WHITE PAPER

Supporting the City's economic growth and development pipeline

2024

CPA

City Property Association

About CPA

The City Property Association (CPA) is a not-for-profit membership and advocacy group representing the leading owners, investors, professional advisers and developers of real estate across the City of London.

Introduction

The City of London is a critically important driver of economic growth for the UK, generating £97bn GVA annually and providing employment for one in every 48 workers in Britain. Best-in-class, sustainable, aspirational, amenity-rich offices play a crucial role in attracting global employers and skilled jobs to the Square Mile.

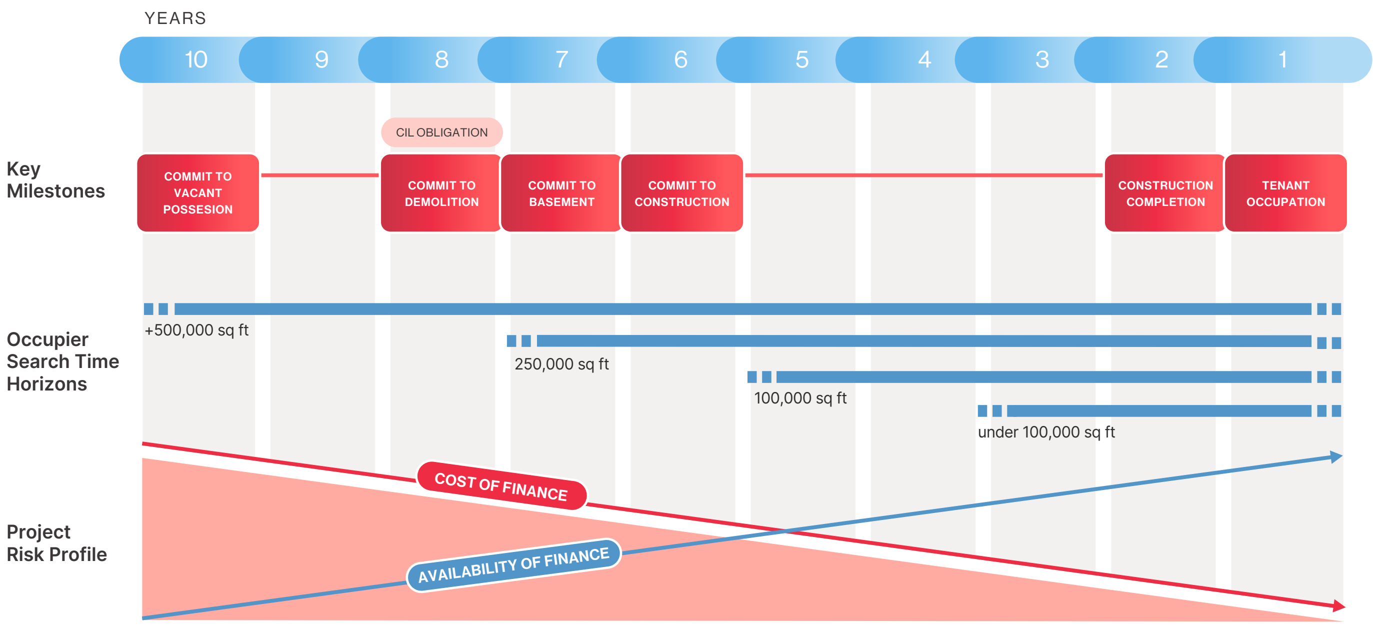
Whilst the amount of office space under construction has fallen across central London, the City has been defying this trend, experiencing a 7% uptick in new construction between April to September 2024 (Deloitte Crane Survey, Winter 2024).

But city centre offices are expensive and complicated to build. Construction inflation, coupled with increased costs and the sustainability and well-being demands placed on modern office space, is impacting costs. Development of tall towers, so critical to the City's pipeline of future office stock, is therefore struggling to keep up with tenant demand, despite record planning consents.

Indicative project timeline: from vacant possession to completion

A large commercial scheme can take up to 10 years from a decision to obtain vacant possession through to occupation, and the time taken increases vulnerability to wider macroeconomic challenges. As a project progresses, the level of risk reduces.

Obtaining planning permission, gaining vacant possession, committing to demolition, completing groundworks, signing a lump sum construction contract and leasing space to occupiers all reduce risk, and increase the appetite of funders to provide the required capital. The early stages of the development lifecycle, where risk remains high and lender appetite is low, place more financial risk on developers and equity partners.



