

LA2/1

Community Infrastructure Levy: Gosport Draft Charging Schedule

Statement on Issues and Questions

Response to Barton Willmore's answer to the Examiner's question 2

Date: 5th March 2015



GOSPORT
Borough Council

Response to Barton Willmore's answer to the Examiner's question 2

1. This is a response to CIL REP 11/E/1- Hearing Statement dated February 2015.
2. The Statement is prepared by Barton Willmore [BW] with appendices provided by their client, Milngate, titled 'Investing in Gosport' and letters from Rex Proctor & Partners [RPP] Quantity Surveyors and Lambert Smith Hampton [LSH] as Milngate's retained agents.
3. As stated in Document CIL - 6¹- Adams Integra [AI] met with BW and Milngate on 6th June 2014 to discuss their proposed scheme. No drawings or layout were available at that time. The scheme attached to the latest Statement is the first time this has been seen by AI.
4. It should be pointed out that it is not appropriate to comment on a site specific basis where the proposed CIL charging is expected to affect the whole district as values and costs may vary.
5. Nevertheless a response is set out on the various relevant matters that have been raised in this Statement.
6. The LSH letter in Appendix 4 contends that the size of the supermarket is material in assessing the appropriate CIL charge. The differential between the 1,700 sqm store proposed and the notional 2,323 sqm sized unit AI tested is not material in the outcome of the viability study. The rates are assessed on a per square metre basis and the 623 sqm difference is not sufficient to affect the build costs or rental rates applied.
7. It is an unfortunate typographical error in Document CIL- 6 Appendix 4 Supermarket appraisal that the published version shows the rental rate set at £172 per sqm. However as shown in the sensitivity table adjacent to the appraisal the greyed out box in the middle is based on a rental rate of £162 per sqm which has been used. Various rates have been tested, including the £172 per sqm rate, and the outcomes are shown.
8. LSH state in their letter in the Appendix that they are 'quite satisfied' that the rental rate to be used is £151 per m2 but do not provide any evidence to support this.

¹ Addendum Report in Response to Consultation- paragraph 10.5 page 15

9. RPP state in their letter 'Based on our experience and analysis of current construction cost trends our opinion is that a figure between £910 and £970 per sqm is more appropriate'. They go onto say 'Such a significant increase would be bound to impact on the appraisal prepared by Adams Integra'. They do not provide any evidence to support these assertions.
10. Generously applying the mean rate of £940 per sqm proposed by RPP and a store of 1,675 sqm (average as recommended by LSH) produces a total build cost of £1,777,175 which includes site enabling, construction costs, external works and a contingency. So whilst AI has allocated the construction costs to the various elements of the build, the collective amount of £1,777,175 exceeds the total that RPP recommends of £1,532,600 at the higher build rate.
11. Furthermore applying a rental rate of £151 per sqm as recommended by LSH, and using the unchallenged yield of 5.5%, produces a surplus of £487,485 before any CIL charge.
12. Deducting a CIL charge at £60 per sqm, which amounts to only £100,500, leaves a surplus or buffer of £373,319. The CIL charge of £100,500 amounts to 2.31% of the Gross Development Value in this example which is well within the 5% level used by Examiners' to assess whether the rate is reasonable.
13. Therefore even using the figures produced by Milngate's advisors, it is shown that after a healthy 20% developers profit has been taken, there is a good sized surplus to be able to support a CIL charge of £60 per sqm.
14. Our conclusion as shown in Appendix 1 is that this evidence has not demonstrated that a CIL charge of £60 per sqm on supermarkets would put development at risk.
15. We have considered the comments on the figures used for retail warehousing.
16. We contend that the development periods used are reasonable and take into account that the developer would not complete the purchase of the land until detailed planning permission was granted. Also that the developer would be marketing and seeking pre-lets during the planning phase when no major expenditure had arisen. Therefore the finance costs would only start from when borrowings were taken for the land purchase.

