



DACORUM BOROUGH COUNCIL COMMUNITY INFRASTRUCTURE LEVY DRAFT CHARGING SCHEDULE ADDITIONAL VIABILITY NOTE IN RELATION TO RETAIL APRIL 2014

Peacock and Smith and Aspinall Verdi on behalf of W.M. Morrison Supermarkets Plc. submitted representations to Dacorum Borough Council's Draft Charging Schedule consultation on 5 March 2014. This note addresses the issues raised in their representation.

Build costs

BNP Paribas Real Estate acknowledges that both build costs and income are likely to change over time, and this is one of the reasons why the adoption of a 'buffer' below maximum potential CIL rates is important in setting rates. This ensures that the rates are not set at the margins of viability and allows for changes in the market over time as well as site specific circumstances. In this regard the build costs were not underestimated, they were adopted from BCIS reflecting build costs for such development in the local market at the point at which the viability assessment was prepared. BNP Paribas Real Estate has undertaken further viability testing to establish the impact of the updated build costs as identified by Aspinall Verdi as follows:

- Hypermarkets/Supermarkets up to 1,000 sq m: £1,286 per sq m (£119.47 per sq ft); and
- Hypermarkets/Supermarkets up to 1,000 sq m – 7,000 sq m: £1,243 per sq m. (£115.48 per sq ft).

Profit

BNP Paribas Real Estate disagrees with respect to the comment that developers profit should be increased to 25% on cost. Profit correlates with risk and 20% profit on costs is the level assumed by developers in viability appraisals of such commercial units submitted in support of planning applications. It is therefore considered to be reflective of current market expectations. In addition, supermarket space is unlikely to be developed speculatively, so in our experience 20% profit on cost is generous and as such is accepted as a reasonable market assumption. We would also highlight that in their CIL viability assessment for Sandwell Metropolitan Borough Council, Aspinall Verdi adopted a profit of 20% on cost for such developments. We see no reason why the risk of delivering supermarkets in Dacorum is more risky than developing in Sandwell.

Professional fees

In BNP Paribas Real Estate's experience professional fees can range between 8% and 12% and as such we consider that an allowance of 10% is a reasonable level of fees for the majority of schemes and in an area wide viability assessment. With respect to planning fees these are accounted for in professional fees. Further it is considered that the contingency of 5% adopted within the appraisals, which is also applied to the professional fees, would account for any unforeseen costs.

We further note that that Aspinall Verdi deemed an allowance of 10% to be acceptable in their CIL Viability Report for Sandwell Metropolitan Borough Council.

Rent

BNP Paribas Real Estate notes that Aspinall Verdi has not submitted any evidence to substantiate their assertion regarding retail rents. We would highlight that as identified at para 6.43 in our Viability Report we have identified that rents for such space are between £18 - £26 per sq ft as evidenced by the following:

- lettings of floorspace for convenience based supermarkets and superstores and retail warehousing;
- rents adopted by the VOA for such space; and



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- advice from our Valuation Team, who undertake extensive numbers of valuations on supermarkets across the Country.

In order to assess the impact of change in rent to £20 per sq ft we have re-run our appraisals assuming a base rent of £20 per sq ft.

Rent Free

BNP Paribas Real Estate notes that in our initial viability assessment a rent free period of 2 years was adopted, reflecting an overly cautious position. In their Viability Assessment for Sandwell Aspinall Verdi adopted a rent free period of 6 months. In this regard we have reduced the rent free period assumed in our further viability testing to 6 months.

Yield

We have identified that yields achieved on units occupied by the major occupiers (i.e. Tescos, Sainsburys, Morrisons, Waitrose, ASDA) are keener than the 5.75% originally adopted in our viability study. Yields on such space are currently more in line with 5.25% to 4.5% and keener in some instances, whilst yields achieved on units occupied by independent local tenants are in the region of 7.5%. This is based on research using:

- databases such as our in house comparable database, Focus and EGi;
- discussions with active local agents; and
- advice from our in house valuation team who undertake valuations regularly for major supermarkets.

