

Community Infrastructure Levy - Further Evidence Regarding City Centre Office Rate

Addendum to Development Plan Panel Report 29/01/13

Introduction

- 1.1 The key piece of evidence for setting the Community Infrastructure Levy rates is the Leeds CIL Economic Viability Study (GVA, January 2013). This suggests a maximum viable CIL rate for City Centre offices of £100 per sqm, and advises that the Council should set a rate lower than this as required by the CIL Guidance document (December 2012). The guidance states that “charging authorities should avoid setting a charge right up to the margin of economic viability across the vast majority of sites in their area... should show... that their proposed charging rates will contribute positively towards and not threaten delivery of the relevant Plan as a whole” (Paragraph 30). Historic S106 data has also been used as evidence.
- 1.2 Officers previously proposed a rate of £90 per sqm for City Centre offices based on a 10% reduction below the suggested maximum (where this is above zero) across all uses. Prior to consideration by DPP it was considered necessary to collect further evidence and undertake further consideration of the City Centre office rate in recognition of the current sensitivities in the City Centre market, and that there are alternate use values in the City Centre which are not present in the housing green belt sites. This Addendum provides this further evidence, and has also been discussed at City Development Directorate with agreement that the rate presented to Development Plan Panel for consideration is now **£40 per sqm**.
- 1.3 It is acknowledged that there has not been a major office completion in Leeds since 2007. The market conditions remain fragile and the CIL levy should reflect this and the aspiration set out in the Core Strategy to promote economic growth and direct offices to the City Centre. The Council needs to ensure that the rates are set with an appropriate balance between gaining funding for infrastructure and not deterring development as a whole. The relationship with collecting business rates also needs to be borne in mind in that if development is deterred as a result of the CIL, business rate income will not be achieved.

Assessment of CIL rates on Key City Centre Schemes

- 1.4 Key Leeds City Centre office schemes have been assessed against current S106 and potential CIL charges for comparison. A potential 14,493 sqm office on Whitehall Road would at present provide a S106 contribution under the Public Transport Improvements Supplementary Planning Document (SPD) of £177,715. This equates to £12 per sqm which is far lower than the Viability Study suggests is viable. Therefore robust additional evidence would be needed to support setting such a low CIL rate. This indicates that the current formula calculation in the SPD is likely to be lower than what the development could afford to pay (the basis of the CIL assessment) and so such historic S106 payments need to be used as evidence but with some care. Choosing to set a CIL rate higher than that which would be paid under current policy via S106 Agreements does not invalidate the Viability Study.
- 1.5 The same scheme on Whitehall Road under the CIL regime would contribute £1.3m at a CIL rate of £90 psm, £724,650 at a rate of £50 psm, and £434,790 at a rate of £30 psm.

- 1.6 There were only two signed S106s in 2011/12 financial year for relevant City Centre office schemes. The Former City Square House (Wellington Street) scheme agreed £179,925 for public transport improvements in 2011 as part of an extension to a previous permission. With a floorspace of 16,012 sqm this equals £11 psm. The Brabco scheme on Whitehall Road agreed £106,996 in 2011 for public transport improvements for a 6,005 sqm office (13 storeys) and 5,350 sqm hotel, which equals £9 psm in total.
- 1.7 The KPMG scheme on LCC land at Sovereign Street will provide a gross internal area of 6,724 sqm. The agreed S106 contribution is £232,633 (£35 per sqm) for public realm improvements and public transport infrastructure. A CIL of £90 psm would equate to a levy of £605,160, with an impact on land price of a reduction of £372,527. At a CIL rate of £50, the levy would be £336,200, an impact on land price of £103,567. The Bruntwood scheme relating to Sovereign Street Plot C will provide a gross internal area of 8,200 sqm. Potential S106 costs have not been agreed, however, applying the same pro rata costs as for KPMG the S106 cost would be approximately £283,720. At a CIL rate of £90 the levy would be £738,000 with a reduction on land price of £454,280. At a CIL rate of £50 the levy would be £410,000, a reduction on land price of £126,280.
- 1.8 As an indication of a CIL rate which the market could bear the Council has determined what level of reduction in the land price would have stopped the sale occurring (as the Government's intention for the CIL is to reduce the land price, albeit in some instances it will not be the landowner which bears the cost). The reduced land price arising from a rate of £50 psm might well be acceptable to the Council in relation to the Sovereign Street site. However, it is recognised that this is a prime site and the wider economic benefits of its development in stimulating the office market are also a consideration for the Council, which would not generally be the case for a commercial landowner. It is therefore proposed that a rate of £40 psm would be a more suitable benchmark.
- 1.9 CIL only applies to net new floorspace and therefore at the New Merrion House (Town Centre Securities) the CIL would not apply to the refurbishment of the existing 11,152 sqm but only the extension for 4,507 sqm; at a rate of £90 the CIL levy would be £405,630, and at a rate of £40 it would be £180,280.

