CBRE

REF: 109/EX083

WESTMINSTER CITY PLAN 2019-2040 EXAMINATION IN PUBLIC

RESPONSE TO INSPECTOR'S MATTERS, ISSUES AND QUESTIONS PREPARED BY CBRE ON BEHALF OF LAZARI INVESTMENTS LIMITED

Lazari Investments Limited is a well-established private commercial property investment company focussing on Central London. It owns an outstanding portfolio of property assets spread over eight estates, consisting of 131 separate buildings. At the financial year ending 31st March 2018, it comprised circa 2.830 million square feet net internal area of commercial space along with 107 residential units. 92.62% of the portfolio in capital value terms is located in the West End with the remainder in North London.

Lazari Investments Limited own numerous properties across Westminster including on Oxford Street, Soho, Mayfair, Marylebone and Baker Street, and over recent years many of these buildings have been subject to major planning applications to invest in the future of these commercial properties. Key projects have included; 25 Berkeley Square, Henrietta House, 38-70 Baker Street and 16 Great Marlborough Street. These projects will all deliver high quality new office floorspace contributing to the economy of Westminster.

Matter 4 Housing

Policy 10 – Affordable Contributions in the CAZ

30) What is the basis for seeking affordable housing contributions from office and hotel developments in principle? Is the approach justified, consistent with national policy and in general conformity with the London Plan?

1. Lazari Investments Limited understand the Council's wish to deliver more affordable housing across the Borough but have serious concerns that the currently drafted policy is promoting the delivery of affordable housing within the Central Activities Zone (CAZ) above the requirements to stimulate and maximise commercial investment and development.

2. One of the major concerns relates to the scale of affordable housing required to be delivered through commercial development, whether through on-site delivery or large payment in lieu costs, which will make commercial development unviable and undeliverable.

3. The emerging policy promotes 35% affordable housing to be delivered through commercial schemes, which is significantly more onerous than both the adopted and previous versions of the mixed-use policy within the City.

4. The current adopted mixed-use policy allows 30% uplift in office floorspace before triggering residential requirements and only when 1,000 sq m or more residential floorspace is required does the policy trigger affordable housing. This adopted policy was introduced in 2016 to prevent the loss of office floorspace to residential in the Core CAZ

and as a means to incentivise applicants to provide and deliver office floorspace (Para 10.3 of the emerging policy).

5. Para 10.4 of the emerging City Plan acknowledges that that the current policy approach is not incentivising growth in office floorspace, nor contributing sufficiently to the delivery of affordable housing in the CAZ.

6. Whilst the emerging policy will seek to provide requirements to increase the provision of more affordable housing in the CAZ, the additional financial and economic burden of a greater level of affordable housing/payments in lieu on office developments will only disincentive office growth further and make the office floorspace/growth targets within the emerging City Plan even more difficult and unlikely to be achieved. Office growth should be given greater weight in the CAZ than residential development as per the London Plan and this policy will not encourage or stimulate office development.

7. Policy 10 provides a significant additional cost and constraint to office developments within the CAZ. The adopted more favourable policy position has not yet been able to reverse the decline of the loss of office floorspace within the CAZ and this problem will only be exacerbated by the emerging policy. An example of a recent Lazari Investment approval currently being delivered shows that there was no residential requirement/payment required under adopted policy but under emerging policy this would result in 1,947 sq m of affordable housing on-site or a payment of approx. £34.5 million (see Question 34 below). This is one example of the significant burden this policy will place on commercial development.

8. There is no requirement to deliver affordable housing through commercial development within the NPPF or the London Plan. The New London Plan outlines that commercial development should be the focus of growth in the CAZ in and commercial development should be given greater weight than residential development (Policy SD5 of the New London Plan). The emerging policy will harm rather than support and enhance the office functions of the CAZ.

31) How would the policy affect commercial growth?

9. There are significant concerns that Policy 10 and the affordable housing requirements proposed will harm economic growth within Westminster and result in a significant fall in office investment and development.

