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Dear Sir /Madam

LONDON BOROUGH OF LAMBETH DRAFT CHARGING SCHEDULE - REPRESENTATIONS ON BEHALF OF MEC LONDON PROPERTY 3 (GENERAL PARTNER) LIMITED

In respect of London Television Centre, 60-72 Upper Ground, London SE1

These representations are made in respect of Lambeth's draft CIL Charging Schedule ('DCS') on behalf of MEC London Property 3 (General Partner) Limited, in their role as the landowner of the ITV Centre in Waterloo ('the Site'). MEC is being advised by Mitsubishi Estate London Limited (MEL) a subsidiary of Mitsubishi Estate, one of Japan's largest listed property companies, and CO—RE, a central London development specialist. MEL have extensive experience of development in London over the past 30 years having delivered Paternoster Square, Bow Bells House, 8 Finsbury Circus and are currently under construction at 8 Bishopsgate. CO—RE specialise in large scale, complex office and mixed-use developments having recently delivered One Fen Court and LSQ London, Leicester Square and are currently on-site at 20 Ropemaker Street. MEL and CO—RE are currently in discussions with LB Lambeth regarding the redevelopment of the Site for commercial development.

The Site comprises a landmark building on a 2.5-acre plot located on the world famous South Bank. The site is occupied by the London Television Centre which was formerly owned and occupied by ITV PLC as their headquarters. The Site is now vacant after ITV PLC deemed the building surplus to requirement and relocated to other buildings in London.

The Site benefits from an extant planning consent for mixed use development (planning reference 17/03986/FUL) for the demolition of the existing buildings and the construction of two new buildings (up to 14 storeys and 31 storeys in height with two basement levels) for the provision of circa. 48,069 sq m of offices and television studios (Use Class B1), 216 sq m of retail (Use Class A1) and 213 residential dwellings (Use Class C3).

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, which when indexed to today's date 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%.

The draft Charging Schedule is supported by an evidence base as required by the Community Infrastructure Levy Regulations 2010 (as amended), in the form of a Local Plan and Community Infrastructure Levy Viability Review, prepared by BNP Paribas Real Estate ("BNPP"). 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 site*"[1]

Further, guidance in the Planning Practice Guidance ("PPG") 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[2].

The Lambeth Local Plan (2015), the Waterloo Area SPD (2013) and the Draft Revised Lambeth Local Plan (2020), Proposed Submission Version (see "Site 9"), all 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 accompanying Guidance, and the PPG.

Given the scale of the extant consent 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 subject Site is the single largest office development in the Charging Authority area after Elizabeth House (also in Waterloo). Its delivery is of fundamental importance to the delivery of the Development Plan and the regeneration of the Waterloo area.

[1] CIL Regulations Guidance: Paragraph 20

[2] Planning Practice Guidance (May 2019): Paragraph 003 and Paragraph 005

BNP Paribas Evidence Base

The BNPP Viability Review ('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. However we note there is no CIL relief on affordable workspace in the same way as there would be for affordable housing.

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 (10,000 sq m GIA of B1 office), medium (40,000 sq m) and large (100,000 sq m) office scheme. A wholly commercial development at the subject site would put the potential provision of office floorpace between the medium and large office scenarios.

We have commented on the Evidence Base below.

Revenue assumptions

Rental levels for the Zone A scenarios are set at £700 per sqm (c. £65 per sq ft), with a 5.25% investment yield and a 12-month rent free period.

The client is currently being advised by Union Street Partners in respect of their short-term letting strategy. Union Street Partners are the foremost office agents operating in the 'SE1' sub-market, which includes Waterloo. They advise that the yield assumption is reasonable however have concerns in relation to the rent, rent-free periods and the letting void.

Rental values

Section 6.46 of the Evidence Base states that office rents in Zone A have increased significantly since the 2014 Charging Schedule was adopted.

