1 Commercial and Retail Market Review

1.1 This commercial and retail market paper provides the background to the value assumptions made in appraising the commercial development typologies set out in the main report. The purpose of the overarching study is to test the viability implications of the Council's existing and emerging policies – including the existing CIL (Community Infrastructure Levy) Charging Schedule.

1.2 It should be noted, the only commercial or retail use which currently carries a CIL charge is supermarkets and retail warehouses at £150 psm[1].The structure of this commercial and retail market paper is as follows:

- UK Market Overview – outlines where the trends in the UK commercial market to provide context for the market analysis, with a particular focus on the retail market
- Regional Overview – reviews the Cumbria Strategic Economic Plan
- South Lakeland Context – provides an economic overview of South Lakeland
- Existing Evidence Base – follows on from the local context to provide a review of previous studies to set the scene for AspinallVerdi's market assessment
- Commercial Market Evidence – an analysis of the office and industrial markets
- Retail Market Evidence – an analysis of the retail markets by sub-sector i.e. high street and supermarket / retail warehouses
- Other Uses – provide an updated position on leisure and hotel use classes
- Commercial and Retail Value Assumptions – conclusions of the value assumptions adopted within the appraisals.

1.3 In order to conduct our analysis, we have utilised Estates Gazette Interactive (EGi) for deals done since January 2010 and where necessary reviewed current availability through EGi, Rightmove and local agent websites.

1.4 We have downloaded a dataset of transactions that have been registered on EGi since January 2010 for commercial and retail space in South Lakeland (excluding the National Parks). It must be noted this is not a fully comprehensive list of transactions to have taken place, but provides a strong indication of market values e.g. rents and yields.

1.5 Evidently, the most recent deals form the most robust pieces of evidence before market listings and quoting prices where necessary, can be used as a reference point. However, quoting prices are viewed with caution given the potential for negotiation. Also, in a commercial context the 'headline rent' can often be different to the effective rent due to rent free periods and other tenants incentives.

[1] South Lakeland Community Infrastructure Levy Charging Schedule, June 2015

UK Market Overview

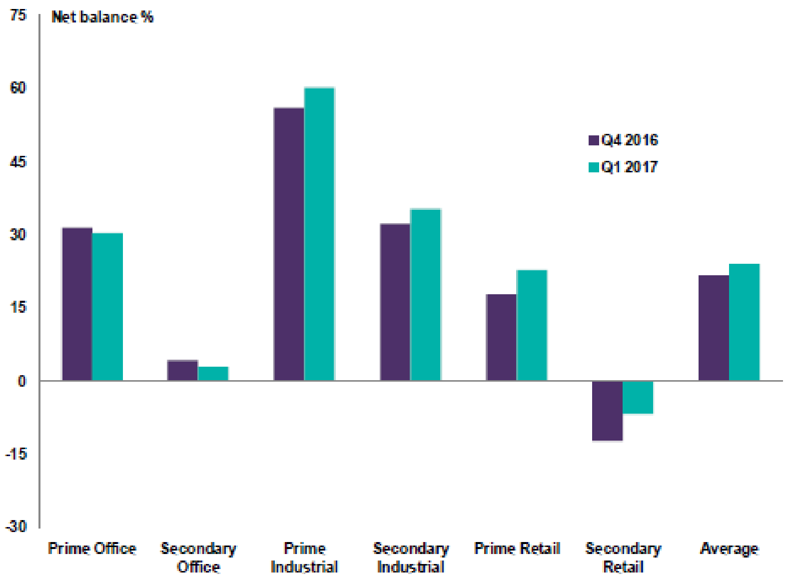
1.6 The RICS publishes its UK Property Market Chart Book which provides economic commentary and research into the commercial property sector. The latest edition is October 2016. This comments as follows –

- Commercial property prices continued to fall during August, albeit to a lesser degree, with the headline IPD all property index falling by 0.6%
- A greater share of investment is being directed toward areas outside of London, and this is likely to continue in the coming months
- Business' reduced growth expectations likely to weigh on rental values in coming months
- The greater uncertainty as a result of the EU referendum vote will significantly inhibit the development pipeline
- The fall in the value of sterling is adding to cost pressure, but the price of industrial materials had been on the rise irrespective of the currency movement
- Lead indicators suggest employment growth will slow significantly by the end of the year.

1.7 The RICS also publishes a quarterly commercial market survey. The most recent edition is the Q1 2017 study and provides an updated position on the commercial market from the Chart Book above. This comments as follows –

- Headline rental and capital value growth expected to accelerate once again
- The industrial sector continues to post strongest underlying results (see Figure 1.1 below), with availability in sharp decline, office and retail areas of the market are a little flatter with tenant demand down 1% on the quarter for offices and up just 4% for retail.

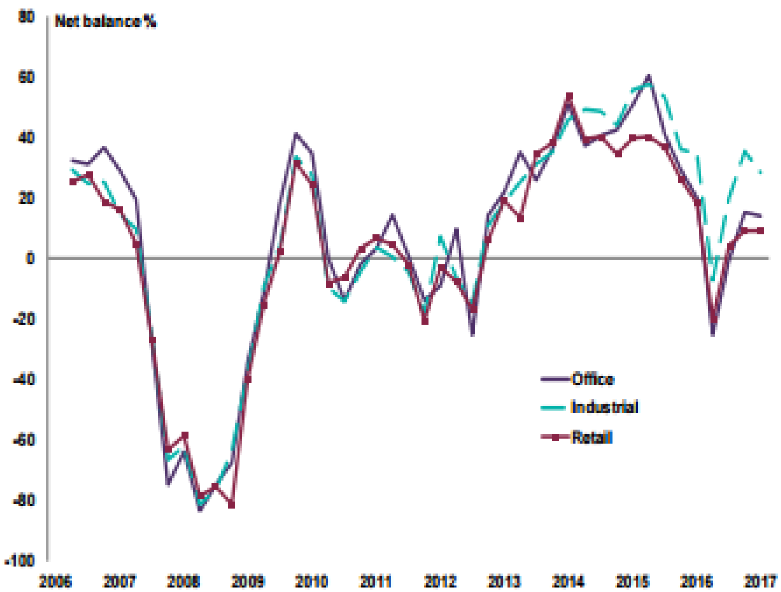
Figure 1.1 - Rental Expectations by Sector