The four Cs to support growth

Whilst the City of London Corporation cannot reduce the costs of construction or finance, nor improve capitalisation rates, there are a number of ways in which it can promote growth within the Square Mile by ensuring that the development of new towers remains viable and deliverable.

1

CIL

Introduce flexibility and phasing to CIL payments to reduce risk to delivery timelines and support pre-let agreements.

2

Cycling

Update cycle parking provision requirements to better reflect the use of bikes in the City and reduce the carbon impact of major developments.

3

Culture

Offer greater flexibility in how cultural and amenity space is provided to boost viability and better support existing amenities.

4

Construction

Explore options for promoting flexibility and circular economy principles within the construction process.

1

CIL flexibility and phasing

REDUCING RISK TO DELIVERY TIMELINES TO SUPPORT PRE-LET AGREEMENTS

The payment of CIL liabilities should align with the construction stage of a development to ensure a more equitable distribution of financial obligations across the construction timeline, improving financial viability, reducing risk and assisting with the timely delivery of developments.

The Community Infrastructure Levy (CIL) represents a large portion of a developer's financial burden early on in the development programme, particularly in the City of London where currently no flexibility is offered and payment is triggered by the commencement of works, i.e. the start of demolition.

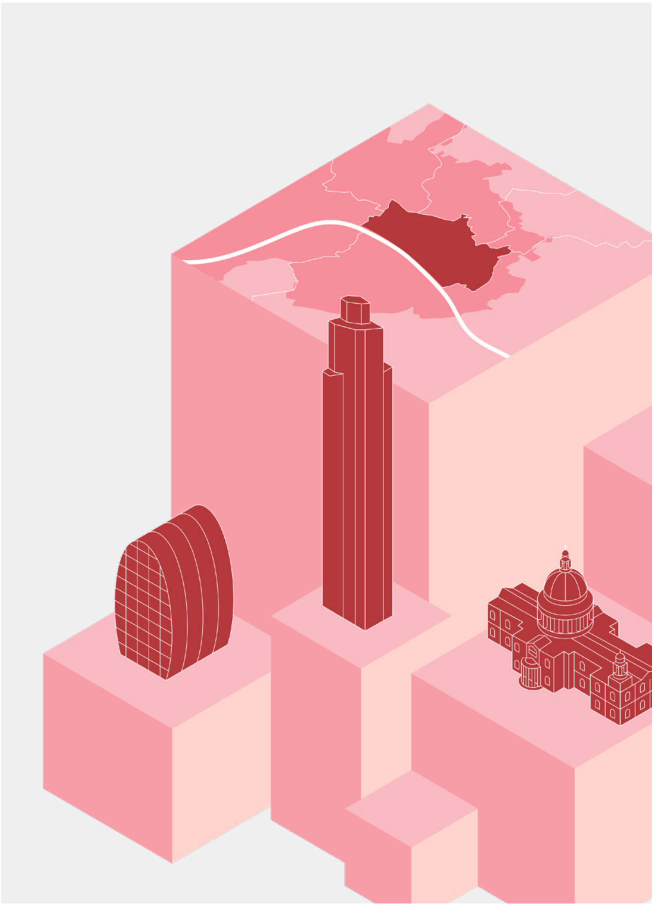
Large payments so early on in the development timeline can cause significant cashflow issues as developers face other large financial commitments at this stage. This attracts a huge amount of borrowing cost, made worse in light of the challenging macroeconomic conditions facing developers.

Phased CIL payments, which are permitted by CIL Regulations, offer a solution by treating the demolition and construction stages of a development separately, allowing for the demolition stage not to generate a CIL liability. The main advantage is that this could help unblock prelets by enabling developers to prepare a site for construction, reducing the timeline for the project delivery and giving confidence to occupiers to enter agreements early.

A deferred CIL liability would ease some of the financial and cashflow pressures by linking the CIL payment to a time when there is a greater prospect of pre-lets having been agreed, making it easier to unlock additional capital and funding.

As demolition does not increase the need for infrastructure improvements, the ultimate intention of mitigating the impact of future development on surrounding infrastructure can still be met whilst allowing developers more flexibility in managing their demolition and construction programmes.

Other local authorities in London permit CIL phasing, offering insights into how this approach could be brought forward in the City of London. As set out in the appendix (see page 9), Westminster, Tower Hamlets, Hackney, Lambeth, Wandsworth and Southwark have proactively worked with developers to accommodate CIL phasing.



