BNP PARIBAS
REAL ESTATE

RUGBY BOROUGH COUNCIL – COMMUNITY INFRASTRUCTURE LEVY
NOTE ON PROPOSED NOMINAL RATE ON INDUSTRIAL AND LOGISTICS DEVELOPMENTS

1. Introduction

1.1. Rugby Borough Council ('the Council') has recently consulted on its Draft Community Infrastructure Levy ('CIL') Charging Schedule ('DCS') which incorporates a nominal rate of £5 per square metre on industrial, light industrial, storage and distribution.

1.2. Prior to addressing specific points raised in representations, we note that many other charging authorities have applied nominal rates to various uses without any specific viability evidence, on the basis that the rates are too low, in themselves, to prevent developments coming forward. Examples are as follows:

- London Legacy Development Corporation: £20 per square metre on all other uses except education, healthcare and affordable workspace. Industrial and logistics developments are caught by this rate.
- Barnet Borough Council: £20 per square metre applied to all employment uses.
- London Mayoral CIL: rates from £25 per square metre, applied to all uses (except education and health care developments).
- Bexley Borough Council: All other uses rate of £10 per square metre (which includes industrial and logistics developments.

2. Impact of proposed nominal £5 per square metre charge on industrial developments

2.1. The representations make various assertions in relation to the impact of the Council's proposed nominal rate of £5 per square metre on industrial and storage development. However, none of these assertions are evidenced and the Council's analysis of the representations addresses the points in detail.

2.2. We have undertaken some additional analysis which will assist the Examiner in terms of assessing the veracity of the assertions in the representations. The relevant typologies are numbers 1, 2, 21 and 22, which range in scale from 5,000 to 45,000 square metres. Table 2.2.1 provides a summary of the appraisals, showing the following information for each typology:

- Net development value ('NDV');
- Development costs;
- Gross residual land value;
- Gross Internal Area ('GIA') in square metres; and
- Proposed CIL at £5 per square metre.

2.3. The analysis in Table 2.2.1 shows that the proposed CIL rate would equate to just 0.36% of NDV, or 0.41% of development costs, which is very modest and – on any realistic assessment – is very unlikely to prevent a development coming forward. Furthermore, the impact of the proposed CIL on residual land values is also very modest at 3.5%. In other words, after CIL has been applied, the landowner would receive 96.5% of the land value that they would have received had CIL not been applied. It is inconceivable that landonwers would not bring sites forward as a result of such a small adjustment.

Table 2.2.1: Analysis of impact of proposed nominal CIL rate for industrial development

	Typology 1 (Employment land parcel 1)		Typology 2 (Employment land parcel 1)		Typology 21		Typology 22	
		Proposed CIL as %		Proposed CIL as %		Proposed CIL as %		Proposed CIL as %
NDV	£29,066,685	0.36%	£62,285,754	0.36%	£8,304,767	0.36%	£6,920,639	0.36%
Dev costs	£25,809,991	0.41%	£55,307,124	0.41%	£7,374,283	0.41%	£6,145,236	0.41%
Gross residual	£3,256,694	3.22%	£6,978,630	3.22%	£930,484	3.22%	£775,403	3.22%
GIA (sqm)	21,000		45,000		6,000		5,000	
Proposed CIL	**£105,000**		**£225,000**		**£30,000**		**£25,000**	
Gross residual with CIL	£3,142,979	3.5%	£6,734,956	3.5%	£897,994	3.5%	£748,328	3.5%
Hectares	3.5		7.5		1.0		1.0	

2.4. The representations also assert that larger schemes will incur significant infrastructure costs that are not accounted for the in the viability assessments. As noted in the Council's response to the representations, the Planning Practice Guidance on viability ('PPG') indicates that benchmark land value should be adjusted where sites incur exceptional costs or infrastructure costs. Nevertheless, the larger typologies in the study which may incur infrastructure costs (typologies 1 and 2) generate significant surplus residual value that would cover these costs, as summarised in Table 2.4.1.

2.5. In addition, it should be noted that the residual land values shown in Table 2.4.1 already makes allowance for Section 106 obligations of £20 per square metre, which may or may not be required on individual developments.

Table 2.4.1: Surplus residual land values generated by the typologies

	Typology 1	Typology 2	Typology 3	Typology 4
Gross residual incorporating CIL	£3,142,979	£6,734,956	£897,994	£748,328
Hectares	3.5	7.5	1.0	1.0
LESS Benchmark land value	£864,500	£1,852,500	£800,000	£247,000
EQUALS Surplus residual land value to fund strategic infra	£2,278,479	£4,882,456	£97,994	£501,328
Surplus residual land value per sqm	£108	£108	£16	£100

3. Impact of changes to appraisal inputs

3.1. We note that the GLP representation makes various comments on appraisal inputs, which the Council has addressed in its response document. There are two specific points in the representation which we have re-tested; the first is the observation that a 20% profit on cost (15% profit on GDV) is too high; and second is that the 12 month rent and void period is too short.

3.2. We have tested the impact of reducing the profit from 15% of GDV to 12% of GDV and extending the rent free and void period from 12 months to 18 months. The appraisal outputs are compared to the those in the Viability Study report in Table 3.2.1. The net effect of the changes highlighted in the representation is an increase in residual land values, which will also increase the surplus value above benchmark land value. This will also reduce the CIL as a percentage of residual land value to 3.11%.

Table 3.2.1: Residual land values with lower profit and extended rent free/void period

	Typology 1	Typology 2	Typology 3	Typology 4
Gross residual value with original assumptions	£3,142,979	£6,734,956	£897,994	£748,328
Gross residual value with reduced profit and extended rent free and void period	£3,374,074	£7,230,159	£964,021	£883,351

4. Conclusions

4.1. The Council's proposed rate for industrial development is, by any objective measure, a nominal rate. Many other charging authorities have applied similar nominal rates to a range of 'other uses' without any supporting evidence, on the basis that the rates are so low that it is inconceivable that they would prevent development coming forward. The London Mayoral CIL, for example, charges a rate of between £25 to £60 per square metre on all uses, including industrial on the basis that the rate is set at a sufficiently low level that it will not prevent schemes coming forward.

4.2. Notwithstanding the observations above, the Council's proposed nominal rate on industrial developments *is* justified by the viability evidence, which indicates that there will be significant headroom after the CIL rate has been applied to account for 'exceptional' or infrastructure costs.

4.3. The proposed rate for industrial equates to only 0.36% of scheme value. The most recent CIL Examiner's report tests the reasonableness of a CIL rate using a threshold of 5% of scheme value. The proposed CIL rate equates to less than one tenth of that threshold.

4.4. The proposed rate will reduce residual land values by just 3.5%.

4.5. In other words, landowners will receive 96.5% of the land value they would have received prior to CIL being applied. On an objective basis, the only reasonable conclusion is that the proposed CIL is highly unlikely to prevent developments coming forward, given the very modest impact it will have.