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

14 April 2014

This representation is further to our earlier representation made when the Council consulted at the Preliminary Draft Charging Schedule stage.

On this occasion we have reviewed the following documents

1. Worthing Borough Council – Community Infrastructure Levy – Draft Charging Schedule, March 2014.
2. Worthing CIL – Preliminary Draft Charging Schedule – Summary of Consultation Responses Jan 30th – March 13th.
3. Worthing Borough Council – Community Infrastructure Levy – Viability Assessment 2013 (National CIL Service).
4. Land Value Appraisal Study, heb chartered surveyors – November 2013.

We are aware that the consultancy team retained by the Council have made a number of amendments within their latest attempt, however we do consider that weaknesses remain in this assessment and that further revisions need to be made.

We set out below key issues which we consider need to be addressed. We also re-provide our earlier CIL rep to ensure that all the points we have made are included.

Item (reference)	Comment
1. heb Chartered Surveyors Land Value Appraisal Study (November 2013)	
Page 8 – Food Retail	The final sentence in the initial paragraph states 'Accordingly the Worthing Charging rate is one which reflects all retail categories (without unduly threating development)'. We consider that this statement cannot be made without testing the impact on all typologies that may come forwards in future development. We have regularly seen that differentiation takes place between 'high street' retail and that which is a larger format and out of town. We would contest that the viability of high street retailing is adversely affected by a CIL rate of £150per square metre.
Appendix 2 – Retail Evidence	The tables provide useful comparable evidence, however it incorporates information from a wide area and indeed quite historic data (i.e. dating back to 2008 – 6 years ago). There is a broad range of rental values mentioned - £153 - £288 psm and it is not clear what rate of rental value has been adopted and which investment yield has been applied? This makes the assessment opaque.
Appendix 2 – Land Value	In the box at the bottom of the table there is commentary on land values paid by developers and supermarket operators. Two specific figures are mentioned, namely £1.5m and £1.0m per acre. However examination of the Commercial Viability Appraisal indicates that a value of only £809,717 is being used. It is unclear why this discounted figure is being used, given the

Item (reference)	Comment
	evidence presented and comments made.
2. gleeds, Construction Cost Study (May, 2012)	
	We have repeated many of the comments we made previously as we consider that these still remain unresolved.
Assumptions/ Clarifications (page 3)	We would make the following observations: • No allowance for demolitions – some allowance should be included in the brownfield scenarios. Worthing is substantially urban and developments are likely to occur on brownfield sites. • Site abnormal costs have been excluded – again, some allowance should be included for abnormals; particularly in respect of the brownfield sites. • Highways works outside the boundary of the site have been excluded – this is unrealistic for most supermarket development and an allowance should be included in the retail scenarios (see S106/278 below).
Development Type Costs (page 5)	The gleeds report sets out a range of construction cost figures – min (£371 psm), max (£685 psm) and median (£610 psm). This is stated to be based upon gleeds research and the BCIS. However, these costs appear to be extraordinarily low. For example, £1,344 psm is the average (mean) figures available on BCIS adjusted for Worthing for supermarkets between 1,000 and 7,000 sqm (GFA – Ground Floor Area) (as at April 2014). We understand that the cost assumed ignores 'fitting out' costs we explain below that this is an inconsistent approach and that the fitting out cost needs to be incorporated.
3. NCS, CIL Viability Assessment, October 2013	
Page 5 – Key Findings – Para 1.16	We have not seen the appraisals upon which the figures being quoted are based. It is therefore impossible for us to comment on whether these ranges are appropriate. We note the comment in terms of landowners 'expect significant premiums in order to release sites' and this needs to be considered given that the consultants appear to have reduced the site value below their own presented information.
Page 27 - Commercial – Para 4.14	We have not been provided with the financial appraisals which evidence the information and conclusions being presented here. It is therefore difficult to comment appropriately on the conclusions.
Page 38 – Site Specific Appraisals Para 8.14	We have only one financial appraisal to review. We would specifically comment on this below • Professional fees – a figure of 8% has been adopted and we would

Item (reference)	Comment
	expect this to be within a range of 10-12.5% of costs – reflecting the complexity and scale of schemes • Purchaser's costs – it is normal with commercial appraisals to deduct purchaser's costs (as such properties are normally acquired by investors) and as such it is the 'net' price which is paid to the developer. • Planning Obligations – we consider that the allowance made is too s small for a large scheme which will have 'local' costs and requirements. This figure in our clients experience can be up to £0.5m. •
Table 1 – DCS Representation Comments	

We consider that the foregoing points must be considered in terms of the CIL analysis and setting. We have already mentioned that we have repeated our earlier representation below and we would draw your attention to comments made within that earlier representation too.

