Lambeth CIL Team
PO Box 734
Winchester
SO23 5DG

cil@lambeth.gov.uk

13th March 2020

Dear Sir/Madam,

Lambeth CIL Draft Charging Schedule

I am writing on behalf of Berkeley Group to make representations in relation to the Consultation on your revised Preliminary Draft Charging Schedule for the Community Infrastructure Levy in Lambeth.

As London's leading residential developer the Berkeley Group has a long term interest in the viability of development in the Borough. As you will be aware Berkeley has undertaken extensive development in Lambeth including St George Wharf (St. George) and Albert Embankment (St. James) and has been granted planning permission at Oval Village (Berkeley Central London) for the Oval Gasworks scheme and Tesco Kennington site totalling over 1,300 homes and over 150,000 sq ft of commercial space. These two sites between them will deliver around 1,300 jobs. Berkeley have commenced works on the first phase of Oval Village with the remediation of the Gas Works site starting shortly. Berkeley has delivered hundreds of new homes in the Borough, including affordable homes, and provided significant investment in infrastructure both through CIL contributions and Section 106 obligations.

Berkeley wishes to continue its collaborative relationship with the Council and in particular to ensure that the new Local Plan, when adopted, will be deliverable and that the combined weight of obligations and policy requirements, together with those in the new London Plan can be met without putting delivery at risk.

Berkeley recognises that the Council has a difficult balance to strike in securing infrastructure investment whilst facilitating development. It is important to note that there have been a number of consented residential sites in Lambeth that haven't been delivered or are now being delivered as offices. Therefore, caution must be had when setting CIL rates that could discourage residential development. Berkeley are concerned that, at a time of significant uncertainty and, in Central London, falling prices combined with rising costs increasing CIL charges by nearly 100% in Zone A and 160% in Zone B could have very significant impacts on the industry's ability to deliver the new homes, including affordable homes, that the Council and Mayor of London wish to see.

Berkeley still believe that their comments within their previous representation are valid and would encourage the Council the take a cautious and considered approach in taking forward the review of CIL charges given the unprecedented uncertainty facing the housing market and the wider economy over the coming year.

Please do not hesitate to contact me if you require further information.

Yours sincerely,

[redacted]

[redacted]
Land & Development Director, Berkeley St Edward

[redacted]@berkeleygroup.co.uk
Tel: 0207 720 2600

Attachments:

Initial Berkeley CIL Representation (17th December 2018)

Berkeley Group

Lambeth CIL team
PO Box 734
Winchester
SO23 5DG

cil@lambeth.gov.uk

Dear Sir/Madam,

Lambeth CIL Preliminary Draft Charging Schedule

Introduction

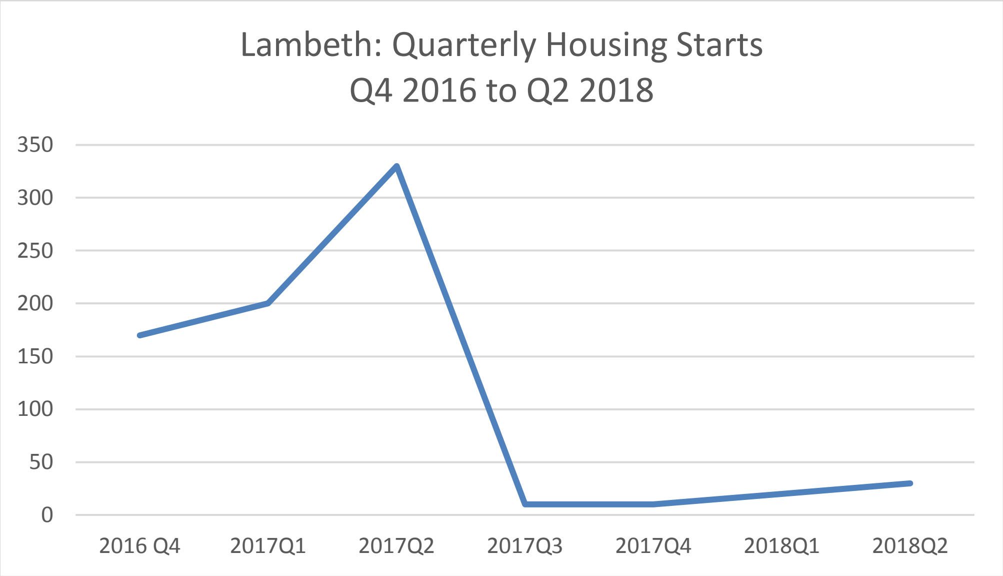
I am writing on behalf of Berkeley Group to make representations in relation to the Consultation on your revised Preliminary Draft Charging Schedule for the Community Infrastructure Levy in Lambeth.

