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**LAMBETH LOCAL PLAN  
POLICY ED2 – AFFORDABLE WORKSPACE****1. Policy ED2 and conversion of arches**

It was suggested during the hearing on 3 November 2020 that Policy ED2 will cause viability issues for the conversion of arches to office floorspace, as these are constrained by the existing structure, i.e. the amount of floorspace can never increase. While this is largely correct, the representative of the Arch Company indicated that conversions would be rendered unviable by the requirement of Policy ED2. There is no evidence in the form of an appraisal to support this assertion.

We note that Turleys suggest in their representation that costs are significantly higher for office conversions. The only office conversions that are advertised on the Arch Company's website are those in Great Suffolk Street (LB Southwark) and Wootton Street, Waterloo (LB Lambeth) where the advertised rents exceed £55 per square foot. During the hearing, we drew attention to the low existing use value of these units prior to conversion to offices; typically a unit in industrial use will attract a rent as an industrial or storage unit of less than £20 per square foot. A 4,000 square foot arch unit would therefore attract a current rent of £80,000 per annum, but this would increase to £220,000 per annum after conversion. This would increase the capital value from circa £1.6 million to £4.4 million. Even at the inflated costs cited by Turleys in their hearing statement (£250 per square foot), the conversion costs would amount to only £1,000,000, leaving a significant margin of £1.8 million to cover fees and finance costs.

Clearly these higher costs would not be applied in all cases; where rents are expected to be at the lower end of the range (where the uplift above existing use value is not as much as in the north of the Borough), conversion and fit out costs would be tailored to meet the rental capacity of the new unit. A rational developer would not bring forward a scheme that costs more to construct than the additional value generated.

Critically, Policy ED2 seeks only 10% of floorspace to be provided as affordable and this is shown at Table 6.3.1 (document EB97) to reduce residual land values by between 5% and 10% in Brixton. Furthermore, refurbishments would not be subject to Mayoral CIL, resulting in a cost saving in comparison to new build schemes.

In view of the differences of values generated by arch developments in different parts of the Borough, it would be impossible to carve out arches or refurbishment of arches as it is far from proven that they would not be able to accommodate the affordable workspace requirement. If, on occasion, there are arch conversions which are of marginal viability, Policy ED2 incorporates sufficient flexibility for these schemes to be brought forward with a lower quantum of affordable workspace and this is the optimum route to deal with this point.

**2. Payments in lieu of affordable workspace (Annex 10)**

The purpose of the formula at Annex 10 is to calculate the uplift in residual land value resulting from not meeting the policy requirement on site. Rather than providing 10% of the floorspace at a discounted rent, this would instead be let at a full market rent, which would increase the capital value of the workspace. The formula seeks to calculate the value of this uplift.

A worked example is provided on the next page. Although it was suggested during the hearing that this is overly complex, when broken down into the various steps, it is no more complex than other similar formulae used to calculate other payments in lieu (e.g. for affordable housing).

**Table 1: worked example of payment in lieu**

A	Total lettable employment floorspace (sqm)		2,000
B	Percentage of floorspace to be discounted		10%
C	Amount of floorspace subject to discount	$A \times B =$	200
D	Market rent per sqm before discount		£700
E	Market rent for discounted floorspace before discount	$D \times C =$	£140,000
F	Discounted rent as % of market rent		50%
G	Rent after discount	$E \times F$	£70,000
H	Value of discount	$G - E$	<b>£-70,000</b>
I	Investment Yield		5.25%
J	Income Multiplier	$1 \div I$	19.0476
K	Capital value of discount	$H \times J$	<b>£-1,333,333</b>