Yield differentials have a significant bearing on the outcome of a development appraisal. At a yield of 7.5% our appraisals (attached as **Appendix 1** to this note) indicate that a retail development of 280 square metres is unlikely to generate surplus residual values above the value of current floorspace i.e. such development is considered to be unviable. As highlighted above, due to the covenant strength of the large national retailers, investment yields are lower, resulting in a higher capital value. Adopting a lower yield of 5.25%, our appraisals (280 sq m unit, 1,000 sq m unit and 5,000 sq m unit attached as **Appendix 2**) show that a maximum CIL of up to £651 per sq m could be levied on such retail space, depending on the size of the store (which has an impact on build costs) and the value of the existing use of the site.

Conclusion

In light of the above and the results of our updated viability appraisals, we recommend that the Council considers setting their rates in the context of a maximum CIL of up to £341 per sq m (based on CUV 2 of the 280 sq m and £1,000 sq m stronger covenant appraisals). Given this position, BNP Paribas Real Estate recommends that the Council maintains their proposed DCS CIL rate of £150 per sq m, which allows for a generous buffer to deal with site specific issues and changes in values over time.



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**APPENDIX 1: RETAIL APPRAISAL OF 280 SQ M STORE AT LOWER COVENANT STRENGTH
(TYPICAL OF LOCAL INDEPENDENT RETAILER)**

COMMUNITY INFRASTRUCTURE LEVY
Commercial Development

Use class:	Convenience supermarket/superstore and retail warehouse
Location:	Whole of Borough (280 sq m) Lower Covenant Strength

	£s per sqft	Yield	Rent free
Appraisal 1	£15.00	7.75%	.50 years
Appraisal 2	£16.00	7.75%	.50 years
Appraisal 3	£17.00	7.75%	.50 years
Appraisal 4	£20.00	8.00%	.50 years
Appraisal 5 (base)	£20.00	7.75%	.50 years
Appraisal 6	£20.00	7.50%	.50 years
Appraisal 7	£21.00	7.75%	.50 years
Appraisal 8	£22.00	7.75%	.50 years
Appraisal 9	£23.00	7.75%	.50 years
Appraisal 10	£24.00	7.75%	.50 years

Existing floorspace as % of new	35%
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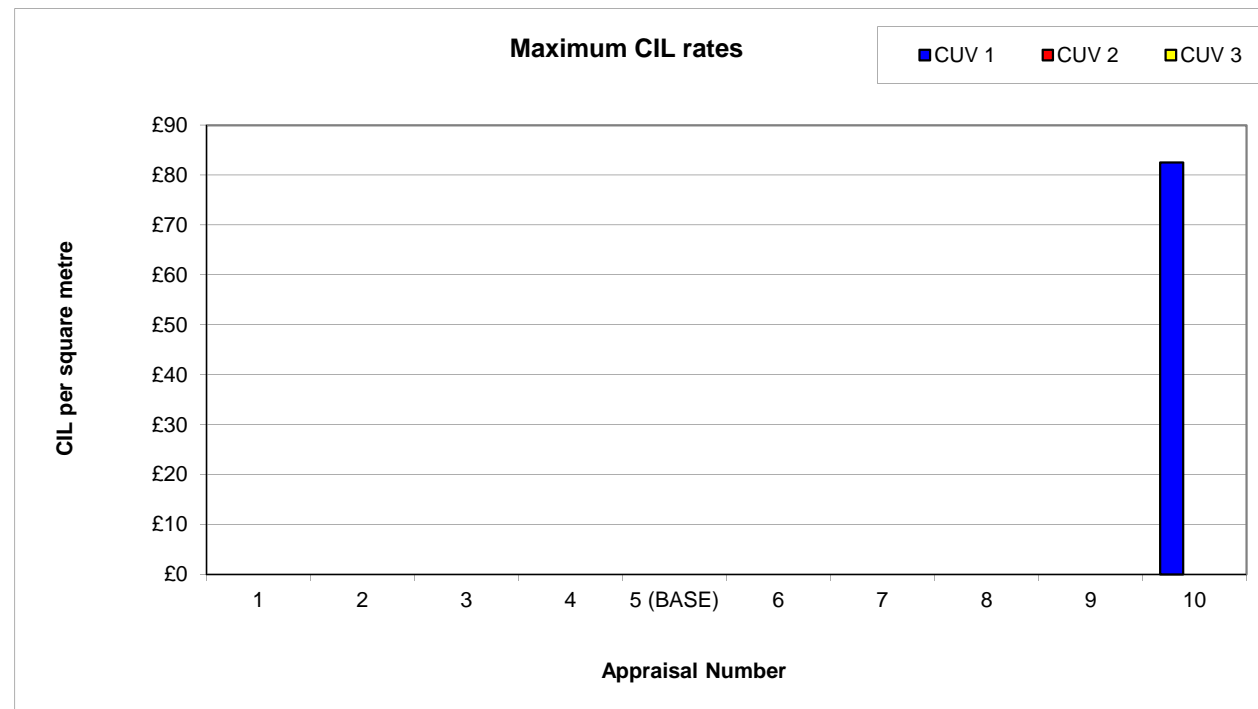
Net off existing floorspace from CIL calculation: n