As London's leading residential developer the Berkeley Group has a long term interest in the viability of development in the Borough. As you will be aware Berkeley has undertaken extensive development in Lambeth including St George Wharf (St. George) and Albert Embankment (St. James) and has been granted planning permission at Oval Village (Berkeley Central London) for the Oval Gasworks scheme and recently resolution to grant on the Tesco Kennington site totalling over 1,300 homes and over 150,000 sq ft of commercial space. These two sites between them will deliver around 1,300 jobs. Berkeley has delivered hundreds of new homes in the Borough, including affordable homes, and provided significant investment in infrastructure both through CIL contributions and Section 106 obligations.

Berkeley wishes to continue its collaborative relationship with the Council and in particular to ensure that the new Local Plan, when adopted, will be deliverable and that the combined weight of obligations and policy requirements, together with those in the new London Plan can be met without putting delivery at risk.

Over the last few years the residential market in Central and more recently Outer London has experienced significant pricing pressure. The combination of changes in stamp duty, political uncertainty and rising interest rates has led to falling prices and significantly lower sales rates, which has been particularly prominent in the new build market. Falling housing starts in London is a leading indicator which demonstrates the impact of a falling market on the ability of developers to bring forward sites. This is particularly significant at present because residential values in Lambeth over the last two years have been flat whilst development costs have increased by over 25%.

The chart below shows the most recent Government data on housing starts in Lambeth. Starts focus on new build dwellings and include all dwellings in an apartment block at the time of commencement of the block. This demonstrates a very rapid slowdown in starts in Lambeth from the middle of last year which will begin to show up in completions over the coming year.



Source: MHCLG Live Table 253a Housing Starts and Completions

It is therefore the view of Berkeley that this is an inopportune time to be considering significant increases in CIL liability, particularly given the drive by both the Council and Mayor of London to at the same time increase housing delivery and affordable housing delivered through the planning system.
In these circumstances Berkeley would request that:

- The Council clarifies some of the assumptions made in the Viability Study which are set out below and focusses on those typologies of current uses and development types that underpin the emerging Local Plan, particularly for strategic growth areas;

- Undertakes further testing of viability, including risk assessments against low or falling values and increasing cost projections reflecting current trends which would seem more appropriate than only testing higher values as set out in the current evidence base;

- Considers the implications for large phased developments, including those that already have planning permission, because the increased rates may apply to future phases of those developments.

Berkeley has extensive experience of development in the Borough and would be happy to engage further with the Council on this additional work if that would be helpful. Berkeley would encourage the Council to take a cautious and considered approach in taking forward the review of CIL charges given the unprecedented uncertainty facing the housing market and the wider economy over the coming years.

