

**Community Infrastructure Levy**

**Supplementary evidence on the viability of large scale convenience goods based retail development**

This report has been prepared to supplement the evidence provided by GVA in their reports:

- Viability Advice on a CIL/ Tariff for Broadland Norwich and South Norfolk (2010)
- CIL Charging Zones Schedule (2011)

and needs to be read in conjunction with those reports.

Separate supplementary reports have been prepared on:

- residential viability
- the viability of flatted development within Norwich City Council area.

These reports can be found on the GNDP website:

<http://www.gndp.org.uk/our-work/cil/cil-evidence-base/>

January 2012

## 1. Introduction

- 1.1. The rates for the Community Infrastructure Levy (CIL) proposed in the draft charging schedules for Broadland, Norwich and South Norfolk are derived from viability advice provided by the consultants GVA (previously known as GVA Grimley).
- 1.2. The original advice from the report “Viability Advice on CIL/Tariff for Broadland, Norwich and South Norfolk” is that generally retailing can support a CIL rate of £25 per m<sup>2</sup>, but convenience retail, and to a lesser extent retail warehousing, can afford to make a more significant CIL contribution.
- 1.3. In their subsequent report “CIL Charging Zones Schedule” GVA concluded that large scale food-based superstores are extremely viable and could support a very high level of CIL of around £1,500 per m<sup>2</sup>. This advice is based on high level appraisals of a hypothetical single storey scheme of 75,000 ft<sup>2</sup> (6,968 m<sup>2</sup>) gross, 400 car parking spaces and a site of circa 7 acres (2.8 hectares)(Appendix 1). Depending on whether the site is purchased by a developer or directly by the operator the appraisals show a residual land value of £10million to £14million. This can be compared to a benchmark EUV/AUV for residential of c£1.5m – c£3.5m (c. £500,000 to £1.25m per hectare). This high residual land value supports a potentially high value of CIL. Although the assumptions are generic, and do not account for any sunk or abnormal costs, the very high values allow considerable scope to absorb higher costs and still support high levels of contributions.
- 1.4. With such a large difference between the viability of different types of retail, GVA were asked to consider the viability of a rate of £135 per m<sup>2</sup> for food stores of 2,000m<sup>2</sup> and above. In their 2011 report GVA confirmed that such a rate would be viable.
- 1.5. Taking account of GVA’s viability advice, the draft charging schedules for Broadland, Norwich and South Norfolk include a rate of £135 per m<sup>2</sup> for development resulting in large convenience goods based stores of 2,000m<sup>2</sup> gross or more. The proposed charge for all other A class development is £25 per m<sup>2</sup> (the use classes order allows A2-A5 class development to revert to A1 retail).
- 1.6. This report explains the justification for the threshold of 2,000m<sup>2</sup> gross.

## 2. Convenience Goods

- 2.1. Different types of retailing have very different impacts and implications. For this reason it is common for planning permission for retail development to be conditioned to a particular use. Food-based superstores and supermarkets sell predominantly “Convenience Goods” which are defined as food, alcoholic and non-alcoholic beverages, tobacco, periodicals and newspapers, and non-durable household goods. Consequently, applying a specific CIL rate to convenience goods based development is compatible with normal planning practice. For the purposes of CIL a convenience goods based store is one where more than 50% of the net floor area is intended for the sale of convenience goods

### **3. Thresholds**

- 3.1 Table 1 provides local evidence on convenience goods from recent planning applications and monitoring information. It demonstrates that there is a tendency for a clear step change in scale and function in the range 1700-2,000m<sup>2</sup>.
- 3.2 Stores below 1700m<sup>2</sup> are specialists such as Farm Foods and Iceland, “discounters” such as Aldi and Lidl, and/or perform a local top up shopping function.
- 3.3 Stores of 2,000m<sup>2</sup> and above are aimed at a main food shopping function, for example being the largest food shop in market towns. Moreover, Tables 1 and 2 demonstrate that stores greater than 2,000m<sup>2</sup> are operated almost exclusively by major national retailers with significantly higher average sales densities (£ per m<sup>2</sup>). Again there is a clear step change in the sales data. Sales densities are used in retail impact assessment as a measure of viability.
- 3.4 The sales data used in this analysis is from the retail study that supported the Joint Core Strategy. Although this dates from 2007 it is the most recent published data for the GNDP area. It is known from information submitted in support of planning applications, and in retail studies outside the area, that more recent sales data is largely similar and follows the same pattern.
- 3.5 The data identifies two apparent exceptions. The store at Bowthorpe, now operated by Roys, was originally a Sainsbury (i.e. if CIL had been applicable it would have been a development for Sainsbury at the time). The scale of the Budgens at Drayton results from an extension of 566m<sup>2</sup>.

