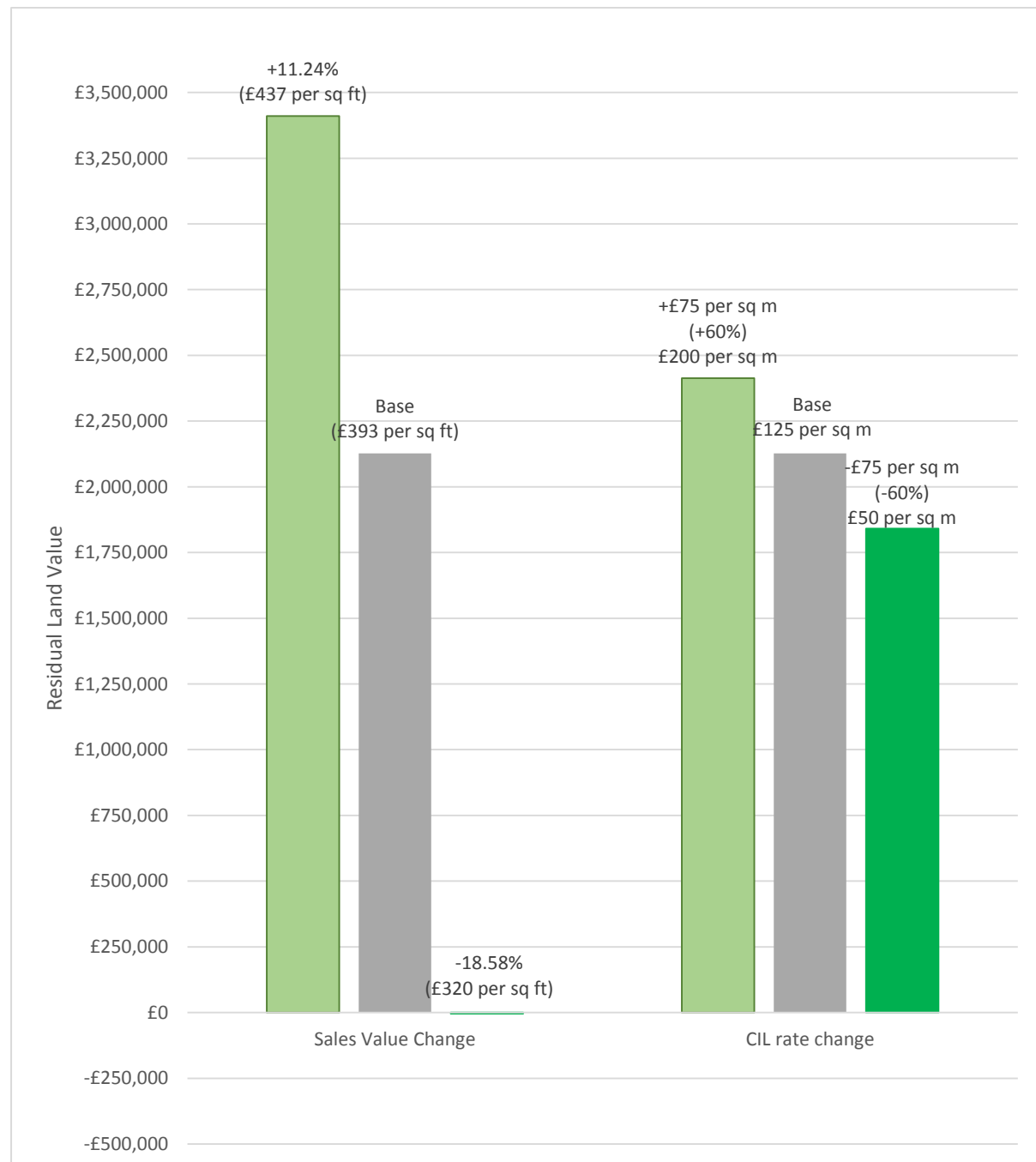
Location	Sales Values in £ per sq m (£ per sq ft)	% Change in sales value	RLV	% Change in RLV
Romford	£4,700 (£437)	11.24%	£3,410,407	60.34%
North of A1360	£4,225 (£393)	0%	£2,126,983	0%
South of A1360	£3,440 (£320)	-18.58%	-£4,035	100.19%