Ctrl + y to goal seek max CIL

	£s per sqft	Yield	Rent free	Premium
Current use value 1	£7.00	7.00%	2.00 years	20.00%
Current use value 2	£15.00	8.00%	2.00 years	20.00%
Current use value 3	£20.00	7.00%	2.00 years	20.00%

Results - Maximum CIL rates per square metre

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-33%	£0	£0	£0
Appraisal 2	-25%	£0	£0	£0
Appraisal 3	-18%	£0	£0	£0
Appraisal 4	0%	£0	£0	£0
Appraisal 5 (base)	-	£0	£0	£0
Appraisal 6	0%	£0	£0	£0
Appraisal 7	5%	£0	£0	£0
Appraisal 8	9%	£0	£0	£0
Appraisal 9	13%	£0	£0	£0
Appraisal 10	17%	£83	£0	£0



CURRENT USE VALUE
Commercial Development

Use class: Convenience supermarket/superstore and retail warehouse

	Common assumptions	CUV 1		CUV 2		CUV 3	
Current use value							
Existing space as percentage of new	35%	1,055					
Rent per sq ft		£7 psf		£15 psf		£20 psf	
Rental income per annum		£7,384		£15,823		£21,097	
Rent free/voids (years)		2.0	0.8734	2.0	0.8573	2.0	0.8734
Total revenue, capitalised (including all costs)		7.00%		8.00%		7.00%	
Refurbishment costs	£50 psf	£52,744		£52,744		£52,744	
Fees	7%	£3,692		£3,692		£3,692	
Capitalised rent, net of refurb and fees			£35,701		£113,136		£206,812
Purchaser's costs	5.75%						
Current use value			£35,701		£113,136		£206,812
CUV including Landowner premium		20%	£42,841	20.00%	£135,763	20.00%	£248,174



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**APPENDIX 2: RETAIL APPRAISAL OF 280 SQ M, 1,000 SQ M AND 5,000 SQ M STORES AT
HIGHER COVENANT STRENGTH (TYPICAL OF LARGE NATIONAL RETAILER)**

COMMUNITY INFRASTRUCTURE LEVY
Commercial Development

Use class:	Convenience supermarket/superstore and retail warehouse
Location:	Whole of Borough (280 sq m) Higher Covenant Strength

	£s per sqft	Yield	Rent free
Appraisal 1	£15.00	5.25%	.50 years
Appraisal 2	£16.00	5.25%	.50 years
Appraisal 3	£17.00	5.25%	.50 years
Appraisal 4	£20.00	5.50%	.50 years
Appraisal 5 (base)	£20.00	5.25%	.50 years
Appraisal 6	£20.00	5.00%	.50 years
Appraisal 7	£21.00	5.25%	.50 years
Appraisal 8	£22.00	5.25%	.50 years
Appraisal 9	£23.00	5.25%	.50 years
Appraisal 10	£24.00	5.25%	.50 years