10. The Council's Annual Monitoring Report (March 2020) outlines that there has been a net loss of office floorspace between 2013-19 of approximately 775,000 sq m (approx. -341,000 sq m completed and approx. -434,000 sq m construction started on-site) with there being a loss of office stock every year during this period.

11. The adopted City Plan target between 2016/17 and 2036/37 is 774,000 sq m additional floorspace for Class B1 use. The Council has lost 212,043 sq m Class B1 floorspace since 2016/2017 with a further loss of 433,900 sq m on site at present (total loss of 645,943 sq m during the plan period so far – figures taken from the Council's Annual Monitoring Report, March 2020).

12. This results in a required uplift of over 1.4 million sq m Class B1 through the rest of the adopted plan period to meet the policy target at an annual rate well above what has previously been achieved in terms of Class B1 completions.

13. This previous loss of office floorspace has been under a mixed-use policy where the financial and economic constraints are much lower than proposed in the emerging policy, which will substantially increase the level of affordable housing required from commercial development.

14. The previously adopted UDP version of the mixed-use policy up to 2016 required commercial office developments to deliver 12.5% of uplifts in commercial floorspace as affordable housing with the remainder of the uplift being a combination of private housing and office developments.

15. After the Council felt too much office floorspace was being lost to residential use, the policy was amended in 2016. The adopted policy follows the same approach but allows office buildings to have an uplift of 30% before residential is required.

16. Despite the favourable policy position for commercial developments, there was still a significant reduction in the office stock as outlined above.

17. The emerging policy requires significantly more affordable housing to be delivered in office schemes than previous and current policy and this will likely result in less major commercial developments being brought forward and will not reverse the pattern seen in recent years.

18. Instead, such a policy encourages office developers to not maximise economic growth, but instead promote developments that either fall below the floorspace thresholds of requiring affordable housing/payments or use viability evidence to justify lower affordable housing delivery/payments. This will not deliver the scale of growth required but will instead encourage smaller uplifts to avoid the affordable housing/payment in lieu figures.

32) What is the basis for the percentage contributions and floorspace thresholds?

19. There is great concern over the 35% affordable housing threshold required for larger office uplifts which increases the obligation from 12.5% under previous policy. This provides an affordable housing requirement of almost three times previous policy.

20. It has been acknowledged within the City Plan that the current 30% uplift in office development without requiring housing (let alone affordable housing) has not stimulated office growth (para 10.4), and this increased burden on office developments has the potential to significantly harm the viability and deliverability of future commercial development.

33) How has viability been taken into account in formulating the policy and is the evidence on viability sufficiently comprehensive and robust?

21. There are serious concerns over the viability testing with only a small number of office uplift schemes tested within the evidence base. This type of development is very common within Westminster and the level of testing undertaken is not sufficiently robust to show how this

would impact on developments of different scales and typologies. The viability evidence should test a greater number of scenarios of office uplift schemes of various scales and proportions.

34) How would the viability of particular schemes be taken into account?

22. There are concerns about the high payment in lieu figures identified within the Affordable Housing Payment in Lieu Approach (November 2019) and the significant impact this would have on the delivery of office development within the CAZ. There are numerous examples of consented schemes that required no or limited payment under adopted policy and such schemes would require a substantial payment/affordable housing requirement under the emerging policy.

23. The below is a recent Lazari Investments example for a scheme consented and adopted policy and shows the significant additional burden of the emerging policy.

Extensions to Existing Large Office Building (Henrietta House/Wimpole Street)

Existing Areas	B1 office =20,526 sq m Class A = 611 sq m Total = 21,137 sq m
Proposed Areas	B1 office = 26,089 sq m Class A = 558 sq m Total = 26,647 sq m
Uplift	B1 Office = +5,563 sq m (27%) Class A = -53 sq m Total = +5,510 sq m (26%)
Adopted Policy	
Residential Requirement	0 (less than 30% uplift)
Emerging Policy	
Affordable Housing Requirement (35% of office uplift	1,947 sq m
Equivalent payment in lieu (if even possible)	1,947 x £17,700 per sq m = £34.46 million

24. The current policy encouraged developers to maximise the growth potential of the site and there was no residential requirement as the uplift was below 30%.