Comparison With Neighbouring Authorities – January 2013

- 1.10 Other authorities' CIL rates can be used as broad comparators, but caution must be used in making direct comparisons as they all have different cost assumptions and different policy requirements which must be factored in, e.g. for affordable housing and sustainable construction. Where possible the EVS for Leeds has taken into account the same assumptions as for directly neighbouring authorities and is confident in the assumptions used where they vary.

LOCAL AUTHORITY	OFFICE CHARGES
Core cities / northern authorities with published rates:	
Birmingham – Preliminary Draft	City centre office £55, fringe office £25, all other office £15
Newcastle – Preliminary Draft	City Centre Office £64 or £0
Manchester	N/A – currently tendering for viability study. Manchester Council officers do not yet have any indication of the level which may be set.

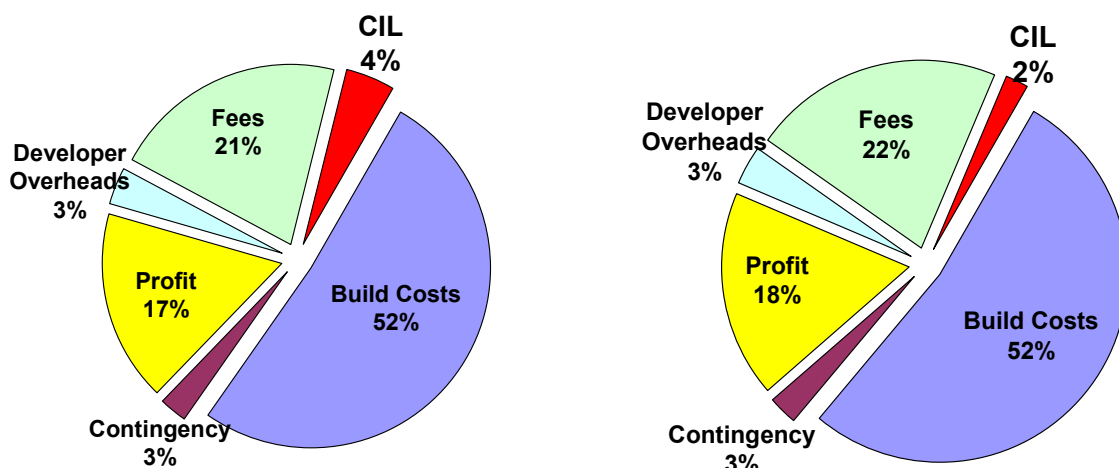
Portsmouth - Adopted April 2012 Bristol – Exam Report received Plymouth – Exam Report received Southampton – Draft Sheffield – Preliminary Draft Gateshead – Preliminary Draft Durham – Preliminary Draft Trafford – Preliminary Draft Bolton – Preliminary Draft	£0
Liverpool Greater Nottingham (joint)	N/A – CIL work not yet progressed
Neighbouring Authorities:	
Bradford Kirklees Harrogate Craven	N/A – Viability Evidence nearing completion. Due to the office market across the Leeds City Region level, it is likely that neighbouring authorities will propose a £zero CIL rate but this is yet to be finalised.
Barnsley York Selby Wakefield	N/A – Viability Studies not yet complete.

CIL as Percentage of Total Development Costs

City Centre Office Scheme 2,787sqm (30,000 sq.ft): Costs provided by GVA	
Value	
<i>ERV</i>	£720,000
<i>Yield</i>	6.5%
<i>Capital Value</i>	£11,076,923
<i>Rent Free (36 months)</i>	£2,160,000
<i>Purchasers Costs</i>	£602,291
<i>Net Value</i>	£8,314,632
Costs	
Build Costs (£1,162psm / 108psf)	£3,238,494
Contingency	£161,646
Fees (at 10%)	£323,292
S106 (average payment)	£44,592
Marketing (average cost per unit)	£138,462
Letting Agents and Legal's	£90,000
Investment Sale Agents and Legal Fees	£209,493
Developer Overheads	£206,701
Interest (average cost per unit)	£572,882
Total Construction Costs	£4,985,562
Profit	£1,084,517
Total Development Costs	£6,070,079
<i>Gross Residual Land Value</i>	£2,244,553
<i>Purchasers Costs</i>	£129,849
<i>Net Land Value</i>	£2,114,704

CIL @ £100 psm	= 4.4% of total costs	CIL @ £40 psm	= 1.8% of total costs
CIL @ £80 psm	= 3.6% of total costs	CIL @ £20 psm	= 0.9% of total costs
CIL @ £60 psm	= 2.7% of total costs		

CIL @ £90 psm and £40 psm as Percentage of City Centre Office Scheme (2,787sqm)



Office Market Comparison with Core Cities

1.11 The table below shows the headline rents, typical rent free periods, and take up figures for Leeds and comparable core cities (information provided by GVA January 2013). Leeds has a lower headline rent and a lower take up than Birmingham and Bristol.