Source: RICS Commercial Market Survey Q1 2017

- Across the UK, the headline investment demand indicator has now turned positive in virtually all areas, the figure below shows investor requirements by sector

Figure 1.2 - Investor Requirements by Sector



Source: RICS Commercial Market Survey Q1 2017

1.8 Looking more specifically at the UK Retail Market, Knight Frank's Q1 2017 Market Snapshot indicates:

- Prime rents – stable but growth possible in prime locations
- Prime yields – inward pressure in prime high streets and stable across retail warehouse market. Outward pressure in secondary shopping centre sub-sector
- Supply – demand continues to outstrip supply in the best locations
- Demand – concentration of demand in prime locations while stable in secondary.

Regional Overview

1.9 Cumbria had a population of 498,000 in 2015, the table below provides a breakdown of some key economic statistics for Cumbria in comparison with the average for Great Britain.

Table 1.1 - Population and Employment Statistics, 2015 - 2016

	Cumbria	Great Britain
Population aged 16-64	60.5%	63.1%
Economically Active	78.8%	77.8%
Unemployment	4%	4.8%

Source: NOMIS, Labour Market Profile – Cumbria (2016)

1.10 In total there was approximately 227,000 jobs in 2015, with manufacturing (16.7%) and wholesale and retail trade (16.3%) services employing the greatest number of people[2].

1.11 The Cumbria Strategic Economic Plan 2014-2024 states that the vision for Cumbria is:

"to have one of the fastest growing economies in the UK, in an energised and healthy environment"

1.12 The plan, developed by Cumbria Local Enterprise Partnership (LEP), is focused on unleashing the economic potential of Cumbria by building upon the county's unique combination of assets. The key priority themes are:

- Advanced manufacturing growth
- Nuclear and energy excellence
- Vibrant rural and visitor economy
- Strategic activity of the M6 corridor.

The ambition of the plan is *inter alia* to:

[2]NOMIS, Labour Market Profile – Cumbria (2016)

- Create 15,000 additional full-time equivalent jobs
- Achieve a GVA growth rate of 2.2% during the plan period
- Increase the number of business reporting growth by 5%.

1.13 In terms of commercial property market forecasts, at a regional level there is no up to date evidence of for Cumbria. However, in reviewing the Council's existing evidence base, there are instances where studies benchmark values in South Lakeland with the wider region as reference. This is discussed below in Existing Evidence Base.

South Lakeland Context

1.14 South Lakeland as a local authority extends beyond our study area to includes circa 56% of the Lake District and 16% of the Yorkshire Dales National Park. South Lakeland also forms part of a Morecambe Bay sub-region, incorporating Barrow Borough and Lancaster District. We are focusing on the areas outside of the National Parks but incorporating the whole of the Arnside and Silverdale Area of Outstanding Natural Beauty, including that which lies within Lancaster City Council's jurisdiction. The total population of South Lakeland (incorporating the National Parks) was approximately 103,500 in 2015, with a below national average percentage of its population between ages 16-64 (57.8%). However, as with Cumbria, South Lakeland has a higher than average percentage of people economically active, at 84.4%. Furthermore, just 2.4% of the population was unemployed for the year 2016, quite significantly below the average for the North West (5.2%) and Great Britain (4.8%). Of those employed, 41.6% of South Lakeland's residents occupy jobs in major group 1-3 (Managers, Directors and Senior Officials; Professional Occupations; and Associate and Professional & Technical)[3].

1.15 Note – hereafter, references to South Lakeland or 'the District' refer to our study area (i.e. the South Lakeland Planning Authority Area) unless otherwise stated.

1.16 Outside of the National Park, South Lakeland's population is approximately 75,000. We understand that whilst unemployment is low, earnings are also low reflecting the importance of tourism related employment to the District.

1.17 Tourism is integral to South Lakeland with a significant part of the District including two National Parks. The Accommodation and Food Service Activities therefore employs a significant proportion of the population, with 20.4% of jobs in the sector.

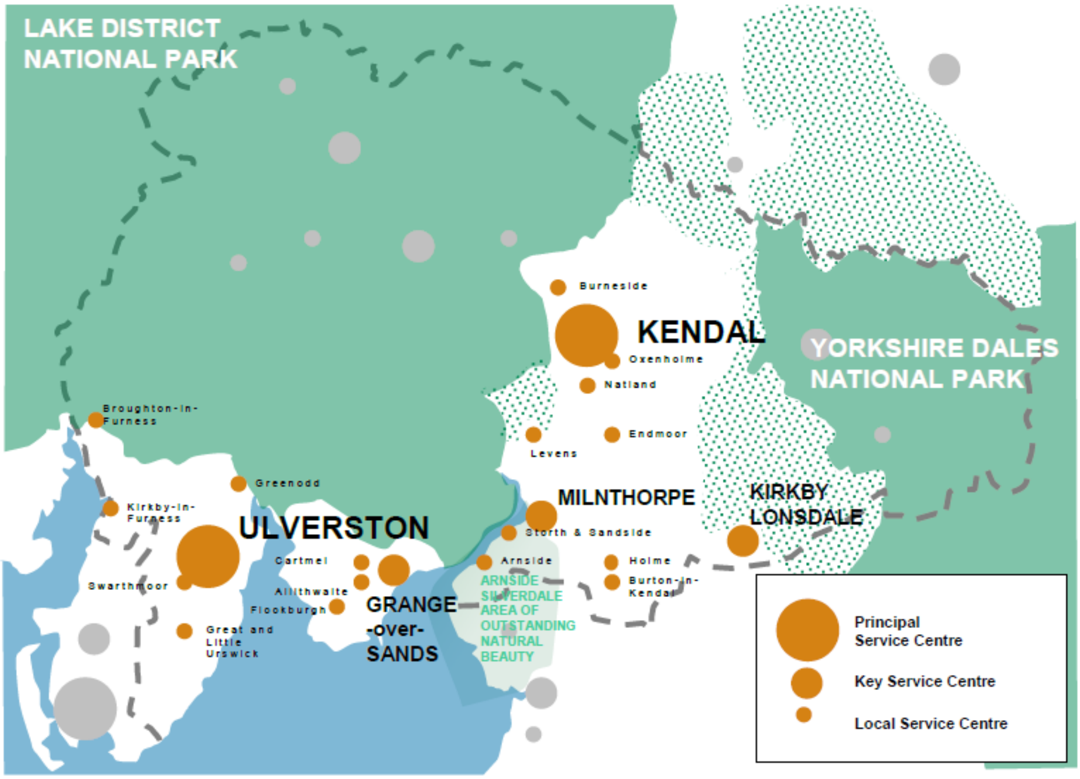
1.18 Within our study area, Figure 1.3 shows that Kendal is the key commercial centre within South Lakeland, followed by Ulverston which serves the west of the District. It is noted that Kirkby Lonsdale is a thriving market town and established itself as a retail destination in its own