Research has been undertaken to assess the validity of this statement. In reality, there is actually very little relevant evidence from within the Zone A charging area. We understand from Union Street Partners that only 9% of letting transactions in the SE1 area, which includes Waterloo, Bankside, Borough, London Bridge and Bermondsey, were in the Waterloo area.

Attached at **Appendix 1** of this letter is a table of major office lettings within the Zone A (Waterloo / Vauxhall) charging area, between 2014 and 2020. We have noted the following below which are for new build projects providing Grade A space (shaded blue within the Table at Appendix 1):

- Southbank Place, York Road, Waterloo - the redevelopment of the former Shell Centre by Canary Wharf Group and Qatari Diar where Shell leased c. 270,000 sq ft in March 2015 and WeWork, the serviced office provider, leased c. 300,000 sq ft in June 2017. Despite the historic nature of both transactions, the headline rent at the WeWork letting is aligned with the Evidence Base at £65.00 per sq ft, however the rent-free periods are not disclosed and which we understand to be considerable. The Shell letting is at £55.00 per sq ft, below the rates adopted in the Evidence Base.;
- Sky Gardens, Wandsworth Road, Vauxhall – c. 10,250 sq ft of office space delivered as part of a residential led mixed-use development to be occupied by Chinese developer R&F. Achieved rent is £52.50 per sq ft plus rent free, which is lower than those reported in the Evidence Base;
- Embassy Gardens, Nine Elms – 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 comprises c. 87,000 sq ft which has been pre-let to Penguin, albeit the rental levels have not been made public;
- One Pear Place, Waterloo – small office development arranged over five floors with retail at ground floor (c. 10,370 sq ft) close to Waterloo Station constructed in 2017 and leased to Cyberark in January 2018. Reported rents at £59.50 per sq ft are less than those in the Evidence Base.
- Vox Studios, Durham Street, Vauxhall – new build development located close to Vauxhall station. In 2019 Bloom & Wild leased 6,600 sq ft at a headline rent of £58.00 per sq ft, below the rates adopted in the Evidence Base.
- Holmes House, 10 Holmes Terrace SE1 was leased to Broadway Malyan at £51.50 psf on a ten year lease with 12 months rent free for 12,300 sq. ft on March 2018 for possession in February 2019. This was a pre-let of a building from the frame. The building is immediately behind Waterloo Station.

On balance, office rents would appear to be overstated for the Waterloo area, demonstrated, paradoxically, by a lack of relevant evidence in the Waterloo area when compared to more active SE1 submarkets such as Bankside and London Bridge. This is certainly not a robust, and demonstrable evidence base to support a 30% increase in rents from 2014.,Additionally, the proposed rents do not appear to consider the impact of a 'pre-let' on the overall, average rent.

A pre-let is a letting which is transacted before a building is practically complete. Typically, they are for large amounts of floorspace, let on longer than standard leases, helping to de-risk an office development so that development funding can then be secured, in the same way as an 'anchor' tenant in a shopping centre. In return for making an early, but long term commitment to a development, pre-let transactions are typically leased at a discount to the prevailing market rent as well as including significantly higher levels of rent-free periods. However, the relevant pre-let evidence noted above (Southbank Place, Embassy Gardens) is generally held confidentially by the respective developers of this buildings, however the discount is expected to be substantial, especially in the case of of embassy gardens as this was a 'true' pre-let, i.e. letting was agreed before construction commenced

For a major office development, it is not unreasonable to assume that a significant proportion of the floorspace would be pre-let. Given the size of the office building being tested by BNPP under the 'medium' and 'large' office scheme scenario, it should, in turn, be expected that there would be a significant pre-let component factored into the assessment of rental value, as well as rent free periods and letting void (see more detail below). On balance therefore it is considered that the headline rent adopted within the Evidence Base is overstated.

Rent free periods

Rent free periods are provided to occupiers of commercial floorspace as part of their lease as an incentive. BNPP adopt a rent-free allowance of 12 months in the Evidence Base. We are advised by Union Street Partners that rent-free periods typically work on 2-2.5 months per year of the lease. The current working assumptions for the Site are 24 months' rent free for a 10-year lease, 30-35 months for 15 years and 40-48 months for a 20-year lease. Further evidence can be provided if required.