Existing floorspace as % of new	35%
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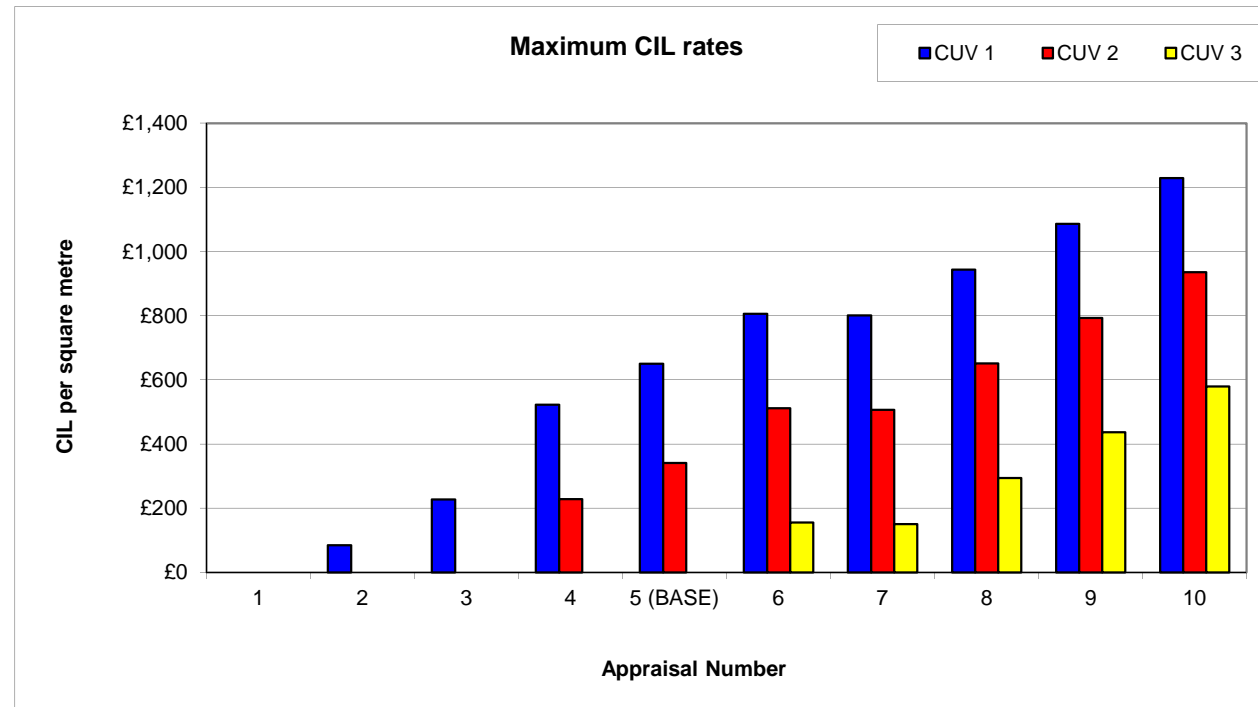
Net off existing floorspace from CIL calculation: n

Ctrl + y to goal seek max CIL

	£s per sqft	Yield	Rent free	Premium
Current use value 1	£7.00	7.00%	2.00 years	20.00%
Current use value 2	£15.00	8.00%	2.00 years	20.00%
Current use value 3	£20.00	7.00%	2.00 years	20.00%

Results - Maximum CIL rates per square metre

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-33%	£0	£0	£0
Appraisal 2	-25%	£85	£0	£0
Appraisal 3	-18%	£228	£0	£0
Appraisal 4	0%	£523	£229	£0
Appraisal 5 (base)	-	£651	£341	£0
Appraisal 6	0%	£806	£512	£156
Appraisal 7	5%	£801	£507	£151
Appraisal 8	9%	£944	£651	£294
Appraisal 9	13%	£1,087	£793	£437
Appraisal 10	17%	£1,229	£936	£580



