

Our ref: Q70127
Your ref: Draft CIL Charging Schedule
Email: Sasha.Gordon@quod.com
Date: 25/09/2023



CIL Consultation
Planning Policy Team
Royal Borough of Greenwich
Directorate of Regeneration Enterprise and Skills
The Woolwich Centre
35 Wellington Street
London
SE18 6HQ

By email: planning.policy@royalgreenwich.gov.uk

Dear Madam/Sir,

Greenwich Draft Charging Schedule – Representations on behalf of Berkeley Homes (East Thames) Ltd

This letter is in response to the Draft Charging Schedule Consultation on behalf of Berkeley Homes (East Thames) Ltd (BHET). Firstly, we welcome the opportunity to comment and would be happy to take part in any further discussions or reviews that would be useful.

BHET Contribution to Royal Borough of Greenwich

BHET is passionate about the growth of RBG, being the 3rd largest employer in the Borough. Berkeley has its permanent divisional office at Royal Arsenal Riverside, which makes the business not only a developer but also investor and commercial tenant. The business is stitched into the local community and knows what really matters to local people.

BHET has delivered and continues to deliver thousands of new homes across its Royal Arsenal Riverside, Kidbrooke Village and Plumstead West Thamesmead communities and hopes to do so at the Woolwich Armourer's Court site (OSD East). To date these developments have delivered over six thousand new homes, including one thousand eight hundred affordable homes, half a million square feet of community and commercial space and contributed over £41m in CIL & S106 contributions.

BHET has created beautiful new public spaces including creating 86 acres of parkland at Kidbrooke, world class infrastructure that includes delivery of the Woolwich Crossrail Box and providing funding every year to a wide range of community arts and cultural events in the Borough as well as providing 180,000 square feet across five listed buildings for Woolwich Works.

BHET builds on the principle that reviving under-used spaces is vital to re-energising our cities and town centres and creates an increasingly sustainable, inclusive, and low carbon model of modern living, in which land, energy and infrastructure are used efficiently and responsibly.

Quod | 21 Soho Square London W1D 3QP | 020 3597 1000 | quod.com

Quod Limited. Registered England at above No. 7170188





BHET purpose is to create quality homes, strengthen communities and improve lives, using its sustained commercial success to make valuable and enduring contributions to society, the economy, and the natural world.

Current & Future Delivery

BHET has three major developments in delivery, Royal Arsenal Riverside, Kidbrooke Village and Plumstead West Thamesmead. While planning permissions have been implemented, and many phases commenced or completed across these developments, there are significant parts of these and future strategic developments that could be affected by an increase in rates, including in the event of Section 73 Applications to phases. Based on current planning strategies this could affect the deliverability of over 3,100 homes.

Executive Summary

The Viability Assessment provided in support of the proposed rates is based on an underestimate of costs, and an over estimate of values for strategic, large scale sites with abnormal costs and significant Section 106 requirements. The rezoning of PWT from Zone 2 to Zone 1 is of particular concern, and is not supported by the valuation evidence.

1. BHET consider the proposed Draft Charging Schedule will impact disproportionately on strategic developments, including BHET's Plumstead West Thamesmead and Armourer's Court developments. In particular, Plumstead West Thamesmead is proposed to have CIL charge increase by 254%, BHET consider the evidence does not support this increase.
2. Strategic sites are often the most challenging and can have significant abnormal costs, the Charging Schedule should offer flexibility. BHET propose that in line with Planning Practice Guidance requirements, CIL in strategic development locations CIL is assessed on a site-by-site basis, reflecting their unique challenges and abnormal costs to encourage delivery of these sites.
3. The proposal does not consider the timeframe for developments to come forward. BHET extant planning permissions could be constrained in making changes via S73 applications for the latest fire safety requirements due to the proposed increase in CIL charging.
4. Based on BHET delivery in RBG, the viability assessment costs, values and market dynamics set out in the proposal are not considered to be reflective and therefore should be amended. Updating the viability assessment should result in a change to the proposal. Viability of all housing-led development is deeply challenging, at a time where delivery should be encouraged the proposal adds further viability challenges.



