

South Lakeland District Council

Community Infrastructure Levy

Retail – additional note

1. This note has been prepared jointly by SLDC and Simon Drummond-Hay (of HDH Planning and Development Ltd) following a concern raised at the SLDC CIL Examination on 10th February 2015 by the CIL Examiner (Mrs S Housden) about the evidence to support the proposed zero rate on shops.

Background

2. In the viability testing, three types of retail development were modelled to be representative of the new retail development anticipated over the SLDC plan-period. These are supermarkets and retail warehouses and shops. For the purpose of the viability testing shops are considered to be all retail uses that are not supermarkets and retail warehouses – and more specifically, in the context of the adopted Core Strategy and adopted Land Allocations DPD are likely to be town centre shops in either Kendal or Ulverston. In this note, where referring to shops we are referring to town centre shops.
3. The Council has been asked to consider whether or not convenience shops and comparison shops should be considered separately as differential rates of CIL can only be set with regard to viability.

Viability considerations associated with Town Centre Retail development

4. The principle ‘drivers’ of viability are the value of the product developed and the costs of developing that product.
5. The costs of developing shops for both convenience and comparison uses are similar. The BCIS costs used as the basis of costs for all the viability work undertaken do not differentiate in this regard¹. This approach has been taken through the consultation process and there was a consensus that using the BCIS costs was appropriate.
6. The form of development does of course vary with a range of unit sizes coming forward. This range of unit sizes will be informed by the developer’s perceptions of market demand. In the case of shops, this will be influenced by the use to which the building will be put and be designed to appeal to the broadest possible range of retailers – rather than a specific end user. This is quite different to the supermarket and retail warehousing uses where the product developed is strongly influenced by the end use both in terms of layout and specification.

¹ BICS provides costs under the headings of retail warehouses, market buildings, shopping centres, department stores, hypermarkets & supermarkets and shops

7. We have considered whether or not convenience shops and comparison shops have different values and if this is the case does that impact on the viability to the extent that it is appropriate to set differential rates.

Use Class restrictions

8. In planning terms, under the Use Class Order, a shop may change use within a use class without the necessity of a grant of planning consent. Both the convenience use and a comparison use fall within Use Class A1 so a shop may change between a convenience use and a comparison use freely (and vice versa). Such changes of use are beyond the Council's control and beyond their influence. Largely as a result of this, there is no evidence of a differentiation in the values of shops based on their use – as that use is not regulated.
9. In preparing this note we have reviewed a range of retail units that are available to let in both Ulverston and Kendal. The principle reason for differentiation in values is due to location. It is true to say that different types of shop put a premium on different aspects of a location. A particular retailer (may be a shoe shop or card / gift shop) may value the footfall past the front door, whilst another may value a degree of car parking (such as a convenience store, interior decorator, wine merchant or bicycle shop) – although others may want to be by a busy road frontage (such as a fireplace and stove store or carpet and rug retailer). Each will select premises based on different criteria and be willing to pay more for different things.
10. CIL will only apply to new development so it is necessary to consider the Council's capacity to restrict the use of new town centre shops. In the event of the grant of a new planning consent for a town centre retail use, under the policies set out in the adopted Core Strategy and adopted Land Allocations DPD the Council does not have a mechanism to restrict the use of a new town centre shop more narrowly than the A1 Use Class. As set out above the A1 Use Class includes convenience, comparison and some service uses. By contrast, in the case of out-of-centre and edge of supermarkets and retail warehouses, the Council can and does restrict both the type of goods to be sold and, in the case of supermarkets, the proportion of floorspace to be used for convenience and comparison goods sales.

The valuation of town centre shops

11. The value of a unit (and the differentiation between uses) is derived from considering the rent that it may command and the yield is used to derive the capital value. The assumptions used in the viability analysis are set out in Table 4.2 of the January 2014 CIL Viability Study (having been collected in early 2013). These factors are based on the physical characteristics of the unit (size, position, condition, suitability for the user etc) but are also strongly influenced by the actual occupier. A well respected national operator who is financially sound (such as Sainsbury's, Oxfam or Boots) would be a more secure tenant than a new start-up business and would therefore command a lower yield (which would result in a higher value). This is not a factor that is driven by the differentiation between the comparison and convenience uses.
12. In the appraisals it was assumed that rents for shops were in the region of £120/m² and a yield were 11% or so. These are representative of the rents at the time of the study around

the periphery of the town centre – i.e. where development is most likely to come forward and therefore be subject to CIL (there are no current plans or capacity for retail development in either Kendal or Ulverston). At that time of the rents for more central units were in the region of £250/m². We have reviewed the units that are currently available (February 2015) and asking rents range from £70/m² to one unit at just over £300/m². The normal range is in the range of £130/m² to a little over £200/m² or so.

Updated Valuation

13. We have rerun the appraisals set out in table 6.1 of the CIL Viability Study UPDATE – July 2014 differentiating between convenience and comparison uses. We have done this at the value used in the study (£1,000/m²) and at a higher value of £2,500/m² so as to reflect the full range of likely rents in the current market. In order to ensure that this is in a like for like basis, all other assumptions in the appraisals remain unchanged (although clearly the market may have moved on since the time of the research).
14. The assumption's used for comparison and convenience shops are the same. It is clear from this analysis that even if substantially higher values are assumed the town centre shops remain unviable.

