

20300/A5/MH

28<sup>th</sup> APRIL 2015

**GOSPORT COMMUNITY INFRASTRUCTURE LEVY EXAMINATION  
UPDATED COMMERCIAL DEVELOPMENT APPRAISAL FOR A SUPERMARKET  
RESPONSE ON BEHALF OF MILLNGATE IN RELATION TO GBC STATEMENT LA15**

**Introduction**

1. This Statement has been prepared on behalf of Millngate to respond to Gosport Borough Council's (GBC) Statement dated 15<sup>th</sup> April 2015 (Ref: LA15) in relation to the Updated Commercial Development Appraisal for a Supermarket.
2. We have reviewed the GBC and Adams Integra (AI) submission and have the following comments to make in response. Where these comments have already been made in evidence we provide the appropriate cross-reference. Where new evidence has been introduced by GBC / AI (e.g. Aldi Waterfront rental levels), we have provided our own new evidence as necessary.
3. Our response relates to the following items raised in LA15:
  - (i) Store Size;
  - (ii) Rental Level; and
  - (iii) Yield Level.
4. We then provide a conclusion and recommendation to the Inspector.

**Response**

***Store Size***

5. It has been demonstrated in our submission to the Examination (see the letter at Appendix 4 of CIL-REP11/E/1) that market demand in the Gosport / GBC area is confined only to discount food operators (i.e. Aldi and Lidl). The store requirement of both operators should therefore form the basis of a 'notional supermarket' appraisal in the GBC area. This conclusion was not challenged by GBC / AI at the Examination.
6. The typical store size requirement of both operators is: Aldi 1,700 sq.m GIA; and Lidl 1,765 sq.m. This is demonstrated for Aldi in their published store requirement list provided as **Appendix 1**. This is slightly larger than the Aldi scheme at the Waterfront site which is 1,550 sq.m GIA.

7. In order to provide an appropriate and sound basis for the Development Appraisal, the scheme size assumption should be based on the actual market requirement to accurately present the level of rental income that a scheme can generate. In our view, 1,700 sq.m GIA is a reasonable assumption for a notional scheme in the GBC area, based on the national requirement and local scheme evidence.
8. This conclusion was originally formed in our October 2014 representation (see paragraph 11 bullet point one) and presented in the 16<sup>th</sup> March 2015 Development Appraisal prepared by Millngate and submitted to the Examination.
9. We continue to recommend to the Inspector that this assumption is adopted in any Development Appraisal to reach a sound conclusion on the ability of a scheme to fund CIL.

### ***Rental Level***

10. GBC / AI seek to present their adopted rental figure of £162 per sq.m (£15 per sq.ft) as being robust and "*very current and appropriate evidence*". We continue to question this assumption and latest conclusion.
11. We now understand from the LA15 submission that this rental level was agreed for the Aldi Waterfront scheme. This rental level would have been agreed in late 2013 / early 2014 when the scheme was devised and the Aldi letting was first announced (see for example the local press article dated February 2014 presented at **Appendix 2**). The scheme was granted planning permission in March 2014.
12. Since this period, there has been a much publicised structural shift in the national supermarket retail market which has affected rental levels and operator demand. This was referred to in our Statement (see the letter at Appendix 4 of CIL-REP11/E/1). The change in market conditions is also referred to in the Savills email to AI (see the LA 15 Appendix) which refers to the market having weakened since the original Aldi letting. Such a weakening would be manifested by a reduction in rental levels as presented in our evidence.
13. The rental level assumption used by AI also continues to fail to provide any allowance for concessions to attract tenants such as rent-free periods and discounted rents. Such concessions are commonly used in the current market conditions. There would also be justification for a reduced rental level in the GBC area as both discount operators would be using such a scheme as their second store in the GBC area. This will encourage the retailer's occupation.
14. On this basis, we continue to recommend to the Inspector that a rental level of £151 per sq.m (£14 per sq.ft) is a more robust and appropriate basis upon which to test the ability of a scheme to fund CIL. This is more up-to-date and reflective of market conditions than the evidence presented to date by AI. Versions 1 and 3 of the AI Appraisals presented in LA15 should therefore be disregarded by the Inspector as they are not sound.
15. The effect of this rental level is as presented the 16<sup>th</sup> March 2015 Development Appraisal prepared by Millngate and submitted to the Examination. We also note that Version 2 of the AI Development Appraisal as presented in LA15 demonstrates that there is no surplus

