CBRE

Royal Borough Greenwich CIL Draft Charging Schedule Review 2023

Representation prepared by CBRE UK Ltd on behalf of the following stakeholder:

- GLi Platform

September 2023

Contents

Introduction

Procedural Matters

Instruction Purpose

1. CBRE UK Ltd ('CBRE') has been instructed by Patrizia & Kingston Space Property (KSP) Ltd JV partnership, known as the 'GLi Platform' (hereafter 'GLi') to prepare a formal representation document setting out a technical response to the Royal Borough of Greenwich ('RBG') Community Infrastructure Levy ('CIL') Draft Charging Schedule ('DCS') consultation 2023 ('the consultation'). GLi have specific interest in their land ownerships at Charlton Riverside which include the VIP Trading Estate, Anchor and Hope Lane, Charlton, London, SE7 7TE (hereafter 'VIP Trading Estate'), and Stone Foundries, 669a Woolwich Road, Charlton, London SE7 8SL ('hereafter 'Stone Foundries').

The Consultation

2. RBG published the following documents in connection with the DCS:

   - CIL Statement of Representations Procedure ('SORP')
   - CIL Viability Assessment ('CIL VA') prepared by BNP Paribas, dated March 2023
   - CIL Draft Charging Schedule ('CIL DCS')

3. RBG is consulting on the CIL DICS from 31st July to 25th September, as per the SORP.

4. The SORP confirms RBG's intention to submit the CIL DCS for independent examination following the close of the CIL DCS consultation.

GLi's Stance

5. GLi has fundamental concerns regarding the timing of this consultation on a new CIL DCS, the validity and reliability of the published viability evidence base upon which the proposed new charging rates (and zones) within the CIL DCS is reliant, and hence the legal compliance of the published CIL DCS with the relevant legislation and guidance.

6. On this basis, the consortium members cannot agree with RBG that there is an appropriately evidenced and legally compliant basis upon which the CIL DCS (as published) could be found sound by an independent Examiner, which should unavoidably lead to the rejection of the Charging Schedule in accordance with Section 212A(2) of the 2008 Act.

7. Should RBG determine to submit the CIL DCS for examination, in its current form and without rectifying the issues identified in this representation, GLi will be left with no choice but to seek that the Examiner rejects the Charging Schedule via the examination process.

Requests

8. It is stated on SORP website that representations must clearly state a request to be heard at the examination of the CIL DCS. It also states that representations must clearly state a request for notification of the submission of the CIL DCS for examination, receipt of the Examiner's Report, and RBG's approval of the Charging Schedule.

9. This constitutes GLi's formal request to be heard at the examination of the CIL DCS, as an independent stakeholder organisation, and to be notified by RBG of the events listed in paragraph 8 above. This notification should be provided to CBRE, as instructed agent.

Matters of Representation

Purpose

10. This section of the document sets out the matters of representation that GLi determine must be raised with RBG and ultimately, if left unresolved by RBG following the consultation, are for the consideration of the appointed Examiner.

Significance of Proposed CIL DCS Rates

11. The CIL DCS proposes a significant and fundamental set of changes to the charging regime under the adopted Royal Borough of Greenwich CIL Charging Schedule ('CS').

12. This is not solely a case of revising existing rates, but actually introducing proposed CIL charging on multiple uses for the first time, and in locations within the borough where uses have not been charged CIL on viability grounds under the adopted CS.

13. Notably, the CIL DCS introduces the following new zonal charges:

- **Co-living:** a proposed charge for co-living at £90/m^2, where no charge is included under the adopted CIL CS.
- **All other development**: a proposed charge for all other development of £25/m^2, would replace a £0/m^2 charge covering 'all other development' under the adopted CIL CS.

14. The CIL DCS also increases the proposed CIL rates substantially beyond the existing (indexed) 2023 CIL rates for the following uses:

- **Residential (Zone 1):** the Zone 1 charging zone has a proposed rate increase to £150/m^2, which is a 56% uplift over the indexed charge under the adopted CIL CS.
- **Residential (Zone 2):** the Zone 2 charging zone has a proposed rate increase to £96/m^2, which is a 75% uplift over the indexed charge under the adopted CIL CS.

