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Dear Sir /Madam

London Borough of Lambeth draft Charging Schedule
Representations on behalf of SIXTYFIVE House S.a.r.l (HB Reavis)
In respect of Elizabeth House, 39 York Road, SE1 7NQ

These representations are made in respect of Lambeth's draft CIL Charging Schedule ('DCS') on behalf of SIXTYFIVE House S.a.r.l (HB Reavis) ('the Landowner'). The Landowner is seeking to bring forward the redevelopment of Elizabeth House on York Road in Waterloo ('the Site').

The Site comprises a landmark building on a 2.1 hectare plot formed by two blocks arranged over 18 floors with retail on the ground floor and office uppers. The reinforced concrete building was built in 1967, is in a poor state of repair and has been multi-let in recent years, on relatively low rents.

The Site benefits from an extant planning consent for mixed use development (planning reference 12/01327/FUL). The consent has been implemented. The Site also benefits from a resolution to grant planning consent (reference 19/01477) for the demolition of the existing building and structures on the Site, and the construction of new buildings ranging between 12 and 31 storeys to create 146,170 sqm (GIA) office space and 8,900 sqm (GIA) of flexible floorspace.

Subject to a satisfactory legal agreement being signed in due course, it is the landowner's intention to bring forward the development on a speculative basis. This will be the joint largest speculative office development delivered in the London market alongside 22 Bishopsgate in the City of London, which is due to reach practical completion in the next quarter. The City building is currently 41% leased in what is a more mature office market, where arguably there will be greater demand.

Lambeth draft Charging Schedule (January 2020)

Lambeth's existing Charging Schedule is dated October 2014 and includes office development in Zone A (comprising Waterloo and Vauxhall) at £125 per sq m Indexed to today's date this equates to £174.69 per sq m according to the Charging Authority's Annual CIL rate summary. Lambeth have published an updated draft Charging Schedule dated January 2020. The draft Charging Schedule incorporates a proposed CIL rate for offices for Zone One of £225 per sqm, an increase of c.30 per cent.

The draft Charging Schedule is supported by an evidence base as required by the Community Infrastructure Levy Regulations 2010 (as amended) collated by BNP Paribas. The evidence base assesses the ability of a range of development typologies to absorb an increased CIL cost.

In setting rates, Regulation 14 of the 2010 CIL Regulations state that Charging Authorities must strike an appropriate balance between:

a) The desirability of funding from CIL (in whole or in part), the actual and expected estimated total cost of infrastructure to support the development of its area, taking into account other actual and expected sources of funding; and

b) The potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

Government guidance on the interpretation of the Regulations published in June 2014, states at paragraph 14 that '*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'* (paragraph 20). Further, guidance states that viability should consider the specific circumstances of strategic sites and this includes the potential to undertake specific viability assessments of sites that are critical to delivering the strategic priorities of the plan.

The Lambeth Local Plan (2015) and the Waterloo Area SPD (2013) identify the Site as a development of strategic importance. Clearly, the Site in consideration constitutes strategic development under the definitions contained within the Regulations and the Guidance.

Given the scale of the extant consent and resolution to grant recently obtained, it is fundamental to the setting of the CIL rates in the draft Charging Schedule that the evidence base that supports the proposed rates, in this case the office rate, is not detrimental to the delivery of the proposed development. The delivery of the Site will play a major role in contributing to the objectives of the Development Plan and the ongoing regeneration of this part of the capital.

The subject Site is the single largest office development in the Charging Authority area, and amongst the biggest in the capital. Its delivery is of fundamental importance to the delivery of the Development Plan and the regeneration of the immediate Waterloo station area, and indeed has broader implications.

BNP Paribas Evidence Base

The BNP Paribas viability report ('the Evidence Base'), dated December 2019, tests the ability of developments in the Charging Authority area, to accommodate the emerging polies in the draft revised Lambeth Local Plan and revised rates contained in the draft Charging Schedule.

There is a fine balance between securing the delivery of much needed infrastructure in the Charging Authority area, as identified in the Regulation 123 list, and ensuring that additional financial liabilities are not overly onerous which could have a detrimental impact on the prospects of delivery.

In seeking to assess the viability or a range of development types and uses, the Evidence Base adopts a recognised approach, supported by national planning policy and guidance, comparing the Residual Land Values (RLV) of development scenarios with a range of Benchmark Land Values (BLVs). The BLVs are predicated on a series of Existing Use Values (EUVs) to which a premium is added in order to incentivise a landowner to release a site for development.

