

# City of London: Local Plan Viability Assessment

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VERSION

Prepared for

City of London

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# 1 Summary

- 1.1 This report tests the ability of developments in the City of London to accommodate emerging policies in the Draft City Plan 2040 alongside prevailing rates of Community Infrastructure Levy ('CIL') in the City of London Corporation's adopted Charging Schedule and Mayoral CIL (subject to indexation).
- 1.2 The study takes account of the impact of the City Corporation's planning requirements, in line with the requirements of the National Planning Policy Framework ('NPPF'); the Planning Practice Guidance ('PPG') and the Local Housing Delivery Group guidance '*Viability Testing Local Plans: Advice for planning practitioners*'.

## Methodology

- 1.3 The study methodology compares the residual land values of a range of development typologies reflecting the types of developments expected to come forward in the City over the life of the new Local Plan. The appraisals compare the residual land values generated by those developments (with varying levels of affordable housing (where relevant) and other emerging policy requirements) to benchmark land values reflecting the existing value of land prior to redevelopment. If a development incorporating the City Corporation's emerging policy requirements and CIL generates a higher residual land value than the benchmark land value, then it can be judged that the development is viable and deliverable. Following the adoption of policies, developers will need to reflect policy requirements in their bids for sites, in line with requirements set out in the Mayor of London's supplementary planning guidance on 'Affordable Housing and Viability'.
- 1.4 The study utilises the residual land value method of calculating the value of each development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance, sustainability requirements and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site.
- 1.5 The commercial and residential property markets are inherently cyclical and the City Corporation is testing the viability of potential development sites at a time when commercial markets have experienced a period of change resulting from evolving working patterns. These changing working patterns continue to evolve, resulting in high demand for the best quality space, and falling demand for secondary space, increasing pressure for redevelopment and repurposing. Residential markets have also seen growth but price growth has now ceased as a result of a significant increase in interest rates from their historic low for the whole of the last decade. Forecasts for future house price growth point to modest growth in mainstream London housing markets, with slightly higher growth forecast in prime central London markets. We have allowed for this medium term growth over the plan period by running a sensitivity analysis which applies growth to sales values and inflation on costs to provide an indication of the extent of improvement to viability that might result. The assumed growth rates for this sensitivity analysis are outlined in Section 4.
- 1.6 This sensitivity analysis is indicative only, but is intended to assist the City Corporation in understanding the viability of potential development sites on a high level basis, both in today's terms but also in the future.

## Key findings

- 1.7 The key findings of the study are as follows:
  - **Affordable housing:** We have appraised residential schemes with a range of affordable housing from 0% to 50% to test the ability of development typologies to meet the requirements of Strategic Policy S3 which requires 50% affordable on publicly owned sites and 35% on other sites. Our appraisals indicate that the requirements can be met on most typologies tested, although the existing use value is a critical factor in determining the outcome. Where existing use values are high, the ability of residential schemes to meet the policy requirement will be

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more constrained and the level of achievable residential sales values may become a critical factor. In these circumstances, the policy contains sufficient flexibility, both in terms of tenure mix and overall quantum, to enable schemes to come forward with a viable package of affordable housing. Our appraisals also indicate that the requirement for existing affordable housing on estates to be reprovided is viable, providing a sufficient quantum of private housing is incorporated to cross-subsidise the affordable housing.

- **Commercial contribution towards affordable housing:** Strategic Policy S27 requires that commercial developments make a financial contribution towards affordable housing provision at a rate of £50 per square metre (£57.21 per square metre after indexation). The results of our appraisals indicates that the impact of this policy requirement is marginal and will not prevent schemes from coming forward in normal circumstances.
- **Accessibility standards:** Strategic Policy S3 requires that 90% of dwellings meet the accessibility requirements of Part M4(2) of the Building Regulations and 10% meet Part M4(3) which requires full wheelchair accessibility. Our appraisals incorporating these additional costs show only a marginal reduction in residual land values that are unlikely to have a significant impact on scheme viability.
- **Climate change:** the requirements of Policy DE1 for low and zero carbon can be achieved either through on-site measures including on-site generation or through offsetting. Our appraisals test the impact of incorporating sustainable energy measures, BREEAM excellent and zero carbon development, which results in a marginal reduction in residual land values. These reductions are unlikely to result in developments becoming unviable, given the modest change. We have also tested a range of carbon offsetting figures, from the current rate of £95 per tonne up to £880 per tonne. When tested at the higher end of the range (in combination with all other policy requirements), this contribution can have a significant impact on viability. On-site net zero carbon options would be more viable in comparison to offsetting at the higher rates.
- **Urban Greening/biodiversity/green infrastructure:** we have tested the provision of green roofs as a proxy for meeting the requirements emerging policy OS2 (City Urban Greening) and also a cost uplift for the measures required to achieve Biodiversity Net Gain. The combined impact of these requirements on the residual land values is marginal.
- **Office retrofit/refurbishment first:** policies OF1 and DE1 encourage site owners to prioritise retrofitting and refurbishment of existing offices over demolition and development. Our appraisals indicate that the viability of refurbishment will depend on the extent to which space can be reconfigured to meet contemporary requirements of occupiers. Another key factor is the extent to which existing buildings are capable of increases in height or volume as there is a positive correlation between uplift in floorspace and viability.
- **Student housing:** policy HS6 requires that student housing developments provide 35% of rooms at an affordable rent, as defined by the 2021 London Plan (50% of the maximum maintenance loan available to undergraduates in London). Our appraisals indicate that this requirement can be viably accommodated by student housing developments in the City.
- **Culture contributions:** Policy S27 requires that developments contribute towards cultural provision, either on-site or through financial contributions. We have tested a range of contributions (£40 to £180 per square metre) and this requirement (in isolation) has only a marginal impact on scheme viability.
- **Employment and skills contribution:** Strategic Policy S27 requires that commercial developments make a financial contribution towards employment and skills of £30 per square metre (£34.39 per square metre after indexation) and residential schemes of 10 or more units make a £5 per square metre (£5.73 per square metre after indexation) contribution. Our appraisals indicate that the impact of this requirement on residual land values is a marginal reduction that is unlikely to impact on the overall viability of developments.
- **Cumulative impact of policies:** In addition to separately testing the specific policies above, we

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have tested the cumulative impact of all the policies. In most cases, the cumulative impact of the requirements does not render any schemes unviable against the sites' benchmark land values. The degree to which commercial schemes will be viable depends largely on the value of the existing building and the extent of the uplift in floorspace arising from the newly developed/refurbished floorspace. It should also be noted that many owners of secondary offices will be compelled by changing patterns of occupier demand to undertake significant refurbishments or redevelopments to ensure that their buildings remain competitive in the market and meet all current or forthcoming regulatory requirements. In such circumstances, it is unlikely that owners would be undertaking refurbishments to secure an immediate developer's profit, but to enhance (or in some cases, merely maintain) the underlying asset value over time. Schemes that may not appear viable as development propositions may still proceed if the owner is motivated by an objective of enhancing asset values or future-proofing against forthcoming requirements.

- Residential development is viable in the City to varying degrees, depending on existing use values of each site. This is particularly the case on the smaller residential schemes we have tested in this study, but this is associated more with the individual circumstances of those sites than a more widely applicable finding. One of the smaller schemes involves the conversion of an existing residential house, with no overall uplift in floorspace. For schemes where there is a greater uplift in floor area, viability issues are unlikely to emerge.

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## 2 Introduction

- 2.1 The City of London Corporation ('the City Corporation') has commissioned this study to consider the ability of developments to accommodate emerging Draft Local Plan policies alongside prevailing rates of Community Infrastructure Levy ('CIL') in the adopted Charging Schedule, subject to indexation. The aim of the study is to assess at high level the viability of development typologies representing the types of development that are expected to come forward over the plan period to test the impact of emerging policies and potential alternative rates of CIL.
- 2.2 In terms of methodology, we adopted standard residual valuation approaches to test the viability of development typologies which are informed by schemes submitted for planning, with particular reference to the impact on viability of the City Corporation's emerging planning policies alongside adopted rates of CIL, including Mayoral CIL. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique), mean that the conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis. This is particularly the case for the area within the City Corporation jurisdiction, which is a complex area with development proposals being unique to each site.
- 2.3 The purpose of this viability study is to assist the City Corporation in understanding changes to the capacity of schemes to absorb emerging policy requirements. The study will form part of the City Corporation's evidence base for its emerging Local Plan. The Study therefore provides an evidence base to show that the requirements set out within the NPPF, CIL regulations and PPG are satisfied.
- 2.4 As an area wide study this assessment makes overall judgements as to viability of development within the City of London and does not account of individual site circumstances which can only be established when work on detailed planning applications is undertaken. The assessment should not be relied upon for individual site applications. However, an element of judgement has been applied within this study with regard to the individual characteristics of the sites tested. The schemes tested on these sites are informed by live planning applications and clearly this may differ from the quantum of development in future planning applications that will come forward.
- 2.5 This position is recognised within Section 2 of the Local Housing Delivery Group guidance<sup>1</sup>, which identifies the purpose and role of viability assessments within plan-making. This identifies that: *"The role of the test is not to give a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage. Rather, it is to provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan."*

### Economic and housing market context

- 2.6 The positive economic start to 2020 was curtailed by the outbreak of COVID-19, declared a global pandemic by the World Health Organisation in March 2020. The long term consequences of the virus continues to impact global financial markets and supply chains. The FTSE 100 initially fell from 6,474 points to 5,152 points between 9 to 19 March 2020, representing a fall of 20.42% - the largest fall since the 2008 financial crisis. The Bank of England ("BoE") responded to the COVID-19 outbreak by lowering the base rate to 0.25% and introducing financial arrangements to help bridge the downward economic pressure caused by COVID-19. These changes to the base rate have since been reversed as a result of factors discussed below.
- 2.7 The UK Government introduced a series of restrictive and economically disruptive measures to slow and mitigate the spread of the COVID-19. The UK Government pledged a support package of

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<sup>1</sup> Although this document was published prior to the draft NPPF and NPPG, it remains relevant for testing local plans. The approaches to testing advocated by the LHDG guidance are consistent with those in the draft PPG. The same cannot be said of some of the approaches advocated in the RICS guidance 'Financial Viability in Planning 2012' (particularly its approach to site value benchmark) but these have always been inconsistent with the LHDG guidance and the approach now advocated by the PPG. In any event, the focus of the RICS guidance is on testing individual plans rather than testing plan policies.

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£350bn to stabilise the economy during the shock caused by COVID-19. The Chancellor's Winter Economy Plan included a six-month Job Support Scheme, as well as other tax cuts and grants/loans to support businesses, including the furlough scheme which has since ended. Importantly for the housing market, a Stamp Duty holiday ran from June 2020 until the end of June 2021 tapering until September 2021. The successful vaccine production and subsequent rollout programme allowed for the full easing of restrictions within the UK, which has in turn led to a positive rebound in economic activity.

- 2.8 However, the rebound in economic activity has seen inflation rates increase above the BoE's inflation target of 2%, with inflation currently standing at 4.7% at the time of writing, having exceeded 10% earlier in 2023.
- 2.9 Despite the economic headwinds facing the UK, the housing market outperformed expectations in 2020, 2021 and 2022. According to the Office of National Statistics reporting on Land Registry Data ("ONS Data"), in 2020, house prices grew by 8.5% in 2020, 10.7% in 2021, 6.9% in 2022 and -0.1% in 2023.
- 2.10 However, in the first half of 2023, the annual rate of house price growth has fallen significantly largely (although not exclusively) as a result of the Government's September 2022 'Fiscal Event' which saw unfunded cuts to taxes and a consequent fall in sterling and increase in bond yields. Nationwide's Chief Economist, Robert Gardener, commented in Nationwide's February 2023 House Price Index Report that *"Annual house price growth slipped into negative territory for the first time since June 2020, with prices down 1.1% in February compared with the same month last year. Moreover, February saw a further monthly price fall (-0.5%) – the sixth in a row – which leaves prices 3.7% below their August peak (after taking account of seasonal effects). The recent run of weak house price data began with the financial market turbulence in response to the mini-Budget at the end of September last year. While financial market conditions normalised some time ago, housing market activity has remained subdued."* In October 2023, the Nationwide reported a monthly increase in average prices of 0.9%, reducing the annual fall in prices to just 3.3%. Over 2023 as a whole, house prices are likely to see far lower reductions than had been predicted at the beginning of the year.
- 2.11 The appointment of a new Chancellor (and Prime Minister) in October 2022, who effectually reversed the majority of the proposals in the Mini Budget, led to a degree of stability. However significant headwinds remain domestically and globally.
- 2.12 Both Nationwide and Halifax indicate that whilst the market remains resilient, house price growth is expected to continue to be somewhat muted as a result of continuing pressure on household budgets and the impact of higher interest rate rises. Robert Gardner (Nationwide) comments in August 2023 that *"It will be hard for the market to regain much momentum in the near term since consumer confidence remains weak and household budgets remain under pressure from high inflation. Housing affordability also remains stretched, where mortgage rates remain well above the lows prevailing at this point last year"*.
- 2.13 Halifax observe the resilience the UK housing market assisted in Q1 2023 by the easing of mortgage rates and increase in mortgage approvals. However Kim Kinnaird, Director of Mortgages also comments; *"Predicting exactly where house prices go next is more difficult. While the increased cost of living continues to put significant pressure on personal finances, the likely drop in energy prices – and inflation more generally – in the coming months should offer a little more headroom in household budgets. While the path for interest rates is uncertain, mortgage costs are unlikely to get significantly cheaper in the short-term and the performance of the housing market will continue to reflect these new norms of higher borrowing costs and lower demand. Therefore, we still expect to see a continued slowdown through this year"*.
- 2.14 In their Q2 2023 Housing Market Update<sup>2</sup>, Savills reflect the weakening market is largely a consequence of the challenging mortgage environment leading to a softening of demand in contrast to supply. They do also note that demand is recovering reflected by an increase in mortgage approvals (albeit still below pre covid levels). However, Knight Frank's October 2023 UK House

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<sup>2</sup> Savills have not updated their November 2022 forecast in all their housing market updates published after that date.

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Price Forecast indicates that sentiment will be more positive over the forthcoming year. Their forecast is cumulative growth in the five years to 2027 of 1.4%.

- 2.15 On a broader economic scale CBRE offer a cautiously optimistic medium term view in their Q2 2023 Economic Outlook stating *“Although inflation is declining gradually, it remains persistently high. Despite this, and the recent instability in the global banking sector, we are more optimistic about the economic outlook and now expect the UK to avoid a recession this year. This partly reflects improving business confidence and the resilient labour market. Moreover, as inflation returns to sufficiently low levels, GDP will start to recover more substantially. In 2024, we expect GDP growth of 1.2%”*.

#### **Local Housing Market Context**

- 2.16 House prices in the City of London have followed recent national trends, with values increasing significantly between 2013 and the middle of 2016, but then remaining relatively flat until 2020. Prices then increased again following the Covid-related lockdowns, as shown in Figure 2.16.1. Average house prices have been volatile between the middle of 2016 and 2020. By August 2023 (the most recently available Land Registry data), sales values had increased by 85% above the average in January 2013. Sales volumes fell below historic levels in 2020, but have since recovered (see Figure 2.16.2). There has been no availability of new build residential units in the City from December 2021 onwards, which has had a dampening effect on volumes. As can be noted in Figure 2.16.2, increases in sales volumes typically result from new build units becoming available.

#### **Figure 2.16.1: Average sales value in City of London**

**Graph not included in this version**

Source: Land Registry



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## Figure 2.16.2: Sales volumes in City of London (sales per month)

Graph not included in this version

Source: Land Registry

- 2.17 The future trajectory of house prices is currently uncertain, although Knight Frank's *UK house price forecasts* (October 2023) indicate that Prime Central London values are expected to reduce by 3% in 2023, remain unchanged in 2024 and then grow by 3% in 2025, 4% in 2026 and 4% in 2027. This equates to cumulative growth of 8.1% between 2023 and 2027 inclusive.
- 2.18 We have considered sales of both new build and second hand properties across the City completed between 2020 and 2023 (419 sales in total, of which 135 were first sales of new build properties and 284 were sales of second hand properties). The 135 new build sales were completed on six schemes, as follows:
- One Bishopsgate Plaza, EC3A 7AU: Average of £23,444 per square metre (£2,178 per square foot);
  - The Haydon, EC3N 1AX: Average of £17,664 per square metre (£1,641 per square foot);
  - Clarendon Court (Blake Tower), EC2Y 8AF: Average of £15,016 per square metre (£1,395 per square foot);
  - 80 Houndsditch, EC3A 7AB: Average of £24,881 per square metre (£2,311 per square foot);
  - Middlesex Passage, EC1A 7BG: Average of £13,225 per square metre (£1,229 per square foot);
  - Sugar Quay, EC3R 6AP: Average of £22,208 per square metre (£2,063 per square foot).
- 2.19 In addition, One Bishopsgate Plaza is currently on the market at an average asking price of £23,444 per square metre (£2,178 per square foot).
- 2.20 Units in existing developments achieved the following average values:
- Barbican Estate: £14,348 per square metre (£1,333 per square foot);
  - 172 Aldersgate Street: £12,206 per square metre (£1,134 per square foot);
  - 75 Little Britain: £13,229 per square metre (£1,229 per square foot);
  - Roman House: £17,287 per square metre (£1,606 per square foot);
  - Sugar Quay: £22,917 per square metre (£2,129 per square foot).
- 2.21 Highest sales values are achieved in the south of the City in close proximity to the River Thames, while values in other parts of the City are marginally lower.

### Private rented sector market context

- 2.22 The proportion of households privately renting in the UK is forecast to increase from under 10% in 1991 to circa 22% by the end of 2023, largely as a result of affordability issues for households who would have preferred to owner occupy<sup>3</sup>. Over the same period, the proportion of households owner occupying is forecast to fall from 69% to under 60%. These trends are set to continue in the context of a significant disparity between average household incomes and the amounts required to purchase a residential property in the capital. As a consequence of high demand for rented housing, rents in London have increased significantly after the pandemic and this is forecast to continue over the next few years.
- 2.23 Perceived softening of the housing for sale market has prompted developers to seek bulk sales to PRS operators, with significant flows of investment capital into the sector. Investment yields have remained stable in the zones 1 and 2 London market at 3.25% to 3.75%. PRS housing as an asset class is still emerging and valuing portfolios and development opportunities is difficult in the context of lack of data. As the market matures, more information may become available, facilitating more sophisticated approaches to valuing and appraising PRS developments.