available to fund CIL when this rental level is adopted. This is consistent with our own approach and demonstrates that the CIL liability for supermarkets is not sound and should be reduced.

### ***Yield Level***

16. We note that AI state that a yield of 5.5% or 5.25% is an appropriate assumption for a scheme in the GBC area. This is a change in their position from the July 2014 CIL-6 Statement (see Appendix 4) which supported 5.75%. AI continues to provide no evidence to explain their change to 5.5% and no transactional evidence in the GBC area to justify their approach.
17. Based on Millngate's own relevant and appropriate experience of formulating a supermarket retail scheme in the GBC area, we continue to recommend 5.75% as an appropriate yield assumption. In Millngate's experience, 5.5% can only currently be achieved in towns / retail destinations that have a stronger retail / tenant attraction than Gosport. 5.75% is however a sensible assumption for well-located schemes in the GBC area which have a reasonable prospect of progressing.
18. The only recent evidence of yield for a supermarket retail scheme in the GBC area is the February 2015 advertisement of a freehold investment in the Morrisons Local store on Brockhurst Road (see **Appendix 3**). This investment was advertised at a net initial yield of 6.82%. In Millngate's experience, convenience store type investments such as this in stronger locations than Gosport are generally around the 6.5% yield level. This demonstrates the differential that needs to be applied between stronger retail locations and Gosport when making assumptions on yield.
19. The effect of our recommended yield level is as presented the 16<sup>th</sup> March 2015 Development Appraisal prepared by Millngate and submitted to the Examination. It also presented as a sensitivity test in AI's Version 1-3 Appraisals, where schemes with a rental level of either £152 or £162 per sq.m at a yield of 5.75% all have no surplus to fund CIL.

### **Conclusion**

20. Our observations on the supplemental statement prepared by GBC / AI support our original written conclusions on the rental level and yield assumptions prepared for the Supermarket appraisals which were then presented at the Examination.
21. Based on these observations, we continue to conclude that the Evidence Base used to inform the proposed Retail Warehouse & Supermarket rate cannot be relied upon. This is due to deficiencies in the valuation assumptions which we have demonstrated are not based on appropriate evidence. This is contrary to the CIL Regulations. Using more appropriate valuation assumptions as presented in our evidence to the Examination supports a significant reduction in the proposed rate.
22. As there is no surplus available to fund CIL based on our more up-to-date evidence, the CIL rate should be reduced to nil.



# Sites Required

## South East & East Anglia



## We're shopping around for even more new sites and we're open to offers

Finders Fee 1.5% (Introduction on Previously Unknown Sites)