As we have noted, it is a reasonable to assume that a proportion of any major office scheme would be pre-let. Furthermore, pre-lets are typically let on longer leases, as shown by the evidence set out below (sourced London-wide)

Scheme	Office floorspace (NIA)	Sign Date	Rent commencement Date	Term (years)
55 North Wharf Road, W2 1LA	68,400	2nd April 2018	1st June 2019	15
80 Charlotte Street, W1T 4QS	123,500	11th September 2017	1st October 2019	15
100 Liverpool Street, EC2M 2RH	160,998	13th February 2018	1st January 2020	20
Building 1, Curtain Road, EC2A 3ND	137,404	8th November 2017	15th January 2020	25
18-19 Hanover Square, W1S 1HY	57,200	23rd April 2018	1st October 2020	15
18-19 Hanover Square, W1S 1HY	53,916	5th March 2019	1st November 2020	20
17 Charterhouse, EC1N 6RA	158,284	6th June 2018	11th December 2020	25
Plot 2, 11 Canal Reach, N1 0AZ	230,509	23rd July 2018	1st December 2021	16
Plot 3, 11 Canal Reach, N1 0AZ	165,961	23rd July 2018	1st December 2021	16

Plot 2, York Way, N1 0AZ	196,002	23rd July 2018	1st December 2021	14
Soho Place - 1 Oxford Street, W1D 1AN	102,600	30th April 2019	30th June 2022	15
Building One - M7 Site, E20 1HZ	217,680	1st November 2017	1st December 2022	20

As such, the presence of a single (or multiple) pre-lets would need to be reflected in the overall levels of rent free adopted within the Evidence Base.

Letting void

A letting void is the time period it takes following practical completion of the building to fully let the building, at which point standard viability methodology assumes a theoretical sale of the fully let investment, so the time it takes to let the building is a material consideration to scheme viability.

Within the Evidence Base BNPP do not assume any letting void, in effect suggesting that the entire office building is fully let at the point the building is practically complete. We are advised that this is a wholly unrealistic assumption for any major office building. For example, the Shard took four years to reach 100% occupancy. Another example is 22 Bishopsgate which comprises 1.2m sq ft of office floorspace and is due to complete next quarter and is only 41% let, located in the City in what is a more mature office market, where arguably there will be greater demand. Further evidence can be provided upon request.

We are advised that market sentinment suggests an appropriate letting void for a large office typology in Zone A would be between 12 and 24 months. A knock impact of a longer letting void is that there are likely to be significant costly void periods that the developer will be liable for which will further erode the viability position.

Cost assumptions

Build costs within the Evidence Base are adopted at a rate £2,082 per sqm (£193 per sq ft) 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, arriving at a total build cost figure of £239 per sq ft.

We are advised by the Client's cost consultant Alinea, that the build costs allowed for currently for the Site are significantly higher than those adopted within the Evidence Base. Whilst Alinea cannot disclose the current cost estimates for the subject Site, they have, however, acted on a large number of major office developments across Central London, and have provided details of a number of major schemes which are set out below (exact site details omitted for confidentiality reasons). These are showing a range of £300 to £400 per sq ft GIA to shell & core and CAT A, and which are all significantly higher than the £239 per sq ft adopted within the Evidence Base. Further information on the example projects is included at **Appendix 2**.