2

Cycle parking provision

REDUCING REQUIREMENTS TO REFLECT USAGE AND REDUCE CARBON IMPACT

Cycle parking requirements should be revisited to better reflect the realities of cycling in the Square Mile, reducing the significant costs and carbon emissions currently being generated for space that is considerably underutilised.

Whilst cycling in London is 20% higher now than pre-pandemic levels, the standards set for cycle parking provision in new developments in the City of London far exceeds demand. Evidence from recently occupied office buildings shows that cycle parking is significantly underutilised, with only 14% being occupied.

Given that 85% of cycling commuting trips in London are within 10km, yet 64% of the City's workforce live more than 10km from their place of work, 99,420 trips would need to be undertaken by the 221,400 people who live within 10km of the City to meet the London Plan target. This equates to a 45% cycling mode share, a figure 9% higher than the mode share achieved in the mature cycling city of Amsterdam.

For further information, read our *Cycling & the City* report

Additionally, the reduced employee densities found at Grade A office space in the City of London, combined with the uptake in use of shared hire bikes such as Lime, Forest and Santander, has led to a significant over-provision in cycle parking compared to the intention of the London Plan.

The City Plan 2040 has set a target of 1.2m sqm of net additional office space by 2040, by current City Corporation and London Plan policy standards, this new office space will generate approximately 24,600 cycle spaces.

Using a cycle modal share of 11% and an occupancy of one person per 15 sqm of net internal area (in line with the conclusions of our *Cycling & the City* report), this equates to a requirement of 8,800 spaces - highlighting an overprovision of over 15,800 cycle spaces, generating an excess of 20,500 tonnes of carbon emissions (CO2e). This broadly equates to the same amount of carbon that seven all-electric City office towers would produce in 50 years of occupation, in addition to occupying over 33,000 sqm of gross internal area, the size of a large office building.

To avoid or mitigate where possible the negative embodied carbon impacts associated with basement excavation and the dedication of large amounts of space to empty cycle parking, it is recommended that the City Corporation reassesses its approach to cycle parking standards and considers alternative solutions.

3

Cultural and amenity space

OFFERING GREATER FLEXIBILITY IN HOW CULTURAL AND AMENITY SPACE IS PROVIDED

Consideration should be given to how cultural and amenity space requirements can remain pragmatic and proportionate, and better support the City of London's existing assets.

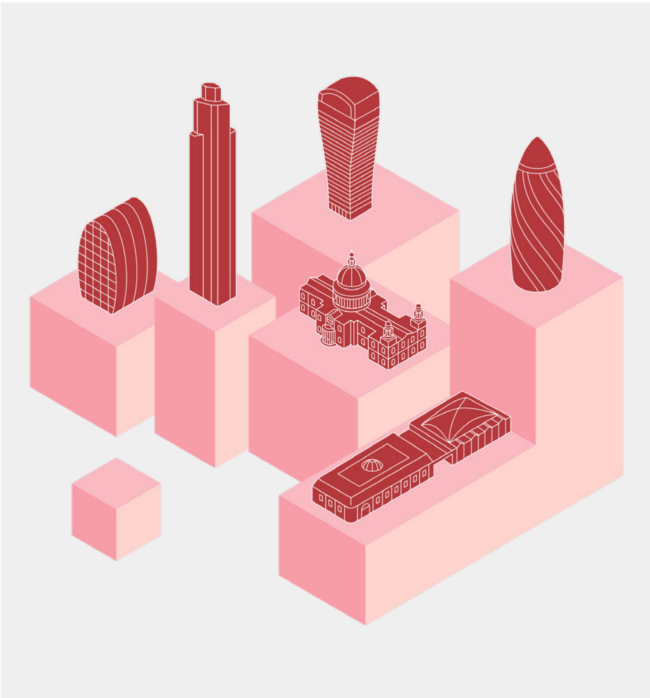
The growth of cultural and leisure amenity space in new development has radically transformed the City's offer to visitors in recent years, supporting the wider objectives of Destination City. The cultural provisions brought forward have generally been proportionate to developments and have included, amongst other benefits, viewing platforms, visitor centres, museums and more generic cultural accommodation negotiated on a case-by-case basis.

The focus now needs to shift to better supporting the quality of existing cultural and leisure amenities, rather than expanding the quantum regardless of merit or demand. Notwithstanding the planning and viability issues set out below, there is a risk of dilution of existing amenity, as well as future space which fails to deliver on stated objectives. The potential investment the City Corporation is able to secure from future development could be better utilised if paid into a single pot for it to allocate to existing assets, or invest in significant new ones which are complementary to the range of uses required to support Destination City.

