Rec'd 5/3/14

Laura Badham

From:
Sent:
To:
Subject:
Attachments:

Dear Sir/Madam

We have been instructed by our client, Wm Morrison Supermarkets plc ('Morrisons'), to object to the proposed Community Infrastructure Levy (CIL) rate of £150/sq m for convenience based supermarkets and superstores and retail warehousing (net retailing space of over 280 sqm) as set out in the Draft Charging Schedule.

The charging schedule is informed by an updated CIL Viability Study (July 2013) prepared by BNP Paribas, and Morrisons have instructed Aspinall Verdi, Property and Development Consultants to review this.

Aspinall Verdi (AV) have concluded that the work undertaken to date has been substantial, however, it does make several optimistic assumptions. Further work and revisions are needed in order to reflect the observations in the attached representations, particularly:

1. The EUV needs to be reconsidered as the most appropriate measure for calculating the surplus for CIL over development land Market Value benchmarks. AV suggest more weight to the use of benchmark land values and site sizes based on urban design principles and site densities. If the EUV is to be used they suggest at the minimum the same approach as the residential appraisals where alternative use types are considered in the EUV.
2. The build costs need to be reviewed – BCIS should be re-visited and revised.
3. The rent for the supermarket units needs to be reconsidered as it is considered to be too high.
4. The level of developers' profit should be increased.
5. AV would expect some sourced market evidence and rationale for the appraisal inputs, such as rents (CUV) and values. AV recommend that these be included so that a key aspect of the CIL calculation is clearly evidenced.
6. AV would support the use of 12% (not 10%) professional fees given the complexity of such retail schemes.
7. No allowance has been made for planning fees/costs, these costs can be considerable.
8. No allowance has been made for letting legal fees, normally 5% of first years rent.
9. The sensitivity analysis needs to consider a combination of assumptions i.e. rent, yield and build costs; the findings should then be used to test whether an appropriate buffer has been allowed for when setting the CIL Charge.

More detailed comments are set out in the attached report.

In our view, the draft CIL charge will put undue additional risk on the delivery of any such proposals and will be an 'unrealistic' financial burden on new large-scale retail development. This, in turn, poses a significant threat to potential new investment and job creation in the local area at a time of economic recession and low levels of development activity. Our client is concerned that a balance has not been found between infrastructure funding requirements and viability and subsequently the suggested charge will have a significant adverse impact on the overall viability of future retail development in the borough.

I trust our objection and the attached comments by Aspinall Verdi will be taken into account when finalising the CIL Charging Schedule.

We look forward to the Council's response.

Please confirm receipt of this objection.

Dacorum Borough Council – Community Infrastructure Levy Viability Study
Representation on behalf of W.M. Morrison Supermarkets Plc.

26 February 2014

This representation has been prepared in response to the consultation launched by Dacorum Borough Council in respect of their Community Infrastructure Levy Updated Viability Study (July 2013) and Draft Charging Schedule (January 2014). We are instructed by W.M. Morrison Supermarkets Plc. to make representations on their behalf.

Introduction

Aspinall Verdi Limited, Chartered Surveyors are property regeneration and development consultants. We have direct experience of advising both public and private sector clients with respect to development viability, S106 and planning gain matters. The firm has a thorough understanding of property markets, valuation, development economics, and delivery.

This representation has been prepared by Parm Dosanjh, BSc (Hons) DipTP MSc MRICS MRTPI. Parm is Regional Director at AspinallVerdi and is head of the London office. He has 15 years experience in the planning and development consultancy sector and has advised on projects throughout England.

This submission has been prepared to support further representations by Peacock & Smith town planning consultants for W.M. Morrison PLC.

For the purposes of these representations we have reviewed the following documents:

1. BNP Paribas, Community Infrastructure Levy – Updated Viability Study July 2013
2. Dacorum Borough Council, Community Infrastructure Levy – Draft Charging Schedule, January 2014.