Project	£ per sq ft (on GIA) (assumes shell & core plus Category A fit out	Project details
Project A	£297	103,000 sqft GIA, 8 Storeys above ground, 1 basement level
Project B	£312	130,000 sqft GIA, 9 Storeys above ground, 1 basement level
Project C	£318	204,000 sqft GIA, 21 Storeys above ground, 1 basement level
Project D	£318	180,000 sqft GIA, 11 Storeys above ground, 1 basement level
Project E	£345	210,000 sqft GIA, 12 Storeys above ground, 1 basement level
Project F	£353	480,000 sqft GIA, 22 Storeys above ground, 2 basement level
Project G	£376	560,000 sqft GIA, 37 Storeys above ground, 2 basement level
Project H	£386	685,000 sqft GIA, 35 Storeys above ground, 2 basement level

Exceptional costs/ efficiencies

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 other ancillary areas 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 which reasonable for a typical office floor above ground. However, if the basement and other ancillary plant room and amenity space, e.g. bicycle store and shower rooms etc, has been included in the Evidence Base, then the efficiency is significantly overstated. Typically the overall net to gross area efficiency of a building of this size is in the region of 65% to 70%. The Client's cost consultant Alinea have provided information on net to gross efficienceies for the same benchmark projets A-H, summarised below and included at **Appendix 3.**

Project	Net to gross efficiencey
Project A	66%
Project B	70%
Project C	69%
Project D	69%
Project E	67%
Project F	67%
Project G	63%
Project H	64%

If the basement area and ancillary space is excluded, then it would appear that costs are understated. Clarification is therefore sought on both matters.

We note that the Evidence Base allows for £50 per sqm for demolition costs. DS2 are advised by the Client that ITV had previously sought tenders to demolish the existing building, which suggested costs which are 500% higher than those in the Evidence Base, in the region of £250 per sq m. As such, the demolition costs for the medium and large office typologies are significantly understated.

Other costs

It is not clear whether the costs of letting and disposing of the offices are included within the Evidence Base. This would include marketing costs, agent letting and disposal fees and the costs of legal advice in respect of letting and disposing. Clarification is sought on this matter.

Benchmark Land Value ("BLV")

In respect of BLVs, Zone A offices are valued at £75m per hectare for existing offices. There is no evidence for this figure contained within the Evidence Base. We note that the landowner acquired the subject Site in November 2019 for £145,600,000 equating to c.£144m per hectare, almost double the adopted figure. Whilst reliance on land acquisition prices must be treated with some caution and would have included an element of hope value over and above the Existing Use Value ("EUV"), the presence of the extant permission is a material consideration when considering BLV.

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. PPG defines land value as the follows (the underlining is our own)

> *"To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements."*

In the case of the subject Site, one of the options available to the landowner is to implement the existing, extant permission. This value of the extant permission would therefore need to be factored into the premium over and above the EUV.

Summary

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 summary, there are a series of flaws, identified within these representations, in the modelling assumptions adopted within the BNPP Evidence Base that require updating in order to more accurately appraise the office typologies. Given the similarities between the subject Site and the medium and large office typologies, information proviced by the client and professional team should be taken into account as relevant evidence.

Clarification is therefore sought in respect of the following area:

- Lack of demonstrable evidence within the Zone A evidence to support a 30% increase in value
- Rents in Zone appear overstated due to omission of pre-let economics

- Rent free periods are understated, in part due to the omission of pre-let economics
- Omission of a letting void does not reflect the current market and the time required to let up an office building of scale in this location
- Build and demolition costs not reflective of central London major office development
- Efficiencies not clear until clarification as to how basements and ancillary areas have been treated
- Clarification as to inclusion of letting and disposal costs