The draft City Plan (Policy CV2: Provision of Arts, Culture and Leisure Facilities) sets out requirements for new and retrofit developments over 10,000 sqm to prepare a Culture Plan for the provision of arts, culture or leisure facilities.

The draft policy as worded requires greater clarity and the implication is that developers will be required to formally deliver or contribute to these facilities alongside other financial requirements. There is no policy detail or basis for the pooling of contributions albeit that the City Corporation has tested a range of contributions per sqm GIA from £40 - £180 per sqm.

This needs to be considered in the viability of developments in the round, and the CPA has made representations on this basis. Policy needs to be flexible, pragmatic and proportionate to the development in order to ensure that good quality, meaningful culture and leisure facilities are brought forward in the City, in addition to only being applicable on the uplift of additional floorspace.



4

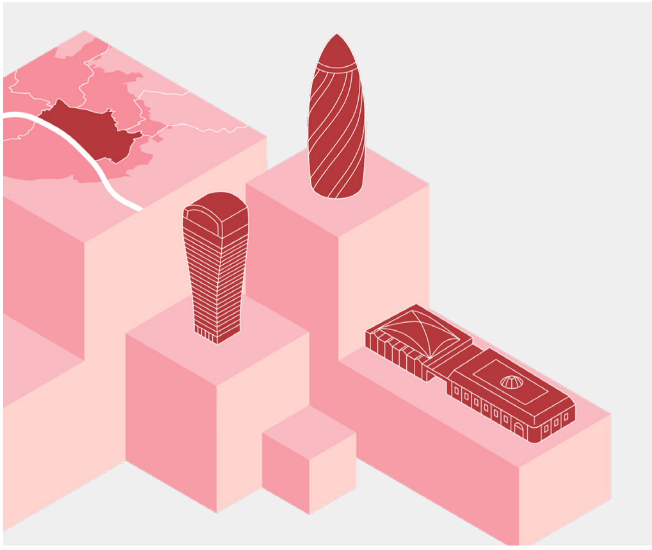
Construction

PROMOTING FLEXIBILITY AND CIRCULAR ECONOMY PRINCIPLES WITHIN THE CONSTRUCTION PROCESS

With the draft City Plan setting out an ambitious target to deliver 1.2m sqm of new office space by 2040, the potential for greater flexibility in the construction process should be explored alongside public-private partnerships to promote circular economy principles and reduce the impact of simultaneous development.

By allowing greater flexibility in construction timings, the City Corporation could help to reduce the impact of multiple towers being built simultaneously by speeding up their delivery. Measures such as allowing works to take place 24/7 in areas with no resident population could make a significant impact on programme duration.

Similarly, restricting site operating hours for noise generating activities only would promote quicker construction. Allowing quieter activities to take place over extended operating hours could unlock programme benefits.



Circular economy principles are already influencing approaches to demolition and soft strip activities. The focus on avoiding down-cycling of products and materials is driving a more considered and careful approach to these works which reduces the environmental impact of demolition.

Adopting circular economy principles on projects is currently challenged by the lack of clear routes for materials to be donated, sold, adopted for re-use (either on-site or off-site) or recycled. There is inherent complexity in dealing with the wide variety of materials from demolition. Different approaches and supply chains are needed for each of the products and systems. Connecting supply and demand is often impossible. This means that adopting circular economy principles can be complex, slow and costly.

The next step for the industry is to facilitate an environment where this becomes simpler and more efficient. The aspiration is that projects can realise the residual value of demolition materials whilst minimising material waste.

Greater collaboration between all parties and a collective focus would make this more achievable. The launch of ROMULUS in November 2024 is a positive step for the industry. ROMULUS is a private-public collaboration which provides a platform where products available for re-use can be widely shared. It will also document materials and collect data to show evidence for onwards use and patterns of re-use and recovery. This information will be vital for delivering London's circular economy aspirations.

Appendix: Case studies

CIL FLEXIBILITY ACROSS LONDON

1

Westminster

Typically, Westminster City Council only permits phasing when there is a clear and demonstrable need for it, or where there is alignment with the Development Plan. For example, at **St John's Wood Road,** the inspector allowed phasing on appeal in April 2020 because the project involved two distinct buildings, making phased delivery logical. The inspector also deemed it unreasonable for a £10m CIL payment to be due within 90 days of commencing an unphased development.