Guidance on Setting CIL Rates

The Government publishes guidance on setting CIL rates as part of its Planning Practice Guidance. This includes the following requirements:

- Charging schedules should be consistent with, and support the implementation of, up-to-date relevant Plans (Paragraph: 010 Reference ID: 25-010-20140612)

- The sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened (Paragraph: 009 Reference ID: 25-009-20140612)
- A charging authority should take development costs into account when setting its levy rate or rates, particularly those likely to be incurred on strategic sites or brownfield land. (Paragraph: 020 Reference ID: 25-020-20140612)
- Councils should produce evidence showing the "potential effects of the proposed levy rates on the economic viability of development." (PPG, Paragraph: 018 Reference ID: 25-018-20140612)

London Borough of Lambeth: Local Plan and Community Infrastructure Levy Viability Review

The Council has published a 'Local Plan and Community Infrastructure Levy Viability Review' (July 2018) as the key piece of evidence supporting the revised draft Charging Schedule. This is intended to provide the context for judging the impact of CIL and other obligations on development and in striking the right 'balance' to ensure that the delivery of the sites and scale of development in the plan are not put at risk.

Overall Approach

The Viability Review, begins with a summary of the approach taken, including the economic and housing market context. Berkeley is concerned that this commentary reflects a position that may have been the case two or three years ago but does not reflect current market conditions. Paragraph 1.5 states that:

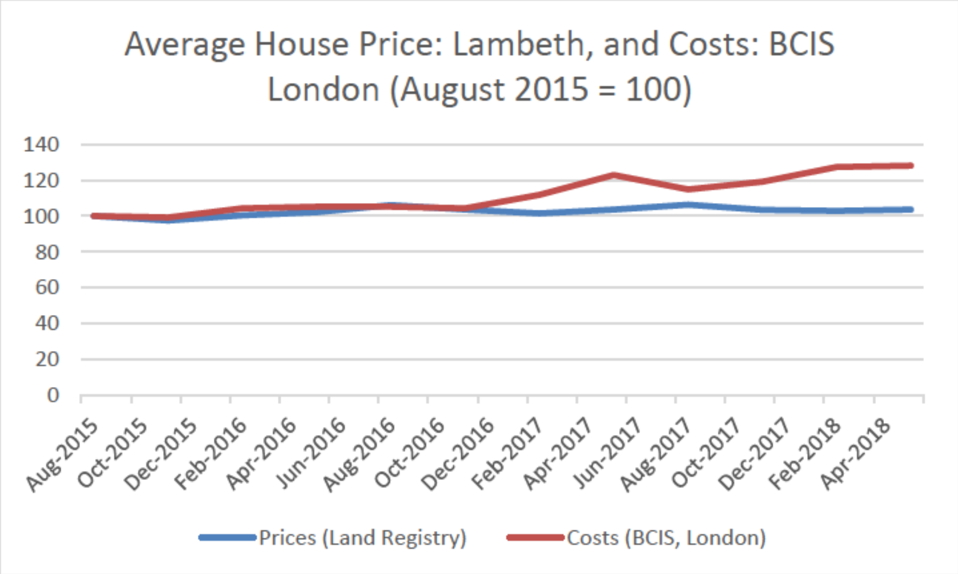
> *"The housing and commercial property markets are inherently cyclical and the Council is testing the viability of potential development sites at a time when the market has experienced a period of sustained growth."*

This is directly contradicted by Figure 2.15.1 in the report which shows that average house prices in Lambeth have been flat since 2016. More recent data now shows prices falling.
In justifying increased residential rates the report states:

> *"Sales values have increased at a faster rate than build costs since the adopted CIL rates were tested and as a consequence residential schemes can afford higher levels of CIL."*

Whilst this may have been the case in the early part of the period (to 2015), this does not necessarily mean that higher CIL rates could have been afforded if land values for competing uses were also rising. In any case, as the chart below shows, over the last three years costs have risen by around a quarter while house prices have been flat, using the same data sources as those used in the review.