Table 14.2 – Results of appraisals with increased CIL rates only

CIL Rate	Change in CIL Rate	% Change in CIL Charge	RLV	% Change in RLV
£50 per sq ft	-£75 per sq m	-60.00%	£2,412,811	13.44%
£125 per sq m	-	0%	£2,126,983	0%
£200 per sq ft	+£75 per sq m	60.00%	£1,841,156	-13.44%

15. Further to the earlier comment regarding the percentage uplift of CIL rates being derived relying on the starting point, the Council would highlight that a movement in CIL charge from £125 to £50 per sq m in this analysis equates to a -60% change in the CIL rate. A change from £50 to £125 per sq m equates to a 150% increase in the CIL charge. These percentages relate to the same change in terms of £ per sq m but are very different in scale when expressed as percentages.
16. The Council provides a comparison graph of the impact of the changes to the RLV of increasing/decreasing sales values and increasing/decreasing CIL rates in Figure 16.1 (following).

Figure 16.1 – Comparison of appraisal results with increased/decreased sales values compared to increased/decreased CIL rates



17. The results of this additional analysis demonstrates that residual land values are more sensitive to changes in residential sales values than changes in CIL rates, for example an 11.24% increase in sales values results in a corresponding 60.34% increase in the RLV, but a £75 per sq m increase in the CIL rate (identified in this instance as being a 60% increase) results in a change of -13.44% in the RLV.

Response to paragraph 4

18. In response to the Examiner's query at paragraph 4 regarding a minimum buffer allowance, the Council as Charging Authority and BNPPRE confirm that buffer allowances have been taken into consideration in the proposed DCS CIL charges. Further details of the buffers are provided below.
19. The two bullet points under para 6.21 of document CIL-CD07 identify a maximum CIL charge of £200 per sq m for the residential Zone A area and £100 per sq m for the residential Zone B area. Taking into consideration Mayoral CIL2 at £25 per sq m this leaves a maximum Borough CIL charge of £175 per sq m in Zone A and £75 per sq m in Zone B. Comparing these maximum Borough charges to the proposed CIL charges identifies the buffer allowances adopted to be 28.57% and 26.66% respectively.
20. Para 6.24 of document CIL-CD07 identifies that a maximum CIL charge of £15 to £200 per sq m² including MCIL2 could be levied. This results in a Borough maximum CIL of between £0 and £175 per sq m for such schemes, *"dependant on the benchmark land value and quantum of affordable housing sought (see Appendix 4 for a copy of our appraisal results). We understand that the Council currently negotiates affordable housing contributions in such schemes on a site by site basis and that the delivery of infrastructure to support such schemes (i.e. healthcare and transport etc.) is a priority."*
21. BNPPRE has recommended that the Council as Charging Authority maintain their PDCS approach to their CIL rate for such uses, which is to mirror the values adopted for standard housing. Based on maximum CIL charge of £175 per sq ft this would result in a buffer of 28.57% in Zone A and 31.43% in Zone B.
22. BNPPRE has undertaken further analysis and confirm that the proposed CIL charges at £125 per sq m in the residential Zone A area and £55 per sq m in residential Zone B area equate to 4.6% and 2% of development value respectively. The Council as Charging Authority considers these charges to be set at a reasonable level, which would not have a significant impact on the viability and delivery of such schemes.
23. With respect to the commercial uses³, based on BNPPRE's appraisals the Supermarket/ superstore and retail warehouse maximum Borough CIL charge ranges between £0 to £244 per sq m (see para 6.36 in CIL-CD07) and £32 per sq m and £504 per sq m (CIL CD-12 and page 15 of CIL-CD03). The proposed CIL charge is maintained at the PDCS charge level of £175 per sq m, which equates to a buffer of between 65.28% and 28.28%.