15. CBRE notes that the area boundaries for Zone 1 and Zone 2 of the CIL CS, in comparison to the CIL DCS, have changed significantly.

    a. Zone 1 of the CS covers the majority of the borough, with the exception of the area to the north-east of borough including Plumstead, Abbey Wood and Thamesmead which falls under Zone 2.

    b. Zone 1 of the CIL DCS covers the north-west of the borough (Greenwich Park, up to the 02 Centre) and the immediate area surrounding Woolwich Arsenal. The rest of the borough is designated as Zone 2.

16. A summary analysis of the charging rates proposed by RBG in the CIL DCS (where above £0/m^2), in comparison to the charging rates payable under the adopted CS (indexed for 2023[1]), is set out in Table 1.

Table 1: Charging Rate Comparison | CIL CS (Indexed) and CIL DCS

Use	Detail	Rate (£/m^2 GIA)			
		2023 (Adopted CS & Indexed)	CIL DCS (Proposed)	Increase (£/m^2)	Increase (%)
Residential	Zone 1	£95.95	£150.00	£54.05	56.33%
Residential	Zone 2	£54.83	£96.00	£41.17	75.09%
Co-living	All areas	£0	£90.00	£90.00	N/A
Student accommodation	All areas	£89.09	£89.09	£0	0%
Supermarkets/superstores and retail warehousing (280m^2 +)	All areas	£137.07	£137.07	£0	0%
Hotel	All areas	£137.07	£137.07	£0	0%
All other development	All areas	£0.00	£25.00	£25.00	N/A

17. These are not incremental changes, but rather represent fundamental proposals to increase the rates of CIL charging substantially beyond the evidenced rate of indexation across multiple uses both borough wide and on a zonal basis. Particularly, the newly introduced Co-living rate at £90/m^2 and the All Other Development rate at £25.00/m^2 are significant and have the potential to significantly impact/stifle development comprising these uses.

18. As a result, such proposed changes must necessitate comprehensive, robust, and up-to-date available evidence of financial viability in order to provide appropriate justification that they will strike an appropriate balance in accordance with Regulation 14(1) of the CIL Regulations (as amended).

Illogical Timing

19. The UK property market is experiencing a highly challenging period, which is driven by substantial economic and geo-political uncertainty nationally and globally over 2023, and a high inflationary environment against a backdrop of tightening monetary policy and a UK-wide cost of living crisis. Development and investment

[1] Note: as set out in RBG's Annual CIL Rate Summary (2023)

across a range of sectors (residential, hotels, offices and industrial and logistics) are facing headwinds for the remainder of 2023 and into 2024.

20. Specifically:

    a. Economic output and outlook has deteriorated as the inflationary squeeze on real incomes weighed on consumer confidence and spending that hit growth momentum: Q2 2023 GDP growth was modest 0.2%.

    b. Inflation has remained close to an all-time high throughout 2023, despite a marginal decrease in August 2023 at 6.7%, a slight fall from the year to July 2023 at 6.8%. This is much higher than anticipated, although largely attributable to the unforeseen Russian invasion of Ukraine. CPI has fallen in August 2023 to 6.3%, however this is still significant inflation on top of an inflation rise of 8.6% rise in the 12 months to August 2022. Increased global supply chain disruption has and will continue to put further upward pressure on energy prices, food prices and construction materials.

    c. A robust labour market continues, albeit the unemployment rate is rising, up to 4.3% as of September 2023 with 102,000 redundancies recorded as at the same point in September 2022 – an increase of 39,000 on the previous year. The tight labour market is creating some upward pressure on wages, which is further fueling inflation.

    d. Monetary tightening is underway over fears of second-round effects from wage and price-setting. The Bank Rate has been multiple times over the course of 2022/2023. The Bank Rate as at January 2023 was 0.25%. As of September 2023, the Bank Rate is now at 5.25%, pushing borrowing costs to the highest levels prior to the financial crisis in Q4 2008.