25. Under the emerging policy, this development would result in a requirement for almost 2,000 sq m affordable housing on-site and the equivalent payment in lieu would be £34.5 million.

26. This reiterates the concerns that this policy will add such a significant financial burden on commercial developments that it will not reverse the trend of the loss of office stock seen through Westminster in recent years and will not encourage or stimulate economic growth.

27. In the example above, the scale of development proposed would not have been pursued under the emerging policy and instead a minor refurbishment and uplift would more likely have been proposed (likely below the 1,000 sq m threshold). There will be numerous examples such as this where developers will not deliver optimum solutions for sites for fear of viability issues or having to deliver affordable housing within office buildings, which can in turn stymie any further development potential in the future for long term investors such as Lazari.

28. The alternative to proceeding with a sub-optimum scale of development would be for developers to rely on viability evidence to justify the level of affordable housing/payment on a site-by-site basis. This could in turn lead to more delays and uncertainty on applications.

29. Therefore, we are of the view that draft Policy 10 is unsound and should be removed. If the policy remains then it should clearly state that the level of affordable housing/payments will be subject to viability and be assessed on a site-by-site basis.

35) Is the policy justified in terms of the approach to on-site and off-site provision and payments in lieu? Is there sufficient flexibility? Is there sufficient clarity as to how the policy will be implemented in practice?

30. It is positive that the Schedule of Modifications (November 2019) removes the term 'exceptional circumstances' to justify off-site contributions.

31. However, it is often difficult to deliver on-site housing within an individual office development within the CAZ and such housing is typically incorporated either on the top floor of an office building (resulting in different cores though an office floorplate) or stacked vertically on one side of a commercial building (often with single aspect, poor amenity etc). This can often lead to a sub-standard product for both residential and office use within a building.

32. Policy SD5 (Part H) of the New London Plan advocates the use of land use swaps, credits and off-site contributions and such options should be recognised to a greater degree within the policies to put more of an emphasis on affordable housing delivery across the City rather than often limited and piecemeal on-site delivery as part of commercial schemes in the CAZ.

33. The payment in lieu figures should be clearly stated within the City Plan and are a significant burden to development (based on the evidence base documents). The details on financial payments which are so fundamental to scheme delivery and viability should be dealt with as part of the plan and should not be included within future supplementary documents.

34. In terms of policy implementation, the Council outlined that change of use would be captured by Policy 10 within the Schedule of Modifications M/H/11. It is not clear how this policy will be applied and whether a simple change of use to office development would trigger an affordable housing requirement.

35. For instance, would a change of use of for 3,000 sq m of retail or hotel floorspace to Class B1 without adding any additional area trigger an affordable housing requirement of 1,050 sq m (35%) or payment of approximately £18.5 million within the prime area? Such schemes would heavily penalise refurbishment of existing buildings and it is not clear whether such scenarios have been tested in the viability evidence. This modification was not consulted and we consider this change is unsound and should be removed.

36) Are the proposed modifications necessary for soundness? Are any other modifications necessary?

36. Lazari Investments Limited considers that the current drafting of Policy 10 makes the plan unsound and this policy should be removed.

37. Instead, Policy S1 of the adopted City Plan should still apply. This adopted policy which was introduced to incentivise office development is yet to reverse the decline in office stock within the City. The greater protection of office policy within the emerging City Plan will no doubt help in this regard in the longer term.

38. However, the emerging policy as currently worded adds such a great financial burden to commercial development that it will not stimulate economic growth (see example of increased payments outlined above) and will only further exacerbate the situation of the loss of office stock.

39. We understand the Council are concerned that not enough affordable housing has been delivered across the City, although the policy as currently worded places too much emphasis on affordable housing in the CAZ at the expense of much needed office growth, which should be the main priority in line with the New London Plan.

40. If Policy 10 does remain within the plan, the level of affordable housing delivery/payment in lieu need to be clearly delivered subject to viability and on a case-by-case basis so the policy can flexibly applied. The proposed modification M/H/11 for change of use to be included within Policy 10 should be removed as outlined above.

Word Count: 2,502