[3] NOMIS, Labour Market Profile – South Lakeland (2016)

right4.Note – the green hatched areas have now been incorporated into the National Park boundaries.

1.19 Looking at South Lakeland as a whole, it is also worth noting that Windermere, Bowness and Ambleside are other significant commercial centres within close proximity of the study area.

Figure 1.3 - South Lakeland Key and Local Service Centres



Source: Local Plan Land Allocations (2013, page 13) (note that the green hatched proposed National Park extensions have now been subsumed in the National Parks)

[4] HDH Planning and Development, CIL Viability Study 2014, para 4.7

Existing Evidence Base

1.20 Figure 1.3 above outlines the hierarchy of commercial settlements. We have undertaken a review of the existing evidence base (listed below) to inform or value assumptions, having regard to the any nuances within the South Lakeland commercial and retail market itself.

- South Lakeland Employment Land Review, 2012
- Land Allocations DPD Viability Study, 2013
- Community Infrastructure Levy Viability Study, 2014
- Community Infrastructure Levy Viability Study Update, 2014
- South Lakeland District Council Economic Growth Strategy, 2014
- Kendal Economic Growth Action Plan (2015-2025), 2014
- Arnside and Silverdale AONB DPD Viability Study, 2016

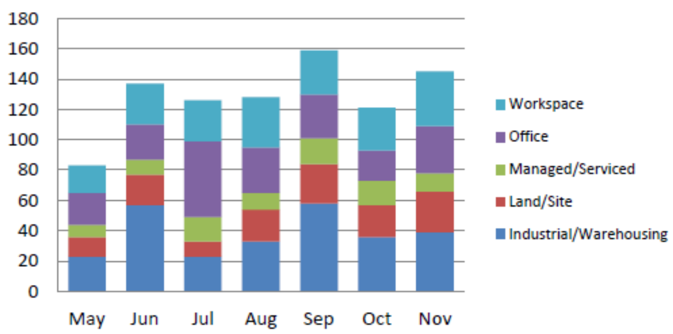
South Lakeland Employment Land Review, 2012

1.21 This study was produced by Lambert Smith Hampton and Ekosgen, with the purpose of reviewing and updating the 2005 Employment Land and Premises Study to support the Council's Local Development Framework. The study relates to B1, B2 and B8 uses and does not review employment within the National Parks. Outside of the National Parks, Kendal and Ulverston are identified as the two principal areas, as shown by Figure 1.3 above.

1.22 At the time of the study (in 2011-2012), there was approximately 16 ha of allocated employment land available across 12 sites ranging from 0.64-11.12 acres (0.26-4.50 ha). Of the sites identified, none were considered capable of attracting or accommodating major employment development.

1.23 A summary of demand for existing space is shown below, with the report concluding that demand was largely for smaller units under 465 sqm (5,000 sqft), with units below 93 sqm (1,000 sqft) in highest demand.

Figure 1.4 - Enquiries by Use Type, 2011



Source: South Lakeland Employment Land Review, 2012, page 53

1.24 In terms of the geography of commercial activity, Kendal is identified as an administrative centre with an industrial heritage and is suggested to play a key role in the provision of commercial floorspace[5]. Traditionally, industrial and office market activity is said to be have been focused around the northern edge of the town, but highways constraints has resulted in the southern approach to Kendal being considered a superior location.

1.25 The office market has typically been driven by the public sector and local professional occupiers, with accommodation generally provided within town house conversions or above retail premises achieving rents of up to £108 psm (£10 psf). Quoting rents for space available at the time of this study were generally £118 psm (£11 psf)[6]. However, reference is made to a new development providing self-contained office accommodation with quoting rents of £151 psm (£14 psf) on a 5-year lease[7]. Since coming onto the market this scheme which at K Village at Riverside Place, Lound Road has struggled to attract occupiers. Phase 2 of the development had been put on hold. Agents indicated that unlike the rest of South Lakeland, there is demand albeit limited, for space between being between 93-279 sqm (1,000-3,000 sqft) on a freehold basis. Of the 51 units currently available in Kendal, just 6 are on a freehold basis[8].

1.26 Critically, it was suggested new developments were not forthcoming as a result of limited values and a lack of funding.

1.27 Agents indicated that demand for industrial space was more buoyant than offices in Kendal. The industrial market was said to remain focused around the northern edge of the town at Shap Road, Dockray Hall and Mintsfeet. The report makes reference to a transaction at Shap Road Industrial Estate for a 242 sqm (2,600 sqft) unit which was let at £38 psm (£3.57 psf), whilst other units were quoting rents of £54 psm (£5 psf)[9]. At Mintsfeet Industrial Estate, the report notes a deal for 390 sqm (4,200 sqft) of space transacting at £57 psm (£5.34 psf). In terms of new developments at the time of this study, Kendal Fell Business Park offered industrial accommodation with units ranging from 232-929 sqm (2,500-10,000 sqft) at asking rents of £70 psm (£6.50 psf). Agents indicated that rents for modern stock will be c. £65 psm (£6 psf), whilst older stock will achieve £48 psm (£4.50 psf)[10].