21. Looking forward to the remainder of 2023 and 2024:

    a. CBRE expects flattening in in UK economic activity and move sideways some time over the next 12 months, with modest outputs in GDV in 2024 (0.8%) and (1.7%). This is a result of high inflation and rising interest rates, squeezed consumer incomes and reduced aggregate demand.

    b. Significant uncertainty persists around the future path of inflation. CBRE note that inflation is falling slower than anticipated, driven primarily by services and wage inflation but is expected to reach the Bank's target of 2% by mid-2025.

    c. CBRE forecasted that the Bank of England interest rate rises will to combat inflationary pressure. The CBRE base case is that the Bank Rate will peak at 5.75% in Q4 2024. The recent decision by the Bank of England not to raise interest rates following in the MCP in September 2023 (remaining at 5.25%) may represent the peak. Long-term interest rates will likely fall, decreasing to 3% by late 2025.

22. Considering specific sectors, CBRE's baseline forecast is as follows:

    a. Residential:

        i. Since the start of 2023, the rise in the base rate and subsequent increase in mortgage rates have resulted in falling activity. Mortgage approvals for house purchases were 20% lower in July 2023

        ii. Mortgage rates are high by historic standards, and falling demand has generally been offset by even lower supply during the course of 2023.

        iii. The most recent residential survey from the RICS (August 2023) confirms a downbeat market backdrop, as buyer demand and agreed sales continue to fall sharply in the face of higher mortgage rates. House prices remain on a downward trajectory, with latest survey feedback pointing to an acceleration in the pace of decline through August.

iv. In the lettings market, tenant demand continues to rise firmly. Contributors foresee rental prices being driven higher over the coming three months.

b. Offices:

i. The UK economic outlook has deteriorated since the start of the year and as a result sentiment in the office market has weakened.

ii. The proportion of deals transacting above market prime is increasing, while secondary offices are slower to transact.

iii. Yields have moved out and total investment volumes have been constrained in the year-to-date, despite the transaction of some larger lot-sizes.

iv. The weakening of sentiment is likely to persuade some occupiers pause their occupational decision-making, resulting in a slow-down in take-up.

v. Greater investment volume into Q4 2023, but they year is likely to remain subdued relative to 2022 expectations due to the cost of borrowing.

c. Industrial & Logistics:

i. Take-up in Q1 2023 was down 18% year-on-year, as occupiers became more cautious and decision making slowed down. The vacancy rate increased to 2.71% in Q1, up from 2.00% in Q4 2022, driven by an increase in secondhand availability and speculative completions.

ii. Investment yields have softened and move out from Q2 2022, driven by pressures of higher debt borrowing costs (linked to interest rate rises). The investment market is expected to face further pressure into H1 2024 from macro-economic headwinds, uncertainty and the increasing cost of raising debt for acquisitions.

iii. There is still substantial capital targeting the sector with smaller lot sizes particularly in demand.

23. In light of the above, RBG's proposals to increase the cost burden on development at this point will exacerbate uncertainty and slow or stall development and regeneration plans on major sites across the borough that are identified for growth within the Charlton Riverside Opportunity Area and Strategic Development Location.

24. Moreover, both PPG and the RICS Guidance advocate introducing CIL reviews alongside Local Plan reviews (or new Plans) to ensure consistency. RBG is currently undertaking a review of the RBG Local Plan. A call for Development Sites for Site Allocations Plan process due to commence in Autumn – Winter 2023 and consultation on the Draft Local Plan (Regulation 18) scheduled for Spring – Summer 2024 (dates TBC).

25. CBRE questions the logic and rationale, and efficiency in use of public funds, for introducing a CIL review at this juncture, when it would be expected that RBG will be targeting Regulation 19 consultation on a new Plan (and will need to conduct and publish a Plan-wide and CIL Viability Study to assess the viability of sites under emerging policies) in late 2023 / early 2024.

26. CBRE is firmly of the view that, based on the emerging Plan review, it is inappropriate and inefficient to embark on a CIL review at this juncture, when it will not account for the strategy, policies and infrastructure requirements of the borough to be set out within the forthcoming Plan review, and will undeniably need to be repeated in far greater detail (to account for the Plan review) in short order.

