



Report

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Dartford Borough Council

CIL Economic Viability Study: Addendum on Retail

30th November 2012

DARTFORD
BOROUGH COUNCIL

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For and on behalf of GVA Grimley Ltd

Foreword

This Addendum is to be read in conjunction with GVA's 'CIL Economic Viability Assessment' Report of March 2012 (the Report) available on the Dartford Borough Council website.

1. Introduction

- 1.1 GVA has been instructed by the Council to carry out further work in respect of six retail scenarios to demonstrate the ability of different size retail stores and formats to potentially contribute to a CIL Charge.
- 1.2 As noted in the Report, it is open to the Council to show through its Core Strategy and other work what form of retail is anticipated to be delivered during the currency of the CIL Tariff, and to propose a CIL rate that can be afforded by those proposals even if it cannot be by other forms of the same development.
- 1.3 GVA has consulted with its retail agency department, carried out an analysis of VOA 2010 Rating List, and carried out sensitivity testing on the original appraisals undertaken for the main Report.

2. Forecast form and scale of Retail Development

- 2.1 The Core Strategy envisages retail development coming forward at the identified shopping centres in Dartford Town Centre, Bluewater and at Eastern Quarry and Ebbsfleet. Additionally, there are areas of mixed use development identified on the Thames Waterfront which may include local shops or ancillary retail as part of housing, employment or leisure-based development. A number of schemes, for example Eastern Quarry already have been granted consent and are subject to existing S106 Agreements.

3. Testing done for March 2012 Report

- 3.1 We detail below the results for the three retail scenarios appraised for the original viability assessment.

Table 1 – Original Retail Typologies & Outcome of Viability Testing

Typology		Potential for CIL 2011	Potential for CIL 2016
Scheme 13	Small Retail – 300 sq m	Nil	Nil
Scheme 14	Town Centre Convenience/Comparison – 1,000 sq m	Nil	Nil
Scheme 15	Out of Town Retail Large Scale – 1,000 sq m	Up to £1,300	Up to £1,300

3.2 The Report includes a forecast for an increase in retail values to 2016, which is taken to be c 3.6%. However, this will be offset by a forecast increase in building costs of c 4%. We can therefore see little reason to suggest that the increases in value required for the Town Centre Convenience/Comparison Scenario is likely to arise within the next 4 years, and seemingly none in respect of the Local Retail Scenario.

4. Additional Typologies

- 4.1 In discussion with officers at the Council we have undertaken testing of six additional development schemes. The details of the schemes are summarised in the Table 2 below.
- 4.2 The appraisals we have undertaken are for a hypothetical scheme in the Study Area, and are not site specific. As such the appraisals are high level and cannot be used as an example of what an individual developer or operator would be prepared to pay for land at any given location. The appraisals do not account for sunk costs or abnormal costs, but assume a single storey development with surface level parking, other than for a Dartford Town Centre convenience store. The majority of assumptions within the appraisals are generic based on market comparables - the specifics of any scheme could have a significant impact on residual value.
- 4.3 If a supermarket operator was to construct a convenience/food store (Scenarios A & D) then it could potentially pay significantly more for the site than a developer, based on its own business model; we have seen examples where an operator has offered more than double the bids from developers. Our modelling shows the approach adopted by developers i.e. an operator could potentially pay more.
- 4.4 We would note, see evidence presented by GVA to the Examination on behalf of Greater Norwich Development Partnership, that in terms of viability for convenience stores (food) the values (rents and yields), of schemes above 2,000sqm are within a small range, and the land values (per hectare) are similar. This is because the stores above 2,000 sq m are only let/operated by a small group of companies, whereas there is a much wide range of

potential operators for the smaller sizes, and much wide range of rents and investment yields giving a far greater range of residual land values.