CURRENT USE VALUE
Commercial Development

Use class: Convenience supermarket/superstore and retail warehouse

	Common assumptions	CUV 1		CUV 2		CUV 3	
Current use value							
Existing space as percentage of new	35%	1,055					
Rent per sq ft		£7 psf		£15 psf		£20 psf	
Rental income per annum		£7,384		£15,823		£21,097	
Rent free/voids (years)		2.0	0.8734	2.0	0.8573	2.0	0.8734
Total revenue, capitalised (including all costs)		7.00%		8.00%		7.00%	
Refurbishment costs	£50 psf	£52,744		£52,744		£52,744	
Fees	7%	£3,692		£3,692		£3,692	
Capitalised rent, net of refurb and fees			£35,701		£113,136		£206,812
Purchaser's costs	5.75%						
Current use value			£35,701		£113,136		£206,812
CUV including Landowner premium		20%	£42,841	20.00%	£135,763	20.00%	£248,174

COMMUNITY INFRASTRUCTURE LEVY
Commercial Development

Use class:	Convenience supermarket/superstore and retail warehouse
Location:	Whole of Borough (1,000 sq m) Higher Covenant Strength

	£s per sqft	Yield	Rent free
Appraisal 1	£15.00	5.25%	.50 years
Appraisal 2	£16.00	5.25%	.50 years
Appraisal 3	£17.00	5.25%	.50 years
Appraisal 4	£20.00	5.50%	.50 years
Appraisal 5 (base)	£20.00	5.25%	.50 years
Appraisal 6	£20.00	5.00%	.50 years
Appraisal 7	£21.00	5.25%	.50 years
Appraisal 8	£22.00	5.25%	.50 years
Appraisal 9	£23.00	5.25%	.50 years
Appraisal 10	£24.00	5.25%	.50 years

Existing floorspace as % of new
 35%

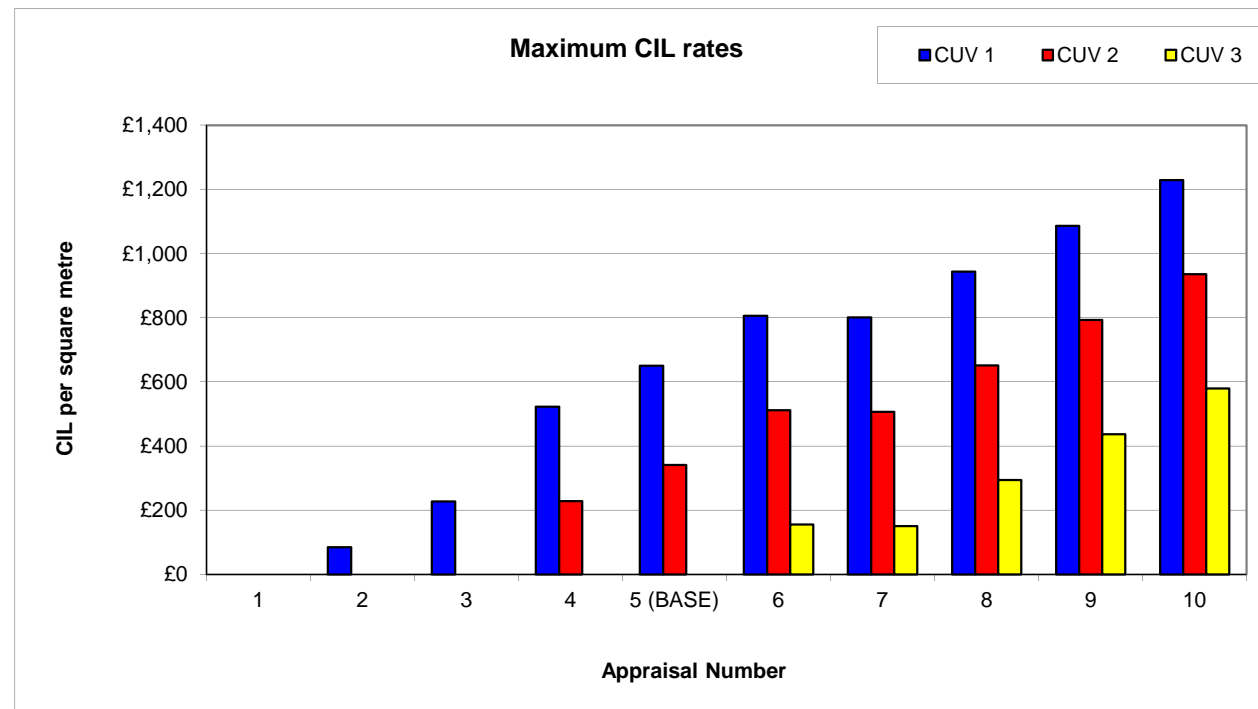
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	£s per sqft	Yield	Rent free	Premium
Current use value 1	£7.00	7.00%	2.00 years	20.00%
Current use value 2	£15.00	8.00%	2.00 years	20.00%
Current use value 3	£20.00	7.00%	2.00 years	20.00%