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<sup>3</sup> Knight Frank 'Multihousing 2019: PRS Research 2019

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- 2.24 The PRS market is still immature and as a consequence there is little data available on management costs and returns that would assist potential entrants into the market. However, viability assessments of schemes brought forward to date confirm that profit margins are lower than build for sale on the basis that a developer will sell all the PRS units in a single transaction to an investor/operator. The income stream is therefore akin to a commercial investment where a 15% profit on GDV is typically sought.
- 2.25 A reduced profit margin helps to compensate (to some degree) for the discount to market value that investors will seek. PRS units typically transact at discounts of circa 10 to 15% of market value on the basis of build to sell. However, forward funding arrangements will help to reduce finance costs during the build period which offsets the reduction in market value to some degree.
- 2.26 On larger developments, PRS can help to diversify the scheme so that the Developer is less reliant on build to sell units. Building a range of tenures will enable developers to continue to develop schemes through the economic cycle, with varying proportions of units being provided for sale and rent, depending on levels of demand from individual purchasers. However, demand for build for rent product will also be affected by the health of the economy generally, with starting and future rent levels more acutely linked to changes in incomes of potential tenants.

### **Commercial market overview**

- 2.27 BNP Paribas Real Estate's *Central London Office Market Update Q2 2023* reported that the take up of office floorspace in the City totalled 2.22 million square feet, driven largely by sizeable lettings to law firms. The vacancy rate in the City was 10.4% in Quarter 2 2023, falling below the ten year average. Vacancy rates in the City have fallen for the last four consecutive quarters.
- 2.28 Supply of office floorspace decreased to 11.1 million square feet, a 14.1% year on year drop, but slightly higher than the ten-year average of 10.4 million square feet.
- 2.29 Prime rents were reported to have stabilised at £72.50 per square foot and increasing to £85 per square foot for City towers. On-going high levels of demand for 'best-in-class' floorspace has resulted in a widening spread between prime and premium rents in the City, with premium rents<sup>4</sup> reaching £95 per square foot. City Prime rents were higher than Midtown (£70 per square foot) and Canary Wharf (£52.50 per square foot) but marginally lower than Southbank prime rents (£76.50 per square foot).
- 2.30 Key leasing deals are summarised in Table 2.30.1 and key investment sales are summarised in Table 2.30.2.

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<sup>4</sup> Typically found on the highest floors in buildings with access to roof terraces or similar outdoor spaces.

**Table 2.30.1: Key City leasing deals**

Address	Square feet leased	Approx rent per square foot	Term	Tenant	Landlord
Sancroft, Paternoster Square (5th to 7th floors)	89,645	£82.50	Confidential	Goodwin Procter LLP	Mitsui Fudosan and Greycoat
One Leadenhall, EC3V (16th-20th)	77,000	£82.50	Confidential	Latham & Watkins	Brookfield Properties
One Liverpool Street, 1-14 Liverpool St, EC2M (2nd-5th)	67,482	£87.50	15 Years	Dentons	Aviva Investors
20 Ropemaker St, EC2M (18th-23rd)	65,380	£90.00	Confidential	PIC	Old Park Lane Management
The Carter, 11 Pilgrim St, EC4V (4th-6th)	46,000	£77.50	10 Years	Teneo	Credit Suisse
Sancroft, Paternoster Sq, EC1A (Ground-1st)	44,966	£62.50	10 Years	Convene	Greycoat

**Table 2.26.2: Key City investment sales**

Address	Lot size	Capital value per square foot	Yield	Purchaser	Vendor
Old Broad St	£209,000,000	789.58	6.00		Doric Asset Finance Ltd   Quadoro Investment GmbH
120 Fenchurch St	£312,500,000	1,462.45	4.22	Munich RE	Generali
135-137 Aldersgate St	£1,455,000	832.71	4.89	UCG	
1 New Street Sq	£349,500,000	1,264.01	4.71	Chinachem Group	Landsec
63 Queen Victoria St	£45,000,000	1,004.46	4.75	Habro Properties	Hoi Hup Realty Pte Ltd
4 Lindsey St	£158,500,000	1,440.91	4.26	Chinachem Group	Helical plc

## National Policy Context

### The National Planning Policy Framework

- 2.31 In February 2019, the government published a revised NPPF and revised PPG, with subsequent updates to the PPG in May and September 2019, July 2021 and August 2023. The government has indicated that it will publish a new NPPF following the Levelling Up and Regeneration Act 2023 ('LURA') receiving Royal assent.
- 2.32 Paragraph 34 of the NPPF states that "*Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan*".
- 2.33 Paragraph 57 of the NPPF suggests that "*Where up-to-date policies have set out the*

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*contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available”.*

- 2.34 In London and other major cities, the fine grain pattern of types of development and varying existing use values make it impossible to realistically test a sufficient number of typologies to reflect every conceivable scheme that might come forward over the plan period. Local Plan Strategic Policy S3 (Housing) requires a minimum of 35% affordable housing (50% on public sector land) but is applied ‘subject to viability’ having regards to site-specific circumstances. This enables schemes that cannot provide as much as 35% affordable housing to still come forward rather than being sterilised by a fixed or ‘quota’ based approach to affordable housing.
- 2.35 Prior to the publication of the updated NPPF, the meaning of a “*competitive return*” had been the subject of considerable debate. For the purposes of testing the viability of a Local Plan, the Local Housing Delivery Group<sup>5</sup> concluded that the existing use value of a site (or a credible alternative use value) plus an appropriate uplift, represents a competitive return to a landowner. Some members of the RICS considered that a competitive return should be determined by market value<sup>6</sup>, although there was no consensus around this view. The revised NPPF removes the requirement for “competitive returns” and is silent on how landowner returns should be assessed. The revised PPG indicates that viability testing of plans should be based on existing use value plus a landowner premium. The revised PPG also expresses a preference for plan makers to test the viability of planning obligations and affordable housing requirements at the plan making stage in the anticipation that this may reduce the need for viability testing developments at the development management stage. Local authorities have, of course, been testing the viability of their plan policies since the first NPPF was adopted<sup>7</sup>, but have adopted policies based on the most viable outcome of their testing, recognising that some schemes coming forward will not meet the targets. This approach maximises delivery, as there is flexibility for schemes to come forward at levels of obligations that are lower than the target, if a proven viability case is made. The risk of the approach suggested in the revised NPPF is that policy targets will inevitably be driven down to reflect the least viable outcome; schemes that could have delivered more would not do so.

### **CIL Policy Context**

- 2.36 As of April 2015 (or the adoption of a CIL Charging Schedule by a charging authority, whichever was the sooner), the ‘S106/planning obligations system’ i.e. the use of ‘pooled’ S106 obligations, was limited to a maximum of five S106 agreements. However, changes in the CIL regulations in September 2019 removed the pooling restrictions, giving charging authorities a degree of flexibility in how they use Section 106 and CIL. The adoption of a CIL charging schedule has always been discretionary for local authorities.
- 2.37 It is worth noting that some site specific S106 obligations remain available for negotiation, however these are restricted to site specific mitigation that meet the three tests set out at Regulation 122 of the CIL Regulations (as amended) and at paragraph 56 of the NPPF, and to the provision of affordable housing.
- 2.38 The CIL regulations state that in setting a charge, local authorities must strike “an appropriate

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<sup>5</sup> Viability Testing Local Plans: Advice for planning practitioners, June 2012

<sup>6</sup> RICS Guidance Note: Financial Viability in Planning, August 2012

<sup>7</sup> And also following the publication of Planning Policy Statement 3 which required that LPAs set affordable housing policies on the basis of both proven need *and* viability. The need for viability testing was established following the quashing in 2008 of Blyth Valley’s Core Strategy, which based its 30% affordable housing target on need alone, with no evidence on the viability of the policy.

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balance” between revenue maximisation on the one hand and the potentially adverse impact upon the viability of development on the other. The regulations also state that local authorities should take account of other sources of available funding for infrastructure when setting CIL rates.

- 2.39 From September 2019, the previous two stage consultation has been amended to require a single consultation with stakeholders. Following consultation, a charging schedule must be submitted for independent examination.
- 2.40 Once a Charging Authority adopts a charging schedule, the payment of CIL becomes mandatory on all new buildings and extensions to buildings with a gross internal floorspace over 100 square metres. The CIL regulations allow a number of reliefs and exemptions from CIL. Firstly, affordable housing and buildings with other charitable uses (if a material interest in the land is owned by the charity and the development is to be used wholly or mainly for its charitable purpose) are subject to relief. Secondly, local authorities may, if they choose, elect to offer an exemption on proven viability grounds. A local authority wishing to offer exceptional circumstances relief in its area must first give notice publicly of its intention to do so. The local authority can then consider claims for relief on chargeable developments from developers on a case by case basis. In each case, an independent expert with suitable qualifications and experience must be appointed by the claimant with the agreement of the local authority to assess whether paying the full CIL charge would have an unacceptable impact on the development’s economic viability.
- 2.41 The exemption would be available for 12 months, after which time viability of the scheme concerned would need to be reviewed if the scheme has not commenced. To be eligible for exemption, regulation 55 states that the Applicant must enter into a Section 106 agreement; and that the Authority must be satisfied that granting relief would not constitute state aid. It should be noted, however, that CIL cannot simply be negotiated away or the local authority decide not to charge CIL.
- 2.42 CIL Regulation 40 includes a vacancy period test for calculating CIL liability so that vacant floorspace can be offset in certain circumstances. Where a building that contains a part which has been in lawful use for a continuous period of at least six months within the last three years, ending on the day planning permission first permits the chargeable development, the floorspace may be offset against new floorspace for the purposes of calculating CIL liabilities.
- 2.43 The CIL regulations enable local authorities to set differential rates (including zero rates) for different zones within which development would take place and also for different types of development. The CIL Guidance set out in the PPG (paragraph 022 Reference ID: 25-022-20230104) clarifies that CIL Regulation 13 permits charging authorities to “*apply differential rates in a flexible way [including] in relation to geographical zones within the charging authority’s boundary; types of development; and/or scales of development*”. Charging Authorities taking this approach need to ensure that such different rates are justified by a comparative assessment of the economic viability of those categories of development. Further the PPG indicates that the definition of “use” for this purpose is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, although that Order does provide a useful reference point. The PPG also indicates (at paragraph 024 Reference ID: 25-024-20190901) that charging authorities may also set differential rates in relation to, scale of development i.e. by reference to either floor area or the number of units or dwellings.
- 2.44 The 2010 CIL regulations set out clear timescales for payment of CIL, which are varied according to the size of the payment, which by implication is linked to the size of the scheme. The 2011 amendments to the regulations allowed charging authorities to set their own timescales for the payment of CIL under regulation 69B if they choose to do so. This is an important issue for charging authorities to consider, as the timing of payment of CIL can have an impact on developers’ cashflows (the earlier the payment of CIL, the more interest the development will incur before the development is completed and sold).
- 2.45 Revised regulations came into effect on 1 September 2019 which introduced the following

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changes:

- Consultation requirements to be amended to remove the current two stage consultation process and replace this with a single consultation.
- Removal of the pooling restrictions contained within Regulation 123.
- Charging authorities will no longer be required to publish a Regulation 123 list.
- Changes to calculations of chargeable amounts in different cases, including where granting of amended scheme under Section 73 leads to an increased or decreased CIL liability.
- Removal of provisions which resulted in reliefs being lost if a commencement notice was not served before a developer starts a development. A surcharge will apply in future but the relief will not be lost.
- Introduction of 'carry-over' provisions for a development which is amended by a Section 73 permission, providing the amount of relief does not change.
- Charging authorities are to be required to publish an annual infrastructure funding statement, setting out how much CIL has been collected and what it was spent on. Similar provisions to be introduced for Section 106 funds.
- Charging authorities to publish annual CIL rate summaries showing the rates after indexation.

### Mayoral CIL

- 2.46 The City is located within Mayoral CIL Zone 1, which attracts a rate of £80 per square metre (£86.06 per square metre after indexation). The City also falls within the Central London MCIL2 charging area for office, retail and hotel use, with rates of £185, £165 and £140 per square metre respectively (£199.02, £177.50 and £150.61 per square metre respectively after indexation). Future receipts from the Mayoral CIL will be used to contribute towards strategic transport infrastructure, including Crossrail 2 (a north-east to south-west line) to relieve pressure on existing transport networks.

### City of London CIL

- 2.47 The City Corporation approved its CIL Charging Schedule on 1 May 2014 and it came into effect on 1 July 2014. Table 2.47.1 below summarises the prevailing rates of CIL. For office developments, a rate of £75 per square metre is applied, subject to indexation. There are two zones for residential; riverside developments £150 per square metre and £95 per square metre elsewhere. Developments for educational and medical use are nil rated and all other uses not identified are charged at £75 per square metre.

**Table 2.47.1: CIL rates per net additional square metre in the adopted Charging Schedule**

Development type	Zone	Adopted rate	2023 Indexed rate
Residential C3 use class	Riverside	£150	£222.80
Residential C3 use class	Rest of City	£95	£141.11
Offices	City-wide	£75	£111.40
Health facilities	City-wide	Nil	Nil
Education facilities	City-wide	Nil	Nil

All other uses	Whole City	£75	£111.40
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## Local Policy context

- 2.48 The draft City Plan 2040 sets out strategic priorities falling under three headings: economic objectives; social objectives; and environmental objectives. The objectives under each heading are summarised below:
- 2.49 Economic objectives:
- Ensuring new and refurbished office floorspace meets ESG priorities of occupiers;
  - Providing flexible and adaptable workspace meeting the needs of a wide range of occupiers;
  - Encouraging retail and evening/weekend economies, and creating/enhancing visitor attractions, culture and leisure;
  - Facilitating infrastructure requirements.
- 2.50 Social objectives:
- Delivering new and inclusive open spaces and enhancing public access to the River Thames;
  - Enhancing and transforming seven key areas of change;
  - Creating a more inclusive, healthier and safer city for everyone;
  - Delivering additional residential development within the City and on the City Corporation's estates outside the City boundary;
  - Enhancing the City's social infrastructure including creating new sports and recreation opportunities.
- 2.51 Environmental objectives:
- Prioritising retrofit/refurbishment over demolition and redevelopment;
  - Delivering urban greening and enhancing biodiversity;
  - Celebrating, protecting and enhancing the City's heritage assets;
  - Enhancing the City's skyline while protecting views of St Pauls Cathedral and Tower of London;
  - Ensuring exemplary design of development;
  - Promoting the use of the River Thames for passenger and freight transport and as a leisure facility;
  - Deliver attractive and accessible places to walk and cycle and enable sustainable transport and active travel.
- 2.52 The draft City Plan identifies seven 'Key Areas of Change' (Smithfield & Barbican; City Cluster; Liverpool Street; Aldgate & Tower; Pool of London; Blackfriars; and Fleet Street) in which strategic policies will direct certain types of development and growth (see Figure 2.52.1). The key areas in the north (Smithfield & Barbican and Liverpool Street) are the main beneficiaries of the Elizabeth Line, with three stations at Farringdon/Barbican and Moorgate/Liverpool Street. The City Cluster will be the main focus of tall buildings around the existing cluster, providing a significant expansion in the availability of office floorspace.
- 2.53 In order to assess the ability of schemes to absorb emerging plan policies, it is also necessary to factor in the pre-existing requirements in the adopted policies as well as the adopted CIL rates. The affordable housing policy is tested at various percentages, as it has a significant bearing on the viability of developments, even though it has been in place for a considerable period.
- 2.54 The draft City Plan 2040 (October 2023) includes a range of strategic policies. We have reviewed all these policies and have identified those which we consider to have a specific cost impact upon developments. This analysis is attached as Appendix 1 and summarised below:
- **Strategic Policy S3: Housing** – requires 50% affordable housing on public land and 35% on other sites. 10% of units to be constructed to meet Building Regulation requirement M4(3) 'wheelchair user dwellings' and 90% of dwellings to meet requirement M4(2) 'accessible and adaptable dwellings'.





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## Figure 2.52.1: Key Areas of Change

### Figure not included in this version

- **Policy HS6: Student housing** – requires that student housing developments provide 35% of units as affordable in line with London Plan policy.
- **Policy OF1: Office development** – seeks to prioritise reflat and refurbishment over new development. This policy also encourages provision of affordable workspace.
- **Strategic Policy S9: Vehicular Transport and Servicing** – requires occupiers to minimise the impact of freight and servicing trips through provision of on-site servicing facilities; timing deliveries outside peak hours; freight consolidation; and delivery by foot to bicycle. These requirements are unlikely to generate additional costs for developers as any costs will be borne by occupiers. Consolidation of deliveries should in any event result in reduced delivery costs. Scheduling deliveries outside daytime hours would result in reductions in delivery times as roads will be less congested.
- **Policy CV2: Provision of arts, culture and leisure facilities** – seeks provision of art, culture of leisure facilities. Tested in the study through financial contributions.
- **Policy DE1: Sustainability standards** – encourages retro-fit first and refurbishment in preference to demolition and rebuild; requirement for developments to meet BREEAM excellent or outstanding; achieve London Plan carbon emission and air quality/climate change requirements on site or through off-setting payment.
- **Policy DE5: Terraces and viewing galleries** – requires major developments and developments of tall buildings to provide free to enter, publicly accessible elevated spaces, including terraces, roof gardens and viewing galleries, or other retail and leisure facilities.
- **Strategic Policy S14: Open spaces and green infrastructure** – creating green infrastructure, including using planting and habitat creation.
- **Policy OS2: City Greening** – developments required to demonstrate the highest possible level of greening including green roofs, terraces and green walls, meeting Urban Greening Factor 0.3 as a minimum.
- **Policies OS3 and OS4: Biodiversity Net Gain** – developments to incorporate green roofs, walls and terraces, soft landscaping and trees and incorporate lighting designs which minimise impacts on biodiversity. Three biodiversity units per hectare to be achieved.
- **Strategic Policy S27: Planning Contributions** – developments to manage and mitigate their impacts through CIL and through Section 106 obligations towards site-specific mitigation; affordable housing; training, skills and job brokerage; carbon offsetting; local procurement in the City and neighbouring boroughs.

2.55 The City's Planning Obligations Supplementary Planning Document (May 2021) requires the following financial contributions:

- Developments resulting in a net increase of 500 square metres or more GIA of commercial floorspace are required to make a financial contribution of £50 per square metre (£57.21 per square metre after indexation) towards affordable housing;
- Developments resulting in a net increase of 500 square metres or more GIA of commercial floorspace are required to make a financial contribution towards local training, skills and employment initiatives at a rate of £30 per square metre (£34.39 per square metre after indexation) of additional floorspace (GIA).
- Residential developments providing 10 or more housing units are required to make a financial

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contribution of £5 per square metre (£5.73 per square metre after indexation) of additional floorspace (GIA) towards local training, skills and jobs brokerage.