1.28 Ulverston is described as a specialist manufacturing centre, with connections to BAE systems shipbuilding in Barrow in Furness. The town is also said to have a good technological base and growing links to the offshore oil and gas industry. Ulverston's main industrial area is North Lonsdale Road Industrial Estate and Low Mill Business Park. There was no reference made to

[5] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.4
[6] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.4
[7] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.8
[8] Estates Gazette Interactive, Availability Kendal, June 2017
[9] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.6
[10] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.6

any rents or yields in Ulverston for industrial space. Office rents were said to be between £75-£108 psm (£7-£10 psf), although a lack of demand was noted[11].

1.29 Outside of the two principal areas, this study identifies the Cartmel Peninsula as a tourism and leisure destination. There is no reference to industrial values in this study for the Cartmel Peninsula. However, office rents are said to range between £54-£97 psm (£5-£9 psf), but the market is said to be inactive[12].

1.30 The study also identifies commercial activity in Milnthorpe, with rents for modern office space at c.£161-£183 psm (£15-£17 psf) and modern industrial units at c.£65-£78 psm (£6-£7.20 psf). Second-hand industrial space was stated to be c.£54 psm (£5 psf)[13]. We have identified Milnthorpe and the area south of Kendal towards Kirkby Lonsdale as the 'M6 Corridor', this is discussed within the commercial market review below.

1.31 It should be noted this market assessment was produced in December 2011.

Land Allocations DPD Viability Study, 2013

1.32 The Land Allocations DPD Viability Study was prepared by HDH Planning and Development.

1.33 The purpose of this report was to provide an assessment of the viability of sites in the development plan document to provide the Council with confidence that they were facilitating development. Note this study did not assess the viability of policies within the Core Strategy.

1.34 Table 1.2 below provides a summary of the rental values and capitalisation rate adopted for industrial, office and distribution typologies:

Table 1.2 - Capitalised Typical Rents, Land Allocations DPD Viability Study 2013

	Rent £psm	Yield %	Capitalised Rent £psm	Values adopted in Appraisals £psm
Industrial East	£55 (£5 psf)	7.5%	£733	£750 (£70 psf)
Industrial West	£50 (£4.65 psf)	7.5%	£667	£700 (£65 psf)
Office East	£120 (£11 psf)	8%	£1,500	£1,500 (£140 psf)
Office West	£100 (£9.30 psf)	7.5%	£1,333	£1,300 (£121 psf)
Distribution	£55 (£5 psf)	8%	£688	£700 (£65 psf)

Source: HDH Planning and Development, Land Allocations DPD Viability Study, 2013, page 47

[11] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.17
[12] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.26
[13] South Lakeland Employment Land Review, Lambert Smith Hampton, 2012, para 6.20

Community Infrastructure Levy Viability Study, 2014

1.35 The CIL Viability Study was also prepared by HDH Planning and Development.

1.36 This study highlighted that rental values vary significantly across the district with vacancy an issue in particular the secondary retail markets i.e. Cartmel Peninsula. Given that business rates are payable on empty properties; the suggestion was that owners are often willing to lease space on very advantageous terms with extended rent free periods[14].

1.37 Rents achieved for shops in the best town centre locations across South Lakeland (excluding National Parks) were stated as just over £200 psm (£18.60 psf). Rents achieved in the rest of the District away from key retail centres were typically in the region of £120 psm (£11.16 psf)[15].

1.38 The study considers supermarkets and retail warehouses separately given that the economics behind developing these units in comparison to town centre retail is different. The annual rents assumed were £160 psm (£15 psf) for supermarkets and £120 psm (£11.16 psf) for retail warehouses[16].

1.39 The typologies appraised in the study were as follows:

- Supermarket – single storey retail unit with a gross area of 4,000 sqm (43,056 sqft) with 400 car parking spaces to occupy a total site area of 6.4 acres (2.6 ha). This was modelled as a greenfield and brownfield site.
- Retail warehouse – single storey retail unit with a gross area of 4,000 sqm (43,056 sqft), with 150 car parking spaces to occupy a total site area of 4.45 acres (1.8 ha). This was modelled as a greenfield and brownfield site.
- Town centre retail – two storey brick built development of 150 sqm (1,615 sqft), without car parking to cover a site area of 0.04 acres (0.017 ha).

1.40 It is noted that other types of retail development were not appraised given the diversity of them and the unlikelihood they would come forward i.e. farm shops, petrol filling stations and garden centres.

1.41 In terms of leisure space, this study found the average rents across the District were c. £100 psm (£9.30 sqf). It was also noted that there are a number of vacant public houses[17].

1.42 The study indicates that budget hoteliers Premier Inn and Travelodge had requirements in the District, with tourism important to the local economy. In assessing the impact of CIL on viability, a modern 60-bedroom hotel typology with ample parking over a 1 acre (0.4 ha) site was

[14] HDH Planning and Development, CIL Viability Study 2014, para 4.5
[15] HDH Planning and Development, CIL Viability Study 2014, para 4.6
[16] HDH Planning and Development, CIL Viability Study 2014, para 4.8
[17] HDH Planning and Development, CIL Viability Study 2014, para 4.18

appraised. It was assumed that for a new roadside hotel, a rental value of £3,750 per room per year was appropriate[18].

1.43 In terms of community-uses, no typology was appraised given that this type of space is rarely viable in purely commercial terms. It was advised to review this position when the CIL charge was reviewed. In any event, these types of uses are the facilities which CIL / planning gain tries to fund so it would be futile to charge CIL on these uses.