For a scheme to remain viable, the RLV must be higher that the BLV. Clearly, if the range of obligations and CIL liabilities are too high then this places the delivery of the development at risk.

We note that the Mayoral CIL rate is at £185 per sqm in this location and Lambeth, through draft policy ED2, are also seeking 10 per cent of employment workspace to be delivered at 50 per cent of market rents for a period of 15 years.

The Evidence Base recommendation for the office rate in Zone A is: '*Office rents have increased significantly in Zone A and to a lesser extent in Zone B. As a consequence, capacity to absorb CIL contributions has been enhanced in new developments and we therefore suggest an increased rate of £225 per square metre. This rate could be extended from Zone A only in the adopted Charging Schedule to cover Zone B'*.

The Evidence Base incorporates three office scenarios, namely a small, medium and large office scheme, the latter being on a 0.6 hectare plot. Rental levels for the Zone A scenarios are set at £700 per sqm (£65 per sqft), with a 5.25 per cent investment yield and a 12 month rent free period.

Build costs are incorporated at £2,082 per sqm and inflated by an additional 15 per cent to allow for external works, 6 per cent to meet the cost of increased energy requirements, and an additional 1.4 per cent to reflect zero carbon & BREEAM. We would note that the build costs allowed for in the office scenarios are significantly below those envisaged for the subject Site and information provided by Landowner provided by their cost advisors Gardiner & Theobald, illustrate present day construction costs of £4,628 per sqm on the project GIA over double the Evidence Base figure.

Exceptional costs are not allowed for given the nature of the study, i.e. borough-wide assessment rather than a site-specific assessment, the latter of which may benefit from site investigations. It is not clear from the Evidence Base whether capital costs have been made for basement works and clearly a significant allowance would be required for such works at the subject Site.

The Evidence Base proposes a gross to net efficiency of 85 per cent and this is reasonable for a large office above ground, however if the basement has been included in the Evidence Base, then the efficiency is overstated. If the basement area is excluded, then it would appear that costs are understated. Clarification is therefore sought on both matters.

The exclusion of exceptional costs across all typologies leads us to question why the Site has not been fully tested as part of the Evidence Base.

We note that the Evidence Base allows for £50 per sqm for demolition costs. DS2 are advised by the Landowner that the costs of demolition on the subject Site are four fold, in the region of £193 to £236 per sqm. As such, particularly given the size of the existing building, the demolition costs for the Site are significantly underestimated.

In respect of BLVs, Zone A offices are valued at £75m per hectare for existing offices. We note that the landowner acquired the subject Site in May 2017 for £250m equating to c.£120m per hectare, albeit this would have included an element of hope value over and above the EUV, reflecting the existence of the extant consent. However, the Evidence Base states at paragraph 4.39 that the BLVs reflect EUV plus some hope value in order to incentivise the landowner to release the Site for development.

The Evidence Base tests a range of scenarios: the adopted rate, the indexed rate and three alternative higher rates (up to £225 per sqm). The Evidence Base also includes the provision of affordable workspace, similarly, adopting a range of scenarios, however given the emerging policy on this matter we have analysed the 10 per cent of floorspace for a 15-year period with a 50 per cent discount, as this reflects said policy. The impact of the imposition of affordable workspace on the residual outputs, on all three office scenarios in Zone A (10,000, 40,000 & 100,000 sqm GIA), is a c. 5 per cent reduction in value.

Section 6.46 of the evidence base states that office rents in Zone A have increased significantly since the 2014 Charging Schedule was adopted. This evidence is presented in Table One on the following page. Research has been undertaken to assess the validity of this statement. The table below illustrates lettings of 50,000 sq ft or greater in Zone A from 2014 to 2020.