General Comments

We note that an earlier consultation exercise has been undertaken and a number of points raised; however, we did not make representations on the Preliminary Draft Charging Schedule or the Viability Report as part of the initial round of consultation. Prior to making specific comments in response to the consultation questions that have been raised we draw attention to the following points:

1. The interrelationship of CIL and site specific S106 is critical to the commercial viability of larger development and regeneration projects such as food stores. In many cases the food store is linked to a wider development scheme or masterplan involving other uses and infrastructure such as roads. Therefore the preparation and inclusion of infrastructure elements to the Regulation 123 List needs to be clearly defined and understood to avoid double counting (known as 'double-dipping'). Typical 'site specific' S106/S278 costs that will be out with the Regulation 123 List should be factored into the CIL Viability Modelling.

2. Request to be heard. Should any changes be made to the CIL Charging Schedule in relation to Use Class 'A' across the Authority area, then we would reserve the right to make representations and be heard.

Specific Comments

The following specific comments have been made referring to the paragraph numbers in the CIL Updated Viability Study.

Item (Paragraph Number)	Comment
Executive Summary (Para 1.4)	Reference is made to the running of sensitivity analysis on commercial appraisals on rent and yield inputs; however, the fact is that only in one scenario has the yield been changed/tested. The sensitivity analysis also fails to consider the implications of changes in rents and yields combined on the surplus i.e. what if the yield moved by 0.25% and the rent fell by 10%. We discuss this issue in further detail below.
Introduction (Para 2.1 & 2.2)	We agree with the outline for the brief, its aims and objectives. We concur that residual valuations in this high level variable context should act as a guide, and that CIL should be not be set at the margins of viability to allow for site specific variations. However for the CIL charge to not negatively impact on development the assumptions underlying the residual valuations must be robust. We outline some of the shortfalls in terms of the underlying assumptions below.
Local Context (Para 2.14)	We note that the Council is in the process of adopting its Core Strategy and therefore need to ensure that in the event that there are any policy changes which could have any impact on the financial viability of a scheme these will need to be reflected in the CIL viability analysis.
Land Values (Para 3.4 & 3.5)	We would support this assertion, where landowners consider that there is prospect of securing developments on their site that yield high value, their aspirations to secure higher land values will be prevalent. Land owners are likely to "hold out" until they have explored their potential returns fully, and may not sell the site if the proposed returns are below their expectations. In the case of retail developments, landowners are likely to hold out for the highest value and are unlikely to accept a reduction in their land value for CIL.
Existing Use Value benchmarks (Para 3.7 to 3.9)	The HCA guidance and the planning appeal decisions refer to specific planning applications and not area based policy formulation. This raises questions in respect to using the existing use value as the benchmark land value. The planning appeal decisions are all based on a specific scheme and therefore the existing use of the site is known. It is therefore entirely possible to value the existing use vis-à-vis the development value of the site and establish the premium to incentivise the landowner for change of use, sale and/or development. However, to apply the same approach to area wide policy formulation is too academic and is not how the market actually works in practice. For example, if the Council as a landowner was seeking to dispose of one of its sites (assets) for a supermarket development, under a 'best value' requirements it