1.44 In addition to the capitalised rents presented in Table 1.2, the table below summarises the other appraisal assumptions used to assess the impact of a CIL charge, these were altered (as shown) after consultation:

Table 1.3 - Capitalised Typical Rents, CIL Viability Study 2014

	Rent £psm	Yield %	Capitalised Rent £psm	Adopted values post consultation
Supermarkets	£160 (£15 psf)	5.5%	£2,209	£2,800 (£260.40 psf)
Retail Warehouses	£120 (£11 psf)	6.5%	£1,846	£2,000 (£186 psf)
Shops	£120 (£11 psf)	11%	£1,091	£1,000 (£93 psf)
Leisure	£100 (£9.30 psf)	11%	£909	n/a
Hotels	£3,750/room/year	6.5%	£2,150	£2,150 (£200 psf)

Source: HDH Planning & Development, CIL Viability Study, 2014, page 27

[18] HDH Planning and Development, CIL Viability Study 2014, para 4.21

Community Infrastructure Levy Viability Study Update, 2014

1.45 The CIL Viability Study Update was prepared by HDH Planning and Development.

1.46 This paper was produced to take into account further points raised by consultees, stakeholders or the Council. The changed value assumptions were highlighted in Table 1.3 above.

1.47 A further retail typology was added to the study to include smaller/discount supermarkets. A 1,700 sqm unit was modelled on a 1.24 acre (0.5 ha) site with (35% site coverage) with a rental value of £150 psm (£14 psf) assumed and a 6.5% yield to derive a capital value of £2,300 psm (£214 psf)[19].

South Lakeland District Council Economic Growth Strategy, 2014

1.48 This document sets out how the Council will work with employers, partners and investors to deliver development, economic growth, local employment and promote training opportunities. Of particular focus is:

- Promoting South Lakeland as world class destination for business
- Working with the Cumbria Local Enterprise Partnership (LEP) to create conditions for business growth
- Work with developers on regeneration projects and identify land available for business use
- Improve skills and support growth in the private sector
- Encourage investment in South Lakeland.

1.49 Figure 1.5 below provides a visualisation of the economic geography of South Lakeland. This is important to note given that economic geography will have an indirect impact upon commercial values through the price mechanism. The numbers on the map represent how certain locations have a competitive advantage, as described below:

(1) M6 Growth Corridor – competitive advantage through transport infrastructure, specifically M6 and West Coast Mainline railway

(2) Rural and Visitor Economy – competitive advantage through nationally and internationally recognised landscapes and brands, specifically, Lake District and Yorkshire Dales National Parks and Arnside and Silverdale AONB

(3) Advanced Manufacturing – competitive advantage through cluster of specialist and expanding manufacturing companies, specifically include BAE and GSK

[19] HDH Planning and Development, CIL Viability Study Update 2014, para 6.9

Figure 1.5 - Economic Geography of South Lakeland

Source: South Lakeland Economic Growth Strategy, 2014, page 4

1.50 As the figure above shows, the M6 runs through the study area providing connections north to Penrith and Carlisle, and south to Lancaster, Preston and the wider North West. This is recognised as the M6 Growth Corridor.

Kendal Economic Growth Action Plan (2015-2025), 2014

1.51 This paper was produced by Douglas Wheeler Associates Ltd as an update of the 2007 Kendal Economic Regeneration Action Plan. As established, Kendal is the key service centre for South Lakeland and this document outlines the vision for the town up to 2025 as follows[20]:

"An economically dynamic, diverse and culturally vibrant place, with strong new and established businesses in growing sectors with competitive infrastructure to support them. The businesses provide quality jobs and higher value employment opportunities. Kendal itself is a contemporary market town with an intriguing focus on culture, arts and the creative industries set in a thriving distinctive town centre within one of Europe's greatest landscapes.

[20] Douglas Wheeler Associates Ltd. Kendal Economic Growth Action Plan (2015-2025), 2014, Executive Summary

The wider Kendal area is now achieving its potential to deliver sustainable wealth, health and well-being for all its residents, and admired for its flourishing business, educational excellence, enterprise and ambition, the quality of its built heritage and its low carbon economy".

1.52 The plan identifies a number of challenges facing Kendal, such as an ageing population and housing affordability. The plan states that the retail sector provides the greatest number of jobs in Kendal, with the proportion of residents in the sector greater than the average for Cumbria and England & Wales. This demonstrates the significance of Kendal as a retail centre.

1.53 In comparison, the industrial and office markets in Kendal are weaker in terms of number of employees. Kendal has a lower than average proportion of residents working within the manufacturing sector compared to the rest of Cumbria, and a lower proportion of residents are employed in financial and business services in Kendal than the national average. However, it is stated this trend continues for the rest of Cumbria.

1.54 Based on employment data, the Kendal Growth Action Plan indicates that retail is a key sector, but industrial and office markets are less significant. This plan identifies this issue and sets the ambitions to drive business growth within Kendal by:

- Business specialisation and diversification – continue up the value chain
- Attract and retain working age talent
- Establish a brand for the wider Kendal economy, focusing on quality of life
- Deliver economic infrastructure and place making investment.

Arnside and Silverdale AONB DPD Viability Study, 2016

1.55 This report was also produced by HDH Planning and Development. The purpose of the study was not to consider CIL specifically, but to test whether the overall Plan threatened the viability of sites in the AONB. Note the study appraised specific sites across the plan area.

1.56 There is no additional information within the report that is of note for this commercial market paper given that HDH did not appraise a commercial or retail typology.

1.57 Within our commercial and retail market analysis (discussed in the following chapters), we have found very little evidence of commercial or retail activity within the AONB. Given that there are business uses proposed within the allocated sites, we have had to consider evidence from a wider area.

2 Commercial Market Evidence

2.1 This section reviews the office and industrial markets in South Lakeland (excluding the National Parks). There is no CIL charge in place for new-build office and industrial space. Therefore, there will be no CIL charge for office and industrial uses in a mixed use context.

2.2 The structure of this market assessment is by commercial sub-sector, but the approach to analysis has been to identify any value differentiations across the District having had regard to existing evidence to provide a contextual background. This shows Kendal as a principal service centre, followed by Ulverston, with the M6 corridor an emerging industrial zone.

2.3 It should be noted that the majority of transactions registered on EGi are for second-hand space, and thus will have a downwards impact on the values presented within this section. In our conclusions, we make note to the values in the most recent deals and where possible, identify any deals for new-build space. However, the lack of new-build data is an indication as to the lack of demand for, and viability issues surrounding the development of office and industrial space in South Lakeland.

