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Dear Sir/Madam,

LONDON BOROUGH OF CAMDEN
COMMUNITY INFRASTUCTURE LEVY DRAFT CHARGING SCHEDULE

Introduction

On behalf of our client, Derwent London, we are writing to submit representations to the London Borough of Camden's (LBC) consultation on the Draft Charging Schedule (hereafter "DCS"). These representations are submitted by DP9 Limited, with support from DS2 LLP in relation to matters associated with economic viability evidence.

Derwent London is one of London's most innovative office specialist property regenerators and investors and is well known for its design-led philosophy and creative management approach to development.

Derwent London is the largest central London focused Real Estate Investment Trust and owns and manages a significant investment portfolio in Fitzrovia. Derwent London are long term investors in the London Borough of Camden, with 30% of its portfolio in the borough.

Derwent London own the Network Building located on 95-100 Tottenham Court Road and is currently in discussions with the London Borough of Camden regarding the redevelopment of this building to bring forward a mixed-use development, including a significant amount of office and retail floorspace. Derwent is in discussion with senior officers at Camden in relation to The Network Building. This includes discussion between BPS on behalf of Camden and DS2 on behalf of Derwent. It has been accepted that the redevelopment cannot provide all the associated residential requirement due to costs. An increase of CIL as currently proposed will make the situation less tenable.

The site is located within Zone A (Central) as identified in the DCS. The current adopted Charging Schedule (April 2015) sets a rate for office at £45 per sqm (GIA) and £25 for retail. The DCS proposes to substantially increase the levy rates from those sought by the current Charging Schedule. The office rate is significantly increasing from £45 to £110 per sq metre

Background

The current, adopted Charging Schedule was subject to two rounds of public consultation and an Examination in Public in late 2014/ early 2015. LBC's proposed rates were supported by viability evidence. In relation to the viability evidence, the Inspector's Report on the Examination of the Draft Camden Community Infrastructure Levy Charging Schedule (dated 16 December 2014) notes the following:

LBC commissioned a CIL viability study dated September 2012 to support a draft Charging Schedule submitted for examination in early 2014, however there were found to be technical difficulties with that schedule in terms of compliance with the CIL Regulations at the time of its submission and it was withdrawn.

A further viability study was commissioned dated 17 June 2014 to support a new draft Charging Schedule. This study was prepared by consultants GVA. Whilst commissioned in 2014 the viability study used costs and values as at Q2/Q3 2012. As a result, and in response to questions posed by the Inspector during the Examination, a further viability study addendum was prepared by GVA, dated 08 October 2014.

The October Addendum provided further evidence for costs and values as at Q3 2014. The Addendum concluded that values had increased considerably more than development costs since the original cost and value inputs from 2012, making it easier for developers to pay CIL at the rates proposed within the Charging Schedule.

2019 Viability Study

Within the CIL background Information document (Dated October 2019) LBC note that the adopted Charging Schedule CIL rates are based on viability research carried out 2013 and 2014 and which have an emphasis on residential uses because they generate the greatest increase in value, with lower rates charged for commercial uses. LBC further note that they have commissioned consultants BNP Paribas to carry out research on whether these commercial uses have increased in value, and whether they could be charged a higher rate of CIL without development being deterred from coming forward.

The BNPP viability study (dated September 2019) makes the following findings:

- There is viability evidence to support increasing office and hotel CIL rates to £110 per sq m in Central London. Elsewhere the evidence does not support an increase;
- Research and development uses are considered, for the most part, as offices by developers and so should be charged the same CIL rate
- The residential markets have remained sufficiently buoyant and there is no evidence to suggest the current dates (indexed in line with BCIS as per the Regulations) would deter development.

Considering the nature of Derwent London's landholdings and development pipeline these representations focus only on bullet point 1 above in relation to the CL rates proposed for Central London offices in the DCS.