Inflationary Effect on Adopted CIL Rates

27. Adopted CIL charging rates are inflated annually (from 1st January) based on the BCIS Community Infrastructure Levy (CIL) Index. The BCIS publishes the rate for the following year based on the RICS BCIS All-in TPI index figure as at 1st November the prior year.

28. The published index rate for 2023 is 355.

29. RICS BCIS All-in TPI was last updated by RICS on 9th June 2023. CBRE has provided the print-out for transparency within **Enclosure 1**. This confirms that the forecast Q4 2023 rate is 388. Whilst this rate may be subject to change between now and 1st November 2023, based on the economic forecasting set out above, it is unlikely to reduce.

30. As a result, without any revision to the adopted RBG CS, the CIL rates would be expected to jump by 9.3% for any development schemes securing planning permission in 2024.

31. This is a very substantial increase, and will have a material impact on development viability – particularly when also considered in the context of construction cost inflation, weaking occupier market demand (and spending power) across multiple sectors (as above), and softening investment yields due to the increased costs of raising debt.

32. In summary, in the intervening period prior to RBG reviewing CIL comprehensively alongside the emerging Plan review, the indexation of the adopted CS will ensure rates proceed to increase annually with inflation. This will place an additional burden on development itself alongside wider negative economic and property market factors, in a high-inflation environment, but will not represent the scale of increased and unforeseen cost burden proposed within the CIL DCS.

Outdated Evidence and Technical Deficiencies

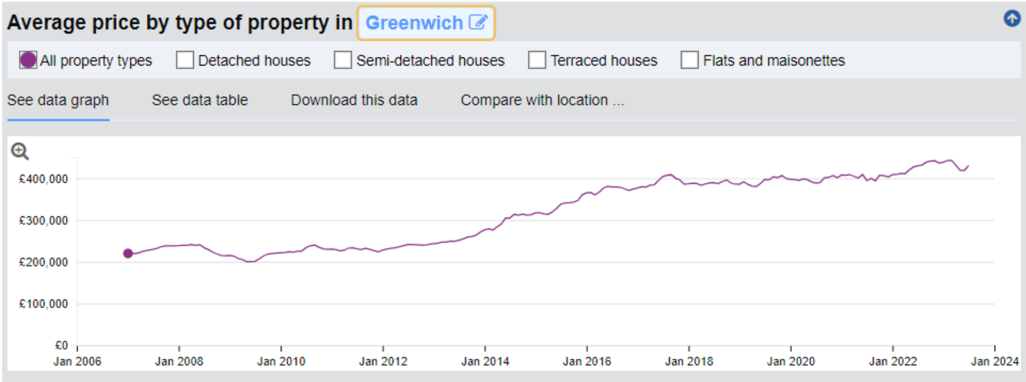
33. The published available evidence to inform the CIL DCS is the CIL VA, dated March 2023, prepared by BNP Paribas Real Estate ('BNPPRE').

34. CBRE has reviewed the CIL VA report. It is apparent that the viability modelling, analysis, conclusions and recommendations rely upon evidence that pre-dates March 2023 and, with regards to the residential sales values, is actually reliant upon evidence that pre-dates August 2022.

Residential (for Sale)

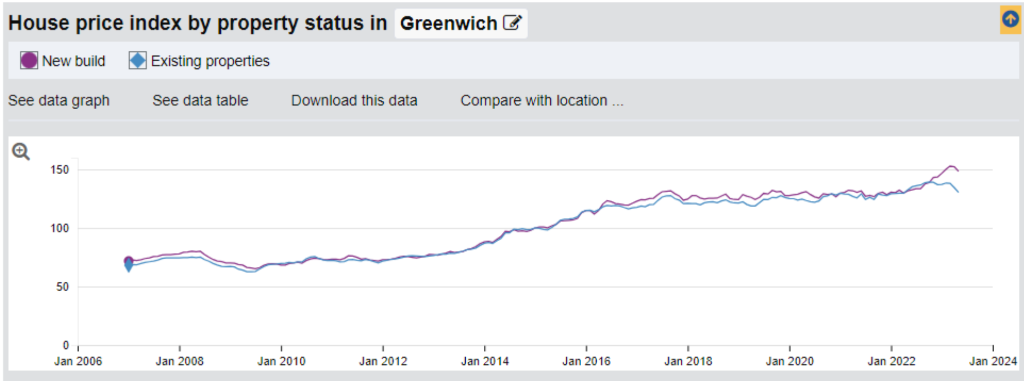
35. Up to date HPI data demonstrates that house prices are not increasing at the same trajectory as they were in July 2022 (and as set out within the CIL VA). The latest HPI data is set out in Figure 1 & Figure 2.