Item (Paragraph Number)	Comment
	is expected to secure value based on supermarket residual land values and not Existing Use Value plus a premium of 20%, this is an artificial scenario and does not reflect how the market actually operates. A private sector landowner would also be looking to secure the best land value that it could for a supermarket scheme. We recommend that more weight is attributed to the benchmark market values of the sites for particular uses as opposed to the benchmark existing uses (which themselves are based on 'mini' residual appraisals. This approach is advocated by RICS – see Financial Viability in Planning, 1st Edition, Guidance Note.
Existing Use Value commercial (Para 4.58)	In the case of the **residential** land values (para 4.46 to 4.50) we note that four benchmark land values (BLV) have been adopted based on different use types (1) VOA market value for development land (2) secondary offices existing use value (3) secondary industrial existing use value (4) community building existing use value. It is clear from the results tables (Appendix 2) that all residential scheme typologies have been tested against all these benchmark land value assumptions. This approach has not been followed for commercial appraisals; rather the land value assumption is based on an intensification of existing use based on the same type of commercial development (three benchmark land values have then been applied across the same use type para 4.58, it has not been made explicit why this is the case). In reality a developer would need to acquire a site of sufficient size to accommodate the development contemplated (i.e. a retail scheme) – including aspects such as landscaping, circulation and car parking. Allowances therefore should be made using a market value benchmark for development land and appropriate planning assumptions for site size/density. At Para 4.58 it states that '*we have assumed lower rents and higher yields for existing space than the planned new floorspace.*' This approach of applying a lower rent and higher yield for existing uses than for the planned new floor space generates a positive effect on viability. Again we would advise a review of this assertion within the context of market reality.
Current use values and benchmark land values (Para 4.58)	We would expect market evidence to be provided to support the assumptions used in the appraisals, at present the market evidence is far from explicit.
Build Costs (Para 4.59)	We note that average costs suggested by BCIS have been used; however, it is not clear from the report how the rate of £1,248 psm (£116 psf) and £1,205 psm (£112 psf) has been arrived at. It is noted that BCIS has been used to derive build costs. We specifically comment that: • BCIS provides a range of average costs, it has not been made clear which average costs have been used. • It is not known whether the costs have been location adjusted to

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Item (Paragraph Number)	Comment
	reflect the local market – BCIS permits this to be done and we would recommend such adjustment. • We have consulted BCIS and the average (mean) figure for hypermarkets/supermarkets up to 1,000 sqm is £1,286 psm/£120 psf), and for supermarkets between 1,000 and 7,000 sqm (GFA – Ground Floor Area) the mean is £1,243 psm/£116 psf. These are adjusted for the Hertfordshire area. • These mean (average) locally adjusted figures are in excess of the levels selected (£1,248psm/£86 psf and £1,205 psm/£112 psf. The underestimation of costs will therefore impact on scheme viability and the level of CIL.
Developers Profit (Para 4.60)	We would suggest that the developers profit level for the retail foodstore option is increased to 25% on cost based on: • Developer's site assembly risk; • Holding costs and timescales to secure returns can be very long; • Funding costs and risks where even for prime supermarket developments, bank finance is scarce and requires developers to contribute large amounts of equity; • Planning costs and risks.
Commercial appraisal assumptions (Table 4.53.1)	1. Within the main body of the report there is no justification for the choice of the generic schemes for convenience typology. A store of 1,000 sqm has been tested as well as a larger store of 5,000 sqm. It would be more appropriate to model a store of say, 1,500 sqm rather 1,000 sqm which generally reflects the format which operators are presently considering. 2. A base rent of £23 psf has been applied; we consider this to be excessive and a figure of £20 psf to be reflective of current market conditions for the larger store. We would also expect the rent on the smaller store in the £15 to £20 psf ranges. No evidence has been provided to support the rent assumptions. 3. The construction costs/BCIS averages have been discussed in the above comments. 4. Professional fees of 10% have been used. We would support the use of 12% given the complexity of such retail schemes. 5. Profit is set at 20%. We would suggest that the developers profit level for the supermarket typology is increased to 25% on cost based on the: developer's site assembly risk; holding costs and timescales to secure returns can be very long; funding costs and risks where even for prime supermarket developments bank finance is scarce and requires developers to contribute large amounts of equity; planning costs and risks (some of which could be abortive). 6. The approach and rationale for the 'existing floorspace' % for the existing use value is not clear – a range between 15% to 50%. However,