At paragraph 1.13 of the BNP Paribas viability study notes the following (the underlining is our own):

> *"<u>The majority of the B1 use development is located within the Central Area (CIL Zone A), which has seen significant market improvement since the previous viability study supporting the adopted charging schedule was undertaken</u>. We also understand that the office market has matured in the Kings Cross development with space securing tenants such as Google, Louis Vuitton, Universal Music and Havas. There is a considerable amount of consented commercial floorspace that has been built out and there remains a fair amount more in the pipeline still to be delivered. Our research into Offices in the Central Area (CIL Zone A) of Camden has identified that <u>rents for space have risen significantly</u> since the viability study underpinning the last charging schedule was undertaken and <u>yields have sharpened</u> improving the viability of such schemes substantially"*

BNP Paribas refer to significant market improvements since the previous viability study was undertaken. At paragraph 1.3 it refers to market improvements, however the inference is that this is in relation to market improvements since September 2012, the date of the original GVA viability study commission to support the adopted Charging Schedule. There is no reference to the GVA viability study addendum which was prepared to update the cost and value inputs to Q3 2014.

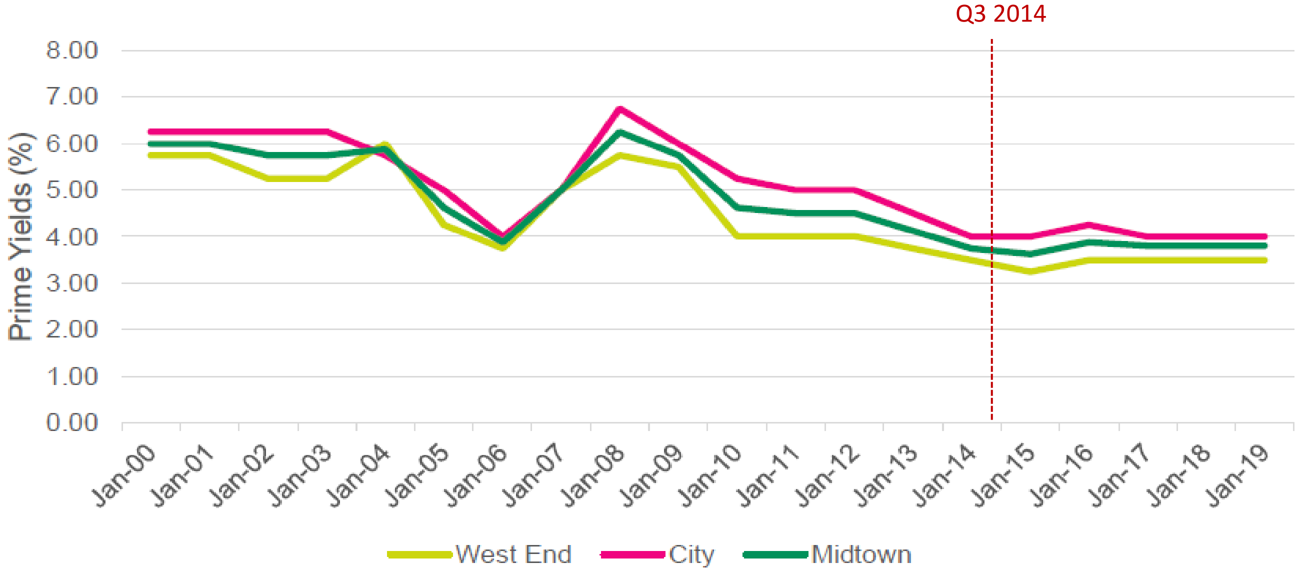
The BNP Paribas viability study includes two graphs to demonstrate market movements over time, the first (figure 2.16.1) in relation to London office market rents, and the second (figure 2.16.2) in relation to the London office market yields.

Figure 2.16.1 London office markets rents

Source: BNP Paribas Real Estate Research

As can be seen from the graph above, when compared to rents as at Q3 2014, West End office rents have actually reduced.

Figure 2.16.2 London office markets yields



Source: BNP Paribas Real Estate Research

In a similar manner to office rents, when compared to the levels in Q3 2014, the graph included within BNP Paribas' viability study shows that yields have been relatively static.

We have further considered the key office value and cost inputs adopted within the BNP Paribas viability study and the GVA viability study addendum, comparing how these inputs have changed in the interim.