Figure 1: Average House Price (all property types) | Royal Borough of Greenwich



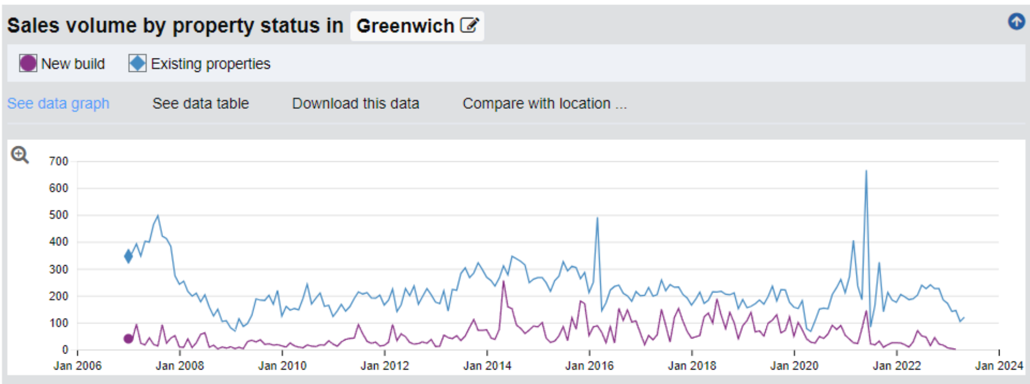
Source: Land Registry Data

Figure 2: House Price Indices by property status (type) | Royal Borough of Greenwich



Source: Land Registry Data

Figure 3: Sales Volume by property status (type) | Royal Borough of Greenwich



36. Figures 1 & 2 demonstrate that there is a falloff in house price growth into 2023. Figure 3 demonstrates that the sales volumes are down to historically low levels.

37. Figure 4.3.1 of the CIL VA shows a large variation in £/ft^2 achievable across RBG, however there are only two CIL zones. This demonstrates the limited robustness of the CIL VA.

38. There have been significant macro-economic and market adjustment issues over this period, as well as introduction of new/updated Building Regulations, national planning policy requirements (e.g. First Homes) and substantive construction cost inflation, which are material considerations that any robust viability evidence base must account for.

Residential (Build-to-Rent)

39. Build-to-Rent ('BtR') yields adopted in the CIL VA at 3.5% and 3.65% are keener than are being achieved in the current market context. CBRE published data demonstrates that yields are softening across London Zone 2 (3.60%) and London Zones 3-6 (3.75%). Adoption of the rates in the CIL VA are optimistic, and do not take into account locational factors within RBG which would affect investment appetite. CBRE consider there are locations (Thamesmead and Abbey Wood, for example) where a Net Initial Yield sharper than 4% is not achievable, with 4.25% yield being more realistic. The yields set out by BNPPRE are likely to reflect stabilised yields, rather than net initial yields.

Co-Living

40. BNPPRE's adoption of 30% management and maintenance costs is on the low side, with rates for the high specification of co-living developments typically being up to £5k per unit at present.

41. The average unit size (40m^2) adopted within the CIL VA is significantly larger than typical room sizes in co-living development (being circa 20m^2). This has the ability to impact the appraisal outputs, incorrectly ascribing viability/development value and the ability to contribute towards CIL.