Disproportionate Impact on Strategic Sites

BHET is particularly concerned about the proposed Draft Charging Schedule impact on Plumstead West Thamesmead (PWT), which has planning permission for 40% affordable housing and is still in the early stage of its delivery. PWT is proposed to be moved from Zone 2 to Zone 1, amounting to an increase of £91 per sqm for residential floor area, from £59 to £150 per sqm (using 2024 projected indexation).

The Armourer's Court development that currently has resolution to grant would also be affected, with a projected increase of £47 per sqm from £103 to £150 per sqm. The development proposes 35% affordable housing and so would be significantly challenged by any increase in costs.

Flexibility for Strategic Sites

BHET would welcome an approach that recognises both the importance and the challenges in delivering the RBG strategic development locations. BHET encourage both prudence and rigour in setting rates, specifically with respect to Planning Practice Guidance requirements for strategic development locations to be assessed for viability on a site-by-site basis, reflecting their unique challenges and abnormal costs.

The Viability Assessment highlights that, "the flexibility of the Royal Borough's affordable housing policy, which is subject to individual site viability assessments, ensures that development comes forward in the Borough and consequently enables the Royal Borough to seek contributions towards infrastructure delivery as well as reasonable levels of affordable housing." This cannot apply where a Section 106 has already been signed and a minimum level of affordable housing has already been agreed.

Timeframe for Budgets

Development budgets have to be projected years in advance due to the length of time for design, planning determination and detailed design ahead of construction starting. The proposed increases in CIL would amount to a significant increase over and above BHET budgeted amount for proposed changes that are not supported by the evidence on values.

Viability Assessment Review

BHET are concerned that substantial rises to the CIL chargeable rates are being proposed at a time when viability of all housing-led development is deeply challenging due to the current interest rate, regulatory and inflation environment. Transaction volumes and values have decreased whilst financing costs and construction costs have risen.

Design changes as a result of changes to the fire regulations have delayed the majority of BHET planning applications and reserved matters for over a year, with associated consultant, financing and build costs.



There is currently deep uncertainty around how quickly inflation will stabilise and for how long the Bank of England will maintain higher interest rates, with knock on effects on viability and deliverability of development. The sections that follow present more detail on our specific concerns regarding:

- Adherence to Planning Practice Guidance on charge setting
- Assumptions in the viability assessment regarding:
 - a. costs
 - b. values

Guidance on CIL Setting

Planning Practice Guidance sets out how Local Authorities should go through the process of setting their proposed rates for the Community Infrastructure Levy in their 'Charging Schedule'. This expands on the statutory requirements set out in the Planning Act (2008), Localism Act (2011) and CIL Regulations (2010) as amended.

As a starting point Charging Schedules should:

“Be consistent with, and support the implementation of, up-to-date relevant plans.” (PPG Ref: 25-011-20190901).

The Royal Greenwich Local Plan: Core Strategy with Detailed Policies was adopted in 2014. It is not therefore up to date however it does confirm all of BHET's sites fall within Significant Housing Sites and Strategic Development Locations: Woolwich, Kidbrooke, Plumstead and Thamesmead.

The London Plan (2021) is also a relevant plan for these purposes, and identifies Opportunity Areas, including Woolwich (indicatively 5,000 homes in the Plan Period, which would include the final two blocks of Royal Arsenal Riverside and Armourer's Court) and Thamesmead and Abbey Wood (indicatively 8,000 homes, including PWT).

Although not part of the 'Relevant Plan' there is also a Thamesmead and Abbey Wood Opportunity Area Planning Framework (2021) prepared jointly by the Mayor of London's office (Greater London Authority, GLA), Transport for London (TfL), Royal Borough of Greenwich and London Borough of Bexley. This identifies a 'transport enabled' capacity of 15,500 homes and 8,000 new jobs.

In setting its CIL charge an Authority should use appropriate available evidence involving a broad test of viability across the area. (PPG Ref: 25-020-20190901)



However, where there are significant strategic sites which are important to delivery of the 'Relevant Plan' these should be dealt with separately. This can include setting differential rates for development including low or zero rates for sites with low viability (PPG Ref: 25-022-20230104). In particular:

Differential rates for geographic zones can be used across a charging authority's area. Authorities may wish to align zonal rates for strategic development sites. Viability guidance sets out the importance of considering the specific circumstances of strategic sites ('Why should strategic sites be assessed for viability in plan making?'). This includes the potential to undertake site specific viability assessments of sites that are critical to delivering the strategic priorities of the plan.