² See the response below to the Examiner's query at para 5 of EQ – 2 in relation to Benchmark Land Value 1 ('BLV1') and attached Appendix 2 for updated retirement testing, which demonstrates this maximum CIL range to be between £25 per sq m and £200 per sq m at the correct BLV1.

³ BNPPRE's commercial appraisals' maximum CIL rates are net of MCIL2.

24. BNPPRE have confirmed that the proposed charge amounts to a CIL charge of 5.31% of development costs for supermarket type uses and 7.03% of development costs for retail warehouses. As identified in the Council response to representations at para 15 of document CIL-CD03, *"Retail warehouses incur significantly lower build costs than supermarkets, which despite rent and yield differences for the assets results in a similar viability profile for such schemes."*
25. Given this position, the analysis of the CIL charge as a percentage of the development costs for such uses will be higher. The Council as Charging Authority and BNPPRE consider that based on our experience of the viability of such uses and the results of the appraisals, maintaining the CIL charge as proposed for such uses is reasonable and would allow for a suitable buffer. In addition, the charge set at £175 per sq m considers the balance required by Regulation 14 and the impact with respect to infrastructure such uses will require, particularly in respect of the impact on the Borough's road network.
26. As set out at para 6.38 of document CIL-CD07, all other retail (A1-5) uses can viably absorb a CIL of between £0 and £548 per square metre. The proposed CIL charge has been maintained at the PDCS level of £50 per sq m, which equates to a buffer of between 90.88% and 44.44% from the maximum CIL rates. At the proposed DCS charge, this amounts to 1.38% of development costs.
27. BNPPRE's appraisal of hotel developments has identified a maximum CIL charge of between £0 and £75 per sq m. As with the other commercial CIL charges the Charging Authority has maintained the rate as proposed in the PDCS of £20 per sq m. This equates to a buffer allowance of 71.42% against the maximum CIL charge. This nominal rate amounts to a CIL charge of 0.7% of development costs.

Response to paragraph 5

28. With respect to the Examiner's query at para 5 in relation to the Industrial use Benchmark per gross hectare (BLV1), BNPPRE has confirmed that the correct figure is £650,000 and that £750,000 was a typo in the appraisal work that has as a consequence been used to establish the viability and maximum CIL charges for the residential and retirement housing. This has the effect of an additional cost to schemes of £100,000 per gross Ha when measured against BLV1, or effectively results in a larger buffer for these scenarios.
29. BNPPRE has undertaken a further sensitivity test reducing BMLV1 to £650,000, which has demonstrated that this would increase the maximum CIL rates for schemes measured against this charge by between £0 per sq m to £75 per sq m dependant on the scenario tested, and an average increase of £25 per sq m (see Appendices 1 and 2 for the results of the further testing of the residential results and retirement housing developments adopting the correct BLV1 figure). Notwithstanding this, the Council as Charging Authority notes that the results measured against BLVs 3, 2 and 4 remain unchanged.

30. BNPPRE has confirmed that given this position and looking at the results holistically, their recommendation of suggested CIL charges to the Charging Authority would not change. Consequently, the Charging Authority considers that the rates are set at a reasonable level of charge to be levied for infrastructure from residential and retirement housing developments in the Borough.
31. The Council trusts that the Examiner will find the above responses of assistance. The Council and its consultants should be contacted if there are any further queries.

Martyn Thomas / Inner Circle Consulting / BNP Paribas Real Estate
February 18 2019

**APPENDIX 1 – SENSITIVITY TESTING OF RESIDENTIAL APPRAISALS WITH
AMENDED BLV1**

**APPENDIX 2 – SENSITIVITY TESTING OF RETIREMENT HOUSING
APPRAISALS WITH AMENDED BLV1**