**Table 1: Convenience goods based supermarkets and superstores from recent applications and monitoring information (over 500m2)**

| Location                      | Location type (1)   | Operator           | Net floorspace (2) | Floorspace of extension (gross m2) | Floorspace of supermarket (gross m2) |
|-------------------------------|---------------------|--------------------|--------------------|------------------------------------|--------------------------------------|
| South Norfolk, Mulbarton      | Village             | Co-Operative       |                    |                                    | 562                                  |
| Norwich St. Stephens Street   | NUA City Centre     | Iceland            | 501                |                                    | 770                                  |
| South Norfolk, Poringland     | Village             | Budgens            | 525                |                                    | 810                                  |
| Norwich, Westwick Street      | NUA Retail Park     | Farm Foods         | 557                |                                    | 860                                  |
| Norwich, Dereham Road         | NUA District Centre | Co-op              | 583                |                                    | 900                                  |
| Norwich, Drayton Road         | NUA District Centre | Lidl               | 625                |                                    | 960                                  |
| Norwich, Earham House         | NUA District Centre | Co-Op              | 672                |                                    | 1,030                                |
| South Norfolk, Harleston      | Town                | Budgens            | 743                |                                    | 1,140                                |
| Norwich, Guildhall Hill       | NUA City Centre     | Tesco              | 790                |                                    | 1,220                                |
| South Norfolk, Long Stratton  | Village             | Co-Operative       |                    |                                    | 1,265                                |
| South Norfolk, Diss           | Town                | Somerfield (Co-Op) | 886                |                                    | 1,360                                |
| Norwich, Plumstead Road       | NUA District Centre | Aldi               |                    |                                    | 1,605                                |
| Norwich, Larkman Lane         | NUA District Centre | Aldi               | 1,070              |                                    | 1,650                                |
| Broadland, Drayton            | NUA Out of centre   | Budgens            |                    | 566                                | 2,072                                |
| Broadland, Aylsham            | Town                | Tesco              |                    |                                    | 2,090                                |
| Norwich, Rampant Horse Street | NUA City Centre     | Marks and Spencer  | 1,485              |                                    | 2,290                                |
| Norwich, Eaton Centre         | NUA District Centre | Waitrose           | 1,681              |                                    | 2,590                                |
| Norwich, Bowthorpe            | NUA District Centre | Roys               | 2,081              |                                    | 3,200                                |
| South Norfolk, Wymondham      | Town                | Waitrose           | 2,400              |                                    | 3,690                                |
| South Norfolk, Diss           | Town                | Tesco              |                    |                                    | 4,403                                |
| Norwich, Brazen Gate          | NUA City Centre     | Sainsbury          | 3,427              |                                    | 5,270                                |
| South Norfolk, Diss           | Town                | Morrisons          | 3,433              | 2,495                              | 5,280                                |
| Norwich, Albion Way           | NUA Retail Park     | Morrisons          | 3,670              |                                    | 5,650                                |
| Broadland, Thorpe St Andrew   | NUA District Centre | Sainsbury          |                    |                                    | 7,960                                |
| Broadland, Sprowston          | NUA Out of Centre   | Tesco              |                    |                                    | 8,117                                |
| South Norfolk, Costessey      | NUA Retail Park     | Sainsbury          |                    | 4,371                              | 11,378                               |
| Broadland, Hellesdon          | NUA Out of centre   | Asda               |                    |                                    | 14,126                               |
| <b>Out of Area</b>            |                     |                    |                    |                                    |                                      |
| Sheringham                    | Town                | Tesco              |                    |                                    | 2,100                                |

Notes:

1. NUA = Norwich Urban Area

2. Where net floorspace is included, the gross floorspace is derived from the net on the assumption that net is 65% of gross (rounded)

Supplementary evidence on the viability of large scale convenience goods based retail development

**Table 2: Company Average Sales**

| <b>Company</b>  | <b>£ per m2<br/>(2007)</b> |
|-----------------|----------------------------|
| Lidl            | 2,826                      |
| Farm foods      | 2,978                      |
| Budgens         | 3,315                      |
| Roys            | 4,109                      |
| Aldi            | 4,109                      |
| Iceland         | 4,717                      |
| Co-Operative    | 5,329                      |
| Marks & Spencer | 9,641                      |
| Sainsbury       | 10,152                     |
| Waitrose        | 10,565                     |
| Morrisons       | 11,130                     |
| Tesco           | 12,435                     |
| Asda            | 13,228                     |

Source: GVA Grimley: Norwich Sub Region Retail and Town Centres Study: October 2007

#### **4. Conclusion**

- 4.1 A different level of CIL for large convenience goods based stores compared to other “A class” uses is appropriate. Viability appraisals demonstrate that larger superstores can support very high levels of developer contributions. The proposed approach avoids extreme differences between rates or a complex sliding scale. A threshold of 2,000m2 gross for this rate of CIL is justifiable and deliverable as the type of retailing is clearly defined and there is a clear step change in typical scale, function and character at this level.