17. We also note that the investment yield of 7.0% has not been challenged. AI consider this to be very conservative and a well let retail warehouse development could achieve a much better rate depending on the tenant mix, leases and covenant strengths. As shown in Document CIL - 5² a small difference in yields can have a significant improvement on the development's surplus.
18. In respect of BW's comments at 3.12 that 'The key area of contention is with the proposed retail warehouse allowance' - RPP do not offer up in their letter a different construction cost for retail warehousing.
19. It is not appropriate to use the £970 per sqm rate BW suggests. This is the higher end of RPP's recommendation for a supermarket construction. Retail warehousing does not have the same requirements as supermarkets for such items as plant and machinery, delivery yards, customer car parking, facilities for shopping trolleys, more tills etc . So a lower construction cost is appropriate for retail warehousing as demonstrated by the BCIS rates. A further summary in Analysis is attached as Appendix 2, rebased to Gosport which shows that the £660 per sqm rate used by AI is fair.
20. At 3.17 in BW's Statement they look to show that the 'Amount available to fund CIL' is insufficient. However in each case they say that they have already deducted a CIL charge within their Total Costs. Therefore this assessment is incorrect.
21. In conclusion we have not been provided with any evidence to support a change to the recommended CIL charging rates and it is considered that the evidence used by AI is robust and strikes an appropriate balance.

² CIL 5- CIL Viability Report- 6. Yields Paragraph C6.6 Page 60-61

Appendix 1 Commercial Development Appraisal

Use Class:	Supermarket
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DEVELOPMENT VALUE			
Rental Income	Area sq m	£ per sq m	£ per annum
Rent - (GIA)	1,675	151	£252,925
Total Rental Income	1,675		£252,925
Rent free/voids (years)	1	0.948	£239,773
Total revenue, capitalised (incl all costs)		5.50%	£4,359,507
Gross Development Value			£4,359,507
Less Purchaser's Costs	5.75%	£250,672	£4,108,836

Surplus to fund CIL - sensitivity

Rent/sqm	£151.00	£162.00	£172.00
Yield			
5.00%	£839,048	£1,118,691	£1,372,912
5.25%	£654,869	£921,124	£1,163,149
5.50%	£487,485	£741,517	£972,455
5.75%	£334,631	£577,528	£798,344
6.00%	£194,515	£427,205	£638,742

DEVELOPMENT COSTS			
	Area	£ per sq m	Total
Demolition/Enabling Costs	838	£54	£45,225
Building Costs		£940	£1,574,500
Area	1,675		
Contingency		5%	£78,725
External Works		5%	£78,725
Total			£1,777,175
Professional Fees		10%	£177,718
Planning costs		10%	£177,718
Community Infrastructure Levy		£60	£100,500
Total			£2,233,110
Disposal Costs			
		%	Total
Letting Agent's Fee (% of Rent)		10%	£25,293
Agent's Fees (on capital value)		1%	£43,595
Legal Fees (% of capital value)		0.75%	£32,696
Total			£101,584
Interest on Finance			
	Months	%	Total
Total Development duration	12		
Loan arrangement fee		1%	£22,331.10
Interest on Construction Costs		7.0%	£163,429
Total			£185,76
Profit			
Developer's Profit on Total Development Cost		20%	£504,091
Total Development Costs			£3,024,544

Surplus after CIL Charge £373,319

CIL Charge as % of GDV 2.31%

LAND VALUE		
	%	Total
Land Surplus		£1,084,291
Stamp Duty	4%	£43,372
Agent's Fees	1.25%	£13,554
Legal Fees	0.50%	£5,421
Total		£62,347
Interest on land finance	7.00%	£71,536
Total		£133,883
RESIDUAL LAND VALUE		£950,408

Existing Site Value			
	%		
Assumes existing space is % of new	50%	838	
Rent per sqm		£86	
Rental income per annum		£72,025	
Rent free/voids (years)		3	0.7938
Total revenue, capitalised (incl all costs)			8.00%
			£57,173
			£714,668
Refurbishment costs (per sqm)		£215	£180,063
Fees		7%	£12,604
Total			£192,667
Purchaser's Costs		5.75%	£41,093
Total Costs			£233,760
Existing Site Value			£480,908

Site Value incl Landowner Premium 20% £96,182 £577,089

Surplus available to fund CIL £373,319

Appendix 2



Analyses summary

Rebased to Gosport

Graphs

Rate per m2 gross internal floor area for the building cost including prelims.

Sample: 9

Mean: 603

Standard deviation: 151

	Min	1	2	3	4	5	6	7	8	9	Max
Range	447										898
Deciles						622					
Quartiles			459						668		

