

**WAKEFIELD COMMUNITY INFRASTRUCTURE LEVY
CHARGING SCHEDULE EXAMINATION**

**STATEMENT RESPONDING TO THE INFORMATION
SUBMITTED BY WAKEFIELD COUNCIL REGARDING
RETAIL WAREHOUSE DEVELOPMENT VIABILITY
ON BEHALF OF TRAWDEN FOREST PROPERTIES LIMITED**

OCTOBER 2015

Introduction

1. The statement provides a response to information submitted to the CIL Examination Hearing by the Council regarding retail warehouse land values and development viability. Information on land values is set out in the Council's note circulated on 8 October (attached at Annex 1 for convenience). The note "Retail Warehouse Sensitivities" (attached at Annex 2) provides a viability assessment utilising a rental level of £10 per square foot (108 per square hectare) and adopting a significantly lower land value of £494,200 per hectare.

Land Values

2. The Council's note of 8 October makes the following points:
 - (a) There is a lack of up-to-date evidence of land transactions for retail warehouse development.
 - (b) Many retail warehouse developments have been promoted on land not allocated for retail purposes and as a consequence, values for alternative land uses are an appropriate benchmark.
 - (c) Evidence of land values across Wakefield range from £100,000 per acre to £225,000 per acre (£247,100 per hectare to £555,985 per hectare).
 - (d) Reference is made to Table 3.9 of CD117 (DTZ Economic Viability Assessment February 2014) to provide evidence of land values.
 - (e) It is noted that further evidence of site values for the period August and September 2013 is available which indicates a "tone" of £200,000 per acre (494,200 per hectare).

Commentary

3. It should be noted that the information submitted by the Council provides no evidence whatsoever of land values for retail warehouse development within Wakefield District or more generally. Consequently, the viability assessment relied upon to inform the Draft Charging Rate is not based on evidence of land values. Land values are a critical input to the viability assessment as demonstrated by the Council's sensitivity exercise.
4. The Council's justification for reference to land values for uses other than retailing is that retail development often comes forward on land which is not allocated for retail use. It is argued therefore that the original land use value is an appropriate basis to test the viability of retail development. This is wholly unrealistic. Whilst there may be odd exceptions, as a rule, land is not acquired for retail development at the original or base land values, and to assume this is the case is unrealistic and displays an ignorance of the retail development process. A valid comparison would be to suggest that the viability of

housing on greenfield sites should adopt agricultural land values for the purposes of assessing viability.

5. The evidence of land values set out in Table 3.9 of DTZ Economic Viability Assessment (CD117) is concerned with residential land (Chapter 3 of CD177 deals specifically and only with residential development). The evidence therefore does not provide any indication of retail land values.
6. The Council's note serves to highlight the fact that the Draft Charging Rates for retail development (retail warehouses and supermarkets) are not based on any up-to-date information of retail land values and therefore the evidence of viability which underpins the Draft Charging Rate is flawed fundamentally.
7. The Council are unable to point to evidence of retail land values within Wakefield District. It would therefore be appropriate to look outside of the District for information to utilise within the viability assessment. Whilst there is limited up-to-date information about transactions for retail development sites, there is presently a site at Rawtenstall, Rossendale, Lancashire which is being marketed (New Hall Hey, Rawtenstall). The site has the benefit of planning permission for leisure use but is being marketed for retail development. The site area is 1.7 hectares (4.3 acres) and the guide price is £1,750,000. This represents a land value of about £990,000 per hectare (£400,000 per acre). In the experience of Trawden¹, this is a realistic valuation and an appropriate basis to test the viability of development.
8. Annex 3 to this statement is the Council's re-worked viability with an additional column which adopts a land value of £990 per hectare. The third column heading "Realistic Land Value" shows that having taken account of an allowance for land value, the balance available for CIL is -£84,929 which gives a maximum CIL headroom per square metre of -£28. In this scenario, developer profit would be reduced by the balance available for CIL. The estimate of £625,358 would become £540,429. This represents a profit margin of about 17%. With a pre-let to an occupier, this would represent an acceptable developer return.
9. The table also shows the implications of the proposed charging rate of £89 per square metre. This would result in a CIL liability of £267,000. This would reduce profit to £273,429 which is a return of less than 10%. This would not be an acceptable return and development should not be expected to proceed if the Draft CIL Charging Rate was imposed.

Summary

10. A growth area in the retail warehouse market is for value-orientated retail warehouse provision operated by retailers such as Home Bargains, B & M, Poundstretcher and The

¹ The Directors of which have more than 25 years' experience of retail development.

Range. Rental levels are typically in the range of £10 per square foot (£108 per square metre). The proposed charging rate for retail warehouse development of £89 per square metre renders new development to meet the need arising from retailers requiring a low cost base unviable.