Results - Maximum CIL rates per square metre

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-33%	£0	£0	£0
Appraisal 2	-25%	£85	£0	£0
Appraisal 3	-18%	£228	£0	£0
Appraisal 4	0%	£523	£229	£0
Appraisal 5 (base)	-	£651	£341	£0
Appraisal 6	0%	£806	£512	£156
Appraisal 7	5%	£801	£507	£151
Appraisal 8	9%	£944	£651	£294
Appraisal 9	13%	£1,087	£793	£437
Appraisal 10	17%	£1,229	£936	£580



CURRENT USE VALUE
Commercial Development

Use class: Convenience supermarket/superstore and retail warehouse

	Common assumptions	CUV 1		CUV 2		CUV 3	
Current use value							
Existing space as percentage of new	35%	3,767					
Rent per sq ft		£7 psf		£15 psf		£20 psf	
Rental income per annum		£26,372		£56,511		£75,348	
Rent free/voids (years)		2.0	0.8734	2.0	0.8573	2.0	0.8734
Total revenue, capitalised (including all costs)		7.00%		8.00%		7.00%	
Refurbishment costs	£50 psf	£188,370		£188,370		£188,370	
Fees	7%	£13,186		£13,186		£13,186	
Capitalised rent, net of refurb and fees		£127,503		£404,058		£738,614	
Purchaser's costs	5.75%						
Current use value		£127,503		£404,058		£738,614	
CUV including Landowner premium		20%	£153,004	20.00%	£484,869	20.00%	£886,336

COMMUNITY INFRASTRUCTURE LEVY
Commercial Development

Use class:	Convenience supermarket/superstore and retail warehouse
Location:	Whole of Borough (5,000 sq m) Higher Covenant Strength

	£s per sqft	Yield	Rent free
Appraisal 1	£15.00	5.25%	.50 years
Appraisal 2	£16.00	5.25%	.50 years
Appraisal 3	£17.00	5.25%	.50 years
Appraisal 4	£20.00	5.50%	.50 years
Appraisal 5 (base)	£20.00	5.25%	.50 years
Appraisal 6	£20.00	5.00%	.50 years
Appraisal 7	£21.00	5.25%	.50 years
Appraisal 8	£22.00	5.25%	.50 years
Appraisal 9	£23.00	5.25%	.50 years
Appraisal 10	£24.00	5.25%	.50 years