DS2 LLP

March 2020

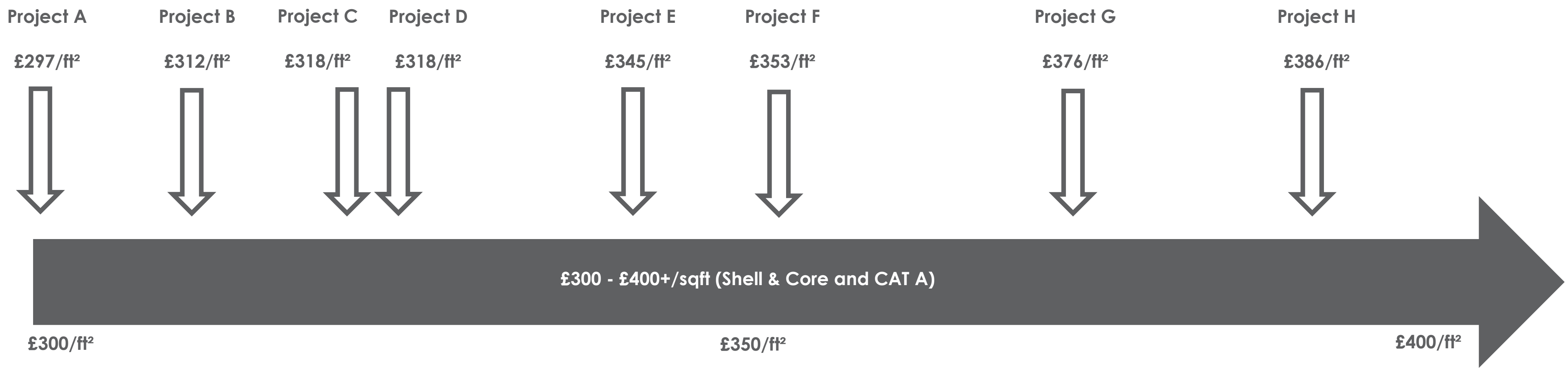
Appendix 1 – Major Zone A (Waterloo and Vauxhall) office lettings, 2014 to 2020

Address	Date	Total SF	Rent	Rent Type	Lease Type	Term	Tenant
Westminster Bridge Rd	07/11/2018	34,288	52.50	Asking	Direct	20 yrs	Cloudflare, Inc.
Nine Elms Ln	26/06/2018	43,916			Direct		Dorling Kindersley Holdings Ltd
Wandsworth Rd (Sky Gardens)	01/06/2018	10,248	52.47	Achieved	Direct		R&F Group
10 Holmes Ter	01/05/2018	12,292	51.50	Effective	Direct	10 yrs	Malyan Holdings Ltd
Nine Elms Ln (Embassy Gardens)	16/04/2018	86,983			Direct		Penguin Random House
1 Lambeth Palace Rd	01/03/2018	12,470	59.50	Asking	Sublease	8 yrs 7 mos	King's College London
Westminster Bridge Rd	01/02/2018	26,802			Sublease		County Hall Arts
1 Pear Place, Waterloo	17/01/2018	10,370	59.50	Asking	Direct		Cyberark
Southbank Place, York Rd	07/06/2017	296,838	65.00	Effective	Direct	20 yrs	WeWork
Westminster Bridge Rd	27/03/2017	25,349	36.62	Effective	Sublease	19 yrs	Etc.venues
Westminster Bridge Rd	01/12/2016	53,604			Sublease		County Hall Arts
74-78 Upper Ground	03/06/2016	218,973	27.53	Effective	Direct	13 yrs	IBM
Westminster Bridge Rd	29/04/2016	25,349	55.16	Effective	Sublease	20 yrs	Etc.venues
1 Citadel Pl	24/06/2015	94,824			Direct	10 yrs 8 mos	National Crime Agency
Southbank Place, York Rd	05/03/2015	272,938	55.00	Effective	Direct	20 yrs	Shell UK Ltd
133-155 Waterloo Rd	02/07/2014	120,099					Public Health England
1 Citadel Pl	03/04/2014	52,090	27.92	Effective	Assignment	1 yr 2 mos	National Crime Agency
60-72 Upper Ground	27/03/2014	153,032	34.96	Effective	Direct	24 yrs	ITV
87-89 Albert Embankment	24/03/2014	28,096	25.62	Effective	Direct	10 yrs	Marie Curie Cancer Care

London Commercial Construction Costs to Shell & Core and CAT A

Current Day Fixed Price 1Q20

The below chart highlights a number of projects in Central London to give an idea of how complexity and size drives cost. All £/ft² include on costs (prelims, OH&P, contractors risk, design reserve and contingency)



Project Overview

- Project A 103,000 sqft GIA, 8 Storeys above ground, 1 basement level
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- Project G 560,000 sqft GIA, 37 Storeys above ground, 2 basement level.
- Project H 685,000 sqft GIA, 35 Storeys above ground, 2 basement level.