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

4 March 2013

This representation has been prepared in response to the consultation launched by Worthing Borough Council in respect of their: Community Infrastructure Levy Viability Assessment (December 2012); Land Value Appraisal Study (August 2012); Construction Cost Study (May, 2012); and Preliminary Draft Charging Schedule (January 2013). We are instructed by W.M. Morrison 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 Atam Verdi, BSc (Hons) MRICS, Registered Valuer. Atam is a founder Director of AspinallVerdi and has 20 years post qualification experience in the planning and development consultancy sector. He has been based in London and Leeds 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. HEB, Chartered Surveyors Land Value Appraisal Study (August 2012);
2. Gleeds, Construction Cost Study (May, 2012)
3. NCS, Community Infrastructure Levy Viability Assessment (December 2012);
4. Worthing Borough Council, Preliminary Draft Charging Schedule (January 2013);

General Comments

Prior to making specific comments in response to the consultation questions that have been raised we draw attention to the following points.

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'[1]). Typical 'site specific' S106/S278 costs that will be outwith the Regulation 123 List should be factored into the CIL Viability Modelling.

At this stage this representation is based on the information provided. The Council will consult again and as such that we will have the opportunity to review further work and changes proposed.

[1] See Paragraph 84-92, pp 21-23, DCLG Community Infrastructure Levy Guidance, December 2012

Specific Comments

The following specific comments have been made referring to the separate reports reviewed and the respective paragraph numbers.

Item (reference)	**Comment**
4. heb Chartered Surveyors Land Value Appraisal Study (August 2012)	
The Evidence Base (page 6)	We concur with the approach of using ‘real world’ market comparable transactions wherever possible to support the evidence base. This is much more satisfactory than an academic ‘existing use value + premium’ approach (see below).
Procedure & Methodology (page 24)	ditto
Valuation Uncertainty (page 27)	We note the concerns in respect of market uncertainty, which makes comparable analysis very difficult – particularly for land transactions and on a Borough wide basis. Notwithstanding this uncertainty, this is still preferable to the existing use value + premium approach to land value.
Food Retail market commentary (pp 32-33)	We understand that the NCS appraisals have been based on 3,000 sqm units at a rent of £150 sqm rent @ 6% yield. No explanation has been given as to why this specific size (3,000 sqm) has been selected. The size selected is relatively small and we would consider that most foodstore operators would have formats which are larger, and thus would involve greater land take and indeed additional costs of development. A typology in the order of 5,000 to 6,000 sqm would be more appropriate. The heb report is silent on the land value for retail uses. It is therefore not clear what ‘threshold’ land value has been incorporated into the NCS CIL models. We would like this information to be provided such that the formulation of the CIL is clear and transparent.
5. gleeds, Construction Cost Study (May, 2012)	
Assumptions/ Clarifications (page 3)	We would make the following observations: • No allowance for demolitions – some allowance should be included in the brownfield scenarios. Worthing is substantially urban and developments are likely to occur on brownfield sites. • Site abnormal costs have been excluded – again, some allowance should be included for abnormals; particularly in respect of the brownfield sites. • Highways works outside the boundary of the site have been excluded – this is unrealistic for most supermarket development and an allowance should be included in the retail scenarios (see S106/278 below).

Item (reference)	**Comment**
Development Type Costs (page 5)	The gleeds report sets out a range of construction cost figures – min (£371 psm), max (£685 psm) and median (£610 psm). This is stated to be based upon gleeds research and the BCIS. However, these costs appear to be extraordinarily low. For example, £1,110 psm is the average (mean) figures available on BCIS adjusted for the South East (excluding Greater London) for supermarkets between 1,000 and 7,000 sqm (GFA – Ground Floor Area) (as at February 2013). It is unfortunate that even though Chartered Quantity Surveyors have been employed, the basis of construction costs is not clear. For example such low costs may be explained due to exclusion of external works and other similar items which form the overall costs of a scheme. With larger developments (i.e. foodstores) such costs can be very significant.
6. NCS, CIL Viability Assessment, December 2012	
Methodology – Exec Summary (para 1.3 – 1.4)	We agree in principle with the methodology adopted. We concur that the residual valuation approach in this high level context should act as a guide to the potential to impose a levy. However, residual appraisals are only appropriate so long as the underlying assumptions are robust enough to validate the results of the appraisals. It is important to note that: • *The development appraisals have not been provided. The work presented lacks transparency.* • *It is not transparent which construction costs from the range provided by gleeds have been used in the appraisal (notwithstanding the fact that we consider all the gleeds costs to be low).* • *The heb values report does not make any recommendation as to retail land values and therefore it is not transparent as to the threshold land values adopted in the NCS appraisals.* • *The heb values report does make reference to store size, rent and yield, but it is not clear whether these figures have been carried through to the NCS appraisals.* Without such information a critical appraisal of the applicability of the underlying assumptions, and thus the basis of the CIL charge is not possible. The evidence base and appraisals should be published.
Viability Assessment Model (para 3.10 - 3.12 and Table)	We concur with the general approach set out in the table, subject to the underlying appraisal assumptions being correct.
Market Value Benchmarking (Para 3.20 and 3.21)	We concur that market value benchmarking is the preferred approach to the land valuation. The evidence base for such must however be robust (see comments above) and the assumed values must be made explicit. The report lacks any information on the actual assumptions adopted or the