- 2.56 Policy CV2 requires that developments contribute towards cultural development. We have assessed the following levels of contribution on all developments. In some cases, cultural facilities will be provided on-site and the financial contributions below act as a proxy for on-site delivery, as well as a payment in lieu where no on-site facilities are provided:
- £40 per square metre
  - £60 per square metre
  - £90 per square metre
  - £120 per square metre
  - £150 per square metre
  - £180 per square metre.

### **Development context**

- 2.57 The City of London is the smallest of the 33 local authorities in London, covering an area of approximately 1.12 square miles. It is bordered by the River Thames to the south and the boroughs of Camden, Islington and Hackney to the north, Westminster to the west and Tower Hamlets to the east. Its resident population of around 8,853 people is significantly smaller than its daytime population which is estimated to exceed 500,000 people. The City serves an important national and international function as a major finance hub, with a range of financial, insurance and commercial businesses located here, as well as accommodating the Bank of England and the London Stock Exchange.
- 2.58 Most of the City has a Public Transport Accessibility Level of 6b, the highest possible rating, with the remaining area being 6a. The City has 7 mainline railway stations and 10 London Underground Stations, as well as numerous bus services and River services. It also accommodates two stations on the central section of the Elizabeth Line (Farringdon/Barbican and Liverpool Street/Moorgate).
- 2.59 Despite losing many of its historic buildings as a result of bombing in the Second War, the City retains over 600 historic structures, including Monument, St Paul's Cathedral, Guildhall, the Royal Exchange, Mansion House and small sections of London Wall. More recently constructed structures have been listed, including the Barbican Estate and the Golden Lane Estate.
- 2.60 The City also accommodates some of the tallest buildings in London. Tower 42 (183 metres) was at one point the tallest building in the UK when constructed in 1980, but has subsequently been overtaken by more recent additions to the City skyline, 22 Bishopsgate (278 metres); Heron Tower (230 metres), 122 Leadenhall (225 metres), 8 Bishopsgate (204 metres) and the Scalpel (190 metres). The City's towers are all surpassed in height by the Shard (310 metres). Tall building in the City is constrained by the London view management framework.
- 2.61 Development in the City also must have regard to its impact on 27 conservation areas. The City seeks to balance the needs of businesses for additional office floorspace with the needs to positively contribute towards the setting of heritage assets.
- 2.62 Development tends to be incremental, with many planning applications seeking permission to extend and convert existing buildings, either for the same use, or for changes of office use to residential and hotels.

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## 3 Methodology and appraisal approach

- 3.1 Our methodology follows standard development appraisal conventions, using locally-based sites and assumptions that reflect local market and planning policy circumstances. The study is therefore specific to the City of London and tests the City Corporation's emerging planning policy requirements alongside adopted CIL rates.

### Approach to testing development viability

- 3.2 Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing (the hatched portion) and the payment from a Registered Provider ('RP') (the chequered portion) for the completed affordable housing units. For a commercial scheme, scheme value equates to the capital value of the rental income after allowing for rent free periods and purchaser's costs. The model then deducts the build costs, fees, interest, planning obligations, CIL and developer's profit. A 'residual' amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the brown portion of the right hand bar in the diagram.

#### Figure 3.2.1: Components of a residual valuation

#### Graph not included in this version

- 3.3 The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of existing use value, discussed later), it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.
- 3.4 Issues with establishing key appraisal variables are summarised as follows:
- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in 'normal' circumstances. In the City of London, all sites will have been developed previously. These sites can sometimes encounter 'exceptional' costs such as decontamination or archaeological investigations. Such costs can be very difficult to anticipate before detailed site investigations are undertaken;
  - Assumptions about development phasing, phasing of Section 106 contributions and infrastructure required to facilitate each phase of the development will affect residual values. Where the delivery of a planning obligation is deferred, the lower the real cost to the applicant (and the greater the scope for increased affordable housing and other planning obligations). This is because the interest cost is reduced if the costs are incurred later in the development cashflow; and
  - While Developer's Profit has to be assumed in any appraisal, its level is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. The PPG identifies a range of 15% to 20% for private housing development, with lower rates for some forms of housing such as BTR. Typically, developers and banks are targeting around 17.5% profit on value of the private housing element.
- 3.5 Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value'<sup>8</sup> or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites.

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<sup>8</sup> For the purposes of this report, existing use value is defined as the value of the site in its existing use, assuming that it remains in that use. We are not referring to the RICS Valuation Standards definition of 'Existing Use Value'.

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- 3.6 Clearly, however, landowners have expectations of the value of their land which often exceed the value of the existing use. Ultimately, if landowners' *reasonable* expectations are not met, they will not voluntarily sell their land and (unless a Local Authority is prepared to use its compulsory purchase powers) some may simply hold on to their sites, in the hope that policy may change at some future point with reduced requirements. However, the communities in which development is brought forward also have reasonable expectations that development will mitigate its impact, in terms of provision of community infrastructure, which will reduce land values. It is within the scope of these expectations that developers have to formulate their offers for sites. The task of formulating an offer for a site is complicated further still during buoyant land markets, where developers have to compete with other developers to secure a site, often speculating on increases in value.

### **Viability benchmark**

- 3.7 In 2019 (with re-issues in 2021 and 2023), the government published a revised NPPF, which indicates at paragraph 34 that *"Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan"*. The revised PPG indicates that for the purposes of testing viability, local authorities should have regard to existing use value of land plus a premium to incentivise release for redevelopment.
- 3.8 The Mayor's Affordable Housing and Viability SPG (August 2017) focuses on decision making in development management, rather than plan making, but indicates that benchmark land values should be based on existing use value plus a premium which should be *"fully justified based on the income generating capacity of the existing use with reference to comparable evidence on rents, which excludes hope value associated with development on the site or alternative uses"*.
- 3.9 The Local Housing Delivery Group published guidance<sup>9</sup> in June 2012 which provides guidance on testing viability of Local Plan policies. The guidance notes that *"consideration of an appropriate Threshold Land Value [or viability benchmark] needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy"*.
- 3.10 It is important to stress, therefore, that there is no single threshold land value at which land will come forward for development. The decision to bring land forward will depend on the type of owner and, in particular, whether the owner occupies the site or holds it as an asset; the strength of demand for the site's existing use in comparison to others; how offers received compare to the owner's perception of the value of the site, which in turn is influenced by prices achieved by other sites. Given the lack of a single threshold land value, it is difficult for policy makers to determine the minimum land value that sites should achieve. This will ultimately be a matter of judgement for each planning authority.
- 3.11 Relying upon historic transactions to inform benchmark land values is a fundamentally flawed approach, as offers for these sites will have been framed in the context of current planning policy requirements, so an exercise using these transactions as a benchmark would tell the City Corporation nothing about the potential for sites to absorb as yet unadopted policies. Even prior to the publication of the 2019 PPG, various Local Plan inspectors and CIL examiners have accepted the key point that Local Plan policies and CIL will ultimately result in a reduction in land values, so benchmarks must consider a reasonable minimum threshold which landowners will accept. For local authority areas such as Tower Hamlets, where the vast majority of sites are previously developed, the 'bottom line' in terms of land value will be the value of the site in its existing use.
- 3.12 Commentators frequently make reference to 'market testing' of benchmark land values. These respondents advocate using benchmarks that are based on the prices that sites have been bought and sold for. There are significant weaknesses in this approach which none of the respondents who

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<sup>9</sup> Viability Testing Local Plans: Advice for planning practitioners, Local Housing Delivery Group, Chaired by Sir John Harman, June 2012

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advocate this have addressed. In brief, prices paid for sites are a highly unreliable indicator of their actual value, due to the following reasons:

- Transactions are often based on bids that ‘take a view’ on squeezing planning policy requirements below target levels. This results in prices paid being too high to allow for policy targets to be met. If these transactions are used to ‘market test’ emerging Local Plan policies and/or CIL rates, the outcome would be unreliable and potentially highly misleading.
- Historic transactions of housing sites are often based on the receipt of grant funding, which is no longer available in most cases.
- There would be a need to determine whether the developer who built out the comparator sites actually achieved a profit at the equivalent level to the profit adopted in the viability testing. If the developer achieved a sub-optimal level of profit, then any benchmarking using these transactions would produce unreliable and misleading results.
- Developers often build assumptions of growth in sales values into their appraisals, which provides a higher gross development value than would actually be achieved today. Given that our appraisals are based on current values, using prices paid would result in an inconsistent comparison (i.e. current values against the developer’s assumed future values). Using these transactions would produce unreliable and misleading results.

3.13 These issues are evident from a recent BNP Paribas Real Estate review of evidence submitted in viability assessments where the differences between the value ascribed to developments by applicants and the amounts the sites were purchased for by the same parties. The prices paid exceeded the value of the consented schemes by between 52% and 1,300%, as shown in Figure 3.13.1. This chart compares the residual value of four central London development proposals to the sites’ existing use values and the price which the developers paid to acquire the sites (all the data is on a per unit basis).

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**Figure 3.13.1: Comparison of residual values to existing use value and price paid for site**

Graph not included in this version

- 3.14 For the reasons set out above, the approach of using current use values is a more reliable indicator of viability than using market values or prices paid for sites, as advocated by certain observers. Our assessment follows this approach, as set out in Section 4.
- 3.15 The PPG indicates that planning authorities should adopt benchmark land values based on existing use values. It then goes on to suggest that the premium above existing use value can be informed by land transactions. This would in effect simply level benchmark land values up to market value, with all the issues associated with this (as outlined above). The PPG does temper this approach by indicating that *“the landowner premium should be tested and balanced against emerging policies”* and that *“the premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements”*. The guidance also stresses in several places that “price paid for land” should not be reflected in viability assessments. This would exclude use of transactional data thus addressing the issues highlighted in paragraphs 3.11 and 3.12.

## 4 Appraisal assumptions

4.1 We have appraised 27 development typologies on sites across the City to represent the types of sites that the City Corporation expects to come forward over the life of the new Local Plan. The development typologies are identified in Table 4.1.1 overleaf with additional detail provided in Appendix 2. The typologies are informed by actual planning applications that have been submitted to the City Corporation and are either completed, under construction, or not yet commenced. The proposed uses are as follows:

- 16 of the typologies are office developments involving either complete demolition and redevelopment; or partial demolition and extension; and refurbishment;
- 5 of the typologies are demolition and redevelopments or changes of use for hotel use;
- 3 of the typologies are demolition and redevelopments, or changes of use for residential use;
- 3 of the typologies are demolition and redevelopments, or changes of use for student housing use.

4.2 Floor areas in the table are gross internal areas and we make adjustments in our appraisals to reflect the net saleable/leased areas within the developments. The appraisals include sufficient gross internal floorspace to accommodate the space standards and amenity standards in Policy D6 of the London Plan.

### Residential sales values

4.3 Residential values in the City reflect national trends in recent years but do of course vary between different sub-markets, as noted in Section 2. We have considered comparable evidence of new build schemes in the City to establish appropriate values for testing purposes (as discussed in Section 2). This exercise indicates that developments in the City will attract average sales values ranging from circa £13,000 per square metre (£1,208 per square foot) to £25,000 per square metre (£2,323 per square foot). As noted in Section 2, the highest sales values are achieved in the south of the City on sites in close proximity to the River Thames.

4.4 As noted earlier in the report, Knight Frank predict that sales values in Prime Central London (including the City) will increase over the medium term (i.e. the next five years). Whilst this predicted growth cannot be guaranteed, we have run a series of sensitivity analyses assuming growth in sales values accompanied by cost inflation as summarised in Table 4.4.1. While these growth scenarios are based on a number of forecasts, they cannot be guaranteed and the results which these scenarios produce must be viewed as indicative only. For commercial developments, we have increased rents by 10%.

**Table 4.4.1: Growth scenario**

Year	2023 (Year 1)	2024 (Year 2)	2025 (Year 3)	2026 (Year 4)	2027 (Year 5)	2028 and each year thereafter (Year 6)
Values	0.0%	2.0%	3.0%	4.0%	4.0%	4.0%
Costs	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

### Affordable housing tenure and values

4.5 Strategic Policy S3 requires that schemes with the potential for more than 10 units provide a minimum of 35% affordable housing on-site, but exceptionally affordable housing may be provided off-site if it can be demonstrated to the City Corporation's satisfaction that on-site delivery is not possible. Developments on public sector land are required to provide 50% affordable housing.

4.6 For the purposes of testing potential levels of affordable housing to inform the new plan, our appraisals assume that the rented housing is let at rents that do not exceed London Affordable Rents, as shown in Table 4.6.1. These rents are broadly equivalent to social/target rents and are therefore the lowest rents that the City Corporation could consider in terms of its policy options.

**Table 4.1.1: Development typologies tested in the study (all areas are square metre gross internal areas)**

No	Description	Site area HA	Resi Units	Ave GIA sqm per unit	Residential floorspace	Retail	Offices	C1 Hotel	Student	F1/F2	Ancillary incl viewing gallery	No of floors
1	Demolition of existing office, construction of new 32 storey office building with viewing gallery and retail floorspace on ground floor	0.16	-	-	-	580	35,137				928	
2	Demolition of existing office, construction of new 57 storey office building with viewing gallery	0.42	-	-	-	1,837	96,941				16,370	
3	Office building – extensive refurbishment	0.28	-	-	-	390	21,620					
4	Overstated development of new 10 storey office with ground floor retail	0.27	-	-	-	615	24,134					
5	Demolition of existing office; construction of new 12 storey office	0.21	-	-	-	1,022	16,084			86	2,466	
6	Demolition of existing office; construction of new 10 storey office	0.16	-	-	-	731	8,069					
7	Office building – extensive refurbishment	0.49	-	-	-	4,234	47,626					
8	Demolition of existing office building and construction of 14 storey office building with ground floor retail	0.17	-	-	-	1,292	32,236					
9	Existing building retained. Roof removed and replaced by new fourth and fifth floors	0.03	-	-	-	0	1,540					
10	Office building – light refurbishment	0.32	-	-	-	0	26,450					
11	Office building – light refurbishment	0.66	-	-	-	1,088	45,393					
12	Existing building retained. Demolition of top floor and replacement by two new floors.	0.05	-	-	-	0	2,714					
13	Demolition of existing office and development of new office	0.02	-	-	-	113	550					



No	Description	Site area HA	Resi Units	Ave GIA sqm per unit	Residential floorspace	Retail	Offices	C1 Hotel	Student	F1/F2	Ancillary incl viewing gallery	No of floors
14	Demolition of existing offices and replacement by new mixed office, retail and leisure development	0.70	-	-	-	20,388	44,889				7,939	
15	Demolition of existing office and replacement by new office	0.53	-	-	-	2,319	42,984					
16	Extension to existing building to provide new office and retail floorspace	0.45	-	-	-	148	3,612					
17	Demolition of existing offices and development of new hotel	0.10	-	-	-	868		10,084				
18	Demolition of existing offices and development of new hotel	0.01	-	-	-	995		5,465			860	
19	Demolition of existing offices and development of new hotel	0.17	-	-	-	0		11,502				
20	Demolition of existing offices and development of new hotel	0.14	-	-	-	0		5,323				
21	Change of use of existing offices to hotel with ancillary restaurant	0.05	-	-	-	330		3,961				
22	Demolition of existing staff accommodation and construction of 104 unit residential scheme	0.21	104	107	11,113	0						
23	Redevelopment of existing social housing estate (nil value assumed) and construction of 506 unit residential scheme with D1/D2 floorspace including health club	0.93	506	90	45,771	1,427				242	1,145	
24	Change of use of storage space above shops to residential units	0.01	8	100	803	0						
25	Student housing scheme (769 rooms)	0.20	-	-	-	0			24,528			
26	Student housing extension scheme (9 additional rooms)	0.01	-	-	-	262			225		51	
27	Student housing extension scheme (25 additional rooms)	0.00	-	-	-	-			868			

**Table 4.6.1: Affordable housing rents (per week)**

Rent type	1 bed	2 bed	3 bed	4 bed
London Affordable Rent (2023/24)	£168.34	£178.23	£188.13	£198.03
London Living Rent (intermediate tenure) <sup>10</sup>	£323.08	£323.08	£323.08	£323.08

- 4.7 RPs are permitted to increase rents by CPI plus 1% per annum which we have reflected in our assessment.
- 4.8 The key issue for development viability is the capital value that each tenure will generate in terms of receipt from the acquiring RPs, as this will be one of the inputs that constitutes the Gross Development Value of a development. Table 4.8.1 summarises the capital values that each tenure would generate, using a mix of 25% one beds, 35% two beds, 30% three beds and 10% four beds for rented units and 50% one beds and 50% two beds for intermediate housing.

**Table 4.8.1: Capital values of affordable housing (per square foot Net Internal Area)**

Tenure	1 bed	2 bed	3 bed	4 bed	Blended value <sup>11</sup>
London Affordable Rent	£324	£261	£205	£184	£229
London Living Rent	£638	£475	£342	£285	£407

- 4.9 The GLA/HCA 'Affordable Homes Programme 2021-2026' document clearly states that RPs will not receive grant funding for any affordable housing provided through planning obligations on developer-led developments. Consequently, all our appraisals assume nil grant. Clearly if grant funding is made available to individual schemes over the plan period, it should facilitate an increase in the provision of affordable housing when developments come forward.

### Rents and yields for commercial development

- 4.10 Our assumptions on capital values for the office, retail, hotel and student retail, office and industrial floorspace are summarised in Table 4.10.1. These assumptions are informed by lettings of similar floorspace in the area over the past year (see Appendix 3). Our appraisals assume a 12-month rent-free period for retail and a 24-month rent free period for office floorspace. We deduct 6.8% of capital value to reflect deduction of purchaser's costs.