Charging authorities may want to consider how zonal rates can ensure that the levy compliments plan policies for strategic sites. This may include setting specific rates for strategic sites that reflect the land value uplift their development creates. Low or zero rates may be appropriate where plan policies require significant contributions towards housing or infrastructure through planning obligations and this is evidenced by an assessment of viability. (PPG Ref: 25-026-20190901)

As set out in more detail below, BHET is concerned that there has been insufficient consideration of the specific circumstances of their remaining development phases in setting the charges. We are particularly concerned about the rezoning of Plumstead West Thamesmead.

Assumptions in the viability assessment regarding costs and values

The Consultation for the Revised Draft Charging Schedule includes the schedule itself and a Viability Study Update.

Proposed residential rates are based on two Zones. Zone 1 is non-contiguous and covers Greenwich Peninsula and Town Centre and Woolwich Town Centre. Zone 2 covers the rest of RBG.

The Viability Study, which provides the Evidence Base for these rates, identifies the strategic development locations in RBG (paragraphs 2.58 to 2.64) including Woolwich and Thamesmead. Paragraph 2.64 specifically refers to the Thamesmead and Abbey Wood Opportunity Area and the focus on "unlocking the significant growth potential in Thamesmead town centre and waterfront area through a step-change in public transport provision."

This is not however carried forward into the viability assessment itself and the summary of the requirements for assessment set out in paragraph 6.3 does not refer to strategic sites and how their specific costs or challenges are dealt with in the assessment as required by the PPG. Instead the assessment sets out sales values across broad value zones (Figure 4.3.1) and then applies generic assessments to these areas. It does not include any exceptional costs and Section 106 assumptions are de minimis. Developer profit assumptions are based on relatively high profit margins, particularly



given the current position in the market. The sections that follow provide some specific examples and evidence to help demonstrate this position. We would be happy to work through these examples with RBG if helpful.

Building cost assumptions

The build costs in the BNP Viability Assessment represent a significant underestimation of build costs compared to BHET's own experience. As set out in the Viability Assessment for PWT, our costs average £4,395 per square metre with an additional 7% site wide/site specific abnormals, well above the modelled £2,100 - £2,900. This is driven by a combination of essential infrastructure, site complexity and build quality.

Second stair cores have further added to costs; the estimated cost for this at the PWT is at least £1.5m per block. It is unclear if this has been reflected in the Viability Assessment.

The Section 106 per unit cost is an underestimate for strategic sites – under counting by an estimated £1,000 per home with our total S106 mitigation package being closer to £4,000 per home. Part of this is driven by off-site carbon mitigation. We note that the Viability Assessment includes a cost uplift for zero carbon but this only reflects on-site costs and not off-site obligations.

The tables below set out a comparison of key cost assumptions to PWT, clearly demonstrating that the assumptions in the viability assessment are a significant underestimate of the real-life position of BHET strategic sites.

Type of development	BCIS cost	Base cost (£ per sq m)	External works	Total Cost (before policy costs)	BHET costs (Plumstead West Thamesmead)
Houses (T1 and T4)	Estate housing - Generally	£1,828	15%	£2,102.20	£4,395 (average base cost) plus 7% site specific abnormals
Flats – lower density (T2, T3 and T4)	Flats - Generally	£2,148	15%	£2,470.20	
Flats – higher density (T5, T6 & BtR)	Flats - 6 or more storeys	£2,550	15%	£2,932.50	

Variable	Cost	BHET costs (Plumstead West Thamesmead)
S106	Resi: £3,000 per unit Commercial: £30 per sqm	£4,000 per unit

The assessment does not adequately consider the position of large scale, strategic, development that has different characteristics from the typologies assessed in the viability study. Therefore the Council



has not provided 'appropriate available evidence' that proposed CIL rates are appropriate for strategic sites or large scale multi-phased development with significant infrastructure or abnormal costs.

The Draft Charging Schedule now also includes a £25 per square metre rate for "all other uses". As currently drafted, this would capture community facilities (apart from health and education), small scale retail and high street uses, small scale offices and leisure uses. In our developments, these uses are provided as part of the placemaking strategy to ensure local employment opportunities, quality of life for residents and ground floor activation. They are typically not viable in their own right and routinely require subsidy/rent free periods to attract and maintain tenants. These types of uses are not reflected in the Viability Assessment, which only considers offices, industrial and open storage. At Royal Arsenal Riverside non-residential space has been unoccupied for several years.