Item (reference)	Comment
	evidence base for arriving at such values. This approach is recommended by the RICS in Financial viability in planning, 1st edition guidance note GN 94/2012, (August 2012). This is a much more 'market facing' and less theoretical in its approach. The RICS guidance emphasises throughout the importance of using market evidence as the best indicator of the behaviour of willing buyers and willing sellers in the market, as envisaged by the NPPF. The Guidance warns that where planning obligation liabilities reduce the site value to the landowner and return to the developer below an appropriate level, land will not be released and / or development will not take place. We would support the assertion in the NCS report that 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 many cases landowners have not fully discounted the value of their land following the credit crunch and the land market price correction is still taking place. This is particularly relevant for sites that have the potential for the delivery of retail schemes, where the market remains buoyant. 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.
Development Scenarios (para 4.14)	As commented above, no explanation has been given as to why this specific size (3,000 sqm) has been selected. The size selected is small and we would consider that most foodstore operators would have formats which are significantly larger, and thus would involve greater land take and indeed additional costs of development. A typology in the order of 5,000 to 6,000 sqm would be more appropriate.
Abnormal Costs (para 4.17)	Most supermarket developments will inevitability encounter some abnormal costs. This is even more likely in the context of brownfield sites. An explicit allowance should be made in the appraisal to reflect abnormal costs and/or a significant 'contingency' as would be reflected in the development industry. Such costs could include demolition, remediation, utilities, etc. For a development on a site of say 1.5 to 2 Ha such costs would be very significant.
Planning Obligations (para 4.18)	Site specific planning obligations should be included in the appraisal model in order to avoid 'double dipping' (see above). For a large foodstore such costs could be in the order of £0.5m for S106 and £0.5m for S278 agreements.
Developers Profit (4.19)	A 17.5% return is too low. 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

Item (reference)	Comment
	developments, bank finance is scarce and requires developers to contribute large amounts of equity; • Planning costs and risks.
Appraisal Results (Tables page 30)	**No actual development appraisals have been made available therefore we have not been able to review the models to comment on the proposed maximum CIL Rates.** Notwithstanding this, we find the results extraordinarily high based upon our nationwide CIL experience. Furthermore, the maximum CIL rates presented are not based on clearly evidenced information as required by the CIL guidance: *"Charging authorities need to demonstrate that their proposed CIL rate or rates are informed by 'appropriate available' evidence and consistent with that evidence across their area as a whole."* (DCLG, December 2012)
Recommended CIL Rates (para 8.18 and table)	The CIL rate for retail of £150 psm is noted and requires review in light of the comments made within this representation. The rates presented as maximum CIL rates appear extraordinarily high and these are not evidenced in any of the reports through the provision of any information that used to arrive at the underlying assumptions. Despite the major discounting of the proposed maximum CIL rates we would assert that these rates are extremely optimistic and that the report and its associated costs and values are not evidenced.
Table 1 – Representation Comments	

Summary and Conclusions

We are pleased to have been given this opportunity to comment on the Worthing Borough Council CIL preliminary proposals and would like to register our interest in receiving details of the Draft Charging Schedule for consultation.

The work undertaken to date has been substantial, however in our view makes several optimistic assumptions, lacks clear rationale for the assumptions used and is missing the development appraisals to allow analysis. The fact that separate reports are presented suggests a piecemeal approach that lacks a consistent rationale. This is unsatisfactory and must be addressed. A great deal of further work and revisions are needed in order to reflect the observations above and particularly:

1. The full development appraisals need to be provided;
2. All assumptions relating costs values need to be made explicit and be clearly evidenced. We would expect sourced market evidence and rationale for the appraisal inputs, such as rents, values, land values, and construction costs. We would recommend that these be included so that a key aspect of the CIL calculation is clearly evidenced.
3. The level of developers' profit should be increased.
4. We would recommend a revised approach to the generic one size scheme, which does not accurately reflect actual store sizes (and thus the associated costs/values). The analysis should

be decided by the market/stores recently developed/coming forwards. Further when consider larger scale development the following factors/costs need to be taken into account as the scale of the site needed results in additional costs

- Land assembly costs;
- The additional costs associated with brownfield development (e.g. remediation and site preparation costs);
- With larger schemes development related 'local' S278 and S106 costs are taken in to account.

Contact details

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