

Our Ref: DMcC/LB



6<sup>th</sup> December 2013

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Dear Mark

### **THE SQUARE SHOPPING CENTRE, SALE TRAFFORD CIL VIABILITY STUDY**

Further to our recent correspondence in respect of the above, we have now had an opportunity to consider the content of the Trafford Community Infrastructure Levy (CIL) Economic Viability Study Addendum Report (September 2013) and Technical Note (October 2013).

BTWShiells, as commercial property advisers to Maloneview (Sale) Limited, has been asked to comment on the robustness of the assumptions adopted in calculating the proposed CIL charging rates for Trafford Borough with specific regard to Supermarkets in Town Centres. Whilst we understand that any figures that are to be adopted will be generic, rather than site specific, our experience in relation to supermarket-led developments in town centres in the North-West of England leads us to conclude the following in relation to Rent, Land and Purchase Costs and Contingency are in accurate for the purposes of use as appropriate available evidence for the following reasons. .

#### **Convenience Retail (Food Store)**

We are aware of the following recent food store deals agreed in the North West:-

<b>Address</b>	<b>Location</b>	<b>Tenant</b>	<b>Date</b>	<b>Area</b>	<b>Rate (£/sq m)</b>
Failsworth (Ashton Rd)	Out of Town	Tesco Extra	2009	c. 92,000	£150
Openshaw (Ashton Old Rd)	Out of Town	Morrison's	2010	c. 79,250	£164

It should be noted that The Square we had provisionally agreed a deal with a food store operator at c.£200 per sq m, however, this deal did not proceed and, whilst we are still in discussions with the same food operator, the level of rent being discussed is now closer to the £150-£160 per sq m.

We consider that this is in line with the diminished level of demand for food stores and, in line with recent relevant evidence in the area. We also consider that the recent application at Broadheath has had a detrimental impact on the demand for a proposed food store in Sale Town Centre. We consider that this is an appropriate rental level for food stores in the North West region.

#### **Directors:**

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## Comparison Retail

We note that there has been just one comparison taken from within The Square Shopping Centre, Sale, which was agreed with Grainger Games at 25 The Mall in March 2011. Given the date of the report (October 2013), we consider that this evidence is now somewhat dated, and does not give a true reflection of the current tone within the scheme.

We summarise below those deals agreed since March 2011:-

Unit	Tenant	Date Agreed	Rate (£/sqm)	Comments
<b>The Mall</b>				
3	Liberty Flights	13 <sup>th</sup> Jun 13	£288.67	6 month licence
7	Cafe B	15 <sup>th</sup> Mar 13	£283.32	1 year licence
25	Grainger Games	7 <sup>th</sup> Mar 11	£221.94	10 year lease (break yr 5)
<b>Town Square</b>				
20	Angle	4 <sup>th</sup> Nov 13	£105.39	1 year lease
16	Bagz	28 <sup>th</sup> Aug 13	£243.17	6 year lease
<b>Market Walk</b>				
9	Albermarle & Bond	23 <sup>rd</sup> Jun 13	£139.66	10 year lease (break yr 5)
17	Pulsera	1 <sup>st</sup> Apr 13	£122.50	Monthly licence
11	Millennium Micros	25 <sup>th</sup> Nov 12	£136.77	1 year licence
8	Inspire	19 <sup>th</sup> Nov 12	£69.65	1 year licence
12/13	Partners	30 <sup>th</sup> Sept 12	£142.90	3 year lease
1	Farmfoods	1 <sup>st</sup> Apr 12	£57.54	5 year lease
6	Nationwide	21 <sup>st</sup> Nov 11	£32.50	10 year lease (break yr 2, 5 & 7)

In taking a wider view of the scheme as whole since the deal agreed with Grainger Games, we see an average rental tone of £160 per sq m. We further note that there have been a number of short term licence deals agreed with tenants, allowing the tenant's to break at anytime. We do not consider these deals a true reflection of Market Rent due to the flexible lease terms. In removing these deals from our analysis, this would see an average rate across the scheme of £145 per sq m, which we consider to be representative of the tone achievable in the current climate.

The basis of the tone attributed to Sale Town Centre appears to have been taken from the town's prime retail pitch of School Road, which has historically achieved the highest rental levels in Sale. The report has not taken account of the secondary areas within the town and, with particular reference to The Square Shopping Centre, Town Square and Market Walk.

In our view, to attribute a rate of £200 per sq m to the subject scheme is not in any way justified, and does not reflect the difficult market conditions the scheme has faced in recent years. In addition to the deals agreed above, we note that the following deals are agreed on a purely cost covering basis, with no rent payable to the landlord:-

Unit	Tenant	Date	Total Area (sq m)
<b>The Mall</b>			
13&15	Aladdin's Den	1 <sup>st</sup> Oct 12	172.43
26	Select	1 <sup>st</sup> Jul 11	369.19
<b>Town Square</b>			
5	Economic Solutions	9 <sup>th</sup> Oct 13	85.47
14	Mixx	1 <sup>st</sup> Jul 13	48.68
LSU2B	British Heart Foundation	1 <sup>st</sup> Feb 11	922.52
<b>Market Walk</b>			
14&15	Cotton Traders	29 <sup>th</sup> Oct 12	279.91
3	Time for Bed	1 <sup>st</sup> Sept 12	269.54
<b>Total</b>			<b>2,147.74</b>

The above illustrates that 2,147 sq m (23,118 sq ft) of space within the scheme is let on temporary cost covering licences, allowing the landlord to break at anytime where a new lease can be secured with a tenant willing to pay a rent and sign a new lease.

