

LDF Allocations: Decision Time

The last few years has witnessed a flurry of activity in the evidence collecting phase of LDF preparation. Most, if not all, planning authorities now have some insight into the potential scale of further retail floorspace that may be required in their areas over the next decade or so.

There is also a requirement for many LDF's to identify and potentially allocate sites for development. This Briefing Paper therefore looks at key issues to be addressed as part of this process.

Background

Both PPS12 and PPS6 (and the recently-issued proposed changes) all stress the need for planning authorities to be proactive in identifying and allocating sites for development, especially in town centres. In this regard, government advice has long focused on the point that sites to be allocated for retail development should be suitable, available and viable. Regard is increasingly being given to the prospective suitability and availability of potential sites, but the issue of site viability remains a thorny one; we therefore set out in this Brief some of the important issues that, we believe, need to be addressed in assessing site viability.

At its simplest, financial viability will only occur in those situations where the finished development has a value in excess of all costs.

Viability assessments must go further than simplistic or theoretical value to cost comparisons; in today's climate the value equation must also embrace market

demand/occupier interest, so that the likely strength of any income stream is properly considered.



Viability Appraisals

Over the last 10 years Chase & Partners have advised local authorities and private sector developers on a variety of town centre developments where the value side of the equation has had to be worked very hard in order to make it exceed the cost side. Inevitably, there are various factors in the equation.

Site Location

Sites in town centres do not all have the same potential for a successful retail development. Any retailer contemplating a new development would look very carefully at the scheme, its configuration and prospective store layout, the strength of the all-important anchor in the scheme, and most importantly, proximity to the existing prime retail pitch. Sites that are not well connected to the existing prime pitch will not, generally speaking, attract better quality retailers.

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Their absence from any potential development's tenant line-up would adversely affect anticipated yields, rents and hence value.

Site Layout

Most multiple retailers (which generally provide the best covenant strength in any new development) have very specific ideas as to their preferred or required store size and store layout. All require good prominence and exemplary servicing. If a potential site cannot deliver these fundamental requirements, then it is unlikely that major multiple retailers will consider taking space in the proposed development. In all but the most exceptional locations, multiple retailers would seek an alternative location elsewhere on their requirements list rather than accept second best, or a compromised location.

Anchor Function

The importance of the anchor retailer in any scheme cannot be over-estimated. Traditionally, three types of retailer have performed the anchor function namely:

- Department stores (e.g. John Lewis, Debenhams, House of Fraser)
- Variety stores (e.g. Marks & Spencer, Bhs),
- Food superstores (e.g. Tesco, Asda, J Sainsbury, Morrisons).

Invariably a major financial contribution has to be paid by the developer to secure a department store anchor. The anchor store effectively acts as a destination, and the other unit shops then pay for the benefit of pedestrian flows promoted by the anchor tenant. In effect, the income - and hence capital value - of the unit

shopping in any new shopping scheme has traditionally funded new retail development. For example, a scheme including a department store of approximately between 75,000 - 150,000 sq ft (7,000-14,000 sq m) of floorspace, would mean a financial contribution to fitting out costs in excess of £10 million. This has implications for the scale of unit shopping needed to make the development viable, (and, in turn the minimum site acreage). A fully-fledged department store of 100,000 sq ft (9,290 sq m) would, for example, need to be cross-subsidised by a comparable amount of unit shopping.

The next alternative, which is likely to be less expensive, is a variety store-anchored scheme. This may not have quite the same attraction as a department store, but, when combined with other multiples, would still provide an attractive scheme in many locations. Like department stores, variety stores are also able to command substantial financial contributions towards fitting out costs, but at 30,000 to 40,000 sq ft of floorspace (2,787-3,716 sq m), the overall sum is likely to be considerably less than a department store option.

Food stores can also anchor new shopping schemes, since they attract shoppers on a regular and frequent basis and therefore provide footfall and vitality from which other traders can benefit. The combination of food and non-food shopping, provided it is properly integrated into the existing town centre, has proved to be a successful formula in enhancing the vitality and viability of many towns in recent years. Unlike department store and variety store anchors, food superstore anchors pay their way so that developers do not have to make significant financial contributions.

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Pre-requisites for Viability Assessments Development Vehicles

a) Market Appraisal

Prior to any viability assessment, it is essential that a thorough market appraisal is carried out. For town centre developments this would invariably include an in-depth assessment of retail, leisure residential and office sectors, as well as commenting on institutional and local purchasers' sentiment.

