GLP UK Management
50 New Bond Street
London W1S 1BJ
United Kingdom

Tel. +44 (0)20 7901 4455
www.glp.com/eu

CIL Consultation
Development Strategy
Rugby Borough Council
Town Hall
Evreux Way
Rugby
CV21 2RR

By email: localplan@rugby.gov.uk

4th September 2023

Response to public consultation on the Community Infrastructure Levy Draft Charging Schedule

Dear Sir / Madam,

We are writing in response to your recent invitation for comments on Rugby's Draft Community Infrastructure Levy (CIL) Charging Schedule consultation.

In summary, having reviewed the supporting evidence, we consider this has a number of shortcomings which mean it cannot be relied upon to support the proposed CIL rate of £5 per sqm for industrial and warehousing developments. As such, it would be more appropriate to apply a nil CIL charge to these uses to ensure there is not an increased risk to viability of such developments in line with the national guidance.

GLP

GLP is a leading global investment manager and business builder in logistics, data infrastructure, renewable energy and related technologies, operating across Brazil, China, Europe, India, Japan, the U.S. and Vietnam.

GLP Europe (formerly Gazeley) has a 30+ year track record of developing and managing logistics real estate across the United Kingdom, one of Europe's largest markets. We currently have 14.3 million sqft of assets under management in the UK. This includes Magna Park Lutterworth within the neighbouring Harborough District, which is the UK and Europe's largest dedicated logistics and distribution park, home to 38 different customers and occupying over 13.1m sqft of floorspace across 47 buildings.

Representations

Rugby Borough Council is seeking to implement CIL across its administrative area and undertook an initial round of consultation on the draft Charging Schedule in May 2023. Since then, the draft Charging Schedule has been revised to introduce a proposed charge of £5 per sqm for development of industrial, light industrial, and storage and distribution uses across the borough. This applies to both the Rugby Urban Area and Rural Area.

To inform the draft CIL Charging Schedule, the Council appointed BNP Paribas to undertake an assessment of the ability of developments across the borough to accommodate CIL. We have reviewed the assessment undertaken by BNP and have concerns regarding the robustness of the conclusions. Our concerns are set out below and for these reasons, we do not consider the current evidence base can be relied upon to support the proposed CIL charge for industrial and warehousing uses.

Firstly, the introductory section of the BNP CIL Viability Assessment Review report provides an overview of the economic context. However, this analysis solely relates to the housing market and economic factors affecting residential development. There is no consideration of commercial development, and specifically no analysis of recent trends within the industrial and logistics market. Whilst we appreciate any such report can only provide a snapshot in time of an ever-changing market, we do not consider the report can be robust without having an awareness of how current market conditions are affecting the industrial and logistics sector.

The BNP report then goes on to state the assumptions used in the appraisal, which has been based on 28 different typologies based on sites across the borough. Of the typologies tested, only the following have been included in relation to B2/B8 developments:

- Typology 1 – 'urban extension' which includes B2/B8 floorspace of 10,500sqm & 22,500sqm.
- Typology 21 – 'B2 and B8 urban' which includes a B2/B8 floorspace of 3,000sqm.
- Typology 22 – 'B2 and B8 edge of urban' which includes B2/B8 floorspace of 2,500sqm.

These typologies therefore focus solely on industrial and logistics developments within or adjacent to urban areas, and excludes any consideration for such uses within more rural parts of the borough. It is common for industrial and logistics schemes to be located in proximity to strategic road network, particularly on motorway/A-road junctions which may be located in more rural areas away from major settlements.

Moreover, the typologies included in the assessment only consider a limited range of unit sizes from 2,500-3,000sqm in urban/edge of urban locations and 10,500-22,500sqm in an urban extension. This therefore only takes into account a limited section of the industrial and logistics sector, and excludes any developments including developments providing over 25,000 sqm. This is not representative of the wider industrial and logistics sector, particularly as recent trends have indicated there is increasing demand for larger buildings. Rugby Borough given its excellent access and connectivity to the strategic road network and access to DIRFT rail terminal is well placed for strategic distribution uses. The Borough sits within the 'golden triangle' for logistics and is therefore attractive to regional and national distribution centres that typically exceed 25,000 sqm in floorspace.

Thirdly, the typologies included assume a very high net site coverage. Appendix 5 of the BNP report assumes a 74% net site coverage for typology 1, and 90% for typologies 21 and 22. This is an unrealistic figure and site coverage tends to be lower when site constraints are taken into account. This is particularly true for larger developments on greenfield sites. For comparison, our recent developments at MPN and MPS in neighbouring Harborough had a site coverage of 29% and 45% respectively. The potential site coverage for future development is also likely to be affected by other factors including the introduction of mandatory Biodiversity Net Gain in November 2023.