Only two are new build lettings in excess of 50,000 sqft and these are as follows:

- One Southbank, the redevelopment of the former Shell Centre by Canary Wharf Group and Qatari Diar where Shell have leased c. 270,000 sqft and WeWork, the serviced office provider, have leased c. 300,000 sqft. The office provision is delivered as part of a larger mixed use residential led development and the effective rental levels (once rent frees are factored in) are respectively equal to, and lower, than the rents adopted in the Evidence Base. Cushman & Wakefield who are advising the Landowner, report that there has been office rental growth in the broader Southbank office marketplace since the date of the WeWork deal in 2007 however this is more applicable to the mature office markets of More London and Bankside (around Southwark Street and Blackfriars Road).
- Embassy Gardens – office phase of Ballymore's multi phased, residential-led redevelopment of the Nine Elms site. The office component is located next door to the US embassy and the space will be occupied by Penguin albeit the rental levels have not been made public. Please note that whilst this building is in Zone A it is in the Nine Elms market where there is a critical mass of new development, a new station and so on. DS2 understands from Cushman that the original Penguin deal was agreed at £52.50 psf however the landlord is now seeking high rents on the remaining space in return for the investment that has been accrued on the delivery of infrastructure and improved amenity in the area.

In addition to this there have been a couple of new build lettings which are sub 50,000 sq ft:

- Sky Gardens, Wandsworth Road – office space delivered as part of a residential led mixed-use development to be occupied by Chinese developer R&F who are delivering several major development projects of their own in the vicinity. Rents are lower than those reported in the Evidence Base;
- One Pear Place – small office development arranged over five floors with retail ground (c. 10,370 sq ft) close to Waterloo Station constructed in 2017 and occupied by Cyberark. Reported effective rents at £59.50 per sqft are less than those in the Evidence Base.

In summary, office development in Zone A has been as a result of residential led mixed-use development where residential is the primary value driver. One Pear Place is the exception as a standalone office building. The rents are all below those assessed in the Evidence Base and as such, those adopted in the Evidence Base appear aspirational.

Table One: Office Lettings in Excess of 50,000 sqft, Zone A (Waterloo / Vauxhall), 2014-2020							
Address		**Total SF**	**Rent**	**Rent Type**	**Lease Type**	**Term**	**Tenant**
Nine Elms Ln (Embassy Gdns)	Penguin deal	86,983			Direct		Penguin Random House
York Rd	Southbank Place	296,838	65.00	Effective	Direct	20 yrs	WeWork
Westminster Bridge Rd		53,604			Sublease		County Hall Arts
74-78 Upper Ground	IBM datacentre	218,973	27.53	Effective	Direct	13 yrs	IBM
1 Citadel Pl		94,824			Direct	10 yrs 8 mos	National Crime Agency
York Rd	Southbank Place	272,938	55.00	Effective	Direct	20 yrs	Shell UK Ltd
133-155 Waterloo Rd		120,099					Public Health England
1 Citadel Pl		52,090	27.92	Effective	Assignment	1 yr 2 mos	National Crime Agency
60-72 Upper Ground	ITV	153,032	34.96	Effective	Direct	24 yrs	ITV

The Evidence Base incorporates no voids (i.e. the office scenarios are deemed to be fully leased at practical completion) and only a 12 month rent free period. As the reference to 22 Bishopsgate on page one illustrated (being 41 per cent let at practical completion), there are likely to be significant costly void periods on the subject Site which will erode the real viability position.

Cushman advise the following rent free periods depending on the lease length being considered - 24 months for 10 years, 30-35 months for 15 years & 40-48 months for 20 years. Further, in respect of voids, their expectation is 30 per cent of the floorspace to be let during construction and this reflects their experience on new build office accommodation across the capital.

As a final comment, DS2 have reviewed the office appraisals which are provided in an excel format rather than Argus. It would appear that letting fees and disposal costs have been excluded albeit this may be an oversight on our part.

Summary

In summary, there are a series of flaws, identified above, in the generic modelling that require updating in order to more accurately appraise the office typologies.

In accordance with Regulation 16, a Charging Authority must make available the relevant evidence in support of a draft Charging Schedule. Relevant evidence in this context, as defined by the Regulations, means *'evidence which is readily available and which, in the opinion of the charging authority, has informed its preparation of the draft charging schedule'*.

In DS2's opinion, the relevant evidence in the form of the Evidence Base does not yet support the increase of the CIL liability for offices in Zone A. It is our opinion that increasing the rates over and above the existing CIL liabilities from the 2014 Charging Schedule (as indexed), as is proposed, places significant additional financial burden on development projects.

These projects, such as the subject Site are already contributing to planning gain in a significant manner and the acceleration of the development of this part of the Southbank which has been left behind in respect of sub-markets to the south and east. The increase in financial liabilities puts the delivery of office space, and the strategic objectives of the Development Plan, at risk.

DS2 LLP
March 2020