**Table 4.10.1: Commercial rents (£s per square metre) and yields**

Commercial floorspace	Rent per square metre	Investment yield	Rent free period (months)
Retail	£800	5.75%	12
Office	£843	5.25%	24
Hotel	£750	5.00%	6
Student housing	£586	4.50%	0

### Build costs

- 4.11 We have sourced build costs from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes (see Appendix 4). Base costs (adjusted for local circumstances by reference to BICS multiplier) are as follows:

<sup>10</sup> Based on GLA benchmark rents for City of London

<sup>11</sup> Net of RP's on-costs at 5%

**Table 4.11.1: BCIS build costs**

Type of development	BCIS cost	Base cost per square metre	External works	Total (before policy costs)
Residential flats	Flats 6+ storeys (upper quartile)	£2,801	10%	£3,081
Offices	Offices – Air Conditioned generally (upper quartile)	£3,262	10%	£3,588
Office refurbishment	Office refurbishment – Air Conditioned generally (upper quartile)	£2,270	10%	£2,497
Office towers <sup>12</sup>	Offices – Air Conditioned generally (20% premium on upper quartile)	£3,914	10%	£4,306
Retail units	Shops – generally (upper quartile)	£2,891	10%	£3,180
Hotels	Hotels (upper quartile)	£4,016	10%	£4,418
Student housing	Students’ Halls of residences	£3,076	10%	£3,384
F1/F2 uses	Community centres (upper quartile)	£3,599	10%	£3,959

4.12 As noted in Table 4.11.1, the base costs above are increased by 10% for residential, hotels and student housing, and 10% for commercial to account for external works (including car parking spaces, where provided).

### Zero carbon and BREEAM

4.13 Recent studies for other London authorities <sup>13</sup> indicate that the costs of achieving zero carbon development (regulated energy) typically amount to no more than 5% of construction costs. The cost varies, depending on the type of development, as summarised in Table 4.13.1.

**Table 4.13.1: Cost uplift for achieving net zero carbon (Etude study on behalf of LB Newham)**

Type of development	Cost of on-site technology	Residual offsetting required (as % of construction cost)	Total cost uplift (% of construction costs)
House	4.2% - 5.2%	None	5%
Low rise residential block	3.4% - 4.3%	None	
Mid-rise residential block	3.1% - 3.7%	0.8%	3.9% - 4.5%
High-rise block	1.7% - 2.7%	1.3%	3% - 4%
High-rise office	1.7% - 2.7%	1.3%	3% - 4%

4.14 London Plan Policy SI2 ‘Minimising greenhouse gas emissions’ seeks carbon offset contributions of £95 per tonne of CO<sub>2</sub> emitted by a development. The City Corporation is seeking to move towards net zero carbon buildings, but recognises that this may not always be possible. Where it is not possible, the City Corporation will seek a financial contribution to offset the carbon emitted. Analysis by Westminster Council’s monitoring team indicates that the average regulated CO<sub>2</sub> emissions per square metre of development in 2023/23 was 0.0254, equivalent to 2.54 tonnes of CO<sub>2</sub> for a 100 square metre flat. Offsetting is typically required for a period of 30 years, reflecting the lifetime of on-site technologies and the period beyond which the National Grid is due to be decarbonised. We have tested the following carbon offset payment per tonne of CO<sub>2</sub> emissions:

<sup>12</sup> Typologies 1 and 2 with 32 and 57 storeys respectively.

<sup>13</sup> For example, LB Newham – study by Etude (2022)

- £95;
- £300;
- £330;
- £370;
- £750; and
- £880.

### Accessibility standards

- 4.15 We have tested the impact of applying accessible and adaptable dwellings standards (Category 2 and Category 3) at the rates summarised in Table 4.15.1. These costs are based on the MHCLG ‘Housing Standards Review: Cost Impacts’ study, but converted into percentages of base construction costs (see calculations at Appendix 5) so that they can be applied to contemporary costs.

**Table 4.15.1: Costs of accessibility standards (% uplift to base construction costs)**

Standard	Flats	Houses
M4(2) accessible and adaptable	1.15%	0.54%
M4(3) (a) wheelchair user - adaptable	9.28%	10.77%
M4(3) (b) wheelchair user - accessible	9.47%	23.80%

- 4.16 Our appraisals assume that all units are constructed to meet wheelchair accessibility standards (Category 2) and that Category 3 applies to 10% of dwellings. M4(3) (a) applies to market housing units and M4(3) (b) applies to affordable units.

### Professional fees

- 4.17 In addition to base build costs, schemes will incur professional fees, covering design and valuation, highways consultants and so on. Our appraisals would typically incorporate a 10% allowance, which is at the middle to higher end of the range for most schemes. However, to account for additional professional input related to Health Impact Assessment; Evening Uses Management Plans; Delivery and Servicing Plans and so on, we have increased the allowance to 10.5%.

### Development finance

- 4.18 Our appraisals assume that development finance can be secured at a rate of 6%, inclusive of arrangement and exit fees, reflective of medium term funding conditions over the plan period.

### Commercial marketing

- 4.19 Our appraisals incorporate an allowance of 10% of first year’s rent for letting agents fees and 5% of first year’s rent for letting legal fees. We also incorporate an allowance of 1% of capital value for sales agent fees and 0.5% for sales legal fees.

### Residential marketing costs

- 4.20 Our appraisals incorporate an allowance of 3% for marketing costs, which includes marketing facilities, overseas marketing costs, and agents’ fees, plus 0.25% for sales legal fees.

### Mayoral CIL

- 4.21 The City is located within Mayoral CIL Zone 1, which attracts a rate of £80 per square metre before indexation. The City also falls within the Central London MCIL2 charging area for office, retail and hotel use, with rates of £185, £165 and £140 per square metre respectively. Future receipts from the Mayoral CIL will be used to contribute towards strategic transport infrastructure, including Crossrail 2 (a north-east to south-west line) to relieve pressure on existing transport networks. The rates are summarised in Table 4.21.1.

**Table 4.21.1: Mayoral CIL (per square metre)**

Development type	Adopted rates	Indexed rates
Residential	£80	£86.06
Offices	£185	£199.02
Retail	£165	£177.50
Hotels	£140	£150.61

### City of London CIL

- 4.22 As previously noted, the City Corporation approved its CIL Charging Schedule on 1 May 2014 and it came into effect on 1 July 2014. Table 4.22.1 below summarises the prevailing rates of CIL. For office developments, a rate of £75 per square metre is applied, subject to indexation. There are two zones for residential; riverside developments £150 per square metre and £95 per square metre (before indexation) elsewhere. Developments for educational and medical use are nil rated and all other uses not identified are charged at £75 per square metre (before indexation). The indexed rates are summarised in Table 4.22.1.

**Table 4.22.1: CIL rates per net additional square metre in the adopted Charging Schedule**

Development type	Zone	Adopted rate	2023 Indexed rate
Residential C3 use class	Riverside	£150	£222.80
Residential C3 use class	Rest of City	£95	£141.11
Offices	City-wide	£75	£111.40
Health facilities	City-wide	Nil	Nil
Education facilities	City-wide	Nil	Nil
All other uses	Whole City	£75	£111.40

- 4.23 The amended CIL Regulations specify that if any part of an existing building is in lawful use for 6 months within the 36 months prior to the time at which planning permission first permits development, all of the existing floorspace will be deducted when determining the amount of chargeable floorspace. This is likely to be the case for many development sites in City of London but not all existing floorspace will qualify. Therefore, for the purposes of our appraisals, we have assumed that there is no deduction for existing floorspace to ensure that the proposed CIL rate is viable for developments where there is no qualifying existing floorspace to net off.

### Section 106 costs

- 4.24 To account for residual Section 106 requirements, we have included an allowance of £35 per square metre for non-residential development and up to £2,500 per unit for residential development. The actual amounts will of course be subject to site-specific negotiations when schemes are brought forward through the development management process.
- 4.25 In addition to the allowances above, our appraisals include an allowance for Section 278 works of £1,200 per residential unit and £15 per square metre for commercial developments
- 4.26 As noted in Section 2, the City Corporation's Planning Obligations SPD seeks a contribution on schemes providing 500 square metres GIA net increase in commercial floorspace to contribute £50 per square metre (£57.21 per square metre after indexation) towards affordable housing. Schemes providing the same net area, plus schemes providing 10 or more residential units are required to contribute £30 per square metre (£34.39 per square metre after indexation) to local training, skills and jobs brokerage.
- 4.27 In the emerging Plan, the Council intends to seek financial contributions or on-site culture. We have

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tested a range of contributions per square metre GIA, as follows:

- £40
- £60
- £90
- £120
- £150
- £180

### **Urban greening and biodiversity net gain**

- 4.28 We have used provision of green roofs as a proxy one of the various methods of achieving urban greening factor required by emerging Policy OS2. The City's '*Urban Greening Factor Study*' (July 2018) indicates that the cost of green roofs was at that time circa £100 per square metre. After allowing for indexation (based on the BCIS Tender Price Index<sup>14</sup>), the cost has increased to £120 per square metre of roof space.
- 4.29 The City's emerging policy seeks 3 biodiversity units per hectare. Defra consultations indicate that the cost of a biodiversity unit is circa £25,000. We have assumed a cost of £50,000 per unit, or £150,000 per hectare to achieve 3 units per hectare.

### **Development and sales periods**

- 4.30 Development and sales periods vary between type of scheme. However, our sales periods for residential schemes are based on an assumption of a sales rate of 6 units per month, with an element of off-plan sales reflected in the timing of receipts. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 8 units per month might be expected. We also note that many schemes in London have sold entirely off-plan, in some cases well in advance of completion of construction. Clearly markets are cyclical and sales periods will vary over the economic cycle and the extent to which units are sold off-plan will vary over time. Our programme assumptions assume that units are sold over varying periods after completion, which is a conservative approach. There are fewer opportunities for residential development in the City which restricts supply and maintains pricing.
- 4.31 For commercial development, we have assumed that the completed floorspace is sold at practical completion. As noted earlier, our appraisals assume a 24 month rent-free period for office developments; 12 months for retail; and 6 months for hotels. These deferrals are reflected in the sum paid by the Investor.

### **Developer's profit**

- 4.32 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the boards of the major housebuilders will set targets for minimum profit).
- 4.33 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.
- 4.34 Following the fallout from the September 2022 'Fiscal Event', perceived risk in the in the UK housing market is now receding and major agents are predicting growth over the next five years in prime central London markets. We have therefore adopted a profit margin of 18% of private GDV for testing purposes, although individual schemes may require lower or higher profits, depending on site specific circumstances. We have applied a profit of 15% of GDV on commercial developments, in

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<sup>14</sup> BCIS All In Tender Price Index Q3 2018 – 327. Q4 2023 – 388. Change equals 18.7%

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line with the assumption applied in scheme-specific viability assessments.

- 4.35 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RP prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RP, not by the developer.

### **Exceptional costs**

- 4.36 Exceptional costs can be an issue for development viability on previously developed land. These costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, in the absence of detailed site investigations, it is not possible to provide a reliable estimate of what exceptional costs might be. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. An 'average' level of costs for abnormal ground conditions and some other 'abnormal' costs is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample.

### **Benchmark land value**

- 4.37 Benchmark land value, based on the existing use value of sites is a key consideration in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's existing use value. Existing use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Existing use value is effectively the 'bottom line' in a financial sense and therefore a key factor in this study.
- 4.38 We have arrived at a broad judgement on the likely range of benchmark land values based on the existing floorspace and uses for each of the typologies. The calculations assume that the landowner has made a judgement that the current building and/or planning use does not yield an optimum use of the site; for example, it has fewer storeys than neighbouring buildings; or there is a general lack of demand for the type of space, resulting in low rentals, high yields and high vacancies (or in some cases no occupation at all over a lengthy period). We would not expect a building which makes optimum use of a site and that is attracting a rent in line with market norms to come forward for development, as residual value may not exceed current use value in these circumstances.
- 4.39 Redevelopment proposals that generate residual land values below current use values are unlikely to be delivered. While any such thresholds are only a guide in 'normal' development circumstances, it does not imply that individual landowners, in particular financial circumstances, will not bring sites forward at a lower return or indeed require a higher return. If proven current use value justifies a higher benchmark than those assumed, then appropriate adjustments may be necessary. As such, current use values should be regarded as benchmarks rather than definitive fixed variables on a site by site basis.
- 4.40 The vast majority of the typologies were occupied by office or retail floorspace prior to redevelopment or change of use/extension. For existing office floorspace, we have applied a lower quartile rent of £322 per square metre, based on lettings identified by Co-Star between November 2022 and November 2023 and a higher yield of 6% (against 5.25% applied for new developments). For existing retail floorspace, we have applied a lower quartile rent of £358 per square metre and a yield of 6% (against 5.75% for new build). We allowed 36 months for voids prior to reletting and a rent free period.



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## 5 Appraisal outputs

- 5.1 The full inputs to and outputs from our appraisals of the various developments are set out in Section 6 and appendices 4 and 5. We have appraised 27 development typologies, reflecting different densities and types of development across the City (redevelopments; partial demolitions and extensions; and changes of use). These typologies include residential and non-residential uses, including offices, hotels, student housing and retail floorspace.
- 5.2 Each appraisal of residential schemes incorporates (where relevant) the following levels of affordable housing in line with emerging Strategic Policy S3 alongside alternative percentages:
- 50% (policy target for publicly-owned land);
  - 40%;
  - 35% (policy target for privately owned land);
  - 30%;
  - 25%;
  - 20%;
  - 15%;
  - 10%;
  - 5%; and
  - 0%.
- 5.3 The emerging Plan indicates that developments should provide “*an appropriate mix of affordable tenures, addressing identified need in the City of London, including social or London affordable rented housing and intermediate housing (living rent, shared ownership or other genuinely affordable products) for rent or sale*”. For testing purposes only, we have assumed a tenure mix of 70% London Affordable Rent and 30% Shared Ownership.
- 5.4 For each residential development typology, we have tested a range of sales values, reflecting the spread across the City identified in the previous section.
- 5.5 The colour coding in tables has the following meaning:
- **Green:** the residual land value of a typology exceeds the benchmark land value, so the development is viable with the package of planning requirements incorporated;
  - **Orange:** the residual land value of a typology is no more than 10% below the benchmark land value;
  - **Red:** we show the result shaded green, to indicate that the Scheme is viable. Where the residual land value is either negative or lower than the benchmark land value, the result is shaded red, to indicate that it is unviable.
- 5.6 For other policy requirements (contributions towards cultural facilities; carbon reduction; Urban Greening; accessibility standards; planning contributions etc), we have used selected data from the results to test the impact of emerging policies.
- 5.7 All the residential scenarios are tested with the growth and inflation rates summarised in Table 4.4.1. These results are attached at Appendix 7.



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## 6 Assessment of appraisal results

6.1 This section sets out the results of our appraisals with the residual land values calculated for scenarios with sales values and capital values reflective of market conditions across the City. We have tested the impact of emerging plan policies to establish their broad viability on a cumulative basis.

### **Affordable housing**

6.2 As noted in Section 5, we have tested a range of affordable housing scenarios between 0% and 50%.

6.3 Only schemes that provide 10 or more units are required to provide affordable housing on-site. Site typologies 22 and 23 exceed the 10-unit threshold and are therefore required to provide a minimum of 35% affordable housing (50% if they are publicly owned). Site typology 23 is an estate regeneration scheme providing a total of 506 new dwellings, but needs to reprovide the existing 194 units. This equates to 38% of the 506 new units to be constructed, slightly exceeding the 35% required by emerging policy.

6.4 The appraisal results are summarised in tables 6.4.1 to 6.4.9. Each of the typologies are run with varying sales values within the range identified in Section 4 (i.e. £13,000 to £25,000 per square metre). This enables us to identify if there are any differences in viability in the various submarkets in the City.

6.5 Site typology 22 is a publicly owned site which was historically used to provide staff accommodation at sub-market rents prior to being declared surplus to requirements. Consequently, its existing use value is relatively low in comparison to other sites in the City. The redevelopment of the Site for residential housing generates residual land values that are higher than the existing use value (£15.3 million), until the affordable housing exceeds 35%. At the lowest residential sales values (Table 6.4.1), the typology generates a residual land value of £16.49 million when 35% affordable housing is provided. At the highest sales value, the typology generates a residual land value of £54.24 million (with 35% affordable housing) and £42.53 million (with 50% affordable housing) - see Table 6.4.9.

6.6 Site typology 23 is an estate regeneration scheme which will result in an increase in the number of homes from the existing 194 to 506, with a requirement to provide at least 194 homes on existing tenancy terms. After reproviding the existing units, the scheme is then required to provide as many of the additional units as affordable housing as financially viable. The existing use value of the Site will be low as a result of the low rents charged to existing tenants and limited remaining economic life of the buildings, the latter resulting in the decision to redevelop. The benefits of a low existing use value (in terms of viability) will be offset to a degree by the costs of statutory compensation to tenants for moving and the costs of acquiring leasehold interests. This will facilitate a high proportion of affordable housing and demonstrates also that the requirements of Policy H3 for existing affordable housing to be reprovided are achievable. With 50% affordable housing, the typology generates a residual land value of £39.46 million, which increases to £99.96 million (at the lowest end of the value range – see Table 6.4.1) or £173.34 million (at the highest end of the value range – see Table 6.4.9). In principle, this would mean that the scheme should be able to reprovide the existing units plus a significant proportion of the additional units as affordable.

6.7 Site typology 26 is a small residential scheme developed on a site which is currently occupied as office and retail floorspace, resulting in a high existing use value. The existing GIA is 473 square metres and the total space following redevelopment increases to only 803 square providing 8 units. As a result of this limited uplift in floorspace, the residual land value is very close to or lower than the existing use value with zero affordable housing when the scheme is tested with sales values at the lower end of the City-wide range (see Table 6.4.1). When tested with the highest sales values in the City-wide range and with 35% affordable housing, the residual land value exceeds the benchmark land value.