## Appendix 1

**References**

- Viability Advice on CIL/Tariff for Broadland, Norwich and South Norfolk, GVA Grimley, December 2010
- CIL Charging Zones Schedule, GVA, August 2011

**APPRAISAL SUMMARY****GVA GRIMLEY LTD****Retail Supermarket Norwich - Hypothetical Scheme****Summary Appraisal for Phase 1 Retail Scheme Developer Led****REVENUE****Rental Area Summary**

|             | Units | ft <sup>2</sup> | Rate ft <sup>2</sup> | Initial<br>MRV/Unit | Net Rent<br>at Sale |
|-------------|-------|-----------------|----------------------|---------------------|---------------------|
| Supermarket | 1     | 75,000          | £20.00               | £1,500,000          | 1,500,000           |

**Investment Valuation****Supermarket**

|                 |           |          |         |         |            |
|-----------------|-----------|----------|---------|---------|------------|
| Market Rent     | 1,500,000 | YP @     | 5.0000% | 20.0000 |            |
| (1yr Rent Free) |           | PV 1yr @ | 5.0000% | 0.9524  | 28,571,429 |

**GROSS DEVELOPMENT VALUE**

|                   |       |             |  |            |
|-------------------|-------|-------------|--|------------|
| Purchaser's Costs | 5.75% | (1,642,857) |  | 28,571,429 |
|-------------------|-------|-------------|--|------------|

**NET DEVELOPMENT VALUE**26,928,571**NET REALISATION****26,928,571****OUTLAY****ACQUISITION COSTS**

|                    |  |       |           |            |
|--------------------|--|-------|-----------|------------|
| Residualised Price |  |       | 9,780,637 |            |
| Stamp Duty         |  | 4.00% | 391,225   |            |
|                    |  |       |           | 10,171,862 |

**CONSTRUCTION COSTS**

| Construction              | ft <sup>2</sup> | Rate ft <sup>2</sup> | Cost      |                  |
|---------------------------|-----------------|----------------------|-----------|------------------|
| Supermarket               | 75,000          | £125.00              | 9,375,000 |                  |
| Supermarket (Parking Spa) | 400             | £1,000.00            | 400,000   | <b>9,775,000</b> |
| Contingency               |                 | 5.00%                | 488,750   |                  |
|                           |                 |                      | 488,750   |                  |

**PROFESSIONAL FEES**

|                   |        |         |         |  |
|-------------------|--------|---------|---------|--|
| Professional Fees | 10.00% | 977,500 |         |  |
|                   |        |         | 977,500 |  |

**MARKETING & LETTING**

|                   |        |         |         |  |
|-------------------|--------|---------|---------|--|
| Letting Agent Fee | 10.00% | 150,000 |         |  |
| Letting Legal Fee | 3.50%  | 52,500  |         |  |
|                   |        |         | 202,500 |  |

**DISPOSAL FEES**

|                 |       |         |         |  |
|-----------------|-------|---------|---------|--|
| Sales Agent Fee | 1.00% | 269,286 |         |  |
| Sales Legal Fee | 0.50% | 134,643 |         |  |
|                 |       |         | 403,929 |  |

**FINANCE**

|  |  |         |         |  |
|--|--|---------|---------|--|
| Debit Rate 6.500% Credit Rate 0.000% (Nominal) |  |         |         |  |
| Land   |  | 277,279 |         |  |
| Construction                                   |  | 143,656 |         |  |
| Total Finance Cost                             |  |         | 420,935 |  |

**TOTAL COSTS****22,440,476****PROFIT****4,488,096****Performance Measures**

|                              |        |
|------------------------------|--------|
| Profit on Cost%              | 20.00% |
| Profit on GDV%               | 15.71% |
| Profit on NDV%               | 16.67% |
| Development Yield% (on Rent) | 6.68%  |



**Retail Supermarket Norwich - Hypothetical Scheme**

|                             |       |
|-----------------------------|-------|
| Equivalent Yield% (Nominal) | 5.00% |
| Equivalent Yield% (True)    | 5.16% |

|     |        |
|-----|--------|
| IRR | 69.91% |
|-----|--------|

|            |               |
|------------|---------------|
| Rent Cover | 2 yrs 12 mths |
|------------|---------------|

|                                      |               |
|--------------------------------------|---------------|
| Profit Erosion (finance rate 6.500%) | 2 yrs 10 mths |
|--------------------------------------|---------------|