11. The Council argued at the Hearing that a 10% buffer was appropriate to reduce the headline figure available for CIL of £98. It is argued that there are other buffers built into the calculation of the rate to provide comfort that the rate will not undermine viability. Land values are identified as providing a buffer. However, bearing in mind that the Council produce no evidence of retail warehouse land values, and the evidence of values elsewhere, it is clear that the viability exercise does not actually provide any sort of buffer.
12. The note produced by the Council produced at the Examination serves to highlight that there is no evidence of land values for retail warehouse development to support the Draft Charging Rate. The land values adopted initially of £2,160,000 per hectare relate to foodstore development at the height of the market. That does not apply to current market conditions and it does not apply to retail warehouse development. The land values applied in the Council's note submitted to the Examination assume a value of £494,200 per hectare which is less than 25% of the land value adopted initially. Moreover, the land value of £494,200 per hectare is derived from evidence of residential development as opposed to retail schemes. It is not a sound or sensible basis to assess the viability of retail warehouse development. We have identified evidence of a retail warehouse development that produces a land value of £990,000 per hectare. This is realistic and provides a sound basis to input into a viability assessment. It is evident from the analysis of Annex 3 that the development appraisal produces an adequate return. However, the imposition of CIL as an additional cost burden would result in profit being below 10% of development costs. This is too low and the imposition of CIL would render development unviable.

ANNEX 1

Wakefield Council Land Value Commentary

Land values

The original land value benchmark assumption used in the viability work for retail warehousing was a figure of £2,162,125 per ha (£875,000 per acre). This level was a reflection of the prices being paid for sites by supermarket operators at the time who were highly acquisitive and entering into bidding wars with competing operators to secure the limited availability of land in target locations. Since then, the supermarket sector has retrenched, the number of new store requirements reduced, and with it, the prices such operators are willing to pay for sites.

This level of land value is inappropriate to the assessment of land costs for retail warehousing in secondary/tertiary locations across the District. Clearly, there is a correlation between the value of development and the prices that can be paid for sites; land value is effectively the residual amount a developer can afford to pay for land after meeting all the development costs including a reasonable developer's return, therefore it follows that in weaker markets where values are more subdued, the land costs will also be significantly reduced.

There is a lack of up to date evidence of land transactions for retail warehouse development to inform a picture of market values for retail warehousing. Many retail warehousing schemes have been promoted opportunistically against development plan policy rather than being allocated through the plan led system; Baileygate is a case in point which was originally an employment land allocation and became a retail park. Therefore credible existing or alternative use values are often an appropriate benchmark in determining the minimum level that a land owner would release their sites for in such circumstances.

As cited in DTZ's original economic viability assessment, employment land values across Wakefield are known to range from £247,100 per ha (£100,000 per acre) in secondary locations to £555,985 per ha (£225,000 per acre) in prime motorway oriented locations across Wakefield.

Evidence of one recent commercial land transaction in a comparable location to the Pontefract/Castleford retail market is the former Nestle site on Wheldon Road in Castleford, which sold at a figure of £800,000 in 2014. With a net developable area of 8.2 acres, this equates to a figure of just £97,560 per acre.

Evidence from planning viability cases also provides a reasonable indication of the minimum prices that land can be purchased for across the District. Table 3.9 in Core Document 117 (DTZ Economic Viability Assessment, February 2014) provides a schedule of the prices per net developable ha/acre that have been agreed in such viability cases:

Site value transaction evidence (Table 3.9 of DTZ Economic Viability Assessment CD117)

Site	Base land value	Net site area	Land value per ha
Balne Mills, Wakefield	£520,000	1.27 ha (3.14 acres)	£410,000 per ha (£166,000 per acre)
Healdfield Road, Castleford	£558,000	1.06 ha (2.63 acres)	£526,000 per ha (£212,000 per acre)
Beechnut Lane, Pontefract	£458,000	0.73 ha (1.8 acres)	£627,000 per ha (£254,000 per acre)
Standbridge Lane, Crigglestone	£1,741,000	3.52 ha (8.7 acres)	£495,000 per ha (£200,000 per acre)

Walton Lane, Wakefield	£5,680,000	6.27 ha (15.5 acres)	£905,000 per ha (£366,000 per acre)
Northfield Lane South Kirkby	£813,000	1.65 ha (4.08 acres)	£493,000 per ha (£199,000 per acre)
Flass Lane, Castleford	£1,235,000	1.47 ha (3.63 acres)	£840,000 per ha (£340,000 per acre)
Flass Lane (2), Castleford	£4,813,000	6.39 ha (15.8 acres)	£753,000 per ha (£305,000 per acre)
Fryston, Castleford	£1,280,000	4.49 ha (11.1 acres)	£285,000 per ha (£115,000 per acre)
Newton Hill, Wakefield	£907,000	2.49 ha (6.03 acres)	£364,000 per ha (£147,000 per acre)
Langthwaite, South Kirkby	£1,158,000	1.70 ha (4.2 acres)	£681,000 per ha (£276,000 per acre)