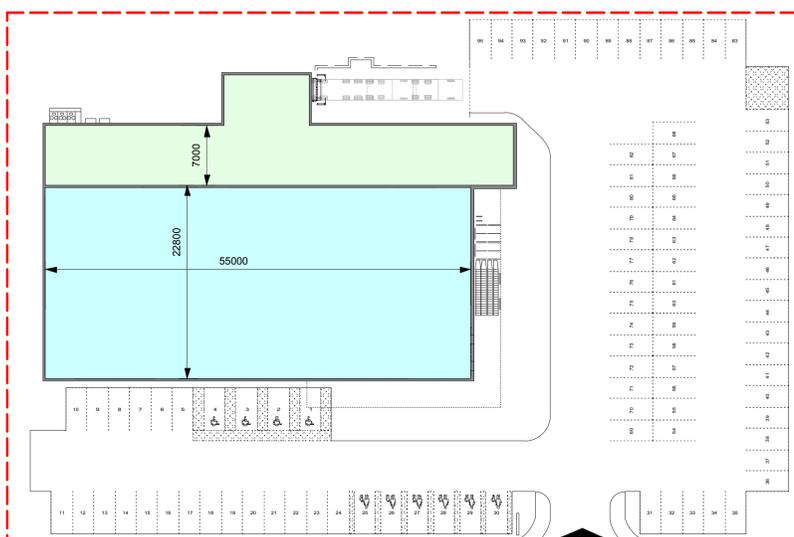
### Aldi Site Requirements

Aldi have ambitious acquisition and development plans across London, the South East and East Anglia, which means that we are looking to acquire sites that meet the following criteria for our standard store format.

- Minimum 1.25 acre, ideally 1.5 acre, site to accommodate a 18,300 sq ft gross unit and 120 dedicated parking spaces
- Prominent main road frontage with good visibility
- Freehold or leasehold
- Town centre or edge of centre
- Retail Parks
- Conversion/refurbishment of existing units

We would consider either freehold or leasehold opportunities in town centres or edge of centre sites and we are willing to explore all opportunities including developer led schemes and existing or new retail units.

If a standard store cannot be accommodated within a London location then we will consider a development opportunity of circa 0.7 acres to facilitate a smaller store format (c. 10,000 sq ft gross) with 40 dedicated parking spaces.



Aldi Standard 1,254 sq/m Sales Store with 100+ Car Spaces



Aldi Standard Store Format



**BEDFORDSHIRE**

- 1 Ampthill
- 2 Bedford (North)
- 3 Flitwick
- 4 Kempston

**CAMBRIDGESHIRE**

- 5 Cambridgeshire (Centre, South & East)
- 6 Huntingdon
- 7 Market Deeping
- 8 Peterborough (North)
- 9 St Ives

**ESSEX**

- 10 Basildon (Centre)
- 11 Billericay
- 12 Brentwood
- 13 Hadleigh
- 14 Canvey Island
- 15 Epping
- 16 Great Dunmow
- 17 Maldon
- 18 Rayleigh
- 19 Shenfield
- 20 Southend on Sea (Centre)

**HERTFORDSHIRE**

- 21 Cheshunt
- 22 Harpenden
- 23 Hertford
- 24 Stevenage
- 25 Hitchin
- 26 Letchworth/Baldock
- 27 Potters Bar
- 28 Royston
- 29 Waltham Abbey / Cross
- 30 St Albans