The Berkeley Group plc
Berkeley House, 19 Portsmouth Road, Cobham, Surrey KT11 1JG
Tel: 01932 868555
www.berkeleygroup.co.uk



Furthermore this data includes all sales and therefore is mainly existing housing across the Borough. Values of new build property across the higher value areas, South Bank and Waterloo and Vauxhall Kennington, have been falling. The Viability Report refers to Savills forecasts (paragraph 2.16 and 4.14) and uses the mainstream (non-prime) London markets. However those higher value areas in Lambeth have become increasingly akin to the wider prime market. Savills most recent assessment of that market shows an 18.4% fall since the 2014 peak in Central London and a fall of 9.4% elsewhere.[1] That report forecasts a 5% fall in prime central London in 2018 and 1% in 2019, followed by 0% in 2020. For non-central London it forecasts a 3.5% fall in 2018, and then similar trends to central London. Sales rates for both second hand and new build properties have also been falling. Whilst growth is then predicted from 2021 onwards there is significant wider uncertainty in the UK and global economy.

Overall our concern is that the approach and tone of the report is that of previous CIL reviews that have been undertaken when the market was stronger and growing rapidly. In current circumstances we would expect a more cautious approach that reflects the very significant uncertainties and downside risks to the housing market. This should include sensitivity analysis of falling prices combined with rising costs (due to the weakness of the pound and potential difficulties in recruitment). It would also suggest that the Council may wish to ensure that subsequent stages of the review of CIL charges are undertaken at a pace that allows for continued review of market circumstances.

Viability Assessments: Typology and Issues

The Viability Assessment takes a typology approach to assessment. This includes eleven residential typologies, all of which are 100% residential and include no element of mixed use. In a Borough like Lambeth, where the supply pipeline is made up largely of medium and smaller sites this is not an unreasonable approach, provided that the typologies reflect the types of development that are being brought forward and that the results presented focus on the typologies most relevant to the delivery of the plan.

Five of the typologies are for developments of 150 homes or more, reflective of the types of development that Berkeley undertakes. These are:

- 6: Mid-size flatted scheme (225 homes)

[1] https://pdf.euro.savills.co.uk/uk/market-in-minute-reports/market-in-minutes---prime-london-residential.pdf

- 7: Large flatted scheme (300 homes)
- 9: Large higher Density Scheme (750 homes)
- 10: Large very high-density scheme (750 homes)
- 11: Large very high-density scheme (1,000 homes)

We have reviewed the appraisal assumptions for these developments and would make the following comments:

- In practice these types of development are mainly likely to happen in CIL Zones A (Waterloo and Vauxhall) and Zone B (Kennington, Oval and Clapham), so the presentation of findings on these typologies should focus on those locations;

- The existing uses on sites in these locations that will come forward for development are mainly Office and/or Utilities/Workshop/Industrial. London Plan and current and revised draft Plan local policies usually require at a minimum the re-provision of some of these uses within a mixed use development. In particular draft Policies ED1 (offices), ED3 (Key Industrial and Business Areas) and ED4 (non-designated industrial sites) strongly encourage replacement provision. Policy ED2 (Affordable Workspace), may then apply to that provision. However, none of the assessments in Table 4.1.1 include any element of mixed use. They therefore do not represent a realistic assessment of likely development costs or values or likely planning obligations (including MCIL). It is therefore necessary to include mixed use typologies in the appraisals;

- Some development capacity in London, including Lambeth will come from the intensification of retail sites. As implied by the commercial rents in Table 4.13.1 such uses will have significantly higher current use values than industrial uses and in parts of the Borough these will be akin to or higher than offices. They may again need to re-provide retail on site and maintain operation of existing uses with the costs associated. These should be assessed as a scenario;

- The nature of the sites described above is that they will have exceptional costs. We note from paragraph 4.36 that these have not been included in the assessments as they vary significantly. Whilst this point is acknowledged the Council and its advisers should have sufficient information from recent developments in Lambeth to be able to add a reasonable assumption.