Further up to date comparables from viability cases in Wakefield carried out between August, September 2015 provide further evidence. The figures quoted are the land values per net developable ha/acre agreed with the applicant in the case. Site details have been concealed due to confidentiality obligations however the overall figures on a per ha/acre basis confirm the tone of prices to be in the order of £494,200 per ha (£200,000 per acre):

Site location	Land value per ha
Normanton	£395,360 per ha (£160,000 per acre)
Wakefield City	£568,330 per ha (£230,000 per acre)
Pontefract	£555,975 per ha (£225,000 per acre)
Normanton	£489,258 per ha (£198,000 per acre)

Conclusion

In conclusion, evidence suggests that figures of £494,200 per ha / £200,000 per acre represent a typical minimum that land owners will require across the District.

ANNEX 2

Wakefield Council Note “Retail Warehouse Sensitivities”

Retail warehousing sensitivities

- Land value reduced to £494,200 per ha / £200,000 per acre
- Rental scenarios of £10 psf and £12 psf with 12 months rent free allowance
- All other assumptions consistent with previous modelling.

CIL per sq m at rent / yield scenarios:

		Rent	
		£10	£12
Yield	7.00%	£171	£361
	7.50%	£102	£279

Retail warehouse worked example

	CIL charge rate scheme (£16 psf)	Sensitivity for low value (£10 psf)
Rent assumption (psm)	£172	£108
Rent free (years)	2	1
Land value (per ha)	£2,162,125	£494,200
Sq m GIA	3000	3000
Rent psm	£172	£108
Yield	7.50%	7.50%
Capital value psm	£2,296	£1,435
Rent free (years)	2	1
Rent free £	£344	£108
Cap value less rent free	£1,952	£1,328
Less purchaser's costs	£1,839	£1,251
<u>Net Development Value</u>	<u>£5,515,862</u>	<u>£3,751,776</u>
Costs (591 psm)	£1,773,000	£1,773,000
Professional fees 10%	£177,300	£177,300
Contingencies 3%	£53,190	£53,190
Letting	£77,499	£48,439
Sale	£68,948	£46,897
S106	£165,000	£165,000
Finance (from model)	£253,511	£146,109
Profit (from model)	£919,643	£625,358
<u>Subtotal cost</u>	<u>£3,488,091</u>	<u>£3,035,293</u>
Residual	£2,027,771	£716,483
Residual less purchaser's costs	£1,916,608	£677,205
Allowance for land value		
Per ha	£2,162,125	£494,200
Actual	£1,621,594	£370,650
Balance available for CIL	£295,014	£306,555
<u>Max CIL headroom per sq m</u>	<u>£98</u>	<u>£102</u>

ANNEX 3

Re-Working of the Council's Viability Appraisal

RETAIL WAREHOUSE WORKED EXAMPLE (2)

	CIL Draft Rate £16 per sqft	Sensitivity LPA £10 per sqft	Realistic Land Value £10 per sqft
Rent Assumption (£ per sqm)	£172	£108	£108
Rent Free (Years)	2	1	1
Land Value (per ha)	£2,162,125	£494,200	£990,000
GIA (sqm)	3,000	3,000	3,000
Rent per sqm	£172	£108	£108
Yield	7.50%	7.50%	7.50%
Capital Value per sqm	£2,293	£1,440	£1,440
Rent Free (Years)	2	1	1
Rent Free Value	£344	£108	£108
Capital value less rent free	£1,949	£1,332	£1,332
Less purchasers costs	£1,839	£1,251	£1,251
Net Development Value	£5,517,000	£3,753,000	£3,753,000
Build Costs (per sqm)	£591	£591	£591
Build Costs (total)	£1,773,000	£1,773,000	£1,773,000
Professional fees (10%)	£177,300	£177,300	£177,300
Contingencies (3%)	£53,190	£53,190	£53,190
Letting	£77,499	£48,439	£48,439
Sale	£68,948	£46,897	£46,897
S106	£165,000	£165,000	£165,000
Finance	£253,511	£146,109	£166,732
Profit	£919,643	£625,358	£625,358
Subtotal Cost	£3,488,091	£3,035,293	£3,055,916
Residual	£2,028,909	£717,707	£697,084
Residual less purchasers costs	£1,916,608	£677,025	£657,571
Allowance for land value			
Per hectare	£2,162,125	£494,200	£990,000
Actual	£1,621,594	£370,650	£742,500
Balance available for CIL	£295,014	£306,375	-£84,929
Maximum CIL headroom per sqm	£98	£102	-£28
Draft CIL Charging rate			£89
Total CIL			£267,000
Deficit (CIL liability plus balance available for CIL)			-£351,929
Resulting Profit			£273,429
Rate of profit			9.1%