Key Cost Drivers

Substructure, Frame and Upper Floors - Number of basement levels, extent and reuse of existing foundations / basement, frame weight / spans, methodology and sequencing.

External Walls - Wall: Floor ratio (shape and geometry, Material selection, detailing / layers and performance criteria

MEP and Lifts - Occupancy levels, air conditioning systems, systems layout, plant and equipment loading and number of lifts.

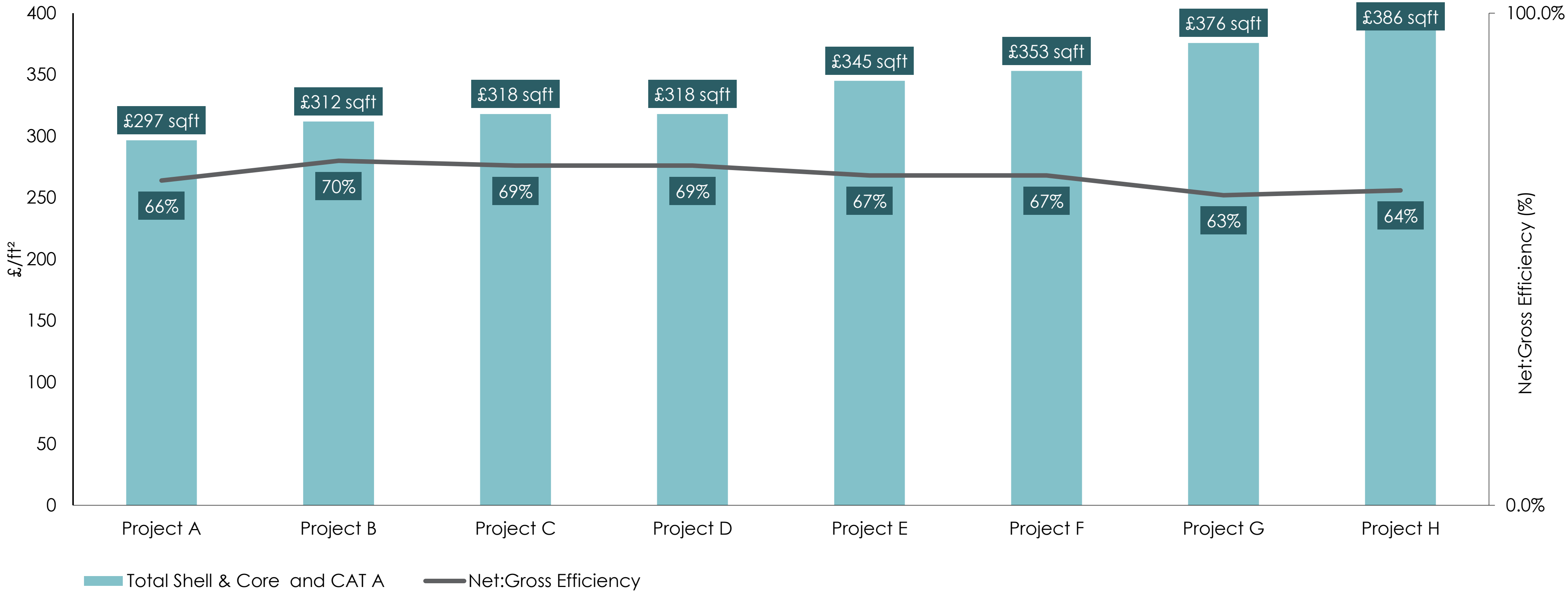
Internal Walls and Finishes - material choices, efficient basement and core layout, type of construction and standard products v bespoke.

Preliminaries / On costs - Length of programme, procurement route, allocation of risk, site logistics and attraction of scheme.

Cat A Works - Exposed services or not, type of AC and choice of ceiling / lighting.

London Commercial Construction Costs to Shell & Core and CAT A

Current Day Fixed Price 1Q20



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