Whilst these deals cannot be analysed to provide a rate per sq m due to no actual rent being paid to the landlord, the above surely illustrates that £200 per sq m is not realistic in the current climate, with landlord's willing to agree temporary lettings at present in order to negate void costs. In taking an average of all deals agreed within the scheme since 2011, this would see an average rate of £85 per sq m.

With regard to the retail comparison within the CIL Viability Study provided, we are strongly of the opinion that the general rate of £200 per sq m applied across Sale town centre is considerably above that of the actual rates achievable in the current market.

This methodology has simply looked at a nominal number of deals agreed in Sale's prime retail location, and attributed this rate to the town as a whole. Sale has struggled severely in recent years due to the recession, with the secondary areas of the town having seen void periods in excess of 18 months. In consideration of more recent comparable evidence we therefore could not agree that a rate of £200 per sq m is a true reflection of the overall rates achievable across the town.

### **Land & Purchase Costs**


The assumption of £550 per sq.m is only slightly higher than the £500 per sq.m that has been assumed for out-of-town schemes throughout the CIL evidence base. Based on our experience of Sale, an average figure is more likely to be in the region of £1,300-1,350 per sq.m (assume £1,300 sq.m) due to the often complex and many land and property interests that need to be assembled to deliver any scheme. We are of the opinion that this is typical of any town centre development (irrespective of whether it is food or non-food) where land assembly is a greater development cost than a typical out-of-town scheme. This is also comparable to the £1,500 per sq.m and £1,000 per sq.m assumptions used for Altrincham and 'Other' Town Centres in the Trafford for comparison schemes. We consider that there is no difference in land and purchase costs between convenience and comparison schemes so a higher figure should be adopted for robustness. Our proposed figure of £1,300 sq.m stated above relates to agreed purchase amounts or figures requested by vendors including Trafford Council for land and property required to facilitate the foodstore development.

### **Contingencies**

Due to the challenge of promoting in-town development which presents many more challenges and logistical complications as opposed to an out-of-town development, a greater allowance should in our experience be assumed for contingencies. We would recommend 7.5% as a minimum figure.

In summary, we consider the values stated within the Trafford Community Infrastructure Levy (CIL) Viability Study to be overinflated, and not a reflection of the current market conditions.

Yours sincerely



**DONALL McCANN BSc (HONS) MRICS**

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**SUPERMARKET VIABILITY ASSESSMENT - MALONEVIEW OBSERVATIONS ON PBA VIABILITY ASSESSMENT (6TH DECEMBER 2013)**

<b>TABLE 1 - PBA ASSESSMENT (SEE PAGE 5 OF THE SEPTEMBER 2013 ADDENDUM REPORT)</b>					
	Out of Town Supermarket		In Town Supermarket		Notes:
	m2	sq ft	m2	sq ft	
Rent	200.00	18.58	200.00	18.58	
Minus Inducements	181.82	16.89	181.82	16.89	Their figure seems to be based on a 5% reduction and not 10 as listed in the notes
<b>VALUES</b>	<b>3,454.55</b>	<b>320.94</b>	<b>3,454.55</b>	<b>320.94</b>	
<b>COSTS</b>					
Land & Purchase Costs	550.00	51.10	550.00	51.10	
Basic Build Cost	1,100.00	102.19	1,100.00	102.19	
External Works	154.00	14.31	154.00	14.31	
Fees	125.00	11.61	125.00	11.61	
Section 106/278	20.00	1.86	20.00	1.86	
CIL at Maximum	225.00	20.90		-	
Marketing & Sales	173.00	16.07	173.00	16.07	
Contingencies	69.00	6.41	69.00	6.41	
Interest	195.00	18.12	195.00	18.12	
Margin	528.00	49.05	483.00	44.87	
<b>Total Cost Benchmark</b>	<b>3,139.00</b>	<b>291.62</b>	<b>2,869.00</b>	<b>266.54</b>	
<b>Surplus/Deficit</b>	315.55	29.31	585.55	54.40	
<b>Surplus/Deficit % on cost</b>	10.05%	10.05%	20.41%	20.41%	

<b>TABLE 2 - MALONEVIEW ASSESSMENT</b>					
	Out of Town Supermarket		In Town Supermarket		Notes:
	m2	sq ft	m2	sq ft	
Rent	170.00	15.79	170.00	15.79	Range of £160-£180 sq.m
Minus inducements	154.55	14.36	154.55	14.36	
<b>VALUES</b>	<b>2,936.36</b>	<b>272.79</b>	<b>2,936.36</b>	<b>272.79</b>	
<b>Foodstore size</b>					
Land & Purchase Costs	550.00	51.10	1300.00	120.77	Range of £1,300-£1,350 sq.m
Basic Build costs	1,100.00	102.19	1,100.00	102.19	Assume their figure
External Works	154.00	14.31	154.00	14.31	Assume their figure
Fees	125.00	11.61	125.00	11.61	Assume their figure
Section 106/278	20.00	1.86	20.00	1.86	Assume their figure
CIL at Maximum	225.00	20.90	10.00	0.93	
Marketing & Sales	173.00	16.07	173.00	16.07	Assume their figure
Contingencies	69.00	6.41	82.50	7.66	This should be 7.5% for in town
Interest	195.00	18.12	195.00	18.12	Assume their figure
Margin	522.20	48.51	631.90	58.70	I do not agree with their calculation of Margin
<b>Total Cost Benchmark</b>	<b>3,133.20</b>	<b>291.08</b>	<b>3,791.40</b>	<b>352.23</b>	
<b>Surplus/Deficit</b>	- 196.84 -	18.29 -	855.04 -	79.43	
<b>Surplus/Deficit % on cost</b>	-6%	-6%	-23%	-23%	