Input	GVA viability study Addendum (Oct-14)	BNP Paribas viability study (Sep-19)	Change	More/ less viable since 2014
Office rents (Central)	£65 per sq ft	£65 per sq ft	-	n/a
Office yield (Central)	4.25%	4.50%	+0.25%	Less viable
Construction costs	£163-£191 per sq ft	£300 per sq ft (includes demolition & external works)	+£109-£137 per sq ft	Less viable

A simple comparison of the key office value inputs actually shows that the adopted assumptions for Central London office development are now less viable than those adopted in October 2014. This directly contradicts the statements made by BNP Paribas in their study that "rents have risen significantly" and that "yields have sharpened". In contrast, the movement in value between the assumptions in 2014 and those in 2019 would in fact suggest the opposite, that viability has reduced and therefore that office development in the Central region cannot viably support an increase in CIL rates.

Similarly, in relation to build costs a comparison between the two viability studies shows that build costs have only increased in the interim period, further contributing to a conclusion that viability for office development has in fact worsened since Q3 2014. Further consideration of BCIS data suggests the following increases:

- BCIS General Building Cost Index: 13.56% increase since Q3 2014

- BCIS All-in Tender Price Index: 29.34% increase since Q3 2014

The conclusions of the Inspector's Report in relation to the viability study and the viability study addendum were that both were "appropriate to the level of detail required to establish suitable and robust evidence." Furthermore, the Inspector concluded that both were "informed by reasonable assumptions about development costs, and local sale prices and yields, etc. On this basis, the evidence that has been used to inform the Charging Schedule is robust, proportionate, and appropriate".

Using the evidence base that has informed the adopted Charging Schedule as the starting point, the information referenced within these representations shows that the key value and cost inputs in relation to office development have worsened. By this logic, we cannot see how an increase in office CIL rates for the Central area can be robustly justified.

2019 Viability Study – detailed comments

In addition to the overarching concerns noted above about the general change in development viability since 2014, we set out below further technical concerns in relation to the BNP Paribas 2019 Viability study.

- It is assumed that the existing building (which informs the Benchmark Land Value) is 50% of the size of the new development. There is no justification for this assumption and in dense urban areas our and Derwent's experience is that the level of 'uplift' over and above existing floorspace is typically less than that assumed in the viability study.

- It is assumed that an existing landowner will apply a "modest" refurbishment to secure a letting, but the nature of the second-hand space means that BNP Paribas adopt lower rents and a higher, less valuable yield. This assumption ignores the fact that in determining what is a reasonable return to a willing landowner in order for said landowner to release their site for development, many landowners may consider a more comprehensive refurbishment of the existing building to secure a higher rent and a tenant of better covenant strength (lower yield).

- Build costs – based on Derwent's considerable experience of developing in the Borough, we consider the current assumptions to be understated. We would be happy to provide further data as part of the Examination hearing, subject to discussing the disclosure of confidential information with our client.

- At paragraph 4.14 the viability study states that in line with the requirements of policy H2 a contribution towards self-contained housing calculated in accordance with Camden Policy Guidance charge. No further detail is provided, except within the appraisals where an assumption of £20 per sq ft (£215 per sq m) has been assumed which is noted to account for "Residual S106 & Mayoral CIL + Policies P2 and P4 Market & AH contribution". Based on our experience in the borough, we would note, in the first instance, that it may not be reasonable to assume that the requirement to deliver on-site market and affordable housing can be so simply discharged, especially for the larger development typology. LBC have a sequential policy in respect of the delivery of self-contained housing and we request that the study considers the viability impacts of on-site delivery and provides further workings as to how the current appraisal assumption of £20 per sq ft is considered to account for the necessary contributions.

We trust that our representations will be fully considered. We would welcome the opportunity to discuss these representations with you and look forward to doing so in due course. If you require any additional information or clarification on the above, please do not hesitate to contact Jim Pool or Hannah Willcock.

We wish to reserve the right to be hard by the CIL Examiner at the forthcoming examination.

Yours faithfully,

DP9 Ltd

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