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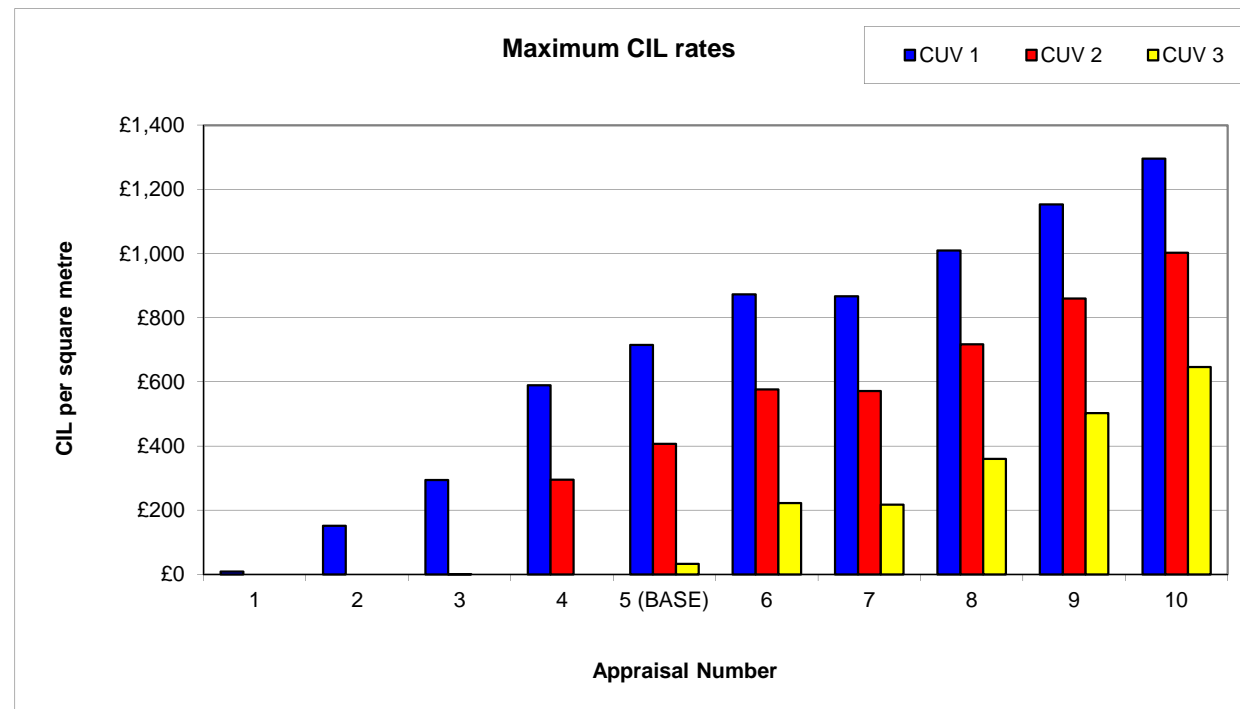
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Current use value 1	£7.00	7.00%	2.00 years	20.00%
Current use value 2	£15.00	8.00%	2.00 years	20.00%
Current use value 3	£20.00	7.00%	2.00 years	20.00%

Results - Maximum CIL rates per square metre

	Change in rent from base	CUV 1	CUV 2	CUV 3
Appraisal 1	-33%	£9	£0	£0
Appraisal 2	-25%	£152	£0	£0
Appraisal 3	-18%	£294	£1	£0
Appraisal 4	0%	£590	£296	£0
Appraisal 5 (base)	-	£715	£408	£33
Appraisal 6	0%	£873	£577	£223
Appraisal 7	5%	£867	£572	£218
Appraisal 8	9%	£1,010	£717	£361
Appraisal 9	13%	£1,154	£860	£503
Appraisal 10	17%	£1,297	£1,003	£646



CURRENT USE VALUE
Commercial Development

Use class: Convenience supermarket/superstore and retail warehouse

	Common assumptions	CUV 1		CUV 2		CUV 3	
Current use value							
Existing space as percentage of new	35%	3,767					
Rent per sq ft		£7 psf		£15 psf		£20 psf	
Rental income per annum		£26,372		£56,511		£75,348	
Rent free/voids (years)		2.0	0.8734	2.0	0.8573	2.0	0.8734
Total revenue, capitalised (including all costs)		7.00%		8.00%		7.00%	
Refurbishment costs	£50 psf	£188,370		£188,370		£188,370	
Fees	7%	£13,186		£13,186		£13,186	
Capitalised rent, net of refurb and fees		£127,503		£404,058		£738,614	
Purchaser's costs	5.75%						
Current use value		£127,503		£404,058		£738,614	
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