All other development

42. CBRE note that the CIL VA does not test any typologies falling under 'all other development' and concludes that:

    "*Should the Borough wish to do, they would be able to set a nominal rate of CIL on all other uses of say £25 per square metre. A nominal rate is unlikely to be a significant factor in developer's decision making.*"

43. CBRE contend that CIL rates must be based on appropriate available evidence of the impact on viability. There is no evidence to justify that, at £25/m^2, the rate for all other development types will represent a nominal sum that would not have a material bearing on scheme viability. It is not possible to robustly determine whether it would impact on a developer's decision making.

Build Costs

44. CBRE comment that there are severe limitations with the use of BCIS in isolation. For example, the adoption of a single rate for testing BtR developments (Flats – 6 or more storeys) is flawed and not representative of the market. BtR developments are typically in close proximity to public transport connections (e.g. Crossrail) whereby the residential units delivered are high and the towers built significantly higher than 6 storeys.

45. CBRE consider a more bespoke approach is required to test BtR development, more reflective of the market.

Other Development Viability Assumptions

46. Development Finance. A development finance rate of 6.5% is not reflective of current funding conditions. The Sterling Overnight Index Average (SONIA) rate currently stands at 5.18%. Development finance lending is typically 4-5% above the SONIA rate, meaning a development finance rate of 9-10% is more appropriate for viability testing in the current market context. Funding rates are not expected to reduce considerably for several years.

47. Exceptional Costs. BNPPRE does not account for any exceptional costs in the viability testing, which CBRE consider to be a limitation of the outputs.

Benchmark Land Values

48. There are limitations with the determination of Benchmark Land Values (BLVs) in the CIL VA, including:

    a. Lack of supporting evidence to justify rental values for typologies tested (e.g. £12.50/ft^2 for secondary offices in Typology 1);

    b. High allowances for refurbishment of existing buildings. This ignores building that are functional and do not require extensive refurbishment works. The refurbishment allowance deflates land value; and

    c. Low site coverages across all typologies. Typical site coverages for industrial uses are typically 40-50%, with much higher site coverages for offices. Open storage land is typically close to 100% useable and therefore the 70% rate is considered to be low. The low site coverages deflate land value, increasing the viability of the uses tested within the CIL VA.

Failure to Strike an Appropriate Balance

49. In setting CIL rates, RBG must strike an appropriate balance between additional investment to support development and the potential effect on the viability of developments. In accordance with CIL Regulation 14(1)[2], RBG must be able to demonstrate and explain how the proposed CIL rate(s) will contribute towards the implementation of the Plan and support development across city.

50. As set out in PPG[3], Charging Schedules should be consistent with, and support the implementation of, up-to-date relevant plans.

51. This links back to the timing of the emerging local plan, where it is logical to ensure the evidence base is up to date concurrently.

52. The charging authority must take development costs into account when setting CIL rates, particularly those likely to be incurred on strategic sites or brownfield land. Importantly, development costs include costs arising from existing regulatory requirements, and any policies on planning obligations in the relevant Plan, such as policies on affordable housing.

53. As also clearly set out in the RICS Guidance[4], the impact on viability of a CIL, whether proposed or existing, should be considered alongside the policy requirements of the Plan. In simple terms, a 'policy-on' approach must be adopted with the full costs of Plan policies (including affordable housing) accounted for, and taking precedence over, the introduction of CIL rate setting.

[2] CIL Regulations 2010 (as amended)
[3] PPG CIL: Paragraph: 011 Reference ID: 25-011-20190901
[4] RICS Guidance Note (March 2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England. Para. 3.7.14

Lack of Transparency

54. There is a distinct lack of transparency throughout the BNPPRE report, which CBRE deems falls short of the requirements and expectations of PPG CIL (Paragraph: 019 Reference ID: 25-019-20190901), PPG Viability (Paragraph: 010 Reference ID: 10-010-20180724), the NPPF (para. 58), the RICS Guidance[5] and RICS Professional Standards[6], and which does not facilitate the viability evidence being genuinely 'available' for stakeholders to analyse.

55. Specifically, whilst there are a substantive volume of summarizing results tables within the report's Appendices 2-7, none of the actual viability appraisals are published – not even an example appraisal for each typology, which would be the minimum CBRE would expect to see in a transparent and robust viability evidence base. As a result, stakeholders cannot see what the gross development value (GDV), construction and other costs, finance roll-up and other various key metrics represent within the typology appraisals – which means the actual viability testing evidence is not published and cannot be interrogated appropriately.