**Table 6.4.1: Appraisal results – affordable housing testing – value A (£13,000 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£15,297,660	£33,980,216	£31,481,378	£28,982,541	£26,483,703	£23,984,865	£21,486,027	£18,987,190	£16,488,352	£13,989,514	£11,490,676	£8,991,838
23	Residential	506	£31,015	£140,823,837	£130,723,691	£120,623,545	£110,523,399	£100,414,903	£90,255,217	£80,095,533	£69,935,848	£59,776,163	£49,616,479	£39,456,794
24	Residential	8	£2,555,418	£2,531,261	£1,067,306	£939,699	£812,092	£684,485	£556,878	£429,271	£301,664	£174,057	£46,450	£-82,306

**Table 6.4.2: Appraisal results – affordable housing testing – value B (£14,500 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£16,026,120	£42,467,473	£39,544,272	£36,621,071	£33,697,871	£30,774,670	£27,851,470	£24,928,269	£22,005,068	£19,081,868	£16,158,667	£13,235,467
23	Residential	506	£31,015	£174,613,373	£162,865,973	£151,103,666	£139,310,180	£127,516,694	£115,723,208	£103,929,722	£92,136,236	£80,273,212	£68,405,440	£56,537,668
24	Residential	8	£2,555,418	£3,182,163	£1,539,178	£1,386,737	£1,234,294	£1,081,852	£929,409	£776,966	£624,524	£472,082	£319,640	£167,197

**Table 6.4.3: Appraisal results – affordable housing testing – value C (£16,000 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£16,754,580	£50,954,729	£47,607,166	£44,259,602	£40,912,038	£37,564,475	£34,216,912	£30,869,349	£27,521,785	£24,174,222	£20,826,658	£17,479,095
23	Residential	506	£31,015	£208,260,525	£194,830,767	£181,401,008	£167,971,250	£154,541,491	£141,111,734	£127,636,482	£114,149,656	£100,662,830	£87,176,004	£73,618,542
24	Residential	8	£2,555,418	£3,833,065	£2,011,052	£1,833,773	£1,656,496	£1,479,218	£1,301,941	£1,124,662	£947,385	£770,107	£592,829	£415,551

**Table 6.4.4: Appraisal results – affordable housing testing – value D (£17,500 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£17,483,040	£59,441,985	£55,670,059	£51,898,133	£48,126,207	£44,354,281	£40,582,354	£36,810,428	£33,038,502	£29,266,575	£25,494,649	£21,722,723
23	Residential	506	£31,015	£241,907,677	£226,795,560	£211,683,444	£196,571,329	£181,459,213	£166,347,097	£151,234,981	£136,122,866	£120,982,911	£105,802,744	£90,622,578
24	Residential	8	£2,555,418	£4,483,968	£2,482,924	£2,280,811	£2,078,698	£1,876,585	£1,674,471	£1,472,358	£1,270,245	£1,068,132	£866,018	£663,906

**Table 6.4.5: Appraisal results – affordable housing testing – value E (£19,000 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£18,211,500	£67,929,241	£63,732,952	£59,536,663	£55,340,374	£51,144,085	£46,947,796	£42,751,507	£38,555,218	£34,358,929	£30,162,640	£25,966,351
23	Residential	506	£31,015	£275,482,601	£258,728,216	£241,965,881	£225,171,408	£208,376,934	£191,582,461	£174,787,987	£157,993,514	£141,199,041	£124,404,567	£107,555,979
24	Residential	8	£2,555,418	£5,134,870	£2,954,797	£2,727,848	£2,500,900	£2,273,951	£2,047,003	£1,820,054	£1,593,105	£1,366,156	£1,139,208	£912,259

**Table 6.4.6: Appraisal results – affordable housing testing – value F (£20,500 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£18,939,960	£76,416,498	£71,795,846	£67,175,195	£62,554,543	£57,933,891	£53,313,239	£48,692,587	£44,071,935	£39,451,283	£34,830,631	£30,209,979
23	Residential	506	£31,015	£308,984,350	£290,554,878	£272,125,406	£253,695,933	£235,266,461	£216,817,825	£198,340,994	£179,864,163	£161,387,332	£142,910,501	£124,433,670
24	Residential	8	£2,555,418	£5,785,772	£3,426,669	£3,174,886	£2,923,101	£2,671,318	£2,419,534	£2,167,750	£1,915,966	£1,664,181	£1,412,398	£1,160,613

**Table 6.4.7: Appraisal results – affordable housing testing – value G (£22,000 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£19,668,420	£84,903,754	£79,858,740	£74,813,725	£69,768,710	£64,723,695	£59,678,681	£54,633,667	£49,588,652	£44,543,637	£39,498,622	£34,453,607
23	Residential	506	£31,015	£342,486,100	£322,381,540	£302,276,980	£282,172,421	£262,067,861	£241,963,301	£221,858,742	£201,734,811	£181,575,622	£161,416,434	£141,257,245
24	Residential	8	£2,555,418	£6,436,674	£3,898,543	£3,621,924	£3,345,304	£3,068,685	£2,792,065	£2,515,446	£2,238,826	£1,962,207	£1,685,587	£1,408,968

**Table 6.4.8: Appraisal results – affordable housing testing – value H (£23,500 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£20,396,880	£92,575,137	£87,146,554	£81,717,970	£76,289,386	£70,860,802	£65,432,218	£60,003,634	£54,575,050	£49,146,466	£43,717,883	£38,289,299
23	Residential	506	£31,015	£372,906,944	£351,281,343	£329,655,740	£308,030,138	£286,404,537	£264,778,934	£243,153,332	£221,527,731	£199,889,212	£178,203,890	£156,518,569
24	Residential	8	£2,555,418	£7,025,006	£4,310,973	£4,012,647	£3,714,320	£3,415,994	£3,117,668	£2,819,342	£2,521,015	£2,222,689	£1,924,363	£1,626,036

**Table 6.4.9: Appraisal results – affordable housing testing – value I (£25,000 per square metre)**

Assumptions: 70% London Affordable Rent, 30% Shared Ownership. Columns 5 to 15 represent residual land values (£m).

Site No	Site name	No of units	BLV (£ m)	0% AH	5% AH	10% AH	15% AH	20% AH	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
22	Residential	104	£21,125,340	£101,062,394	£95,209,447	£89,356,500	£83,503,554	£77,650,607	£71,797,660	£65,944,714	£60,091,767	£54,238,820	£48,385,874	£42,532,927
23	Residential	506	£31,015	£406,408,694	£383,108,005	£359,807,315	£336,506,625	£313,205,936	£289,905,246	£266,604,556	£243,303,868	£220,003,178	£196,702,488	£173,342,145
24	Residential	8	£2,555,418	£7,675,908	£4,782,846	£4,459,684	£4,136,523	£3,813,361	£3,490,199	£3,167,038	£2,843,876	£2,520,714	£2,197,552	£1,874,390

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- 6.8 The results of the appraisals confirm that emerging Strategic Policy S3 is viable but that there may be circumstances in which the level of affordable housing sought may not be viable. These results are reflective of outcomes on live applications, where the level of affordable housing varies between sites, depending on the relationship between existing use value and the quantum and mix of new development proposed. Policy S3 provides flexibility for such circumstances, with the onus on the applicant to demonstrate any viability issues that emerge on when individual applications come forward.
- 6.9 As can be noted from the results in tables 6.4.1 to 6.4.9, there is no uniform level of affordable housing where it can be said most schemes are viable. Setting any percentage below the current policy target of 35% (or 50% for public sector sites) would, in principle, mean that some schemes that *could* have delivered 35% would no longer be required to do so if the City Corporation adopted a lower percentage target.
- 6.10 There is a clear choice between two potential options. The first is to adopt a relatively low target that most schemes could viably deliver, but this would have two disadvantages; firstly, schemes that could have delivered more than the reduced target will no longer be required to do so; and secondly, even if the target is reduced, it is likely that some viability testing of individual schemes would still be required for those schemes that cannot viably deliver even the reduced percentage target. The second option is to maintain the current policy approach, which sets a relatively high target but implicitly accepts that some schemes may provide a lower level, based on scheme-specific viability factors. This option would maximise delivery of affordable housing by seeking the highest possible percentage on individual sites, in comparison to a reduced target tailored to the 'least viable' sites.
- 6.11 As noted in Section 4, we have also re-tested our appraisals with growth in sales values and inflation on costs to test the sensitivity of the results to changes in key appraisal variables. If residential sales values grow (alongside normal levels of cost inflation) and other factors remain unchanged, there will be an improvement in viability and levels of affordable housing that can be provided. Table 6.11.1 compares present day residual land values (the first set of outputs) to residual land values incorporating growth (the second set of outputs).

**Table 6.11.1: Comparison of residual values – present day and grown (sales values of £19,000 per square metre)**

This figure is not included in the accessible version.

- 6.12 It should be noted that these results assume that the benchmark land value remains unchanged. Clearly if benchmark land values increased, then the enhancements in residual land value resulting from growth may be offset to a degree, with the improvement in viability reduced or eliminated. Notwithstanding this caveat, the results indicate that with relatively modest growth, schemes that cannot meet the emerging 35% requirement could move significantly closer towards that level. Scheme 24 which can only provide 10% to 15% affordable housing based on present day values could provide 20% to 25% affordable housing with growth. This underlines the need for flexible application of the emerging policy requirement but also the importance of review mechanisms which could secure additional affordable housing on schemes granted consent with sub-policy levels.
- 6.13 The City Corporation has requested that we comment on the potential for residential development to provide 100% affordable housing. Schemes comprising 100% affordable housing will typically generate a negative residual land value, as the value of the completed units (as measured by the price that RPs will pay to acquire the units) is lower than the construction costs. This is demonstrated by the appraisal outputs in Table 6.13.1, which show the three residential typologies assuming all units are provided as affordable (with a tenure mix of 70% rent and 30% shared ownership, and 100% shared ownership). In all cases, the residual land values are negative, as there is no private housing revenue to cross-subsidise the deficit. Even in cases where the land can be transferred at nil cost (e.g. estate regeneration schemes) an element of private housing will be required to ensure the residual land value is positive. Given that the relationship between costs and values in an affordable housing development will be fairly consistent across the City, there will be no housing sites which can deliver 100% affordable housing.

**Table 6.13.1: Appraisal outputs – 100% affordable housing**

Typology	Residual land value assuming 100% affordable housing (70% rent and 30% shared ownership)	Residual land value assuming 100% affordable housing (100% shared ownership)
Typology 22	-£16,691,194	-£8,373,341
Typology 23	-£67,704,596	-£33,445,498
Typology 24	-£1,222,776	-£603,874

**Affordable housing – commuted sums**

- 6.14 The City Corporation’s emerging Strategic Policy S3 requires that affordable housing be provided on-site. However, the City Corporation has on occasion accepted payments in lieu where site-specific circumstances prevent the delivery of affordable housing on-site. The funds collected are then used to provide affordable housing on other sites within or outside the City’s boundary. The City’s Planning Obligations SPD (May 2021) indicates that *“the level of contribution required will be set at a level which ensures that there is no financial benefit to the developer relative to on-site provision. This means that the value of the contribution will be set at a level which captures the full uplift in value on the application site when delivering 100% market housing and ensures, as a minimum, that the sale number, size and type of affordable housing will be delivered that would be required on-site”*.
- 6.15 There are two main approaches to calculating payments in lieu. The first is to run a hypothetical appraisal of the scheme incorporating the required level of affordable housing provided as on-site units, which is then compared to an appraisal of the same scheme, but with all units provided as private housing. The difference between the two residual land values would equate to the payment in lieu, leaving the Applicant no better and no worse off in comparison to on-site delivery.
- 6.16 The second approach is to adopt a formulaic approach to calculating a payment in lieu which does not require any appraisals of the development proposal. The formula determines the uplift in value arising from the affordable housing not being physically provided on-site, in the same way as the first approach, but the calculations are more high level. The formula would be as follows:

**Formula for calculating payments in lieu**

$X = ((A - B) \times C) - D$  where

X = the Payment in lieu

A = The market value of a square metre of floorspace in the development

B = The value of affordable housing per square metre of floorspace (reflecting the blend between affordable rent and shared ownership)

C = the number of square metres that would be required on-site to meet the target in Strategic Policy S3.

D = Additional developer costs (the difference between the profit applied to market housing and affordable housing; and marketing costs on private housing <sup>15</sup>)

- 6.17 If it is established to the City Corporation’s satisfaction that a development proposal could not viably provide 50% of units on site as affordable, the agreed affordable housing percentage would be used when calculating the formula above. For example, the payment in lieu for a 20-unit development on a privately owned site would normally require 7 units to be provided as affordable housing to meet the 35% policy target. If it is agreed (based on a proven viability assessment) that only 25% affordable housing could be viably provided on site, then the calculation is based on an assumption of 5 units of affordable housing.

<sup>15</sup> Developer’s profit is typically applied at between 17-20% of GDV on private housing and 6% on the affordable housing, so the increased profit arising from converting a unit from private to affordable housing would be 11% to 14% (i.e. 17% or 20% less 6%).

- 6.18 The Planning Obligations SPD identifies that the commuted sum payment will be the greater of £440,000 per unit, or the difference between two submitted appraisals (as outlined in paragraph 6.14). This amount was based on the previous Local Plan Viability Study (2020). We have updated calculations that informed this figure, as set out in Table 6.18.1. The average of the payments per unit of affordable housing foregone is now £559,000 (as noted in Table 6.17.1).

**Table 6.18.1: Indicative payments in lieu based on differential in residual land value**

Typology	No of units	No of aff hsg units required by policy (35%)	Residual (£ m) – incorporating 35% affordable housing	Residual (£ m) – 100% private	Uplift in residual arising from converting affordable units to private (£ m)	Uplift per unit not provided as affordable
22	104	36	£16.49	£33.98	£17.49	£480,546
23	506	177	£69.94	£140.82	£70.89	£400,271
24	8	3	£0.30	£2.53	£2.23	£796,285
					Average	£559,034

- 6.19 The second, formulae-based approach generates slightly different results from the first, residual valuation-based approach, as summarised in Table 6.17.1. The inputs to the formulae are as follows:
- A = £12,500
  - B = £4,898
  - C = variable, depending on scheme content
  - D = 15% (18% profit for private, increased from 6% for affordable, plus 3% for marketing and sales agent fees)
  - X = £6,630 per square metre

**Table 6.18.1: Indicative payments in lieu based on formulae approach**

Typology	No of units	Affordable units	Square metres (total)	Square metres (affordable)	Payment in lieu	Payment in lieu per AH unit forgone
22	104	36.4	11,113	3,890	£25,787,717	£708,454
23	506	177.1	45,771	16,020	£106,211,606	£599,727
24	9	3.15	803	281	£1,863,362	£665,486
					Average	£657,889

- 6.20 There are relatively modest differences in the results generated by the two approaches and this can be attributed to the more precise cashflow impacts of switching tenures, with income for the affordable housing timed differently from market housing. Notwithstanding these differences, the average payment in lieu generated by the two approaches ranges from £559,000 to £658,000.

### Accessibility standards

- 6.21 Strategic Policy S3 requires that 90% dwellings are to meet Building Regulation M4(2) standards on accessibility and that 10% of dwellings should meet M4(3) meeting full wheelchair accessible standards. We have tested this requirement on all three residential typologies and the results before

and after the costs are factored into the appraisals are summarised in Table 6.21.1.

**Table 6.21.1: Impact of accessibility standards on residential development residual land values (sales values of £13,000 per square metre) – 35% affordable housing**

Typology	Residual land value – without costs of accessibility standards (£ millions)	Residual land value – with costs of accessibility standards (£ millions)	Percentage change
22	£17.29	£16.79	2.89%
23	£73.17	£71.18	2.72%
24	£0.36	£0.32	11.1%

- 6.22 The impact of the additional costs associated with accessibility standards on the residual land values is typically modest (around 3% of residual land value) although it is higher on smaller schemes. The impact is unlikely to be significant enough to have any bearing on decisions to bring forward residential developments in the City.

#### Climate change – Net Zero Carbon development (on-site)

- 6.23 Our appraisals reflect the requirements of Policy DE1 by incorporating an additional build cost equating to 5% of construction costs for energy reduction and on-site generation using sustainable methodologies. We have run all 27 typologies with the relevant additional cost and compared the outputs to a set of appraisals with the costs excluded. The results are summarised in Table 6.23.1

**Table 6.23.1: Appraisal results with and without costs of net zero carbon development (including, where relevant, 35% affordable housing)**

Typology number	Use	No of units	Residual land value (£millions) – no extra over costs	Residual land value (£ millions) – extra over costs included	Percentage change in residual land value
1	Office	-	£69.72	£61.92	11.19%
2	Office	-	£168.17	£144.13	14.29%
3	Office	-	£92.64	£89.88	2.97%
4	Office	-	£77.71	£73.30	5.68%
5	Office	-	£49.31	£45.81	7.09%
6	Office	-	£27.46	£25.90	5.68%
7	Office	-	£162.21	£153.02	5.67%
8	Office	-	£105.33	£99.36	5.67%
9	Office	-	£4.84	£4.56	5.70%
10	Office	-	£111.96	£108.67	2.94%
11	Office	-	£195.22	£189.40	2.98%
12	Office	-	£8.52	£8.03	5.70%
13	Office	-	£2.10	£1.98	5.54%
14	Office	-	£187.33	£174.64	6.77%
15	Office	-	£141.94	£133.89	5.68%
16	Office	-	£11.46	£10.79	5.84%
17	Hotel	-	£30.85	£28.77	6.76%
18	Hotel	-	£17.39	£16.02	7.86%
19	Hotel	-	£32.26	£30.03	6.89%



Typology number	Use	No of units	Residual land value (£millions) – no extra over costs	Residual land value (£ millions) – extra over costs included	Percentage change in residual land value
20	Hotel	-	£14.88	£13.85	6.91%
21	Hotel	-	£12.08	£11.26	6.77%
22	Residential	104	£18.49	£16.79	9.23%
23	Residential	506	£78.36	£71.18	9.16%
24	Residential	8	£0.46	£0.32	29.33%
25	Student	-	£59.97	£55.83	6.90%
26	Student	-	£1.26	£1.17	7.02%
27	Student	-	£2.13	£1.98	6.88%

6.24 For commercial and hotel schemes, the change in residual land values is typically relatively modest, typically significantly lower than 6% for office schemes, around 7% for hotel and student housing schemes and circa 9% for residential schemes. These changes in residual land value are unlikely to change decision making on proceeding with developments or not.

#### Carbon offset

6.25 Where on-site solutions are not possible, adopted London Plan policy and emerging Local Plan policy allows developers to use carbon offsetting. As noted in Section 4, we have tested a range of carbon offsetting figures. We have tested a range of costs per tonne from £95 to £880, as set out in Table 6.25.1. At £95 per tonne (which reflects current requirements), the reduction in residual land values is relatively modest at an average of 2.9%. This average change in residual land value is unlikely to change decision making on proceeding with developments or not. However, when offsetting increases to £880 per tonne, the change in residual values averages 27%, which is far higher than on-site carbon reduction solutions, which should positively incentivise developers to adopt on-site solutions in preference to offsetting.