2.4 Within the RICS Commercial Property Market Survey for Q1 2017, there is a comment from a commercial agency on the current state of the market, which indicates strong occupier demand for industrial/business premises throughout South Lakeland, fuelled by a lack of employment land available. This has resulted in industrial rents strengthening in the last 12-18 months[21].

[21] RICS UK Commercial Property Market Survey Q1 2017,

Office Market (B1)

2.5 In Kendal, since January 2010 there have been 45 lease transactions registered on EGi. The table below summarises these, and demonstrates that the median and average rents for office space are in the region of the rental values highlighted in the Employment Land Review (2012) and the assumptions made within the Land Allocations DPD Viability Study (2013) for offices in the east of the District.

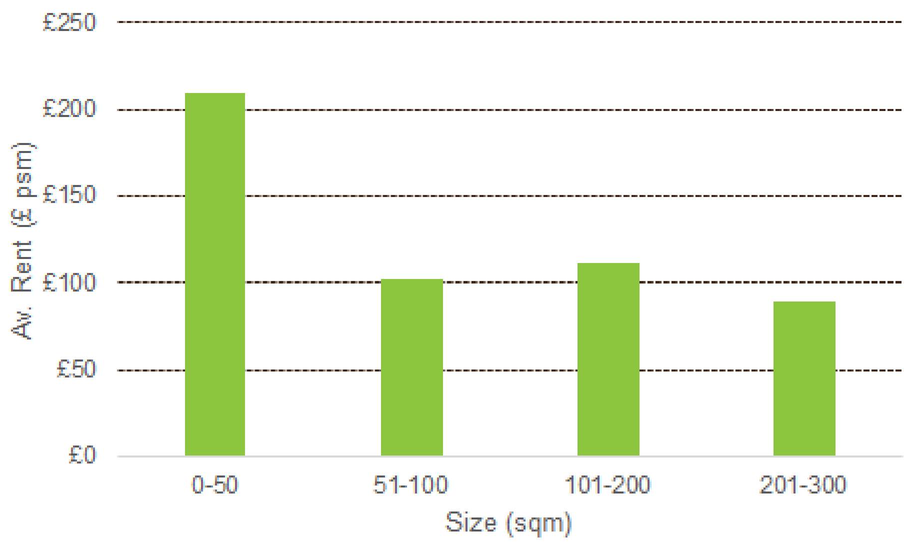
Table 2.1 - Summary of Office Lettings, Kendal

	Net Area (sqm)	Rent (psm)	Rent (psf)
Maximum	1,114	£293.53	£27.27
Average	142	£137.87	£12.90
Median	63	£118.40	£11.00

Source: AspinallVerdi using EGi (2017)

2.6 We note the difference in maximum and average / median rental values. However, the figure below shows how the rents vary depending on the floor space provided with smaller units inflating the rental value on a psm basis.

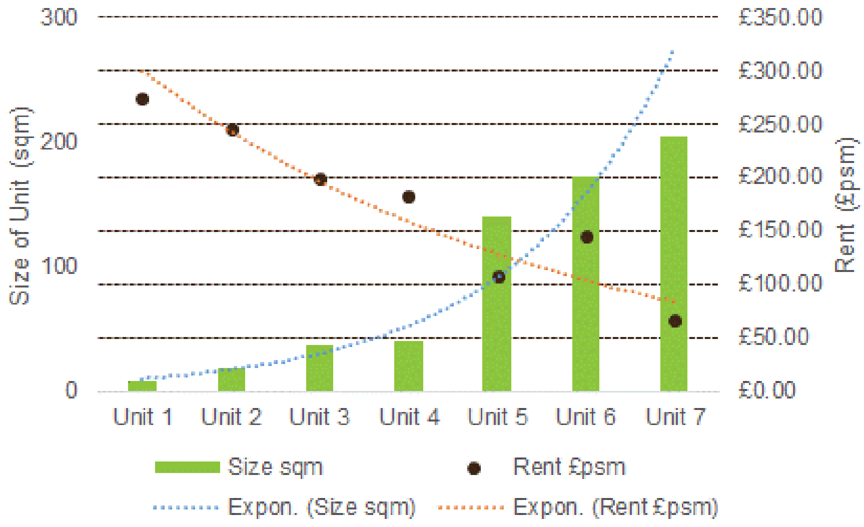
Figure 2.1 – Summary of Office Rents, by Floor Area in Kendal



Source: AspinallVerdi using EGi (2017)

This trend has continued since 2015, with deals for small modern office space at over £200 psm (£18.60 psf) (see Figure 2.2). Note the exponential lines meet at c.£125 psm (£12 psf) for a c.100 sqm unit (1,000 sqft) which is only £5psm greater than the adopted values within HDH's previous studies and is considered more representational of a typical office unit that would come forward.

Figure 2.2 - Summary of Lettings for Offices since 2015, Kendal



Source: AspinallVerdi using EGi (2017)

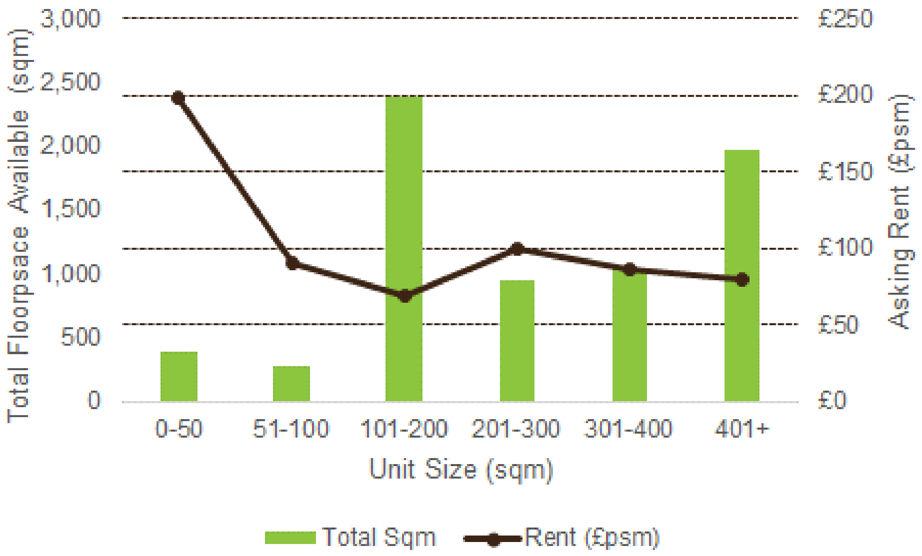
2.7 In addition to the EGi leasehold deals, an agent has provided evidence of 23 lettings for office space in Kendal over a 5-year period to October 2016. Whilst, it is anticipated there will be cross over with the deals registered on EGi. This information provides further clarity on the values presented in Table 2.1 with the findings indicating:

- Average rent achieved is £111 psm (£10.34 psf)
- Median rent achieved is £114 psm (£10.59 psf)

2.8 The figure below shows existing office supply in Kendal and quoting rents psm. As with deals done in Kendal, it is only the small units below 50 sqm (538 sqft) that have an average quoting rent above £120 psm (the rental value adopted by HDH). The average quoting rent for second-hand units over 51 sqm (1,000 sqft) is c. £80 psm (£7.50 psf), with the majority of units available between 101-200 sqm (c.1,000-2,150 sqft).

2.9 Of the units currently available in Kendal, we note only one new build scheme (Prizet Court) south of Kendal towards junction 36 of the M6 where three office units are available either as 186 sqm (2,007 sqft), or a combination up to 636 sqm (6,850 sqft). There are no quoting prices associated with this market listing.

Figure 2.3 - Kendal Office Availability, by Unit Size and Quoting Rent



Source: AspinallVerdi using EGi (2017)

2.10 In reviewing the rest of the District, we have downloaded data registered on EGi over the same time period (since January 2010). However, there is comparatively fewer data points to be able to review the £100 psm (£9.30 psf) rental value adopted by HDH for the West of the District. It should be reiterated the evidence shown below is not a fully comprehensive list of deals to have taken place. However, it does support the findings within the existing evidence that suggested a more subdued office market outside of Kendal.

2.11 We note the following rents achieved outside of Kendal for second-hand accommodation:

- Ulverston - 1 letting registered at £109.54 psm (£10.18 psf)
- Cartmel Peninsula – 2 lettings registered at an average of £87.14 psm (£8.10 psf)
- Kendal Rural – 6 lettings registered at an average of £124 psm (£11.53 psf).

2.12 Of the deals in Kendal Rural, we note three deals to have taken place in close proximity to Junction 36 of the M6 where the average rent was £165 psm (£15.36 psf). The Employment Land Review had also noted asking prices of c.£161-£183 psm (£15-£17 psf) in Milnthorpe, which is 2 miles from Junction 36.

2.13 Two of the three lease deals are for units on Moss End Business Village, this is situated in close proximity to junction 36 of the M6, explaining the premium rent an occupier would be willing to pay for office space given the locational advantage. We also note three investment transactions for office space here where 7% and 8% yields were achieved with capital values on average £120 psm (£11 psf).

2.14 It should be noted that the majority of deals to have taken place in this M6 corridor region within Kendal Rural were in 2011. There has been a lack of recent transactions for office space across rural Kendal since and thus it is difficult to be conclusive that these rents would be consistently achieved. We recommend the Council continues to review rents in the M6 corridor, because the evidence is insufficient to suggest a distinctive market area where rents are a premium.

Office Market Conclusions

2.15 This office market review has shown that values differentiate depending on the size of unit, with rents up to and over £200 psm (£18.60 psf) for units under 50 sqm. However, for a typical office unit comparable to the new build scheme Prizet Court where floorplates range from 186 sqm (2,007 sqft) upwards, rents are c.£125 psm (£11.63 psf).

Table 2.2 – Office Rental Value Assumptions

	Rent (psm)	Rent (psf)
Kendal	£125	£11.63
Cartmel Peninsula	£100	£9.30
Ulverston	£100	£9.30
Kendal Rural	£125	£11.63

Source: AspinallVerdi

2.16 In terms of yields, the Land Allocations DPD Viability Study adopted 8% for offices in the east of the District and 7.5% for those in the west. We have also noted evidence of yields between 7.5% and 8.5% and therefore have adopted the following to reflect the higher rental values in Kendal and Kendal Rural:

- 8% in Kendal and Rural Kendal
- 8.5% in Ulverston and the Cartmel Peninsula

2.17 Overall, there is very little change from the values used by HDH in 2014 which resulted in no CIL being charged on commercial uses. Given that construction costs have increased since 2014 and (as set out within the National Planning Policy section of our main report) the future of CIL is uncertain we have not re-appraised a standalone office typology.

Industrial Market (B1c, B2 & B8)

2.18 In Kendal, since January 2010 there have been 36 lease transactions registered on EGi. The table below summarises these, and demonstrates that the long term median and average rents for industrial space are in the region of the rental values highlighted in the Employment Land Review (2012) and the £55 psm (£5.12 psf) assumptions made within the Land Allocations DPD Viability Study (2013) for the ***east*** of the District.

Table 2.3 –Summary of Industrial Lettings, Kendal

	Net Area (sqm)	Rent (psm)	Rent (psf)
Maximum	561	£104.52	£9.71
Average	175	£54.12	£5.03
Median	118	£54.35	£5.05

Source: AspinallVerdi using EGi (2017)

2.19 We have distinguished between Kendal and the M6 corridor[22] to mirror HDH's 'distribution' category. Given that the EGi database merges industrial and distribution uses, we feel the M6 corridor is where a 'distribution' unit would typically be situated. The map below shows our search area on EGi.