As such, we consider the typologies included within the assessment are skewed towards smaller units within urban areas and are therefore not representative of the industrial and logistics market. This does therefore not form a robust basis on which to base a CIL rate for all industrial and warehousing developments.

We also have concerns with some of the assumptions made more broadly which are set out below. To note, whilst it has not been explicitly stated, based on the assumption of a 12-month rent-free period for industrial floorspace included in the BNP report, GLP are assessing the below commercial points on the assumption of a 10 year term certain.

- The BNP appraisal assumes a 12-month rent-free period for industrial floorspace. This is likely to vary depending on lease-length and does not account for any void periods, i.e. where units have been speculatively completed and are vacant ahead of lease commencement. Taking void periods into account is likely to result in a longer period of no income.

- An investment yield of 5% has been assumed for industrial and warehousing units. We would anticipate that Grade A/Grade A+ units would achieve a 5.5% yield, with older, second-hand or

Grade B/Grade C units being nearer 6% and therefore the 5% assumed is not reflective of the current market position.

- A build cost of £651 per sqm has been assumed for warehouses over 2,000sqm. It has not been specified the Grade of building these costs relate to. It has also not been explicitly stated that these costs reflect vertical construction only and omit any abnormals or earthworks associated with the development. This figure therefore only represents a proportion of total construction costs and will widely vary depending on the unit size, standard specification and sustainability credentials.

- The appraisal assumes marketing costs of 3% and sales legal fees of 0.5%. Whilst this may be typical for a residential scheme, it tends to be higher on industrial and warehouse developments with the total of both coming to between 15% - 18%.

- The assumptions with regards to development and sales periods are made with regards to residential development. It is unclear what has been assumed for industrial and logistics developments.

- Assuming a developer profit of 20% is not reflective of developer margins which are lower in the current climate.

- Exceptional costs should not be excluded from the analysis. These can be significant on industrial and warehouse developments and therefore, whilst we appreciate these costs can vary between schemes, an allowance for abnormals should be included as this will have an impact on viability.

- The Benchmark Land Value of £800,000 per gross hectare is based on the MHCLG 'Land value estimates for policy appraisal 2017'. This is 6 years old and therefore cannot be relied upon as it is out of date.

The points above are likely to have led to the viability of industrial and warehousing schemes being overstated within the BNP report.

Based on the assessment undertaken, the BNP report makes recommendations for the proposed Rugby CIL rates. Paragraph 6.21 states that the assessment indicates that industrial and warehousing developments could absorb a maximum CIL rate of £11 per sqm. In the first instance, this is not consistent with the summary at the start of the report as paragraph 1.8 states that industrial and warehousing development could absorb a CIL rate of £7 per sqm. It is unclear why there is a discrepancy within the report.

Notwithstanding this, as per the points above, we consider there are fundamental flaws in how the viability of industrial and warehousing developments has been assessed and therefore the information provided does not form a robust evidence base for a CIL charge to be based on.

Paragraph 6.24 of the BNP report states the following:

> *"Given the low maximum CIL rate, the Council may wish to apply a nil rate, but could require a nominal rate of, say, £5 per square metre given the quantum of space that may come forward in the future".*

It is therefore clear that a nil CIL rate for industrial and warehousing development would be justified. The National Planning Practice Guidance (PPG) makes clear that local authorities should ensure that CIL does not put increased risk on the viability of developments, and that if a low or zero viability is found, then the authority should consider setting a low or zero levy rate (022 Reference ID: 25-022-20230104). The PPG also states that it is appropriate to ensure a 'buffer' or margin is included, so that the levy rate is able to support development when economic circumstances adjust.

Thus, given the shortcomings in the assessment undertaken (i.e. not considering the wider market conditions for commercial development and the flaws in the assumptions which likely lead to the viability of industrial and warehousing development being overstated), we consider it would be more appropriate to apply a nil CIL charge to industrial and warehousing developments to ensure there is not an increased risk to viability of such developments in line with the national guidance.

Industrial and logistics developments can also deliver extensive infrastructure improvements such as new and improved motorway junctions and link roads that would not otherwise come forward through public funding. This infrastructure can also be critical to enabling new residential development. The ability of industrial and logistics schemes to deliver such improvements may be hindered by any additional development costs such as CIL. The recent expansion of Magna Park (Lutterworth) within the adjoining Harborough District has delivered significant highways improvements to the A5 which forms the boundary with Rugby Borough, these improvements benefit the wider geographical area and support the delivery of future commercial and residential development.

We appreciate the opportunity to provide representations on the draft CIL Charging Schedule and would like to be kept informed as to when:

- the council submits the draft charging schedule for examination in accordance with Section 212 of the Planning Act 2008,
- the examiner publishes recommendations and, subject to a favourable examiner's report,
- the charging schedule has been approved.

Yours faithfully,

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[redacted]
Planning Manager