Item (Paragraph Number)	Comment
	the assumption across all typologies appears to be 15%; it is not clear on what basis that this has been decided/applied. 7. We would expect that market evidence is provided for the £7 - £20 rents applied to existing space. No data is given to these values. We can therefore not comment on the validity of the value assumptions used where no supporting market evidence has been provided. We would advise that this evidence base is made available to allow a critical appraisal of the assumptions made. 8. The appraisal does not include any Letting Legal Fees; we would expect this to be applied at 5% of first years rent.
Commercial Appraisal Results (Para 5.12)	Whilst a significant amount of analysis has been undertaken to construct the appraisals and particularly the benchmark land values (BLV's) and the current use values (CUV's), the *actual* market evidence and justification is missing. More weight should be given to actual benchmark market values and evidence of local market transactions.
Assessments of Results (Para 6.45)	We are unclear as to how the buffer has been applied to the maximum CIL Rate of £193 psm in order to arrive at a recommended CIL rate of £150 psm – is this based on a sensitivity analysis of all assumptions? Please see comments below regarding the sensitivity testing and the need to be more rigorous.
Appraisal (Appendix 3)	As noted in the comments above there are a number of appraisal inputs that need to be reviewed. In addition to the above, we would also suggest that the following aspects are considered: • An allowance for planning fees/costs should be made. These costs can be considerable in this type of scheme. • The interest cost should be revised - the timescale adopted is 18 months. It is improbable that a site can be acquired, planning secured and a development completed within 18 months for a larger retail/ foodstore scheme. This period needs to be lengthened. The interest rate on the land is 6.5% and 7% on the development costs; there is no explanation as to why there is a difference in the rate. • Although sensitivity analysis has been undertaken, in our view this is very limited. Firstly, only one appraisal has been run at a yield of 6%; furthermore the sensitivity only test one assumption at a time, we would expect to see a combination of assumptions tested, for example rents, yields and build costs combined. It is also important to note that under Appraisal 5 (base) for the 5,000 sqm scheme, the CUV 3 scenario produces a deficit and therefore has this been taken into consideration in setting the CIL rate. • In Appraisal 4, the yield has been moved from 5.75% to 6%, as a result the maximum CIL rate decreases by 27% under CUV1 and 68% under CUV2, and CUV3 is still negative – this is a significant change based on only one assumption being changed. If a combination of rent, yield and build costs were tested we would

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	expect the Maximum CIL rates to fall considerably. We recommend that these sensitivity tests are undertaken and used to review the proposed CIL rate of £150 psm as we consider this doesn't allow for a sufficient buffer.
Recommendations (Table 7.6.1)	The CIL for retail (above 280 sqm) £150 psm is noted and requires review in light of the comments made within this representation.

Table 1 – Representation Comments

Summary and Conclusions

We are pleased to have been given this opportunity to comment on the Dacorum CIL proposals and would like to register our interest in receiving details of the revised Charging Schedule prior to examination.

The work undertaken to date has been substantial, however in our view makes several optimistic assumptions. Further work and revisions are needed in order to reflect the observations above and particularly:

1. The EUV needs to be reconsidered as the most appropriate measure for calculating the surplus for CIL over development land Market Value benchmarks. We would suggest more weight to the use of benchmark land values and site sizes based on urban design principles and site densities. If the EUV is to be used then we would suggest at the minimum the same approach as the residential appraisals where alternative use types are considered in the EUV.
2. The build costs need to be reviewed – BCIS should be re-visited and revised. The levels we mentioned are confirmed by our clients Quantity Surveyors.
3. The rent for the supermarket units needs to be reconsidered as we consider this to be too high.
4. The level of developers' profit should be increased.
5. We would expect some sourced market evidence and rationale for the appraisal inputs, such as rents (CUV) and values. We would recommend that these be included so that a key aspect of the CIL calculation is clearly evidenced.
6. We would support the use of 12% (not 10%) professional fees given the complexity of such retail schemes.
7. No allowance has been made for planning fees/costs, these costs can be considerable.
8. No allowance has been made for letting legal fees, normally 5% of first years rent.
9. The sensitivity analysis needs to consider a combination of assumptions i.e. rent, yield and build costs; the findings should then be used to test whether an appropriate buffer has been allowed for when setting the CIL Charge.