**Table 6.25.1: Impact of varying carbon offset payments on residual land value (by £millions/tonne offset cost)**

Typology number	Use	£0	£95	£300	£330	£370	£750	£880
1	Office	£69.72	£67.30	£62.08	£61.32	£60.30	£50.63	£47.32
2	Office	£168.17	£160.57	£144.18	£141.78	£138.58	£108.19	£97.80
3	Office	£92.64	£91.18	£88.05	£87.59	£86.98	£81.17	£79.19
4	Office	£77.71	£76.08	£72.56	£72.04	£71.35	£64.82	£62.59
5	Office	£49.31	£48.01	£45.21	£44.80	£44.26	£39.07	£37.29
6	Office	£27.46	£26.88	£25.63	£25.45	£25.20	£22.88	£22.09
7	Office	£162.21	£158.79	£151.40	£150.32	£148.88	£135.20	£130.52
8	Office	£105.33	£103.12	£98.34	£97.65	£96.71	£87.87	£84.84
9	Office	£4.84	£4.73	£4.51	£4.48	£4.44	£4.03	£3.89
10	Office	£111.96	£110.21	£106.45	£105.90	£105.16	£98.18	£95.79
11	Office	£195.22	£192.16	£185.54	£184.57	£183.28	£171.02	£166.82
12	Office	£8.52	£8.34	£7.95	£7.90	£7.82	£7.11	£6.86
13	Office	£2.10	£2.05	£1.96	£1.95	£1.93	£1.75	£1.69
14	Office	£187.33	£182.50	£172.08	£170.55	£168.52	£149.20	£142.59



Typology number	Use	£0	£95	£300	£330	£370	£750	£880
15	Office	£141.94	£138.95	£132.50	£131.56	£130.30	£118.35	£114.26
16	Office	£11.46	£11.21	£10.67	£10.60	£10.49	£9.50	£9.16
17	Hotel	£30.85	£30.13	£28.57	£28.34	£28.04	£25.15	£24.16
18	Hotel	£17.39	£16.91	£15.86	£15.71	£15.51	£13.58	£12.92
19	Hotel	£32.26	£31.50	£29.86	£29.62	£29.30	£26.26	£25.23
20	Hotel	£14.88	£14.53	£13.77	£13.66	£13.51	£12.10	£11.62
21	Hotel	£12.08	£11.79	£11.18	£11.09	£10.98	£9.84	£9.46
22	Residential	£18.49	£17.76	£16.18	£15.95	£15.64	£12.70	£11.70
23	Residential	£78.36	£75.29	£68.68	£67.71	£66.42	£54.16	£49.97
24	Residential	£0.46	£0.40	£0.28	£0.26	£0.24	£0.01	-£0.06
25	Student	£59.97	£58.35	£54.86	£54.35	£53.66	£47.19	£44.98
26	Student	£1.26	£1.23	£1.15	£1.14	£1.12	£0.98	£0.93
27	Student	£2.13	£2.07	£1.95	£1.93	£1.90	£1.68	£1.60

**Table 6.21.2: Impact of varying carbon offset costs (percentage change in residual land value / per tonne offset cost)**

Typology number	Use	£95	£300	£330	£370	£750	£880
1	Office	3.5%	11.0%	12.0%	13.5%	27.4%	32.1%
2	Office	4.5%	14.3%	15.7%	17.6%	35.7%	41.8%
3	Office	1.6%	4.9%	5.4%	6.1%	12.4%	14.5%
4	Office	2.1%	6.6%	7.3%	8.2%	16.6%	19.5%
5	Office	2.6%	8.3%	9.1%	10.2%	20.8%	24.4%
6	Office	2.1%	6.7%	7.3%	8.2%	16.7%	19.6%
7	Office	2.1%	6.7%	7.3%	8.2%	16.7%	19.5%
8	Office	2.1%	6.6%	7.3%	8.2%	16.6%	19.5%
9	Office	2.1%	6.6%	7.3%	8.2%	16.6%	19.5%
10	Office	1.6%	4.9%	5.4%	6.1%	12.3%	14.4%
11	Office	1.6%	5.0%	5.5%	6.1%	12.4%	14.5%
12	Office	2.1%	6.6%	7.3%	8.2%	16.6%	19.5%
13	Office	2.1%	6.6%	7.2%	8.1%	16.5%	19.3%
14	Office	2.6%	8.1%	9.0%	10.0%	20.4%	23.9%
15	Office	2.1%	6.6%	7.3%	8.2%	16.6%	19.5%
16	Office	2.2%	6.8%	7.5%	8.4%	17.1%	20.1%
17	Hotel	2.3%	7.4%	8.1%	9.1%	18.5%	21.7%
18	Hotel	2.8%	8.8%	9.6%	10.8%	21.9%	25.7%
19	Hotel	2.4%	7.4%	8.2%	9.2%	18.6%	21.8%
20	Hotel	2.4%	7.5%	8.2%	9.2%	18.6%	21.9%
21	Hotel	2.3%	7.4%	8.1%	9.1%	18.5%	21.7%

Typology number	Use	£95	£300	£330	£370	£750	£880
22	Residential	4.0%	12.5%	13.8%	15.4%	31.3%	36.7%
23	Residential	3.9%	12.4%	13.6%	15.2%	30.9%	36.2%
24	Residential	12.3%	38.7%	42.6%	47.7%	96.8%	113.7%
25	Student	2.7%	8.5%	9.4%	10.5%	21.3%	25.0%
26	Student	2.8%	8.9%	9.8%	11.0%	22.2%	26.1%
27	Student	2.7%	8.5%	9.3%	10.5%	21.2%	24.9%

### Urban Greening/biodiversity/green infrastructure

6.26 We have tested the cost impact of provision of green roofs as a proxy for meeting the requirements of a range of policies; Strategic Policy S8 (Design); Strategic Policy S14 (open space and green infrastructure); Policy OS2 (City Urban Greening); Policy OS3 (Biodiversity); and Policy OS4 (Biodiversity Net Gain). As noted previously, the City Corporation's 'Urban Greening Study' has costed the provision of green roofs at £100 per square metre, which we have applied to an estimate of the footprints of the buildings in each typology. In addition, we have included the costs of biodiversity net gain as set out in Section 4. Table 6.26.1 summarises the residual land values of the typologies before and after the additional costs of green roofs and biodiversity net gain are incorporated into the appraisals.

**Table 6.26.1: Impact of requirement for urban greening and biodiversity net gain on residual land value (£millions)**

Typology number	Use	No UGF	UGF	% change	UGF + BNG	% change
1	Office	£68.08	£67.95	-0.19%	£67.93	-0.22%
2	Office	£162.90	£162.55	-0.21%	£162.50	-0.25%
3	Office	£91.66	£91.43	-0.25%	£91.39	-0.29%
4	Office	£76.67	£76.45	-0.29%	£76.42	-0.33%
5	Office	£48.47	£48.30	-0.36%	£48.27	-0.41%
6	Office	£27.14	£27.01	-0.47%	£26.99	-0.55%
7	Office	£159.97	£159.56	-0.25%	£159.50	-0.29%
8	Office	£103.76	£103.62	-0.14%	£103.60	-0.15%
9	Office	£4.78	£4.76	-0.49%	£4.75	-0.63%
10	Office	£110.76	£110.50	-0.24%	£110.46	-0.27%
11	Office	£193.21	£192.67	-0.28%	£192.58	-0.33%
12	Office	£8.42	£8.38	-0.52%	£8.37	-0.59%
13	Office	£2.08	£2.06	-0.76%	£2.06	-0.96%
14	Office	£184.14	£183.56	-0.31%	£183.47	-0.36%
15	Office	£140.07	£139.63	-0.31%	£139.56	-0.36%
16	Office	£11.64	£11.27	-3.18%	£11.20	-3.78%
17	Hotel	£30.38	£30.30	-0.27%	£30.29	-0.30%
18	Hotel	£17.03	£17.02	-0.05%	£17.02	-0.06%
19	Hotel	£31.82	£31.68	-0.44%	£31.66	-0.50%
20	Hotel	£14.73	£14.61	-0.78%	£14.59	-0.95%
21	Hotel	£11.90	£11.86	-0.35%	£11.86	-0.34%

Typology number	Use	No UGF	UGF	% change	UGF + BNG	% change
22	Residential	£17.76	£17.59	-0.96%	£17.56	-1.13%
23	Residential	£75.38	£74.65	-0.95%	£74.53	-1.13%
24	Residential	£0.42	£0.41	-2.13%	£0.41	-2.38%
25	Student	£58.86	£58.69	-0.28%	£58.66	-0.34%
26	Student	£1.24	£1.23	-0.68%	£1.23	-0.81%
27	Student	£2.08	£2.08	0.00%	£2.08	0.00%

6.27 The impact of the combined requirement for UGF and BNG is very modest, with the reduction in residual land value averaging 0.7%. It is unlikely that this policy requirement has a sufficient impact to result in developers not proceeding with development.

### Policy CV2 – Arts, Culture and Leisure

6.28 As noted in Section, emerging Policy CV2 seeks contributions towards the provision of arts, culture and leisure facilities (either on site or through financial contributions). The City Corporation is formulating its approach to implementing this requirement and have instructed us to test the following levels of contribution (per square metre GIA):

- £40
- £60
- £90
- £120
- £150
- £180.

The impact on the residual land value of the emerging requirement is summarised in tables 6.28.1 and 6.28.2. The average reduction in residual land values resulting from the culture contribution ranges from 1.6% (£40 per square metre) to 7.4% (£180 per square metre). In isolation, the culture contribution has a modest impact on residual land values.

**Table 6.28.1: Impact of emerging requirement for culture contributions on residual land value (£millions / culture contribution per sqm)**

Typology Number	Use	£0	£40	£60	£90	£120	£150	£180
1	Office	£67.93	£66.59	£65.92	£64.92	£63.92	£62.92	£61.91
2	Office	£162.50	£158.30	£156.20	£153.05	£149.90	£146.76	£143.61
3	Office	£91.39	£90.58	£90.18	£89.58	£88.98	£88.38	£87.78
4	Office	£76.42	£75.51	£75.06	£74.39	£73.71	£73.03	£72.36
5	Office	£48.27	£47.56	£47.20	£46.66	£46.12	£45.59	£45.05
6	Office	£26.99	£26.67	£26.51	£26.27	£26.03	£25.79	£25.55
7	Office	£159.50	£157.61	£156.66	£155.24	£153.82	£152.41	£150.99
8	Office	£103.60	£102.38	£101.76	£100.85	£99.93	£99.01	£98.10
9	Office	£4.75	£4.70	£4.67	£4.63	£4.58	£4.54	£4.50
10	Office	£110.46	£109.49	£109.01	£108.29	£107.57	£106.84	£106.12
11	Office	£192.58	£190.88	£190.04	£188.76	£187.49	£186.22	£184.95
12	Office	£8.37	£8.27	£8.23	£8.15	£8.08	£8.00	£7.93

Typology Number	Use	£0	£40	£60	£90	£120	£150	£180
13	Office	£2.06	£2.04	£2.02	£2.01	£1.99	£1.97	£1.95
14	Office	£183.47	£180.80	£179.46	£177.46	£175.46	£173.46	£171.46
15	Office	£139.56	£137.91	£137.08	£135.84	£134.61	£133.37	£132.13
16	Office	£11.20	£11.07	£11.00	£10.90	£10.79	£10.69	£10.59
17	Hotel	£30.29	£29.89	£29.69	£29.39	£29.09	£28.79	£28.49
18	Hotel	£17.02	£16.75	£16.62	£16.42	£16.22	£16.02	£15.82
19	Hotel	£31.66	£31.24	£31.03	£30.71	£30.40	£30.08	£29.77
20	Hotel	£14.59	£14.40	£14.30	£14.16	£14.01	£13.86	£13.72
21	Hotel	£11.86	£11.70	£11.62	£11.50	£11.39	£11.27	£11.15
22	Residential	£17.56	£17.15	£16.95	£16.65	£16.34	£16.04	£15.73
23	Residential	£74.53	£72.84	£71.99	£70.72	£69.45	£68.18	£66.91
24	Residential	£0.41	£0.38	£0.36	£0.34	£0.32	£0.29	£0.27
25	Student	£58.66	£57.77	£57.32	£56.65	£55.98	£55.31	£54.64
26	Student	£1.23	£1.21	£1.20	£1.19	£1.17	£1.16	£1.14
27	Student	£2.08	£2.05	£2.03	£2.01	£1.99	£1.96	£1.94

**Table 6.28.2: Impact of emerging requirement for culture contributions (percentage change in residual land values / cultural contribution per sqm)**

Typology number	Use	£40	£60	£90	£120	£150	£180
1	Office	2.0%	2.9%	4.4%	5.9%	7.4%	8.8%
2	Office	2.6%	3.9%	5.8%	7.7%	9.7%	11.6%
3	Office	0.9%	1.3%	2.0%	2.6%	3.3%	4.0%
4	Office	1.2%	1.8%	2.7%	3.5%	4.4%	5.3%
5	Office	1.5%	2.2%	3.3%	4.5%	5.6%	6.7%
6	Office	1.2%	1.8%	2.7%	3.6%	4.5%	5.3%
7	Office	1.2%	1.8%	2.7%	3.6%	4.4%	5.3%
8	Office	1.2%	1.8%	2.7%	3.5%	4.4%	5.3%
9	Office	1.2%	1.8%	2.7%	3.5%	4.4%	5.3%
10	Office	0.9%	1.3%	2.0%	2.6%	3.3%	3.9%
11	Office	0.9%	1.3%	2.0%	2.6%	3.3%	4.0%
12	Office	1.2%	1.8%	2.7%	3.5%	4.4%	5.3%
13	Office	1.2%	1.8%	2.6%	3.5%	4.4%	5.3%
14	Office	1.5%	2.2%	3.3%	4.4%	5.5%	6.5%
15	Office	1.2%	1.8%	2.7%	3.5%	4.4%	5.3%
16	Office	1.2%	1.8%	2.8%	3.7%	4.6%	5.5%
17	Hotel	1.3%	2.0%	3.0%	4.0%	4.9%	5.9%
18	Hotel	1.6%	2.4%	3.5%	4.7%	5.9%	7.1%
19	Hotel	1.3%	2.0%	3.0%	4.0%	5.0%	6.0%
20	Hotel	1.3%	2.0%	3.0%	4.0%	5.0%	6.0%

Typology number	Use	£40	£60	£90	£120	£150	£180
21	Hotel	1.3%	2.0%	3.0%	4.0%	4.9%	5.9%
22	Residential	2.3%	3.5%	5.2%	6.9%	8.7%	10.4%
23	Residential	2.3%	3.4%	5.1%	6.8%	8.5%	10.2%
24	Residential	7.6%	11.3%	17.0%	22.7%	28.3%	34.0%
25	Student	1.5%	2.3%	3.4%	4.6%	5.7%	6.9%
26	Student	1.6%	2.4%	3.6%	4.8%	6.0%	7.2%
27	Student	1.5%	2.3%	3.4%	4.6%	5.7%	6.8%

### Planning obligations

- 6.29 As noted in Section 4, commercial developments in the City are required by Strategic Policy S27 to make financial contributions towards affordable housing at a rate of £50 per square metre (£57.21 per square metre after indexation). Both commercial and residential developments are required to make a financial contribution of £30 per square metre (£34.39 per square metre after indexation) towards local training, skills and jobs brokerage.
- 6.30 In addition, we have tested the impact of additional planning obligations of £2,500 per unit for residential schemes and £35 per square metre for offices, hotels and student housing. In addition, we have included S278 costs of £1,200 per unit residential and £15 per square metre for offices, hotels and student housing.
- 6.31 This requirement has a modest impact on viability of developments in the City, as summarised in tables 6.31.1 and 6.31.2, which show the residual land values before and after these costs are applied. Where there is no change in residual land value, this is because the increase in floorspace falls below the threshold in the policy. The impact of the obligations on residual land values generated by the typologies is modest, with the cumulative impact of planning obligations, affordable housing contributions on commercial schemes and employment and training contributions equates to an average of 3.3% of residual value.

**Table 6.31.1: Impact of planning obligations, affordable housing financial contribution and employment and skills contributions (residual land value £millions)**

Typology number	Use	No contributions	POBs	AH contribution	E&T
1	Office	£70.93	£69.97	£68.30	£67.30
2	Office	£171.98	£168.97	£163.72	£160.57
3	Office	£93.40	£92.79	£91.79	£91.18
4	Office	£78.58	£77.89	£76.76	£76.08
5	Office	£49.99	£49.44	£48.55	£48.01
6	Office	£27.77	£27.52	£27.12	£26.88
7	Office	£164.02	£162.57	£160.21	£158.79
8	Office	£106.50	£105.56	£104.03	£103.12
9	Office	£4.89	£4.85	£4.78	£4.73
10	Office	£112.88	£112.14	£110.94	£110.21
11	Office	£196.84	£195.55	£193.43	£192.16
12	Office	£8.61	£8.54	£8.41	£8.34
13	Office	£2.07	£2.05	£2.05	£2.05
14	Office	£189.88	£187.84	£184.50	£182.50
15	Office	£143.52	£142.26	£140.19	£138.95
16	Office	£11.59	£11.48	£11.31	£11.21
17	Hotel	£31.23	£30.93	£30.43	£30.13
18	Hotel	£17.11	£16.91	£16.91	£16.91
19	Hotel	£32.66	£32.33	£31.81	£31.50
20	Hotel	£15.06	£14.91	£14.67	£14.53
21	Hotel	£12.23	£12.11	£11.91	£11.79
22	Residential	£17.99	£17.76	£17.76	£17.45
23	Residential	£76.64	£75.49	£75.49	£74.10
24	Residential	£0.42	£0.40	£0.40	£0.40
25	Student	£60.82	£60.14	£59.02	£58.35
26	Student	£1.24	£1.23	£1.23	£1.23
27	Student	£2.16	£2.13	£2.09	£2.07

**Table 6.31.2: Impact of planning obligations, affordable housing financial contribution and employment and skills contributions (percentage change in residual land values) (change in residual land value/culture contribution per sqm)**

Typology number	Use	POBs	AH cont	E&T
1	Office	1.4%	3.7%	5.1%
2	Office	1.8%	4.8%	6.6%
3	Office	0.7%	1.7%	2.4%
4	Office	0.9%	2.3%	3.2%
5	Office	1.1%	2.9%	4.0%
6	Office	0.9%	2.3%	3.2%

Typology number	Use	POBs	AH cont	E&T
7	Office	0.9%	2.3%	3.2%
8	Office	0.9%	2.3%	3.2%
9	Office	0.9%	2.3%	3.2%
10	Office	0.7%	1.7%	2.4%
11	Office	0.7%	1.7%	2.4%
12	Office	0.9%	2.3%	3.2%
13	Office	0.9%	0.9%	0.9%
14	Office	1.1%	2.8%	3.9%
15	Office	0.9%	2.3%	3.2%
16	Office	0.9%	2.4%	3.3%
17	Hotel	1.0%	2.6%	3.5%
18	Hotel	1.2%	1.2%	1.2%
19	Hotel	1.0%	2.6%	3.6%
20	Hotel	1.0%	2.6%	3.6%
21	Hotel	1.0%	2.6%	3.5%
22	Residential	1.3%	1.3%	3.0%
23	Residential	1.5%	1.7%	3.3%
24	Residential	4.5%	4.5%	4.5%
25	Student	1.1%	3.0%	4.1%
26	Student	1.2%	1.2%	1.2%
27	Student	1.1%	3.0%	4.1%

### Policy OF1 and Policy DE1 – Office development and retrofit first and refurbishment

- 6.32 Policies OF1 and DE1 seek to require landowners and developers to consider prioritising retrofitting existing buildings and refurbishment in preference to demolition and construction of new buildings. Clearly there are varying degrees of refurbishment, ranging from internal refits to ‘heavy’ refurbishment, where building frames are retained but completely stripped out and reclad (e.g. 81 Newgate Street).
- 6.33 Outdated office buildings will be increasingly difficult to let, as more occupiers seek grade A space with higher EPC ratings to meet their ESG objectives. Our ‘base’ Benchmark Land Value assumption is that existing offices will attract an investment yield of 6%, which is only a 0.75% delta with investment yields for new build/refurbished offices. This delta is likely to increase over time as existing offices become more difficult to let when leases expire. We have therefore compared the residual land values generated by the refurbishment schemes to two BLVs (6% yield and 8% yield). These outputs are summarised in Table 6.33.1. In the context of softening yields for existing office floorspace, refurbishment schemes will become more financially attractive as a result of the opportunity for improving rental and yield profile.

