CHICHESTER COMMUNITY INFRASTRUCTURE LEVY
CHARGING SCHEDULE EXAMINATION

RETAIL RATES

Viability Study Assumptions

9. Is the CIL viability study (CIL-02) submitted by the Council in support of the Draft Charging Schedule appropriate, particularly with regard to its assumptions on rents and costs for retail development?

a. Does the available evidence support the rental level of £234psm assumed in the Viability study for the appraisal of convenience retail development in the district?

b. Does the available evidence support the assumptions in the Viability study for the appraisal of convenience retail development in respect of build costs, site preparation and demolition costs, abnormal costs, professional fees and residual S106 costs?

c. Would sensitivity testing the appraisals for convenience retail development with lower rental levels and higher costs assist in more robustly demonstrating the viability of the proposed retail charges?

d. Does the available evidence support the typology of unit/floorspace sizes of 465sqm, 929sqm and 4,000sqm used for the appraisals of convenience and comparison retail development and in the Viability study?

e. Would further sensitivity testing of floorspace sizes above and below these levels assist in more robustly demonstrating the viability of the proposed retail charges?

Response

9.1 Yes – although the middle operator supermarkets have announced plans to scale back on expansion plans there is little evidence to suggest this has had a major impact on rents and yields. The lower budget operators continue to expand and the higher value operators are also performing successfully. Convenience retail remains a premium investment vehicle for institutional and corporate investors which in turn supports viability at a local level. This is considered in more detail at 14.12 (p68) of the Peter Brett Viability Study (CIL-02).

Response (a)

9.2 Yes – rents of £234 m2 (£21.70 psf) are not untypical of regional convenience retailing. Unlike many commercial developments, retail rents don't tend to be linked to local market conditions but to the size of the development and the quality of the covenant. Many supermarket premises had rent reviews linked to the RPI rather than on local market values. This had the impact of making yields keener and improving viability.

Response (b)

9.3 Yes – a full explanation of all the build costs, site preparation, abnormal costs, planning fees and interest is contained within the Peter Brett Viability Study (CIL-02). The key sections of relevance are 14.12 – 14.25. The supporting evidence shows that PBA have set land values at the higher end of the market evidence available.

9.4 BCIS has been used to assess build costs and a full explanation why is in the answer to question 1 in relation to residential appraisals.

9.5 Section 106 costs are set a level on the presumption that many of the current planning obligations covered by section 106 will now be covered by CIL. Section 106 will in the future only cover site specific obligations.

9.6 The level of professional fees are regarded as appropriate for what is a relatively standard design and build product across the UK.

Response (c)

9.7 As with residential development, we would not advocate testing against hypothetical scenarios but against current costs and values. There is no evidence that rents and yields are falling and therefore sensitivity testing of increased costs and falling values would not provide a true picture of viability

9.8 Short term fluctuations in the market place are entirely normal and this is why the CIL regulations recommend setting CIL well short of the maximum theoretical limit of charges.

9.9 The table below is reproduced from the CIL evidence base (Storyboard CIL-09) and shows that CIL is only a small proportion of total value.

CIL rates set significantly below the theoretical maximum

Development Type	PDCS (£m²)	DCS (£m²)		Theoretical max viable CIL (£m²)	CIL as % of theoretical max CIL	CIL as % of sale value (£m²)
Residential Development South of District (Houses)	£120	£120	Most viable scenario (4 houses)	£208	58%	3.6%
			Least viable scenario (100 houses)	£163	74%	3.6%
Residential Development South of District (Flats)	£120	£120	Most viable scenario (4 flats)	£225	53%	3.3%
			Least viable scenario (24 flats)	£199	60%	3.3%
Residential Development North of District (Houses)	£200	£200	Most viable scenario (4 houses)	£459	44%	4.8%
			Least viable scenario (100 houses)	£412	49%	4.8%
Residential Development North of District (Flats)	£200	£200	Most viable scenario (4 flats)	£771	26%	4.3%
			Least viable scenario (24 flats)	£751	27%	4.3%

9.10 As outlined in question10, the retail rates have been set well below the theoretical buffer and are a small proportion of the development value (about 2.45%).

9.11 The charges are therefore very unlikely to put delivery of such development at risk.

<u>Response (d)</u>

9.12 The sizes reflect a broad range of different retail offers. We would anticipate that developments of less than 465m2 are unlikely to be standalone new build developments on vacant sites and are likely to form part of larger developments.

9.13 Our experience of convenience viability testing is that there is little difference in the viability of a range of formats across the district. We have focussed on the two main ends of the spectrum – the smaller express style format and the larger out of town offer. We set the CIL charge to cover the lowest viability format to avoid creating a range of complex charges relating to size.

9.14 We believe the sizes of stores tested deal with small, medium and large format stores and is adequate.

<u>Response (e)</u>

9.15 No, the convenience retail tests are based on an in town (smaller) and out of town (larger) format. Although other sizes could be provided we have seen little variation in viability across different formats in Chichester or in other CIL schedules elsewhere.

9.16 Our convenience retail charge is well within the lower viability buffer and is comparable to retail charges in other charging schedules.