**Retail Supermarket Norwich - Hypothetical Scheme**

**Initial  
MRV**  
1,500,000

**APPRAISAL SUMMARY****GVA GRIMLEY LTD****Retail Supermarket Norwich - Hypothetical Scheme****Summary Appraisal for Phase 2 Retail Scheme Operator Led****REVENUE****Rental Area Summary**

|             | Units | ft <sup>2</sup> | Rate ft <sup>2</sup> | Initial<br>MRV/Unit | Net Rent<br>at Sale |
|-------------|-------|-----------------|----------------------|---------------------|---------------------|
| Supermarket | 1     | 75,000          | £20.00               | £1,500,000          | 1,500,000           |

**Investment Valuation****Supermarket**

|                 |           |          |         |         |            |
|-----------------|-----------|----------|---------|---------|------------|
| Market Rent     | 1,500,000 | YP @     | 5.0000% | 20.0000 |            |
| (1yr Rent Free) |           | PV 1yr @ | 5.0000% | 0.9524  | 28,571,429 |

**GROSS DEVELOPMENT VALUE**

|                   |       |             |  |            |  |
|-------------------|-------|-------------|--|------------|--|
| Purchaser's Costs | 5.75% | (1,642,857) |  | 28,571,429 |  |
|-------------------|-------|-------------|--|------------|--|

**NET DEVELOPMENT VALUE**26,928,571**NET REALISATION****26,928,571****OUTLAY****ACQUISITION COSTS**

|                    |  |       |            |  |            |
|--------------------|--|-------|------------|--|------------|
| Residualised Price |  |       | 13,981,598 |  |            |
| Stamp Duty         |  | 4.00% | 559,264    |  |            |
|                    |  |       |            |  | 14,540,862 |

**CONSTRUCTION COSTS**

| Construction              | ft <sup>2</sup> | Rate ft <sup>2</sup> | Cost      |                  |  |
|---------------------------|-----------------|----------------------|-----------|------------------|--|
| Supermarket               | 75,000          | £125.00              | 9,375,000 |                  |  |
| Supermarket (Parking Spa) | 400             | £1,000.00            | 400,000   | <b>9,775,000</b> |  |
| Contingency               |                 | 5.00%                | 488,750   |                  |  |
|                           |                 |                      |           | 488,750          |  |

**PROFESSIONAL FEES**

|                   |        |         |  |         |  |
|-------------------|--------|---------|--|---------|--|
| Professional Fees | 10.00% | 977,500 |  | 977,500 |  |
|-------------------|--------|---------|--|---------|--|

**MARKETING & LETTING**

|                   |        |         |  |         |  |
|-------------------|--------|---------|--|---------|--|
| Letting Agent Fee | 10.00% | 150,000 |  |         |  |
| Letting Legal Fee | 3.50%  | 52,500  |  |         |  |
|                   |        |         |  | 202,500 |  |

**DISPOSAL FEES**

|                 |       |         |  |         |  |
|-----------------|-------|---------|--|---------|--|
| Sales Agent Fee | 1.00% | 269,286 |  |         |  |
| Sales Legal Fee | 0.50% | 134,643 |  |         |  |
|                 |       |         |  | 403,929 |  |

**FINANCE**

|  |  |  |         |         |  |
|--|--|--|---------|---------|--|
| Debit Rate 6.500% Credit Rate 0.000% (Nominal) |  |  |         |         |  |
| Land   |  |  | 396,375 |         |  |
| Construction                                   |  |  | 143,656 |         |  |
| Total Finance Cost                             |  |  |         | 540,031 |  |

**TOTAL COSTS****26,928,571****PROFIT****0****Performance Measures**

|                              |       |
|------------------------------|-------|
| Profit on Cost%              | 0.00% |
| Profit on GDV%               | 0.00% |
| Profit on NDV%               | 0.00% |
| Development Yield% (on Rent) | 5.57% |

**APPRAISAL SUMMARY****GVA GRIMLEY LTD****Retail Supermarket Norwich - Hypothetical Scheme**

|                                      |              |
|--------------------------------------|--------------|
| Equivalent Yield% (Nominal)          | 5.00%        |
| Equivalent Yield% (True)             | 5.16%        |
| IRR                                  | 5.26%        |
| Rent Cover                           | 0 yrs 0 mths |
| Profit Erosion (finance rate 6.500%) | 0 yrs 0 mths |

**Retail Supermarket Norwich - Hypothetical Scheme**

**Initial  
MRV**  
1,500,000