

1 Introduction

- 1.1 The London Borough of Haringey (the 'Council') consulted on its Draft Charging Schedule ('DCS') from 18 December 2019 to Tuesday 11 February 2020. This note provides an update to the DCS Eastern Haringey Viability Update Study produced by BNP Paribas Real Estate on behalf of the Council dated October 2019 ('EHVUS 2019') and addresses representations made to the DCS consultation.
- 1.2 Two respondents raised concerns over the robustness of the evidence used to support the proposed Warehouse Living rate and its impact on the viability of Warehouse Living developments. In particular they identified that the proposed Warehouse Living CIL charge of £130 per square metre in the DCS was based on the assessment of a refurbishment scheme, however that it would also equally apply to new build Warehouse Living schemes that would come forward in the Borough in future. Given this, respondents have raised a number of concerns that the delivery of new build Warehouse Living schemes is challenging in viability terms. In particular that the assessment of this very new and evolving typology of development being tested will incur demolition and new build costs as compared to just refurbishment costs and that the built form will include a mix of residential and commercial studio space.
- 1.3 In light of this, the Council has engaged with one of the key respondents, who is currently in the early stages of pre-application discussions with the Council, to supplement the existing evidence base. Following this we have reconsidered the evidence base and approach to setting the proposed CIL rate for Warehouse Living schemes. This note sets out our consideration of this point and subsequent recommendations for the Warehouse Living schemes CIL charge.

2 Consideration of Warehouse Living development evidence

- 2.1 Firstly, both we and the Council acknowledge that our assessment of the viability of Warehouse Living uses was based on a refurbishment development scenario and that this evidence was used to set the proposed Warehouse Living CIL rate. This is because at the time of production of the evidence base and indeed up to date, all Warehouse Living schemes delivered in the Borough have been based on former warehouses being refurbished and converted to residential uses and consequently it was considered appropriate evidence to rely upon for setting a CIL Charge at that point in time.
- 2.2 In the last circa 18 months, since the evidence for the publication of the DCS was prepared, a redevelopment scenario for Warehouse Living has started to be pursued in the Borough, and the Council is in the early stages of pre-application discussions on a number of proposals. To this end there is no existing evidence of new build Warehouse Living schemes and the Council is working with stakeholders to agree what a suitable new build Warehouse Living scheme could look like. To date from these discussions, it has become apparent to the Council that there is no "standard" form or approach to such schemes, with developers likely taking different approaches to their schemes. In this regard it would be difficult to establish an appropriate base typology to test the viability of such schemes.
- 2.3 Clearly where a new build scheme is coming forward on a site as compared to a refurbishment of existing space, there will be additional costs associated with the demolition of the existing building and the build costs may be higher on a per square metre basis and potentially greater than the refurbishment costs as a whole. The costs incurred may also be greater where new Purpose Built Warehouse Living schemes are delivered at a higher scale/height/density than the buildings currently typically delivered as refurbished Warehouse Living schemes. Given that a refurbishment only scheme was assessed in the evidence base, these costs have not been accounted for in the evidence base assessment.
- 2.4 A key consideration in determining the typology tested for such schemes, which has implications for viability, is the gross to net ratio of "lettable / directly revenue generating" space versus gross space that is delivered. This distinction is important as revenue is attributed to the net lettable space, whilst the build costs are applied to the gross internal area of a building. The larger the differential between these two areas, the greater the likely impact on the viability of a building, and the converse is true with respect to schemes which achieve a more efficient use of space.

- 2.5 We also understand that the scale of such developments is likely to be different to what has been delivered to date in the refurbishment schemes. In our experience of assessing other non-standard residential uses, which are now more mature markets, such as Build to Rent, Co-Living and Purpose Built Student Accommodation, there is often supporting uses/facilities offered in the communal space, including but not limited to; working spaces, bars, cafes, gyms, entertainment rooms etc. We note that one of the respondents has identified that their Warehousing Living schemes could “*combine dedicated workspace, flexible live/ work space; communal kitchen, dining and living spaces, bed spaces and internal and external communal spaces*”. Many of these spaces in the more mature alternative housing markets previously identified will have additional revenue generating potential. However, some will not and might be provided with an additional service charge or their provision is “free” with a view that they will assist in achieving a premium on the rents achievable on the residential element of the development. Understandably this can have both downside and balancing upside implications for the viability of such schemes i.e. higher costs, but potentially additional revenue or higher rental values. Respondents have identified that Purpose Built Warehouse Living products are likely to be very different to Co-Living or Student Accommodation schemes and cannot be directly compared to these more mature markets. As consequence, until further detail/ designed up schemes of such uses come forward it is very difficult to assess the viability of emerging Warehouse Living schemes and it would effectively be a hypothetical assessment.
- 2.6 With respect to the revenues sought/achievable in Warehouse Living schemes, second-hand or refurbished space is the only available information at present. The likely rents achievable or that will be sought in new Purpose Built schemes cannot be evidenced at present as there are no schemes delivered or on the market to support this. We note that in our experience, new purpose built space has the ability to command a premium over second hand stock, however at this stage this remains to be seen.

Conclusions and recommendations

- 2.7 Both we and the Council consider that some of the arguments advanced by respondents with respect to Warehouse Living have merit. In addition, we acknowledge that the proposed rates for Warehouse Living in the Council’s DCS, which was modelled on refurbished Warehouse Living schemes only, is unlikely to be representative of the viability of new Purpose Built Warehouse Living schemes, which could potentially be different in their form.
- 2.8 Discussions between the Council and respondents in this matter have revealed the nascent/rapidly evolving nature of proposed Purpose Built Warehouse Living developments in the Borough. As a consequence the Council is currently not in a position to assess the likely viability of such schemes, this would be premature given the ongoing discussions exploring the form of such developments in the Borough.
- 2.9 In addition, we have outlined in this note a number of appraisal assumptions and inputs where the differentials between potential Purpose Built Warehouse Living schemes and refurbishment schemes (as currently represented in the Borough) could result in implications for the viability analysis of such schemes.
- 2.10 In light of the above, we consider that the evidence presented for Warehouse Living schemes does not provide an appropriate basis upon which to set a CIL charge for new Purpose Built Warehouse Living schemes.
- 2.11 We have also considered the merit of maintaining a charge for refurbished Warehouse Living schemes. In such schemes, there will be limited if any CIL liability given the CIL Regulations discount existing floorspace from proposed floorspace.
- 2.12 Having regard to the above and policy DM39 in the Development Management DPD, which seeks to secure a long-term sustainable economic future for key Warehouse Living sites, we recommend that the Council considers removing the Warehouse Living charge of £130 per square metre in the DCS before it is submitted for examination.