1.12 The penultimate column shows the CIL charge (where cities have published a charge) as a % of the headline rent and the final column shows the equivalent period in months. The Birmingham CIL equates to 2.2 months rent. For Leeds a rate of £90 psm would be 4 months, a rate of £50 psm would be 2 months.

Location	Headline Rent (£ per sqm)	Rent free (on 10 year term)	Take-Up (City Centre Q4)	CIL Rate £ per sqm City Centre Offices	CIL as % of Annual Rent	Equivalent Rent Free Period (Months)
Leeds	269	30	7,618	£90	33%	4
Birmingham	296	36	17,187	£55 City Centre Core, £25 City Centre Fringe, £15 all other	19%	2.2
Sheffield*	210	36	5,000	Exempt		
Manchester	318	30	27,592	N/A		
Liverpool	226	36	6,225	N/A		
Newcastle	215	24	1,394	£64 or exempt	30%	3.5
Cardiff	242	36	5,574	N/A		
Bristol	296	36	10,126	Exempt		

*Sheffield figures estimated from non-GVA sources

Examples (one year term):

Leeds					
Building size (sqm)			5,574	CIL Levy £ per sqm	90
Rent (£ per sqm)			269	CIL Levy total	501,660
Gross Annual rent roll			1,499,406	% of Annual Rent	33%
Gross Capital Value (6.5%)	15.38		23,060,864		4.0
Rent free Capital value			124,951		
Net Capital Value			22,935,914		

Birmingham				
<i>Building size (sqm)</i>		5,574	<i>CIL Levy £ per sqm</i>	55
<i>Rent (£ per sqm)</i>		296	<i>CIL Levy total</i>	306,570
<i>Gross Annual rent roll</i>		1,649,904	<i>% of Annual Rent</i>	19%
<i>Gross Capital Value (7%)</i>	14.28	23,560,629		2.2
<i>Rent free Capital value</i>		137,492		
Net Capital Value		23,423,137		

Conclusions

- 1.13 In summary, the Council must demonstrate that the CIL rate will allow the City Centre to remain competitive and will not discourage growth as set out in the Core Strategy and as the hub of the Leeds City Region. However, setting a CIL rate higher than that paid in current S106s is not an incorrect approach as the S106s only indicate the formula calculation in current policy rather than the amount developments may actually afford to pay. There is also a danger in focusing too closely on individual site specific examples in advance of receiving the full range of representations at the formal public consultation stage.
- 1.14 The S106 evidence is somewhat limited due to the lack of office schemes coming forwards in the current market conditions. Recent signed S106s for City Centre office schemes have been for £9, £11, £12, £26, and £35 per sqm, and some of these have been on prime sites. There is a wide range of sites and locations in the City Centre and a flat rate needs to not harm the overall majority.
- 1.15 A CIL rate of £50 appears to be a reasonable impact on the land value of the LCC owned Sovereign Street site although for a commercial landowner this would be likely to be lower. At £90 psm the CIL charge is 4% of the total development costs of a typical City Centre office scheme (compared to 3% contingency, 20% developer overheads and profit, 21% fees and 52% build costs) whereas at £40 psm CIL drops to 1.8%, and at £30 psm it is only 1.4%. At below 2% it is considered unlikely that the CIL would be the sole tipping point by which a scheme would be made unviable and therefore it is proposed that this is reasonable.
- 1.16 Caution must be used in making direct comparisons with the CIL rates of other cities, but of those with published draft rates, the majority of northern authorities and core cities are proposing a zero CIL rate for city centre offices. The exceptions are Birmingham at £55 for the city centre and £25 for city centre fringe, and Newcastle at £64 for part of the city centre. Manchester is currently commissioning its viability evidence and officers there do not have an early indication of any recommended charges. The Birmingham CIL equates to 2.2 months rent, for Leeds a rate of £50 psm would be 2 months. Clearly, a rate for Leeds at around £50 psm would be comparable, and a slightly lower rate would reflect the headline rental difference from Birmingham.
- 1.17 Taking all the above evidence into account, **a City Centre office rate of £40 per sqm** is recommended. This demonstrates that the Council is committed to bringing forward growth in Leeds, by reducing the likelihood of office schemes not coming to the City or of Leeds City Centre sites being brought forwards for alternate uses, while recognising the need for new offices to contribute to the infrastructure pressures they create. The public consultation stage will then be an opportunity for the development industry and other stakeholders to further submit representations and evidence as to the viability and suitability of this £40 psm rate.