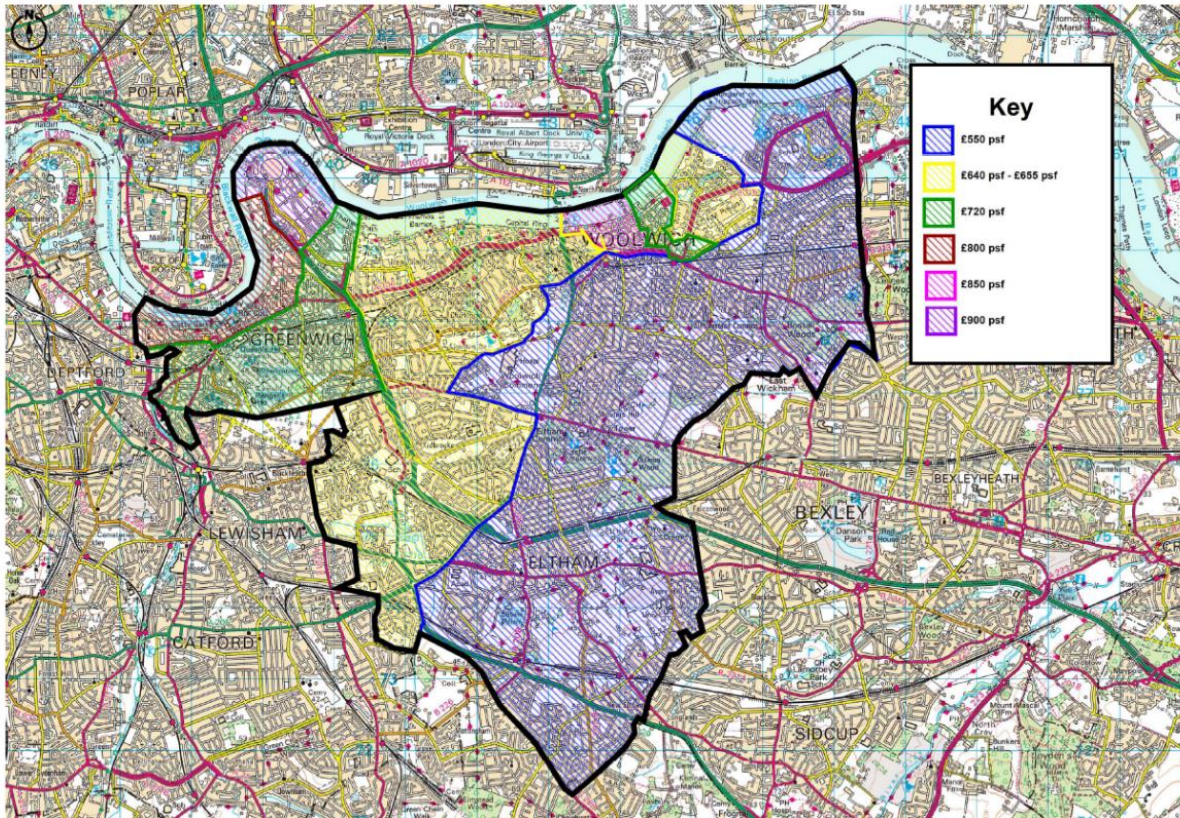
Vacancy of non-residential uses and associated holding costs are also not considered, these can include significant business rates. Development that provide the opportunity for local employment should be encouraged rather than charged.