Table 2 – Additional Retail Typologies

Scenario	Type	GIA Sq M	Car Parking Spaces	Gross site Ha
A	Out of Town Centre Convenience/food	3,000	175 surface	1.21
B	Out of Town Comparison	3,000	130 surface	1.11
C	Out of Town Retail Warehouse	1,000	50 surface	0.40
D	Dartford Town Centre Convenience/food	3,000	2 storeys	0.61
E	Dartford Town Centre Comparison	200	None	250 sq m
F	Dartford Town Centre Comparison	3,000	None	0.40

4.5 A summary of the values adopted is set out in the Table below:

Table 3 – Values adopted

Scenario		2012	2016
A	Rent per Sq M	£188	£195 (+3.6%)
	Yield	4.75%	4.75%
	Rent Free months	6	6
B	Rent per Sq M	£215	£223 (+3.6%)
	Yield	7%	7%
	Rent Free months	18	18
C	Rent per Sq M	£215	£223 (+3.6%)
	Yield	6.5%	6.5%
	Rent Free months	24	24
D	Rent per Sq M	£215	£223 (+3.6%)
	Yield	5.25%	5.25%
	Rent Free months	6	6
E	Rent per Sq M	£161	£168 (+3.6%)
	Yield	7%	7%
	Rent Free months	18	18
F	Rent per Sq M	£108	£112 (+3.6%)
	Yield	6.25%	6.25%
	Rent Free months	18	18

4.6 We have made a number of standard assumptions as detailed below:

Table 4 – Cost assumptions

Item	2012	2016
Base Build Cost per sqm	Scenario A & D - £1,345 Scenarios B, E & F - £861 Scenario C – £807	Scenario A & D - £1,399 (+4%) Scenarios B, E & F - £895 (+4%) Scenario C - £839 (+4%)
Enabling /Exceptional Costs per sq m	£54	£56 (+4%)
Professional Fees	10%	10%
Contingency	5%	5%
Letting Costs	15%	15%
Investment Sale Costs	1.5%	1.5%
Finance	6.75%	6.75%
Profit	20% on GDV	20% on GDV

4.7 The Residual Land Value for each Scenario has been compared with a Base Land Value which is taken to be:

Table 5 – Base Land Values per ha

Area	Per Hectare
Out of Town Centre	£740,000
Dartford Town Centre	£1,200,000

4.8 The Table below summarises the maximum CIL charges per square metre for each of the scenarios.

Table 6 – Max CIL

	Type		Potential for CIL 2012	Potential for CIL 2016
A	Out of Town Centre Convenience/food	3,000	£600	£630
B	Out of Town Comparison	3,000	£220	£290
C	Out of Town Retail Warehouse	1,000	£560	£590
D	Dartford Town Centre Convenience/food	3,000	£450	£500

	Type		Potential for CIL 2012	Potential for CIL 2016
E	Dartford Town Centre Comparison	200	Nil	Nil
F	Dartford Town Centre Comparison	3,000	Nil	Nil
Scheme 13	Small Retail	300	Nil	Nil
Scheme 14	Dartford Town Centre Convenience/Comparison	1,000	Nil	Nil
Scheme 15	Out of Town Retail Large Scale	1,000	£1,300	£1,300

4.9 Tables 7 and 8 show an analysis of each Scenario illustrating the consequences of a potential CIL of £100, £125 and £150 per sq m. These are tests that we used, for example, when assessing the potential impact on values and costs of the draft London Housing Design Guide for the GLA, LDA and HCA (2010). We also note that the Examiners, for the Crossrail CIL and for other CIL Charging Schedules, have taken account of the level of the proposed CIL charges by reference to the estimated value and/or build costs, see for example Huntingdonshire DC (3.7% of value and 4.7% of costs), LB of Wandsworth (6% of value), Crossrail (1% of residential value and 0.5-8% of costs) and Bristol CC (2-5% of costs).