**Table 6.33.1: Office refurbishments**

Typology number	Use	BLV (6% yield)	(BLV 8% yield)	RLV £m
3	Office - heavy refurb	£104.61	£76.39	£91.18
7	Office - heavy refurb	£156.76	£111.16	£158.79
10	Office - light refurb	£133.77	£94.58	£110.21
11	Office - light refurb	£247.38	£176.24	£192.16

- 6.34 Clearly where offices make poor use of a site by providing a limited number of storeys and where there is opportunity to increase site capacity substantially because of limited restrictions on heights due to viewing corridors, heritage or other impacts, there will be pressure to demolish (wholly or in part) existing buildings to facilitate a development that can significantly expand the quantum of space. However, there will be many buildings where existing buildings are already at or near the maximum permissible height and these are likely to be more suitable for retention and refurbishment.

### Purpose built Student housing

- 6.35 Policy HS6 requires that purpose built student housing should provide 35% of rooms at rents which are affordable, defined as 50% of the maximum maintenance grant available to a undergraduate student studying in London (currently £155 per week).
- 6.36 Our appraisals indicate that this policy requirement should be viable in most cases, as summarised in Table 6.36.1.

**Table 6.36.1: Student housing affordable housing requirement**

Residual land values (£m) shown in columns 4 to 9.

Site No	Site name	BLV (£ m)	25% AH	30% AH	35% AH	40% AH	45% AH	50% AH
25	Student - 769 rooms	£40.18	£71.19	£64.77	£58.35	£51.93	£45.51	£39.09
26	Student - 9 rooms	£6.83	£1.34	£1.29	£1.23	£1.17	£1.11	£1.05
27	Student - 25 rooms	£0.00	£2.53	£2.30	£2.07	£1.84	£1.62	£1.39

### Cumulative impact of all policy requirements

- 6.37 Having considered the impact of the policy requirements individually in the sections above, we now consider the cumulative impact of the policy requirements. The outputs of this exercise are summarised in Table 6.37.1. In undertaking this assessment, it is important to note that some of the costs would be incurred as a result of London Plan policies, even if the City Plan did not include them.
- 6.38 As noted in the previous section, we have tested varying levels of carbon offset payments and culture contributions to assist the City Corporation in its policy development in these areas. The tables showing the full range of contributions beyond the base level of £95 per tonne for carbon offset and £40 per square metre for culture contributions are included at Appendix 6.
- 6.39 The 2019 PPG requires that the results of scheme appraisals testing policy requirements are compared to existing use values plus a reasonable premium. We have applied a premium of 20%, which is reflective the range identified by the GLA SPG 'Affordable Housing and Viability' (August 2017). It is also the figure often applied in financial viability assessments across London<sup>16</sup>, although premiums can be lower. This is only a proxy for the premium that could be applied at application stage. Premiums should be based on site-specific factors.
- 6.40 Where outputs are shaded green, the residual land value with an assumed level of contributions exceeds the BLV and is viable. Orange cells indicate that the residual land value is within 10% of the BLV. Red cells indicate that the residual land value is more than 10% lower than BLV.
- 6.41 In many cases, the residual land values generated by the typologies exceed the benchmark land values by a significant margin. Where this is not the case, it is important to consider the 'no policy' position; in many cases, the residual land values generated would be lower than the benchmark land values. Consequently, it is not the imposition of planning requirements that renders these schemes unviable, but the high existing use values. These schemes are likely to become viable as a result of changing demand for existing offices, which is likely to result in falling rents and higher yields (both

<sup>16</sup> As far as we can ascertain, the issue of premium has not been a matter determined at appeals post 2019 NPPF/PPG, other than APP/P5870/W/18/3205215 (324 – 346 High Street Sutton) where the Appellant promoted the application of a 20% premium. It is unclear whether the Council contested this assumption but the Inspector observes in his decision that "I accept the points made by the appellant in relation to the justification for a landowner's premium of the amount suggested" (para 24).



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combining to reduce capital values of existing offices). With regards to hotel development, there has been considerable activity in the hotel development sector in the City, with a continuing pipeline of schemes coming forward. Operators developing their own hotels may be able to take a longer term view on returns than is the case in a standard development model, which could account for the differences between our results and the activity on the ground, the latter suggesting that schemes are more viable.

- 6.42 Office refurbishment schemes (typologies 3, 4, 10 and 11) also appear to be have varying degrees of viability, with typologies 3, 10 and 11 generating unviable or marginally viable outcomes. The lighter refurbishment schemes are less viable than schemes subject to heavy refurbishment, possibly due to the reduced extent of any uplift in floorspace made possible through a light refurbishment involving little or no reconfiguration of space. Owners of secondary buildings are likely to face pressure to undertake more significant refurbishment work in the face of changing patterns of demand, with occupiers favouring Grade A space with high sustainability credentials over secondary space.
- 6.43 Residential and student housing schemes are required to provide 35% affordable housing and Table 6.36.1 indicates that this requirement is viable on most schemes, alongside the cumulative impact of other requirements, including carbon offset, UGF and BNG. It should also be noted that the testing in Table 6.36.1 reflects residential sales values at the lowest end of the City-wide range and schemes with higher sales values will generate higher residual land values than those in the table.

**Table 6.37.1: Cumulative policy impacts (residential and student schemes incorporate 35% affordable housing)**

Typology No	Site	BLV	Base POBs	Commercial AH	Carbon offset	E&T levy	UGF/BNG	Culture
			£35 psm commercial £2,500 per unit residential	£50 psm	£95 per tonne	£30 psm commercial £5 psm residential		£140per sqm
1	Office	£44,084,474	£73,168,752	£71,498,955	£69,081,423	£68,079,546	£67,926,201	£66,590,364
2	Office	£172,823,211	£178,894,482	£173,647,552	£166,051,047	£162,902,889	£162,496,814	£158,299,270
3	Office - heavy refurb	£104,608,158	£94,712,199	£93,709,273	£92,257,236	£91,655,481	£91,387,129	£90,584,787
4	Office - heavy refurb	£61,545,096	£80,111,857	£78,984,124	£77,351,390	£76,674,751	£76,415,982	£75,513,796
5	Office	£46,154,912	£51,204,844	£50,309,087	£49,012,209	£48,474,754	£48,273,491	£47,556,884
6	Office	£30,759,568	£28,363,258	£27,962,269	£27,381,718	£27,141,126	£26,992,574	£26,671,783
7	Office	£156,764,040	£167,167,450	£164,804,355	£161,383,064	£159,965,206	£159,495,590	£157,605,113
8	Office	£104,632,858	£108,419,884	£106,892,119	£104,680,221	£103,763,563	£103,597,280	£102,375,068
9	Office	£0	£4,994,061	£4,923,887	£4,822,291	£4,780,187	£4,752,873	£4,696,735
10	Office - light refurb	£133,772,846	£114,437,752	£113,232,510	£111,487,559	£110,764,413	£110,457,725	£109,493,531
11	Office - light refurb	£247,384,599	£199,664,903	£197,546,911	£194,480,482	£193,209,687	£192,577,142	£190,882,749
12	Office	£6,531,835	£8,801,220	£8,677,552	£8,498,504	£8,424,304	£8,373,508	£8,274,574
13	Office	£1,665,402	£2,123,107	£2,123,107	£2,079,368	£2,079,368	£2,060,967	£2,036,798
14	Office	£215,065,000	£194,306,300	£190,970,078	£186,139,896	£184,138,163	£183,467,282	£180,798,305
15	Office	£174,705,269	£146,360,208	£144,295,894	£141,307,179	£140,068,591	£139,560,638	£137,909,187
16	Office	£751,594	£12,158,015	£11,986,684	£11,738,630	£11,635,832	£11,204,551	£11,067,486
17	Hotel	£31,475,010	£31,905,387	£31,406,339	£30,683,818	£30,384,389	£30,288,549	£29,889,311
18	Hotel	£48,053,326	£17,510,869	£17,510,869	£17,027,956	£17,027,956	£17,018,372	£16,751,533
19	Hotel	£28,204,226	£33,417,207	£32,893,096	£32,134,290	£31,819,825	£31,656,896	£31,237,609
20	Hotel	£18,752,760	£15,464,246	£15,221,708	£14,870,560	£14,725,037	£14,591,829	£14,397,799
21	Hotel	£20,814,840	£12,499,549	£12,304,022	£12,020,938	£11,903,621	£11,855,701	£11,699,280
22	Residential	£15,297,660	£18,795,441	£18,795,441	£18,062,298	£17,758,467	£17,557,202	£17,152,096
23	Residential	£31,015	£79,839,680	£79,717,056	£76,651,821	£75,381,521	£74,529,143	£72,835,410
24	Residential	£2,555,418	£477,817	£477,817	£421,591	£421,591	£411,174	£380,105
25	Student	£40,180,513	£62,262,159	£61,144,496	£59,526,342	£58,855,745	£58,664,064	£57,769,934
26	Student	£6,825,387	£1,277,902	£1,277,902	£1,242,408	£1,242,408	£1,232,594	£1,212,982
27	Student	£0	£2,203,341	£2,163,789	£2,106,526	£2,082,794	£2,081,427	£2,049,786

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## 7 CIL rates

- 7.1 This section sets out the results of our testing of potential alternative CIL rates that the City Corporation may wish to consider. We have tested potential capacity for alternative CIL rates by removing the prevailing CIL from the appraisals (although Mayoral CIL is retained) and the surplus residual value above the benchmark land value is calculated and converted into a rate per square metre. This serves as a proxy for maximum City Corporation CIL rates. As noted previously, Mayoral CIL is already incorporated into the appraisals, so this does not need to be accounted for from the maximum CIL rates identified by our testing. This testing results in a significant number of results, depending on other policies applied (e.g. carbon offset rate and culture contributions).
- 7.2 Development value is finite and in the City of London - where the vast majority of sites are previously developed - is rarely enhanced through the adoption of new policy requirements. This is because existing use values are often relatively high prior to development. In contrast, areas which have previously undeveloped land clearly have greater scope to secure an uplift in land value through the planning process.
- 7.3 In assessing the results, it is important to clearly distinguish between two scenarios; namely, schemes that are unviable *regardless of the City Corporation's policy requirements, including the level of CIL* (including a nil rate) and schemes that are viable *prior* to the imposition of a replacement rate of CIL. If a scheme is unviable before policy requirements and CIL are levied, it is unlikely to come forward and policy requirements and CIL would not be a factor that comes into play in the developer's or landowner's decision making. The unviable schemes will only become viable following an increase in values and sites are more likely to remain in their existing use than be brought forward for development.
- 7.4 The CIL regulations require that in setting a charge, local authorities must "*strike an appropriate balance*" between revenue maximisation on the one hand and the potentially adverse impact of CIL upon the viability of development across the whole area on the other. When considering this balance, the following factors are important:
- Firstly, councils should take a strategic view of viability. There will always be variations in viability between individual sites, but viability testing should establish the most typical viability position, not the exceptional situations.
  - Secondly, councils should take a balanced view of viability – residual valuations are just one factor influencing a developer's decision making – the same applies to local authorities.
  - Thirdly, while a single charge is attractive, it may not be appropriate for all authorities, particularly in areas where sales values vary between areas.
  - Fourthly, markets are cyclical and subject to change over short periods of time. Sensitivity testing to sensitivity test levels of CIL to ensure they are robust in the event that market conditions improve over the life of a Charging Schedule is essential.
  - Fifthly, local authorities should not set their rates of CIL at the limits of viability. They should leave a margin or contingency to allow for change and site specific viability issues.
- 7.5 There is clearly a balance that must be struck between the aims of Local Plan policies seeking the delivery of affordable housing and securing adequate contributions towards infrastructure from the developments that contribute towards the need for new infrastructure. CIL rates cannot therefore be set on the basis that every single development typology across the City will deliver 35% affordable housing, as this is not always viable.

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- 7.6 For residential rates, we have therefore focused on the results of testing where we have included between 35% affordable housing, as the Council will need to secure adequate amounts of funding to support new development. Affordable housing cannot be maximised to the total exclusion of securing infrastructure funding and vice versa.
- 7.7 The appraisals generate a very wide spread of maximum CIL rates, depending on the rates at which other policies are set. Clearly the extent of other emerging policy requirements (e.g. culture contributions and carbon offsetting payments) will also have a bearing and we have tested potential maximum CIL rates reflecting the cumulative impact of other policies. The results are summarised in tables 7.7.1 to 7.7.3 which show the impact of different policy requirements on potential CIL rates.
- 7.8 The results of the appraisals indicate that it may be possible to apply higher rates of CIL, but the extent of any increase will vary depending on the City Corporation's decisions on other policy requirements. For example, if carbon offset is set at £95 per square metre and culture contributions at £40 per square metre, maximum potential rates on offices would range from £16 to £3,050 per square metre. However, many of the viable scenarios would not have any capacity for additional CIL if the culture contributions and carbon offset payments increase to the upper end of the tested range (£180 per square metre and £880 per tonne respectively). The City Corporation may therefore need to revisit this issue when it has arrived at a settled position on other plan policies.

**Table 7.7.1: Maximum CIL rates (before buffer), Carbon offset £95 per tonne and culture contribution of £40 per square metre**

LP Ref	Site	GIA sqm	Surplus RV above BLV	Surplus per sqm (potential max CIL)
1	Office	36,645	£22,505,891	£614
2	Office	115,148	£0	£0
3	Office - heavy refurb	22,010	£0	£0
4	Office	24,749	£13,968,699	£564
5	Office	19,658	£1,401,972	£71
6	Office	8,800	£0	£0
7	Office - heavy refurb	51,860	£841,073	£16
8	Office	33,528	£0	£0
9	Office	1,540	£4,696,735	£3,050
10	Office - light refurb	26,450	£0	£0
11	Office - light refurb	46,481	£0	£0
12	Office	2,714	£1,742,739	£642
13	Office	663	£371,396	£560
14	Office	73,216	£0	£0
15	Office	45,303	£0	£0
16	Office	3,760	£10,315,892	£2,744
17	Hotel	10,952	£0	£0
18	Hotel	7,320	£0	£0
19	Hotel	11,502	£3,033,383	£264
20	Hotel	5,323	£0	£0
21	Hotel	4,291	£0	£0
22	Residential	11,113	£1,854,436	£167
23	Residential	48,585	£72,804,395	£1,498
24	Residential	803	£0	£0
25	Student	24,528	£17,589,421	£717
26	Student	538	£0	£0
27	Student	868	£2,049,786	£2,362

**Table 7.7.2: Maximum CIL rates (before buffer) Carbon offset £370 per tonne and culture contribution of £90 per square metre**

LP Ref	Site	GIA sqm	Surplus RV above BLV	Surplus per sqm (potential max CIL)
1	Office	36,645	£13,837,976	£378
2	Office	115,148	£0	£0
3	Office - heavy refurb	22,010	£0	£0
4	Office	24,749	£8,114,633	£328
5	Office	19,658	£0	£0
6	Office	8,800	£0	£0
7	Office - heavy refurb	51,860	£0	£0
8	Office	33,528	£0	£0
9	Office	1,540	£4,332,466	£2,813
10	Office - light refurb	26,450	£0	£0
11	Office - light refurb	46,481	£0	£0
12	Office	2,714	£1,100,776	£406
13	Office	663	£214,573	£324
14	Office	73,216	£0	£0
15	Office	45,303	£0	£0
16	Office	3,760	£9,426,511	£2,507
17	Hotel	10,952	£0	£0
18	Hotel	7,320	£0	£0
19	Hotel	11,502	£312,729	£27
20	Hotel	5,323	£0	£0
21	Hotel	4,291	£0	£0
22	Residential	11,113	£0	£0
23	Residential	48,585	£61,814,179	£1,272
24	Residential	803	£0	£0
25	Student	24,528	£11,787,631	£481
26	Student	538	£0	£0
27	Student	868	£1,844,472	£2,125

**Table 7.7.3: Maximum CIL rates (before buffer), Carbon offset £880 per tonne and culture contribution of £180 per square metre**

LP Ref	Site	GIA sqm	Surplus RV above BLV	Surplus per sqm (potential max CIL)
1	Office	36,645	£0	£0
2	Office	115,148	£0	£0
3	Office - heavy refurb	22,010	£0	£0
4	Office	24,749	£0	£0
5	Office	19,658	£0	£0
6	Office	8,800	£0	£0
7	Office - heavy refurb	51,860	£0	£0
8	Office	33,528	£0	£0
9	Office	1,540	£3,660,743	£2,377
10	Office - light refurb	26,450	£0	£0
11	Office - light refurb	46,481	£0	£0
12	Office	2,714	£0	£0
13	Office	663	£0	£0
14	Office	73,216	£0	£0
15	Office	45,303	£0	£0
16	Office	3,760	£7,786,460	£2,071
17	Hotel	10,952	£0	£0
18	Hotel	7,320	£0	£0
19	Hotel	11,502	£0	£0
20	Hotel	5,323	£0	£0
21	Hotel	4,291	£0	£0
22	Residential	11,113	£0	£0
23	Residential	48,585	£41,547,805	£855
24	Residential	803	£0	£0
25	Student	24,528	£1,088,909	£44
26	Student	538	£0	£0
27	Student	868	£1,465,864	£1,689