Non Material Amendment approvals (NMAs) to introduce phasing conditions post-consent have been secured at a number of sites, including **Soho Square, Wilton Road and Oxford Street.** The same approach has been achieved at other sites across Westminster including **33 St James's Square, Brick Street, Nova Place, Cundy Street Quarter and Portland House.** These moves have been crucial in avoiding planning permissions from lapsing whilst discussions about scheme amendments are ongoing, and where CIL liabilities at the outset of lengthy construction timelines would be prohibitive.

2

Tower Hamlets

Tower Hamlets Council is known for its proactive approach to CIL regulations and development, with officers actively collaborating with applicants to reach mutually agreeable solutions on CIL phasing. The local authority is open to CIL phasing to address cash flow issues during development, ensuring that large-scale projects can progress while adhering to CIL Regulations and enabling Tower Hamlets Council to collect liabilities at the appropriate time. Additionally, the Council has issued guidance for developers on CIL phasing, underscoring their proactive stance.

Recent examples include NMA approval for **Marsh Wall,** enabling the project to be divided into three CIL phases: demolition and enabling works (including a 12-month sewerage project), basement construction, and the construction of the remaining building. This phased approach allowed the developer to complete the enabling works required to unlock the site for further development without triggering CIL liability.

In addition, NMA approval at **2 Trafalgar Way** enabled the initial phase of development to comprise the piling works and the excavation of the basement. Again allowing the developer to undertake the initial works without triggering liability.

For **Wood Wharf,** phased development was introduced, with multiple phases of enabling, demolition and construction works aligned with the developer's detailed construction programme.

3

Hackney

Hackney Council is known to accept phasing for CIL-liable schemes and has recently been pushing for CIL phasing to firstly align with the Development Plan, and to secondly only include demolition/ enabling works and construction phasing. The borough has been proactive in its approach to interacting with developers and welcomes early communication to ensure an agreeable approach to phasing is taken forward.

Bishopsgate Goodsyard is a mixed-use masterplan with a range of complex works that need to be undertaken prior to the construction of chargeable floorspace. **Bavaria House** is an example of where an NMA was approved post-consent to enable the project to be divided into three CIL phases: demolition, below-grade demolition and construction, and the construction of the remaining building. This phased approach allowed the project to begin without triggering the CIL liability to assist the developer with its cashflow.

4

Lambeth

Lambeth Council has demonstrated flexibility in accepting various phasing options for developments within the borough whilst strictly adhering to CIL Regulations. For example, **Upper Ground** was phased from the outset, with the original planning permission allowing the project to be delivered in three distinct phases: demolition, basement works and above-ground works.

Lambeth Council is also receptive to NMAs for phasing, as evidenced by **Vauxhall Cross**, where an NMA created two phases – one for enabling works and another for construction. The Council recognised the importance of implementing the planning permission while accommodating the developer's inability to meet the full CIL liability upfront. A similar approach is being agreed on **Kennington Road.**

The local authority also recognised representations to the draft CIL Charging Schedule that were submitted to increase the number of instalments for schemes liable for larger payments. Lambeth Council adjusted the policy to allow for two additional instalments on top of the four previously agreed to ease potential cashflow problems for large schemes.

5

Wandsworth

Wandsworth Borough Council is proactive with regards to CIL and has an extensive number of schemes that are phased.

Battersea Power Station was phased, and the local authority accepted an approach where a single phase was split into sub-phases to allow the basement and then above-ground works to be delivered. The Borough Council was still able to collect the liability generated for the scheme, albeit it being split into two different amounts. This allowed for the delivery of a complicated and extensive basement which could have delayed the delivery and therefore the payment of the CIL liability.

7

Camden

In the past year, the London Borough of Camden has revised its approach to CIL phasing. The local authority accepts phasing if it is specified in the planning permission or if the development involves separate, independently implementable blocks. Its current policy emphasises that the standard instalment policy should apply to developments that do not require phasing to proceed.

6

Southwark

Southwark Council frequently accepts CIL phasing for developments, including mixed-used masterplans and tower projects. For example, **Bankside Yards** was treated as a phased permission, with the Council applying the CIL regulations accordingly. The development was divided into two construction phases, allowing the buildings to progress at different times.

Similarly, in **Bermondsey** a large masterplan was phased through a condition and attached informative covering enabling works, demolition and construction. Southwark Council has also supported this approach at **Red Lion Court and Blackfriars Crown Court**, whereby phased development was supported, enabling the CIL liability to be triggered at a subsequent phase. The Council has been supportive of this phased approach, recognising its importance for the successful delivery of a project which will deliver a large number of new homes within the borough.

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