[5] RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England, RICS Guidance Note

[6] RICS (2019) RICS Professional Statement: Financial viability in planning: conduct and reporting, 1st Edition

Conclusions and Recommendations

57. GLi cannot endorse or support the CIL DCS, and its underpinning evidence base in the form of CIL VA, as presently published.

58. In fact, for the reasons set out in this document and its enclosures, GLi has fundamental doubts regarding the appropriateness of the timing of this consultation on a new CIL DCS. The consortium also has severe reservations regarding the questionable validity and dependability of the published viability evidence base upon which the proposed new charging rates (and zones) within the CIL DCS is reliant, and hence the legal compliance of the published CIL DCS with the relevant legislation and guidance.

59. On this basis, GLi cannot agree with RBG that there is an appropriately evidenced and legislatively compliant basis upon which the CIL DCS (as published) could be found sound by an independent Examiner, which should unavoidably lead to the rejection of the Charging Schedule in accordance with Section 212A(2) of the 2008 Act.

60. GLi therefore hopes that this feedback prepared by CBRE, is useful to RBG in reconsidering whether it is rational, prudent and justified to be proceeding with pursuing adoption of a substantially different CIL charging regime to that presently in force, under the current circumstances.

61. Nevertheless, should RBG determine to submit the CIL DCS for examination, in its current form and without rectifying the issues identified in this representation, GLi will be left with no choice but to continue to pursue this matter and will seek that the Examiner rejects the Charging Schedule via the examination process.

62. Should RBG wish to engage directly with GLi on the matter, CBRE will be able to facilitate such arrangements.

Enclosures

Enclosure 1: RICS BCIS All-in TPI Print

BCIS®

BCIS All-in TPI #101
BCIS All-in TPI

Base date:
1985 mean = 100
Updated:
09-Jun-2023
Series no.
#101

			Percentage change		
Date	**Index**	**Equivalent sample**	**On year**	**On quarter**	**On month**
4Q 2021	344	Provisional	4.9%	1.5%	
1Q 2022	349	Provisional	6.4%	1.5%	
2Q 2022	365	Provisional	10.3%	4.6%	
3Q 2022	371	Provisional	9.4%	1.6%	
4Q 2022	375	Provisional	9.0%	1.1%	
1Q 2023	379	Provisional	8.6%	1.1%	
2Q 2023	383	Provisional	4.9%	1.1%	
3Q 2023	385	Forecast	3.8%	0.5%	
4Q 2023	388	Forecast	3.5%	0.8%	
1Q 2024	390	Forecast	2.9%	0.5%	
2Q 2024	392	Forecast	2.3%	0.5%	
3Q 2024	393	Forecast	2.1%	0.3%	
4Q 2024	399	Forecast	2.8%	1.5%	
1Q 2025	401	Forecast	2.8%	0.5%	
2Q 2025	405	Forecast	3.3%	1.0%	
3Q 2025	405	Forecast	3.1%	0.0%	
4Q 2025	411	Forecast	3.0%	1.5%	
1Q 2026	414	Forecast	3.2%	0.7%	
2Q 2026	417	Forecast	3.0%	0.7%	
3Q 2026	418	Forecast	3.2%	0.2%	

Base date:
1985 mean = 100
Updated:
09-Jun-2023
Series no.
#101

			Percentage change		
Date	Index	Equivalent sample	On year	On quarter	On month
4Q 2026	422	Forecast	2.7%	1.0%	
1Q 2027	428	Forecast	3.4%	1.4%	
2Q 2027	431	Forecast	3.4%	0.7%	
3Q 2027	433	Forecast	3.6%	0.5%	
4Q 2027	436	Forecast	3.3%	0.7%	
1Q 2028	443	Forecast	3.5%	1.6%	
2Q 2028	446	Forecast	3.5%	0.7%	

Index value over time

Index value over time

Percentage change over time

Percentage change: Year on year

Percentage change over time

CBRE

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