- In Zone A, and probably Zone B, a premium should be added to BCIS build costs rates to reflect the build and fit out quality required to achieve the premium prices assumed in the appraisals;

- The presentation of the Benchmark Land Values in the appraisals in Tables 6.36.1 onwards is confusing and it is not clear how these values relate to those shown in Table 4.40.1. Some of the assumptions in the tables are not consistent with that table and do not appear to be evidenced. It would also be useful if the Council could confirm what the Premium that has been assumed in each case is.

More generally the findings of the report have not been presented in an accessible way, with fifteen pages of tables and graphs in the main body of the report as well as extensive appendices. The report does not appear to highlight which of the appraisal scenarios the Council finds most relevant and how they relate to real sites and the delivery of the Council's plan. Other than very high level statements there is little commentary on how the findings of the appraisals inform the proposed rates in the

Charging Schedules.

Planning Practice Guidance states that:

> *A charging authority's proposed rate or rates should be reasonable, given the available evidence, but there is no requirement for a proposed rate to exactly mirror the evidence. For example, this might not be appropriate if the evidence pointed to setting a charge right at the margins of viability. There is room for some pragmatism. It would be appropriate to ensure that a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust. In all cases, the charging authority should be able to explain its approach clearly.*

(Paragraph: 019 Reference ID: 25-019-20140612)

The point about the need for a buffer is noted on page 4 of the Viability Study but the tables on pages 53 to 64 setting out the appraisal findings note that the rates are before a buffer is applied. There is then no further reference to buffers when defining the rates. As we have noted above there is significant uncertainty and downside risk, and this makes the need for a reasonable buffer essential in current market conditions, even if one takes a positive medium-term view on values. It is not acceptable, as suggested at paragraph 6.41, to simply assume that schemes will become more viable when the recent trend and immediate forecasts show falls in values and rising costs.

Impacts on Consented Developments

The Community Infrastructure Levy liability for a Chargeable Development is determined by Regulation 40 of the CIL regulations. This requires a CIL liability for a Chargeable Development to be calculated according to the rates set 'At the Time Planning Permission First Permits Development'. For a phased development, each separate phase is a Chargeable Development and the Time Planning Permission First Permits Development may be either the date of the original planning permission, discharge of pre-commencement conditions relating to a phase (Full Permission) or approval of Reserved Matters application (Outline Permission).

This means that phased developments that have already been granted planning permission, since the Council adopted its first charging schedule, could be liable for the increased Community Infrastructure Levy charge being proposed by the Council. Some of these developments will have been subject to viability assessment which demonstrate that they are providing the maximum affordable housing and other obligations alongside CIL, and subsequently be hit with significantly increased CIL charges, combined with falling values. This could mean that they are unable to commence phases of development thus putting site delivery at risk. This will potentially be a cumulative impact with the Mayor's CIL when it is increased in April 2019 as the same principle applies.

The Council's Viability Study and supporting documentation does not appear to have considered this issue, but it would be useful if it could do before any Draft Charging Schedule has been published.

Conclusion

Berkeley welcomes the opportunity to respond to the Council's new Preliminary Draft Charging Schedule and associated documents. It recognises that the Council has a difficult balance to strike in securing infrastructure investment whilst facilitating development. However it is concerned that, at a time of significant uncertainty and, in Central London, falling prices combined with rising costs increasing CIL charges by nearly 100% in Zone A and 160% in Zone B could have very significant impacts on the industry's ability to deliver the new homes, including affordable homes, that the Council and Mayor of London wish to see.

We have suggested above some additional viability work that could be undertaken which would be more reflective of the Council's policy requirements and experience of actual sites in the Borough. Berkeley would be happy to provide any further information that might be useful and engage with the Council to address these practical issues.

Berkeley would encourage the Council the take a cautious and considered approach in taking forward the review of CIL charges given the unprecedented uncertainty facing the housing market and the wider economy over the coming year.

Please do not hesitate to contact me if you require further information.

Yours sincerely,

[redacted]

[redacted]
Land & Development Director, Berkeley St Edward

[redacted]@berkeleygroup.co.uk
Tel: 0207 720 2600