Updated Table 6.1

		Greenfield			Brownfield			Shops	Retail Warehouse	Shops Convenience	Shops Convenience	Shops Comparison
		Larger Supermarkets	Smaller Supermarkets	Retail Warehouse	Shops	Larger Supermarkets	Smaller Supermarkets	Retail Warehouse	Shops Convenience	Shops Convenience	Shops Comparison	
Income												
m2		4000	1700	3000		4,000	1,700	3,000	150	150	150	
£/m2		2,800	2,300	2,000		2,800	2,300	2,000	1,000	2,500	1,000	
Capital Value		11,200,000	3,910,000	6,000,000	0	11,200,000	3,910,000	6,000,000	150,000	375,000	150,000	
Costs												
Land Used	ha	2,600	0,500	1,800		2,600	0,500	1,800	0,017	0,017	0,017	
	£/ha	25,000	25,000	25,000		400,000	400,000	400,000	4,000,000	4,000,000	4,000,000	
Uplift	£/ha	250,000	250,000	250,000		0	0	0	0	0	0	
	20.00%	5,000	5,000	5,000		80,000	80,000	80,000	800,000	800,000	800,000	
Cost		728,000	140,000	504,000	0	1,248,000	240,000	864,000	81,600	81,600	81,600	
Strategic Promotion		2,500	2,500	2,500		2,500	2,500	2,500	2,500	2,500	2,500	
Planning		2,500	2,500	2,500		2,500	2,500	2,500	2,500	2,500	2,500	
Construction	/m2	1103	801	499		1103	801	499	700	700	700	
	£	4,412,000	1,361,700	1,497,000	0	4,412,000	1,361,700	1,497,000	105,000	105,000	105,000	
Infrastructure	10.00%	441,200	136,170	149,700	0	441,200	136,170	149,700	10,500	10,500	10,500	
Abnormals	15.00%	352,960	108,936	119,760	0	352,960	108,936	119,760	15,750	15,750	15,750	
Fees	8.00%	110,300	34,043	37,425	0	110,300	34,043	37,425	8,400	8,400	8,400	
Contingency	1.5% & 5%				0	220,600	68,085	74,850	5,250	5,250	5,250	
Finance Costs		5,000	5,000	5,000		5,000	5,000	5,000	5,000	5,000	5,000	
Sales	3.00%	336,000	117,300	180,000	0	336,000	117,300	180,000	4,500	11,250	4,500	
Misc Financial		5,000	5,000	5,000		5,000	5,000	5,000	5,000	5,000	5,000	
Subtotal		5,667,460	1,773,149	1,998,885	0	6,439,560	2,011,446	2,260,860	164,400	171,150	164,400	
Interest	7.00%	198,361	62,060	69,961	0	225,385	70,401	79,130	5,754	5,990	5,754	
Profit % GDV	20.00%	2,279,672	794,412	1,213,992	0	2,285,077	796,080	1,215,826	31,151	76,198	31,151	
COSTS		8,145,493	2,629,621	3,282,838	0	8,950,022	2,877,927	3,555,816	201,305	253,338	201,305	
Residual Land Worth (APPROX)		2,326,507	1,140,379	2,213,162	0	1,001,978	792,073	1,580,184	-132,905	40,062	-132,905	
Additional Profit		1,598,507	1,000,379	1,709,162	0	-246,022	552,073	716,184	-214,505	-41,538	-214,505	
£/m2		400	588	570	#DIV/0!	-62	325	239	-1,430	-277	-1,430	
Existing Use Value	£/ha	25,000	25,000	25,000	0	400,000	400,000	400,000	4,000,000	4,000,000	4,000,000	
Viability Threshold	£/ha	280,000	280,000	280,000	0	480,000	480,000	480,000	4,800,000	4,800,000	4,800,000	
Residual Value	£/ha	894,810	2,280,759	1,229,534	#DIV/0!	385,376	1,584,147	877,880	-7,817,929	2,356,571	-7,817,929	

Conclusions

15. Based on the above, we confirm that in relation to shops that the evidence does not support the differential rates for convenience and comparison shops. We also confirm that, based on the viability evidence, it is our opinion that introducing CIL on shops (whatever the use) would have a high risk of threatening development. The Council has not allocated land for retail use in its Plan and most retail development that may come forward is likely to be redevelopment so is unlikely to be subject to CIL², however, taking the same approach as with the supermarket and retail warehouse retail uses and bearing in mind the Council's wish for a diverse retail offer in the District we believe that to levy CIL on shops may impair the development of the town centres.
16. It is important that the Council continues to keep viability under review. It is clear that there has been a notable increase in rents since the viability work started, and a corresponding fall in vacant space. The retail sector is undergoing a period of transition with the growth of online shopping, the changes in the economy and a change on shopping patterns. We stress the importance of reviewing this sector as other rates of CIL are revisited in the future and new policies are brought forward through the forthcoming Local Plan - Development Management DPD.

RS Drummond-Hay MRICS
HDH Planning and Development Ltd
11th February 2015

² CIL is only due on net new development.