Sales values and market conditions

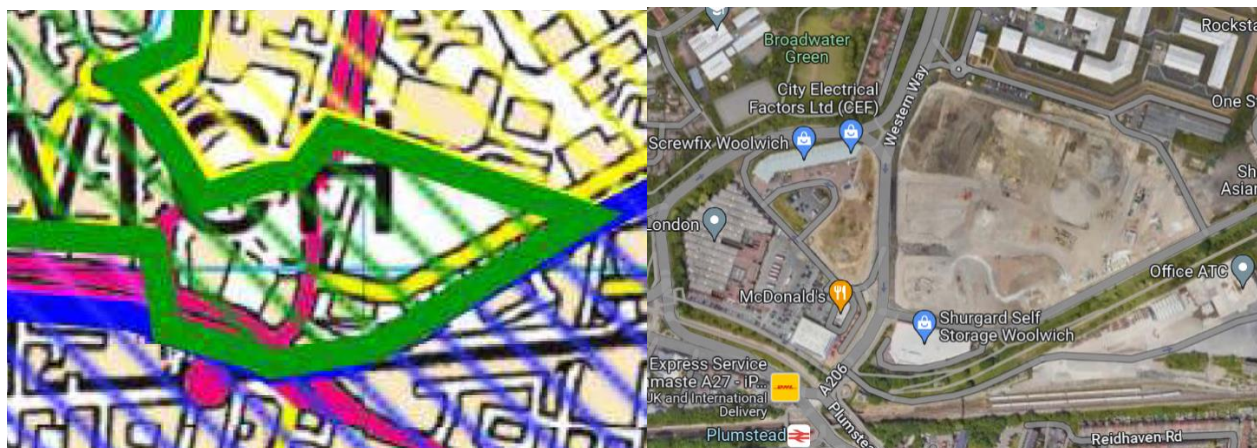
BHET would like to raise a query with respect to the boundaries used on in the house price analysis that underpins the viability assessment (Figure 4.3.1 in the Viability Assessment). The proposed green boundary would change significantly to include PWT. This does not appear to be reflective of the market in that area – BHET would like further explanation of both the green boundary (i.e. the assumption that the PWT site is in the same broad valuation zone as that to the north adjacent to the River Thames) and the values assumed for that zone.



Figure 4.3.1 Sales values in Royal Greenwich (approx. £s per square foot)



The Viability Assessment indicates that values in the area are £720 per square foot. The source for this is indicated as Land Registry, Molior and submitted viability appraisals. However, these sources as they are available to us do not appear to us to support this valuation. The PWT site does not yet have any completed homes on it (and nor does the land immediately surrounding it) within the green area. So, BHET would question how the evidence points to this boundary being a reasonable basis for drawing a housing market area.



Reviewing Land Registry price paid data within 1km of the site in 2022 the average sales value is c.£544 per sqft for private blocks.

Evidence provided to BHET by Cushman and Wakefield in 2020 estimated average values of £550 per sqft for the first phase, noting the context of the site. They cited comparable evidence from The Reach and Trinity walk at £512 and £573 per sqft, respectively. As such the designation of the site within the “green area” and its consequential rezoning to Zone 1 is not supported by the evidence.

As of writing this report (September 2023) general UK values are currently down -5.3%¹ on a year ago according to Nationwide, with the possibility that prices decrease further. Given that the actual course of 2023 is more challenging than in the projected “Downside” envisaged in the Viability Update Study (downside of -5% in 2023 following by stabilisation and growth in years to come), the outlook for price growth and cost inflation could be significantly more challenging than this worst case” scenario envisages.

As set out by Nationwide’s Chief Economist, last month (August 2023)

“The softening [to -5.3%] is not surprising, given the extent of the rise in borrowing costs in recent months, which has resulted in activity in the housing market running well below pre-pandemic levels. For example, mortgage approvals have been around 20% below the 2019 average in recent months and mortgage application data suggests the weakness has been maintained more recently.

Therefore the values for this area are already over estimated and there is a significant question over whether they will increase in line with even the “downside” scenario over the next 5 years.

¹ <https://www.nationwidehousepriceindex.co.uk/reports/august-sees-further-weakness-in-house-prices>



Summary and next steps

The Viability Assessment provided in support of the proposed rates is based on an underestimate of costs, and an over estimate of values for strategic, large scale complex sites with abnormal costs and significant Section 106 requirements. The rezoning of PWT from Zone 2 to Zone 1 is of particular concern, and is not supported by the valuation evidence.

Given current market uncertainty and potential lack of forthcoming delivery, our recommendation is to either delay progression of this Charging Schedule until the position on the market trajectory is more clear, or consider taking into account further site specific evidence to ensure that development on these critical sites is still viable.

BHET would like to reserve its position to appear at any Examination into the Draft Charging Schedule but would welcome engagement on this matter in the meantime if helpful.

Yours faithfully,

Sasha Gordon
Director

cc.
Paul.Prichard@berkeleygroup.co.uk
Morgan.Roberts@berkeleygroup.co.uk