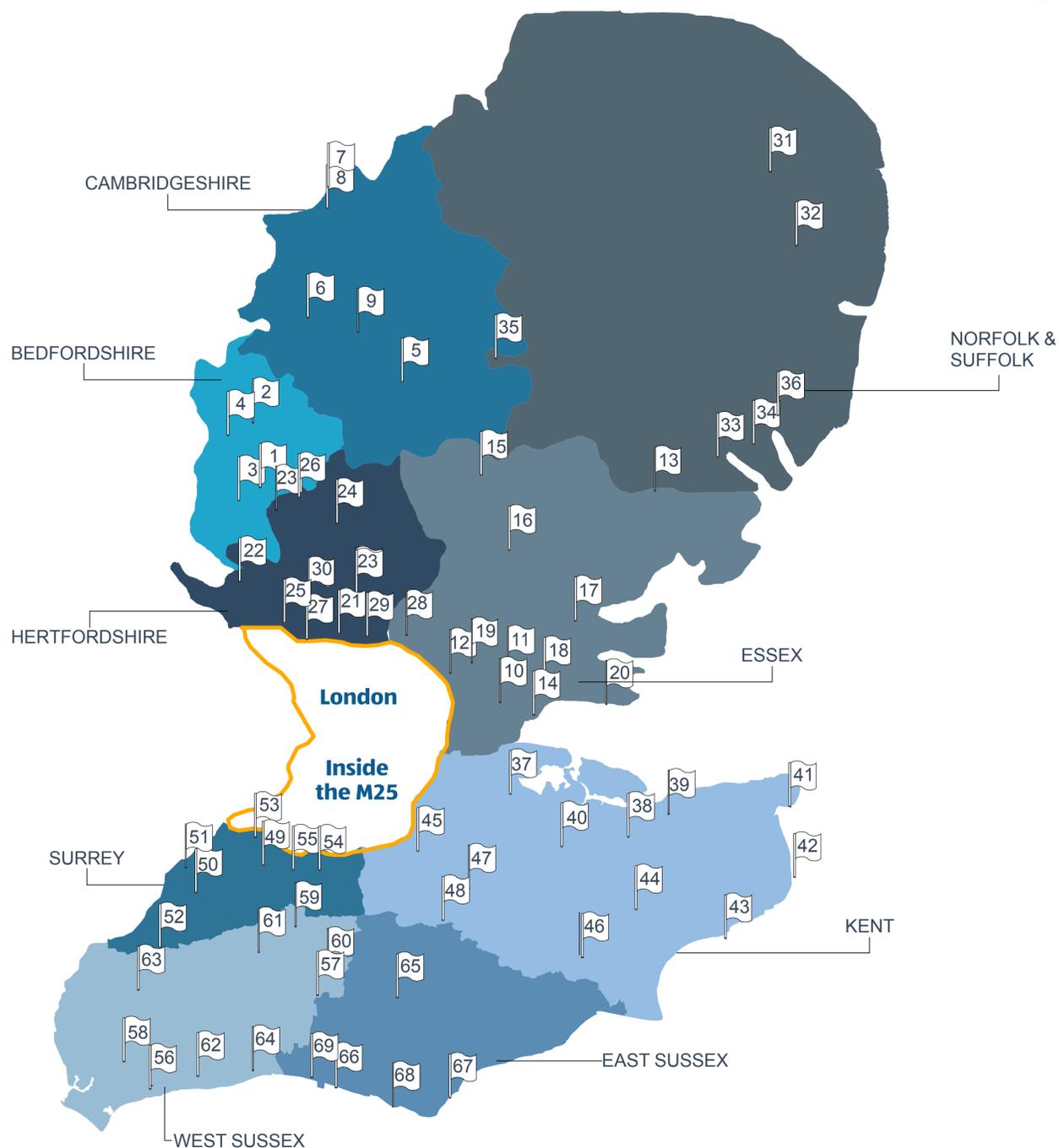
**NORFOLK / SUFFOLK**

- 31 Norwich Centre (North)
- 32 Beccles
- 33 Ipswich Centre
- 34 Marlesham Heath
- 35 Newmarket
- 36 Stowmarket

**KENT**

- 37 Chatham
- 38 Faversham
- 39 Whitstable
- 40 Maidstone
- 41 Broadstairs
- 42 Deal
- 43 Folkestone
- 44 Ashford
- 45 Sevenoaks
- 46 Tenterden
- 47 Tonbridge
- 48 Tunbridge Wells

The target town lists are not exhaustive and other opportunities will be considered.



**SURREY**

- 49 Dorking
- 50 Godalming
- 51 Guildford
- 52 Haslemere
- 53 Leatherhead
- 54 Redhill
- 55 Reigate

**WEST SUSSEX**

- 56 Bognor Regis
- 57 Burgess Hill
- 58 Chichester
- 59 Crawley
- 60 Haywards Heath
- 61 Horsham
- 62 Littlehampton
- 63 Midhurst
- 64 Worthing

**EAST SUSSEX**

- 65 Uckfield
- 66 Brighton
- 67 Eastbourne
- 68 Hove
- 69 Seaford

For all sites inside the M25 please contact James Lowe or Lisa Poyser on 01245 215 074 / 075

**Getting In Contact**

Please feel free to contact the Aldi Property Directors directly or one of our retained agents as specified below.