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## 8 Conclusions and recommendations

- 8.1 The NPPF states that “Plans should set out the contributions expected in association with particular sites and types of development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, green and digital infrastructure). Such policies should not undermine the delivery of the plan”. This report and its supporting appendices test the ability of development typologies in City of London to support local plan policies while making contributions to infrastructure that will support growth through CIL.
- 8.2 We have tested the impact of the main emerging policies which may have an impact on viability:
- **Affordable housing:** We have appraised residential schemes with a range of affordable housing from 0% to 50% to test the ability of development typologies to meet the requirements of Strategic Policy S3 which requires 50% affordable on publicly owned sites and 35% on other sites. Our appraisals indicate that the requirements can be met on most typologies tested, although the existing use value is a critical factor in determining the outcome. Where existing use values are high, the ability of residential schemes to meet the policy requirement will be more constrained and the level of achievable residential sales values may become a critical factor. In these circumstances, the policy contains sufficient flexibility, both in terms of tenure mix and overall quantum, to enable schemes to come forward with a viable package of affordable housing. Our appraisals also indicate that the requirement for existing affordable housing on estates to be reprovided is viable, providing a sufficient quantum of private housing is incorporated to cross-subsidise the affordable housing.
  - **Commercial contribution towards affordable housing:** Strategic Policy S27 requires that commercial developments make a financial contribution towards affordable housing provision at a rate of £50 per square metre (£57.21 per square metre after indexation). The results of our appraisals indicates that the impact of this policy requirement is marginal and will not prevent schemes from coming forward in normal circumstances.
  - **Accessibility standards:** Strategic Policy S3 requires that 90% of dwellings meet the accessibility requirements of Part M4(2) of the Building Regulations and 10% meet Part M4(3) which requires full wheelchair accessibility. Our appraisals incorporating these additional costs show only a marginal reduction in residual land values that are unlikely to have a significant impact on scheme viability.
  - **Climate change:** the requirements of Policy DE1 for low and zero carbon can be achieved either through on-site measures including on-site generation or through offsetting. Our appraisals test the impact of incorporating sustainable energy measures, BREEAM excellent and zero carbon development, which results in a marginal reduction in residual land values. These reductions are unlikely to result in developments becoming unviable, given the modest change. We have also tested a range of carbon offsetting figures, from the current rate of £95 per tonne up to £880 per tonne. When tested at the higher end of the range (in combination with all other policy requirements), this contribution can have a significant impact on viability. On-site net zero carbon options would be more viable in comparison to offsetting at the higher rates.
  - **Urban Greening/biodiversity/green infrastructure:** we have tested the provision of green roofs as a proxy for meeting the requirements emerging policy OS2 (City Urban Greening) and also a cost uplift for the measures required to achieve Biodiversity Net Gain. The combined impact of these requirements on the residual land values is marginal.
  - **Office retrofit/refurbishment first:** policies OF1 and DE1 encourage site owners to prioritise retrofitting and refurbishment of existing offices over demolition and development. Our appraisals indicate that the viability of refurbishment will depend on the extent to which space can be reconfigured to meet contemporary requirements of occupiers. Another key factor is the extent to which existing buildings are capable of increases in height or volume as there is a positive correlation with viability.



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- **Student housing:** policy HS6 requires that student housing developments provide 35% of rooms at an affordable rent, as defined by the 2021 London Plan (50% of the maximum maintenance loan available to undergraduates in London). Our appraisals indicate that this requirement can be viably accommodated by student housing developments in the City.
  - **Culture contributions:** Policy S27 requires that developments contribute towards cultural provision, either on-site or through financial contributions. We have tested a range of contributions (£40 to £180 per square metre) and this requirement (in isolation) has only a marginal impact on scheme viability.
  - **Employment and skills contribution:** Strategic Policy S27 requires that commercial developments make a financial contribution towards employment and skills of £30 per square metre (£34.39 per square metre after indexation) and residential schemes of 10 or more units make a £5 per square metre (£5.73 per square metre after indexation) contribution. Our appraisals indicate that the impact of this requirement on residual land values is a marginal reduction that is unlikely to impact on the overall viability of developments.
  - **Cumulative impact of policies:** In addition to separately testing the specific policies above, we have tested the cumulative impact of all the policies. In most cases, the cumulative impact of the requirements does not render any schemes unviable against the sites' benchmark land values. The degree to which commercial schemes will be viable depends largely on the value of the existing building and the extent of the uplift in floorspace arising from the newly developed/refurbished floorspace. It should also be noted that many owners of secondary offices will be compelled by changing patterns of occupier demand to undertake significant refurbishments or redevelopments to ensure that their buildings remain competitive in the market and meet all current or forthcoming regulatory requirements. In such circumstances, it is unlikely that owners would be undertaking refurbishments to secure an immediate developer's profit, but to enhance (or in some cases, merely maintain) the underlying asset value over time. Schemes that may not appear viable as development propositions may still proceed if the owner is motivated by an objective of enhancing asset values or future-proofing against forthcoming requirements.
  - Residential development is to varying degrees, depending on existing use values of each site. This is particularly the case on the smaller residential schemes we have tested in this study, but this is associated more with the individual circumstances of those sites than a more widely applicable finding. One of the smaller schemes involves the conversion of an existing residential house, with no overall uplift in floorspace. For schemes where there is a greater uplift in floor area, viability issues are unlikely to emerge.

### Additional observations

- 8.3 Viability measured in present value terms is only one of several factors that determine whether a site is developed. Developers need to maintain a throughput of sites to ensure their staff are utilised and they can continue to generate returns for their shareholders. Consequently, small adjustments to residual land values resulting from changes in policy can be absorbed in most all circumstances by developers taking a commercial view on the impact. However, in most cases the impact on land value is sufficiently modest that this can be passed onto the land owner at the bid stage without adversely impacting on the supply of land for development.
- 8.4 In considering the outputs of the appraisals, it is important to recognise that some developments will be unviable regardless of the City Corporation's requirements. In these cases, the value of the existing building will be higher than a redevelopment opportunity over the medium term. However, this situation should not be taken as an indication of the viability (or otherwise) of the City Corporation's policies and requirements.
- 8.5 It is critical that developers do not over-pay for sites such that all of the value generated by developments is paid to the landowner, rather than being used in part to provide affordable housing and to meet other planning policy requirements. The City Corporation should work closely with developers to ensure that landowners' expectations of land value are appropriately framed by the local policy context. There may be instances when viability issues emerge on individual developments, even when the land has been purchased at an appropriate price (e.g. due to extensive

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decontamination requirements). In these cases, some flexibility may be required subject to submission of a robust site-specific viability assessment. This flexibility is allowed for in the City Corporation's draft policies and by the adoption of the Mayor of London's 'threshold' approach to affordable housing.

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## Appendix 1 - Policy review

## City of London Draft Local Plan

**Table 8.1: List of Policies and details of cost impacts tested.**

<b>Policy</b>	<b>Cost impacts tested</b>
Strategic Policy S1: Healthy and Inclusive City	None not addressed by other specific policies elsewhere in the Plan.
Strategic Policy S2: Safe and Secure City	None not addressed by other specific policies elsewhere in the Plan.
Strategic Policy S3: Housing	50% affordable housing on publicly owned land 35% affordable housing on other sites 10% of dwellings to meet M4(2)
Strategic Policy S4: Offices	Encourages retrofitting of existing buildings (tested through refurbishment typologies) Encourages affordable workspace
Strategic Policy S5: Retail and active frontages	Requires retail impact assessment on retail developments outside Primary Shopping Centres. Incorporated within professional fees allowances. Incorporated within professional fees allowances.
Strategic Policy S6: Culture and Visitors and the Night-Time Economy	Requires submission of cultural plans for development.
Strategic Policy S7: Smart Infrastructure and Utilities	Reducing demand for power and incorporating sustainable design into developments. NZC uplifts tested in study.
Strategic Policy S8: Design	High quality design – reflected in level of professional fees and construction costs assumed.  Encourages retrofit first approach and refurbishment. Tested through refurbishment typologies.
Policy DE3: Public Realm	Sets out approach to enhancing streets. No direct costs to development.
Strategic Policy S9: Vehicular Transport and Servicing	Land use issue only – no direct development costs.
Strategic Policy S10: Active Travel and Healthy Streets	No direct development costs.
Strategic Policy S11: Historic Environment	No direct development costs.
Strategic Policy S12: Tall Buildings	Land use issue only.
Strategic Policy S13: Protected Views	Land use issue only.
Strategic Policy S14: Open Spaces and Green Infrastructure	Land use issue only.
Strategic Policy S15: Climate Resilience and Flood Risk	Requirements can be achieved without additional development costs.
Strategic Policy S16: Circular Economy and Waste	Waste management polices – no direct costs to development.

**Table 8.2: List of Policies and details of cost impacts tested continued.**

<b>Policy</b>	<b>Cost impacts testing</b>
Strategic Policy S26: Planning Contributions	Contributions to infrastructure through CIL Planning obligations sought, subject to scheme viability for the following: <ul style="list-style-type: none"> <li>• site specific mitigation meeting statutory tests;</li> <li>• affordable housing;</li> <li>• training, skills and job brokerage;</li> <li>• carbon offsetting;</li> <li>• cultural provision;</li> <li>• Highways and public realm enhancements including commuted sums for maintenance;</li> <li>• local procurement in the City and neighbouring boroughs; and</li> <li>• measures to enhance area-wide security, where appropriate.</li> </ul>
Policy HL1: Inclusive buildings and spaces	Can be achieved without additional development costs. Floor area for public spaces included in appraisals (where relevant).
Policy HL2: Air quality	Cost of air quality assessments included in professional fees allowances.
Policy HL3: Noise	No direct development costs.
Policy HL4: Contaminated land and water quality	De-minimis cost of investigation.
Policy HL5: Location and protection of social and community facilities	Land use issue only.
Policy HL6: Public toilets	CoL provision of facilities. Can be incorporated into developments as part of other facilities (e.g. cafes) so that there are no additional development costs
Policy HL7: Sport and recreation	Encourages new sports provision and seeks to protect existing. Land use issue only.
Policy HL8: Play areas and facilities	Seeks to protect existing and encourage new play spaces. Land use issue only. Play space in new developments reflected in net to gross site area assumptions.
Policy HL9: Health Impact Assessment (HIA)	Requirement to undertake HIA included in professional fees allowance.
Policy SA1: Publicly accessible locations	Risk assessments required – deminimis cost.
Policy SA2: Dispersal Routes	Management plan required for dispersal of people after events – deminimis cost.
Policy SA3: Designing in Security	No additional costs to development – the standards indicated reflect occupiers' requirements.
Policy HS1: Location of New Housing	Land use issue only.
Policy HS2: Loss of housing	Land use issue only.
Policy HS3: Residential environment	Land use issue only.

**Table 8.3: List of Policies and details of cost impacts tested continued.**

<b>Policy</b>	<b>Cost impacts testing</b>
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Policy HS4: Housing quality standards	No additional costs to development; already reflected by London Plan standards.
Policy HS5: Short term residential letting	Land use issue only.
Policy HS6: Student accommodation and hostels	35% of units required to be provided as affordable – tested in study.
Policy HS7: Older persons housing	Land use issue only.
Policy HS8: Self and custom housebuilding	Land use issue only.
Policy OF1: Office Development	Seeks to prioritise retrofit and refurbishment – tested in appraisals.  Encourages provision of affordable workspace – tested in appraisals.
Policy OF2: Protection of Existing Office Floorspace	Land use issue only.
Policy OF3: Temporary ‘Meanwhile’ Uses	Land use issue only.
Strategic Policy S5: Retail and active frontages	Land use issue only – directs retail development to Principal Shopping Centres. Retail Impact Assessment required for retail developments of more than 2,500 sqm outside Principal Shopping Centres. Cost incorporated within professional fees allowances.
Policy RE1: Principal Shopping Centres	Land use issue only.
Policy RE2 Active frontages	No additional development costs.
Policy RE3 Specialist retail uses and clusters	Land use issue only.
Policy RE4: Markets	Land use issue only.
Policy CV1: Protection of Existing Visitor, Arts and Cultural Facilities	Land use issue only.
Policy CV2: Provision of Arts, Culture and Leisure Facilities	Development to provide cultural plan – de minimis cost included in professional fees allowance. Developments to provide art, culture or leisure facilities – tested through typologies.
Policy CV2 CV3: Provision of Visitor Facilities	No direct costs to development.
Policy CV4: Hotels	Land use issue only.
Policy CV5: Evening and Night-Time Economy	Land use issue only.
Policy CV5 CV6: Public Art	No direct development costs.
Strategic Policy S7: Smart Infrastructure and Utilities	Reductions in use of energy through infrastructure and utilities provision. Should be possible to achieve without any additional development costs.
Policy IN1: Infrastructure provision and connection	No direct development costs.
Policy IN2: Infrastructure Capacity	Normal development cost. Developers are always responsible to the cost of upgrades or new supplies if existing capacity is insufficient.
Policy IN3: Pipe Subways	No additional development costs.

**Table 8.4: List of Policies and details of cost impacts tested continued.**

<b>Policy</b>	<b>Cost impacts testing</b>
Policy DE1: Sustainable Design	Encourages retrofit first and refurbishment approach – tested through refurb typologies.

	<p>Low carbon development sought – tested in study.</p> <p>BREEAM rating excellent required – tested in study.</p> <p>Carbon reduction requirements of London Plan to be met onsite or through offsetting – tested in study.</p>
Policy DE2: Design Quality	No direct development costs.
Policy DE3: Public Realm	No direct development costs.
Policy DE4: Terraces and elevated public spaces	Encourages terraces and viewing galleries – should be publicly accessible. Tested in study through typologies with public spaces.
Policy DE5: Shopfronts	No direct development costs.
Policy DE6: Advertisements	No direct development costs.
Policy DE7: Daylight and sunlight	No direct development costs.
Policy DE8: Lighting	No direct development costs.
Policy VT1: The impacts of development on transport	Travel plans – de minimis cost included within overall professional fees allowance.
Policy VT2: Freight and Servicing	No direct development costs.
Policy VT3: Vehicle Parking	Car free development, other than blue badge spaces. Reduces costs by avoiding the need for extensive basement spaces.
Policy VT4: River Transport	No direct development costs.
Policy VT5: Aviation Landing Facilities	No direct development costs.
Policy AT1: Pedestrian Movement, Permeability and Wayfinding	Can be achieved without additional development costs.
Policy AT2: Active Travel including Cycling	Requires developers to incorporate sufficient facilities for walking and cycling. Reflects requirements of occupiers as many office workers now expect to be able to have access to secure cycle spaces within their place of work. Cycle spaces usually accommodated in basements.
Policy AT3: Cycle Parking	Requires provision of secure cycle parking. Reflects requirements of occupiers.
Policy HE1: Managing Change to the Historic Environment	Impacts limited to heritage assets.
Policy HE2: Ancient Monuments and Archaeology	Archeological assessment required for developments involving excavation and ground works. Reflected in professional fees allowances.
Policy HE3: Setting of the Tower of London World Heritage Site	Land use issue only for sites within setting of Tower of London.

**Table 8.5: List of Policies and details of cost impacts tested continued.**

<b>Policy</b>	<b>Cost impacts testing</b>
Policy OS1: Protection and provision of open spaces	Land use issue only.
Policy OS2: City Urban Greening	Major developments to achieve Urban Greening Factor of a minimum of 0.3. Tested in study.

Policy OS3: Biodiversity	Development to enhance biodiversity – tested in the study through provision of green roofs.
Policy OS4: Biodiversity Net Gain	Three biodiversity units per hectare to be achieved. Tested in the study.
Policy OS54: Trees	Trees to be retained. Land use issue only.
Policy CR1: Overheating and Urban Heat Island Effect	Developments to be designed to reduce risk of overheating. Possible to achieve without additional development costs.
Policy CR2: Flood Risk	Flood risk assessment required for sites within flood risk area. Incorporated within overall professional fees allowances.
Policy CR3: Sustainable drainage systems (SuDS)	Now a standard requirement – can be achieved without additional development costs.
Policy CR4: Flood protection and flood defences	No additional development costs.
Policy CE12: Sustainable Waste Facilities and Transport	Standard requirement that occupiers would require – no additional development costs.
Policy CE23: New waste management sites	Land use issue only.
Policy PC1: Viability Assessments	Sets out processes for viability assessments at the development management stage.

## Appendix 2 - Typology details



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## Appendix 3 - Commercial rents and yields

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## Appendix 4 - BCIS costs

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## Appendix 5 - Accessibility standards

## Accessibility standards

### DCLG - Housing Standards Review - Cost impacts (September 2014)

Note: The percentage uplifts generated by this analysis (final table on this page) are applied to contemporary construction costs to provide a current cost of meeting accessibility standards.

**Table 9.1: Cost per dwelling.**

Category	1B flat	2B flat	2B House	3B House	4b House
Cat 2	£940	£907	£523	£521	£520
Cat 3(a)	£7,607	£7,891	£9,754	£10,307	£10,568
Car 3(b)	£7,764	£8,048	£22,238	£22,791	£23,052

**Table 9.2: Dwelling construction costs for different sized dwellings, including cost per unit and cost per sqm.**

Cost type	50 sqm	67 sqm	72 sqm	96 sqm	117 sqm
Cost per unit	£81,966	£94,520	£78,044	£95,741	£121,045
Cost psm	£1,639.32	£1,410.75	£1,083.94	£997.30	£1,034.57

**Table 9.3 Standards as percentage of construction costs.**

Category	1B flat	2B flat	2B House	3B House	4b House
Cat 2	1.15%	0.96%	0.67%	0.54%	0.43%
Cat 3(a)	9.28%	8.35%	12.50%	10.77%	8.73%
Cat 3(b)	9.47%	8.51%	28.49%	23.80%	19.04%

**Table 9.4: Cost uplifts applied in study.**

Category	Flats	Houses
Cat 2	1.15%	0.54%
Cat 3(a)	9.28%	10.77%
Cat 3(b)	9.47%	23.80%

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## Appendix 6 - Appraisal results (present day)

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## Appendix 7 - Appraisal results (grown)