Rother District Council's Response to Morrison Supermarkets Plc Representation

Responses are given below in the order that they appear in the representation submitted by Aspinall Verdi Limited on 23rd March 2015 on behalf of W. M. Morrison Supermarket Plc.

1. <u>Paragraph 6.1.2 – 6.1.3</u>

1.1 Morrison's consultants, Aspinall Verdi (AV) request that a store of 5,000 sqm plus is tested as this is what is more likely to come forward in Rother.

1.2 The determining factor in selecting appropriate typologies is the development plan, which in this case is the Rother Core Strategy (Adopted September 2014). The Plan sets out convenience floorspace targets for each of the main towns:

- Bexhill (BX2) – 2000 sq.m.
- Rye (RY1) – 1,650 sq.m.
- Battle (BA1) – 1,000 sq.m

1.3 It is clear that even if a single operator was to take all the floorspace in one of these locations that in order to meet policy objectives it would not significantly exceed the typology tested. Therefore the tested typologies are considered appropriate and meet the guidance in the PPG (019; 25-019-20140612) that the sampling 'should reflect the different types of sites included in the relevant Plan'.

1.4 In terms of development proposals coming forward which may be larger than those tested there are a number of further considerations. Firstly are they likely to come forward? There is significant evidence that most of the operators of larger stores have halted their build programs, even for stores with permission. The Council have indicated they are not aware of any current applications for large superstores and therefore it is considered that it is unlikely that this form of development will progress in Rother at this time.

1.5 Secondly, even if a large superstore was proposed it would be contrary to the plan objectives in terms of floorspace requirements and therefore whether it was viable or not and whether a CIL rate put this form of development at risk of delivery it would not be of concern as it would not be affecting the delivery of the plan. Finally the CIL rate has not been set at the margins and a buffer has been included, therefore it is questionable as to whether the CIL rate would even put this type of development at risk. It is notable that AV has not included evidence to suggest that the CIL rate is not viable for this size of store.

2. Paragraph 6.1.4

2.1 **Developers profit** - AV has suggested that developer profit should be increased to reflect risk in respect of site assembly, holding costs, complexity and planning costs. They suggest that developers profit should be increased from 20% to 25%.

2.2 The use of 20% is a standard assumption for this type of strategic appraisal work and has been used in numerous appraisals in the past. It should be noted that supermarkets generally develop their own stores and therefore there is no sales risk involved. Even in circumstances where a third party is developing a store to sell to an operator, they would normally only do so if there is a pre-let agreement in place – thus risk is greatly reduced. Therefore the inclusion of profit within the appraisal is a conservative approach and at 20% is more than reasonable.

2.3 **Build costs -** AV suggests that the build costs utilised in PBA VA (CD/004) are incorrect and should be higher. There is a point of time conundrum here, in that the appraisals are undertaken using the current costs and values available at the time of the report. BCIS build costs do fluctuate on a monthly basis but it would be impractical to re-run the appraisals on a monthly basis. Instead in setting the CIL we have allowed for a significant buffer to accommodate such fluctuations.

2.4 In this case the BCIS median costs were used to inform the July report. Experience elsewhere suggests that whilst costs may have gone up, so might values – if the latest build costs as suggested by AV are used then so must the latest values and other costs, all of which may go up or down. Therefore it is not reasonable to change one assumption and not the other. It is also unreasonable to expect the local authority to continually update its evidence, especially when it is only around 1 year old. If higher costs are incurred, then firstly a contingency allowance of 5% has already been incorporated into the appraisal and there is also a 'buffer' built into the CIL setting process that can support any higher than expected costs.

2.5 AV questions how the buffer has been calculated. In general terms we recommend in our discussions with a council that a minimum of 15% of the headroom (i.e. the difference between benchmark land values and residual) should be considered in setting any CIL rate. However the setting of the buffer should reflect the importance of delivery to the plan and risk. In the case of convenience development, the rates in centre have a higher buffer of around 35% and out of centre around 25% reflecting the council position on not wanting to put town centre development at risk because they are important for delivering their strategy.

2.6 **Professional fees** – AV suggest the professional fees are not high enough at 10% and that 14% would be more appropriate.

2.7 It is common to see a range of professional fees from around 6% to 12%, so the suggested figure of 14% would seem excessive without substantial evidence of detailed costs. A conservative figure of 10% has been used which is considered a reasonable assumptions to make for a strategic viability assessment

3. <u>Appendix A – Appraisal 4: Out of centre Retail – Large Convenience</u>

3.1 All the cost assumptions are set out in the PBA VA (CD/004) and clarified where necessary in the January 2015 PBA Addendum (CD/003).

3.2 **Rent free period is too low**: Given that stores coming forward in the current market are normally built bespoke and often by the operator, it is unlikely that significant rent free periods are required.

3.3 Also PBA has be cautious by even including a rent free period as the yield assumed is an all risk yield (ARY). The ARY is the remunerative rate of interest used in the valuation of freehold/heritable and leasehold interests, reflecting all the prospects and risks attached to the particular investment. It basically means the yield reflects all risks such as letting voids, tenant incentives, covenant strength, lease terms etc at the given yield applied. Therefore no further allowances are made for rent frees as it is reflected in the yield used.

3.4 **Planning fees**: these are included within the add-on professional fees (as defined in Appendix B4 in Harman).

3.5 **Other costs, externals and marketing** – AV suggest that the appraisals make no allowance for survey fees or site preparation costs, that there is insufficient allowance for externals and no allowance for marketing.

3.6 AV does not present any examples as to why the suggested costs are considered too low. It should be noted that the BCIS costs used will include a number of brownfield sites and therefore some of the higher development costs associated with these types of sites will have been incorporated into these costs. Also if there are significant abnormal beyond the normal build cost, such as decontamination, these should come of the value of the land, rather than the value of the development. The externals allowance set out is considered reasonable for this type of development and marketing fees are considered unnecessary as developers will have occupiers identified prior to any significant investment.

3.7 **Finance and timescales** - AV has requested clarification on the applied finance rate and also to the period of time over which the cash flow is applied. The finance cost used in the convenience retail appraisals is 7%, the 7.5% referred in the text is a typographical error. In terms of build periods, in respect of cash flow they are as follows:

- Town Centre Retail - Convenience 9 months
- Out of Centre Retail - Large Convenience 12 months
- Out of Centre Retail - Local Convenience 9 months

3.8 **Residual land value** – AV have indicated that the results in the appraisal have been incorrectly calculated as the appraisal has used the wrong value in respect of the residual land value.

3.9 Following a review of the appraisal summary published in the January 2015 PBA Addendum (CIL/CD/003), it is apparent that the appraisal sheets contained within the Appendix of the Addendum are not correct. To assist the Examination the correct appraisals are reproduced as an Appendix to this response. Please note that the results are unchanged and the CIL rates do not need to be reviewed.