**RETAINED AGENTS**

**ALDI PROPERTY DIRECTOR**

**EAST ANGLIA AND NORTH OF THAMES**

Neil Perrin - MP Real Estate  
 01223 755 110 / 07539 582 582  
 nperrin@mprealestate.co.uk  
 Adam Ward  
 01245 215 007  
 property.che@aldi.co.uk



**SOUTH EAST AND SOUTH OF THAMES**

Jim Grant  
 01892 707 567 / 07770 587253  
 jgrant@cradick.co.uk  
 Roland Stanley  
 01245 215 009  
 property.che@aldi.co.uk





# Mixed reaction to supermarket plan at Gosport's waterfront



## Ben Fishwick

[ben.fishwick@thenews.co.uk](mailto:ben.fishwick@thenews.co.uk)

16:00 Monday 24 February 2014

18

### HAVE YOUR SAY

**PEOPLE living and working near the site of a proposed £15m development at Gosport's waterfront have a mixed reaction to the plans.**

As reported on Friday, developers want to build an Aldi shop at Mumby Road, along with a commercial unit and 48 homes.

But people in the area have concerns about traffic and councillors are disappointed the plans were cut back.

Councillor Diane Searle represents Town ward at Gosport Borough Council.

She said she is disappointed the number of jobs were reduced from 180 to 40.

She said: 'I don't mind an Aldi but I think we should have more employment.

'Why don't they put it on the old MoD land opposite the Premier Inn?

'I don't mind a supermarket but not a prime waterfront site taken for that.'

Cllr Searle added she wants to see a cinema and hotel included as part of the waterfront regeneration.

As reported, a 75-bed hotel and 150 homes were originally planned for the site.

That outline plan was approved in May last year.

But the detailed plan was scaled back and the 48 homes need a further application.

Teresa Kirby is the landlady of the Clarence Tavern, a short walk away from the site, which is encircled by Harbour Road and Mumby Road.

She is concerned about increased traffic in the area with the new supermarket.

She said: 'It's just the traffic, they need to do something. It's a nightmare.

'More people are going to be down here – but then more people in this end of town are going to come into the pub.'

A survey submitted with the plans says every day 5,800 vehicles drive past what will be the main site entrance.

It adds the plans will not have a detrimental effect on the roads or on road safety.

Other residents have contacted *The News* saying the town does not need another supermarket.

Councillor June Cully also represents Town ward.

She had initial concerns about access to the site near Minnitt Road.

She said: 'A hotel would have been a good idea in that area. We have a lot of people who might want to visit.

'I do appreciate their business reasons. It's a knock-back in the employment side which we're desperate for in Gosport. It all depends on what they put alongside it and what we can deliver elsewhere in the town area.'





# 73-75 Brockhurst Road, Gosport, Hampshire PO12 3AR

## Investment Considerations

- Freehold supermarket investment
- Prominent corner location
- Let on a new 15 year lease to WM Morrison Supermarkets Plc (tenant break option at year 10)
- RPI linked rental uplifts at years five and ten
- Ideal lot size for a private investor/SIPP
- Total income of £63,500 per annum
- Offers in excess of £880,000, subject to contract which reflects a net initial yield of 6.82%



## Location

Gosport is an attractive Hampshire town located on a south coast peninsula bounded by Portsmouth Harbour to the east and the Solent to the west. The town lies approximately 6 km (4 miles) to the west of Portsmouth, 16km (11 miles) to the east of Southampton and 135km (84) miles south west of London. Neighbouring towns also include the cathedral cities of Winchester and Chichester within a short drive.

The A32 (Fareham Road) is the principal arterial route to Gosport and provides good access to the M27 at junctions 10 and 11, which links to the M3 at Southampton and the A3 at Havant. Rail services to London Waterloo are via Portsmouth with a fastest journey time of 1 hour 40 minutes. Portsmouth railway station and city centre can be accessed via the harbour ferry, with a journey time of approximately 5 minutes.