Table 7 – CIL as a % of GDV 2012

	Type		CIL @ £100	CIL @ £125	CIL @ £150
A	Out of Town Centre Convenience/food	3,000	2.7%	3.4%	4.1%
B	Out of Town Comparison	3,000	4.3%	5.4%	6.5%
C	Out of Town Retail Warehouse	1,000	3.4%	4.3%	5.2%
D	Dartford Town Centre Convenience/food	3,000	2.7%	3.3%	4.0%
E	Dartford Town Centre Comparison	200	5.3%	6.7%	8.0%
F	Dartford Town Centre Comparison	3,000	7.7%	9.6%	11.5%
Scheme 13	Small Retail	300	42.9%	53.6%	64.3%
Scheme 14	Dartford Town Centre Convenience/Comparison	1,000	5.1%	6.4%	7.6%
Scheme 15	Out of Town Retail Large Scale	1,000	5.1%	6.4%	7.6%

Table 8 – CIL as a % of Build Costs 2012

	Type	GIA sq m	CIL @ £100	CIL @ £125	CIL @ £150
A	Out of Town Centre Convenience/food	3,000	5.7%	7.2%	8.6%
B	Out of Town Comparison	3,000	8.6%	10.7%	12.9%
C	Out of Town Retail Warehouse	1,000	9.1%	11.4%	13.6%
D	Dartford Town Centre Convenience/food	3,000	4.9%	6.1%	7.4%
E	Dartford Town Centre Comparison	200	9.5%	11.9%	14.3%
F	Dartford Town Centre Comparison	3,000	9.5%	11.9%	14.3%
Scheme 13	Small Retail	300	33.3%	41.7%	50.0%
Scheme 14	Dartford Town Centre Convenience/Comparison	1,000	6.3%	7.8%	9.4%
Scheme 15	Out of Town Retail Large Scale	1,000	6.3%	7.8%	9.4%

4.10 The results show that four of the Schemes - two local shops and three schemes within Dartford Town Centre, cannot afford to pay a CIL, whilst the other five can notionally afford a significant payment. It also points to potentially different conclusions between the testing for 1,000 sq m and for 3,000 sq m Convenience Stores (food) in Dartford Town Centre. Although it should be noted that the assessment of Scheme 14 is underpinned by assumptions based on mid-range values, build costs and yields between ranges applicable to both town centre comparison and convenience retail. There may be a case for setting a rate for Convenience Stores (Food) that is different from that for Comparison Stores subject to considerations of State Aid.

4.11 The results for comparison shops also show a mixed picture, with the Out of Town Scheme able to afford a material payment in contrast to the Town Centre example. To the extent that CIL is intended to cover what hitherto is otherwise usually within the scope of a S106 Agreement e.g. off-site highway contributions, then it would be appropriate to consider charging a CIL for an Out of Town Comparison Scheme, but we caution that it must be affordable by reference to the GDV and Build Costs and not only the base land value. This would suggest a CIL of up to £125.

5. Conclusions

- 5.1 In theory the Council could seek to set a different CIL as between different retail formats as well as by reference to different locations. The evidence of the testing shows results both within Dartford Town Centre and Out of Town, and encompasses a Retail warehouse scheme, 4 Convenience/Food Scenarios and 6 Comparison Scenarios (2 of the Scenarios cover both Convenience and Comparison).
- 5.2 If the Council is minded to set a different rate for food retail then we would recommend that a different charge between comparison and food retail may be appropriate. However, we recommend that the rate for food retail should be no more than £150. In Dartford Town centre the results of the testing demonstrate that here is a significant difference of CIL potential between different retail types, albeit in setting the rate, the range of results between different sized schemes tested should be considered. Outside the Town Centre, potential of CIL for food retail development falls within the range of CIL potential identified for the comparison schemes that have been tested. Therefore, differentiating a charge rate between retail types may be less justified outside of Dartford Town Centre.
- 5.3 If the Council is minded to set a CIL for a separate rate for Comparison Stores then we consider that it should be Nil within the Town Centre and no more than £125 for Out of Town.