In this regard, the assessment would cover demand, recent market intelligence/comparables and competition from nearby towns. Local market values can then be established bearing in mind the nature and extent of demand.

b) Development Options

It is rarely the case that a site lends itself to only one development option. It therefore follows that a range of options possible (i.e. retail led, mixed retail/residential, office led, mixed retail/office/residential), all have to be thoroughly evaluated in the light of market demand, in order to identify the best value scenarios. It is also essential at this stage that any contributions that may be required under S106 are carefully evaluated and their prospective impact on project viability assessed.

Analysis of development options, therefore requires a full understanding of development design, mix, density, likely rents/yields, sources of funding, programming, and post development objectives. Maximising value requires an up-to-date understanding of all of these inputs and thorough sensitivity testing.

The joint venture development vehicle - where publicly owned land is married with private sector finance and expertise in a joint venture framework arranged for a specific purpose - has gained popularity, particularly given the rigorous scrutiny of public funds and the use of publicly owned assets. In these circumstances, the value of each side's input needs to be carefully established, and an appropriate allocation of risks and reward agreed, so as to avoid conflict further into the development process.

Both councils and prospective developer partners need to be aware of the implications of the Roanne Judgement.¹

The joint venture format is but one development vehicle, other possibilities include limited partnerships and the more traditional CPO led route. The most appropriate vehicles would depend upon the circumstances of the town, land ownerships, and the type of scheme to be promoted.

Chase & Partners' Experience

In addition to researching and preparing retail studies for both public and private sector clients, Chase & Partners has considerable experience in the specialised field of development consultancy. We set out below examples of Chase & Partners' recent experience in bringing forward developments in town centres:

¹ Jean Aurox and Others v Commune de Roanne, 2007

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PROJECT A: Sevenoaks - Bligh's Meadow Shopping Centre

Contractual relationship:

Direct relationship with the body commissioning the project.

Client: Sevenoaks District Council

Client Sector: Local Government

Description of services: The procurement of a town centre retail development through a development/design competition. The work included detailed consultation via a focus group incorporating the views of many other groups and interested parties; running the development/design competition;



selecting a developer, negotiating the development agreement and sale documentation, ensuring the development proceeded in line with the client's brief, maintained a letting role throughout, negotiated the acquisition of land and dealt with the compulsory purchase order and negotiations.

Subsequently re employed by Sevenoaks District Council to advise on the development of a second site (Phase 2) adjacent to the original development

Floor area: 56,000 sq ft

PROJECT B: Kidderminster - Weavers Wharf Town Centre Development

Contractual relationship:

Direct relationship.

Client: Centros Miller

Client Sector: Private

Description of Services: Provided advice to the client on the whole of the development process from instigation through to completion. The services included advice on demand, design, layout, values and disposal from the start of the development/design competition right through the entire development process.

Undertook negotiations with and secured anchor store operators as well as general infill tenants. Undertook the disposal of the completed investment.



Negotiated and ran the tender sale of the supermarket site to Tesco.

Provided back up and advice to the client at meetings and presentations to the joint land owners which included Wyre Forest District Council.

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Advised client on the Compulsory Purchase Order process throughout including the Public Inquiry.

Total Floor Area: 367,000 sq ft

PROJECT C: Enfield – PalaceXchange Shopping Centre

Client: ING Real Estate Development UK Limited

Contractual Relationship:
Direct Relationship

Client Sector: Private

Description of Services:

Advised the client from the instigation of the development/design competition right the way through the project which is still ongoing.

Services included advice on design, layout, values, type and format of retail and leisure accommodation.

Negotiated and secured the main anchor tenants and are currently finalising the infill lettings.



Secured a purchaser for the end investment.

Also provided advice on land values and undertook negotiations with the land owners under the Compulsory Purchase Order.

Advised the client throughout the Compulsory Purchase Order and Road Closure Order process including the two public inquiries.

Fronted presentations and provided back up to the client with the Local Authority including negotiations and finalisation of the development agreement.

Took part in the consultation process with a variety of public groups.

Total Floor Area: 250,000 sq ft

In our collective experience, it is not just the larger centres that are capable of attracting investment and development.

With the right advice, and formulation of the right development scheme, even smaller town centres can attract new development and investment, and in this way meet the government's demands for proactive planning for town centres.

If you wish to discuss the contents of this Briefing Paper any further detail, or indeed any planning or development consultancy issues in your area, then please contact Graham Chase, Mark Paynter or Huw Williams on the number given below or email us at:

enquiries@chaseandpartners.co.uk

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