## Situation

The property is prominently situated on Brockhurst Road at the southern end of a parade of retail units. Brockhurst Road forms part of the A32 which is the main vehicular route through Gosport and therefore benefits from a high level of commuter travel.



## Description

The property comprises a newly refurbished large ground floor retail unit along with ancillary space on the first floor. The property benefits from a dual frontage capitalising on its prominent corner position. Customer access is directly off Brockhurst Road at the front of the unit with nine car parking spaces available to the rear. The first floor is accessed via stairs and a goods lift from the front of the property, the ancillary space includes a large fridge, large freezer, bakery and staff room.

## Accommodation

Floor	Use	NIA (sq ft)	NIA (sq m)
Ground Floor	Sales	3,129	290.69
First Floor	Ancillary	1,700	157.94
<b>Total</b>		<b>4,829</b>	<b>448.63</b>

The property benefits from a site area of approximately 0.14 acre (0.0566 ha).

## Tenure

The property is held freehold.

## Tenancy

The entire property is let to WM Morrison Convenience Stores Ltd on a FRI lease for a term of 15 years from 1st December 2014 to 30th November 2029 with a guarantee from WM Morrison Supermarkets Plc. The current rent passing is £63,500 per annum exclusive and the lease benefits from RPI rent reviews in years five and ten.

There is a tenant's option to break on 1st December 2024, subject to six months prior notice.



## Covenant

WM Morrison Supermarkets Plc (Company number 00358949).

WM Morrison is the UK's fourth largest food retailer by sales, with annual turnover in excess of £17bn as of 2014.

The company has around 500 stores across the UK, employing approximately 125,000 people across the portfolio, and benefits from over 12 million customers visiting the company's stores each week.

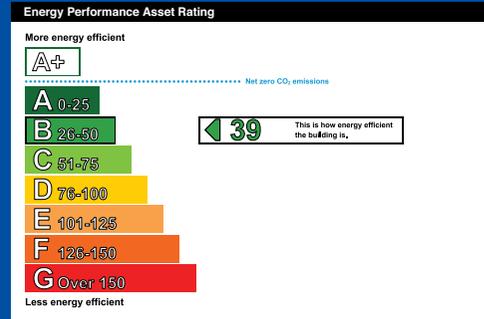
	Year End 2014 (£m)	Year End 2013 (£m)	Year End 2012 (£m)
Turnover	17,680	18,116	17,663
Pre Tax Profit (Loss)	(176)	879	947
Shareholder's Funds	4,692	5,230	5,397

## VAT

We understand that the property is elected for VAT and it is anticipated the sale will be treated as a TOGC.

## EPC

The property has an EPC rating of B as follows :



## Proposal

Offers are sought in excess of **£880,000 (Eight Hundred and Eighty Thousand Pounds)** subject to contract and exclusive of VAT. A purchase at this level would reflect a net initial yield of 6.82% assuming standard purchaser's costs of 5.8%.

## Contact

For further information, please contact:

**Mark Bruce-Lockhart**

Tel : 020 7268 9952

Mob : 07770 637163

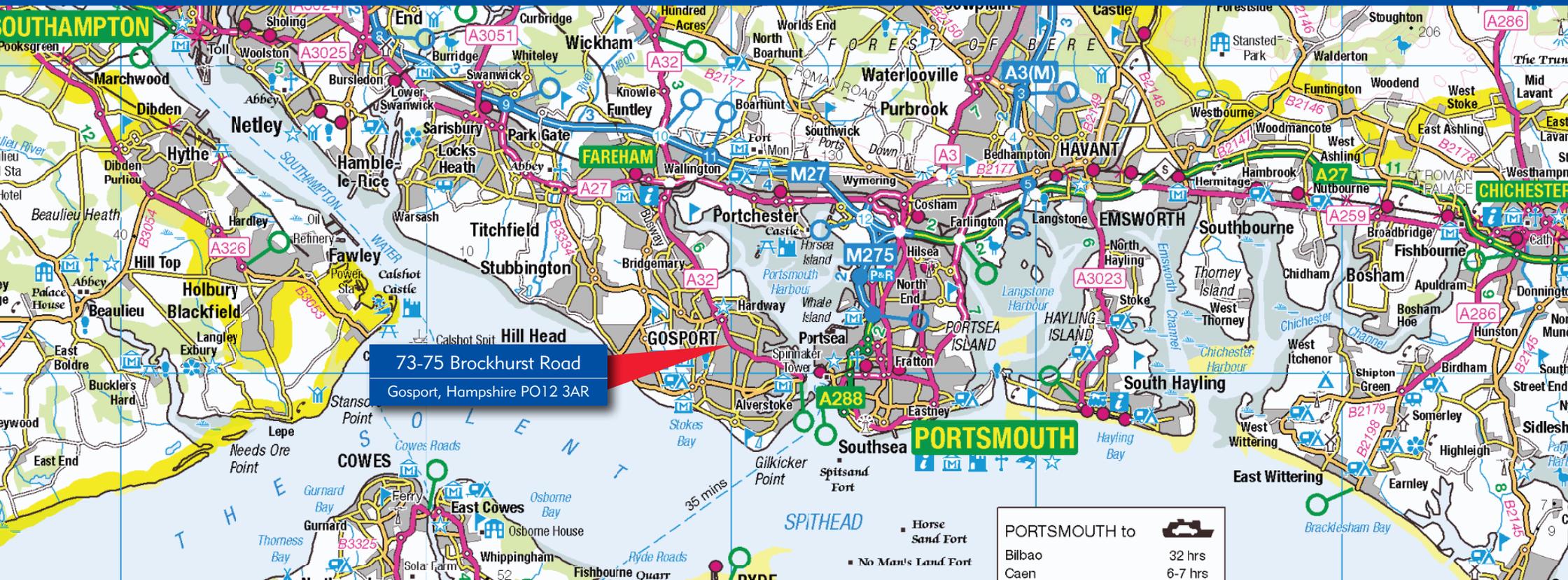
Email : mb-l@philipslockhartstarr.co.uk

**Daniel Richards**

Tel : 020 7268 9956

Mob : 07768 122961

Email : dr@philipslockhartstarr.co.uk



**PHILIPS LOCKHART STARR**  
REAL ESTATE INVESTMENT CONSULTANTS

Philips Lockhart Starr, 7-10 Chandos Street, London, W1G 9AJ

**Property Misrepresentation Act** Philips Lockhart Starr and for the vendors of this property whose agents they are, give notice that:- 1: The particulars are set out as a general outline only for the guidance of intending purchasers and do not constitute nor constitute part of an offer or contract; 2: All descriptions, dimensions, references to condition and necessary permissions for use and occupation and their details are given in good faith and are believed to be correct, but any intending purchasers should not rely on them as statements of fact, but must satisfy themselves by inspection or otherwise as to the correctness of each of them; 3: Unless otherwise stated, all prices, rents and other charges are quoted exclusive of Value Added Tax (VAT). Any intending purchasers or tenants must satisfy themselves independently as to the incidence of VAT in respect of any transaction; 4: All plant, machinery, equipment, services and fixtures and fittings referred to in these particulars were present at the date of publication. They have not however been tested and therefore, we give absolutely no warranty as to their condition or operation; 5: No person in the employment of Philips Lockhart Starr has any authority to make or give any representations whatsoever in relation to this property or these particulars nor enter into any contract on behalf of the vendors; 6: No responsibility can be accepted for any expenses incurred by intending purchasers in inspecting properties which have been sold or withdrawn; 7: These particulars were prepared in February 2015.