[22] Essentially defined as South of Oxenholme towards Kirkby Lonsdale / Lune Valley

Figure 2.4 - M6 Corridor Market Area

Source: EGi (2017)

2.20 Across the 10 lettings listed on EGi, the table below demonstrates that rents for industrial space are on average greater than Kendal, reflecting the likely demand for such prime 'distribution' space from bigger occupiers. Note that on average / median basis, the table indicates the market has improved from the £55 psm (£5.12 psf) value adopted by HDH (as referenced earlier).

Table 2.4 –Summary of Industrial Lettings, M6 Corridor

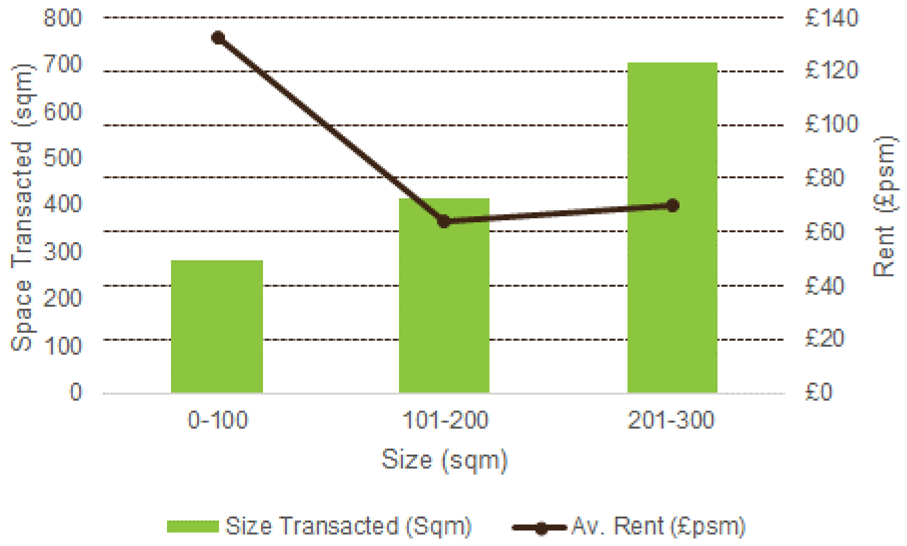
	Net Area (sqm)	Rent (psm)	Rent (psf)
Maximum	246	£161.46	£15.00
Average	156	£88.74	£8.24
Median	119	£75.13	£6.98

Source: AspinallVerdi using EGi (2017)

2.21 However, as with the office market the size of the unit has an influence on the rental value on a per square metre basis. Figure 2.5 below shows that for a unit in the M6 corridor over 100 sqm (1,000 sqft) the rent achieved is on average between £64-£70 psm (£5.95-£6.51 psf). This suggests deals have achieved rents in a similar region to the asking prices quoted in the Employment Land Review, which we noted earlier at c.£65-£78 psm (£6-£7.20 psf).

AspinallVerdi

Figure 2.5 – Summary of Rents in M6 Corridor, by Unit Size



2.22 We also note 6 new-build industrial units currently available at Parkhouse Lakeland Estate (within M6 Corridor). We understand these units have been marketed for some time with the development receiving planning consent in 2007 (SL/2006/0598). There are no quoting prices associated with these units as of June 2017. This implies:

- potential viability issues in delivering this development
- weak demand for industrial space at present
- the potential for industrial activity in the M6 Corridor

2.23 In Ulverston, since January 2010 there have been 13 lease transactions registered on EGi. The table below summarises these, and demonstrates that the median and average rents for industrial space are circa £4-8psm greater than the £50 psm (£4.65 psf) assumption made within the Land Allocations DPD Viability Study (2013) for the ***west*** of the District. We feel this reflects the trends in the wider market where supply of industrial space is limited and continued demand for space has pushed rents upwards.

Table 2.5 – Summary of Industrial Lettings, Ulverston

	Net Area (sqm)	Rent (psm)	Rent (psf)
Maximum	810	£71.69	£6.66
Average	276	£54.00	£5.02
Median	150	£58.19	£5.41

Source: AspinallVerdi using EGi (2017)

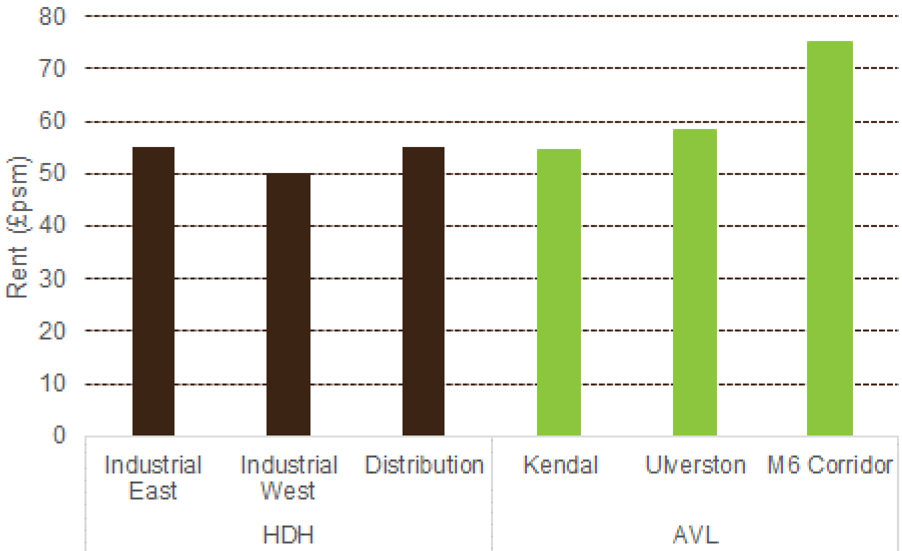
Industrial Market Conclusions

2.24 Overall, the average / median rental values achieved in the study area since 2010 indicate limited change on the values quoted within the existing evidence base as shown by the figure below where:

- Industrial East is compared with Kendal
- Industrial West is compared with Ulverston

2.25 However, if 'distribution' rents are compared with M6 corridor rents, there is a clear increase in values on average (see Figure 2.6):

Figure 2.6 - Comparison of HDH Assumptions and AspinallVerdi Assessment

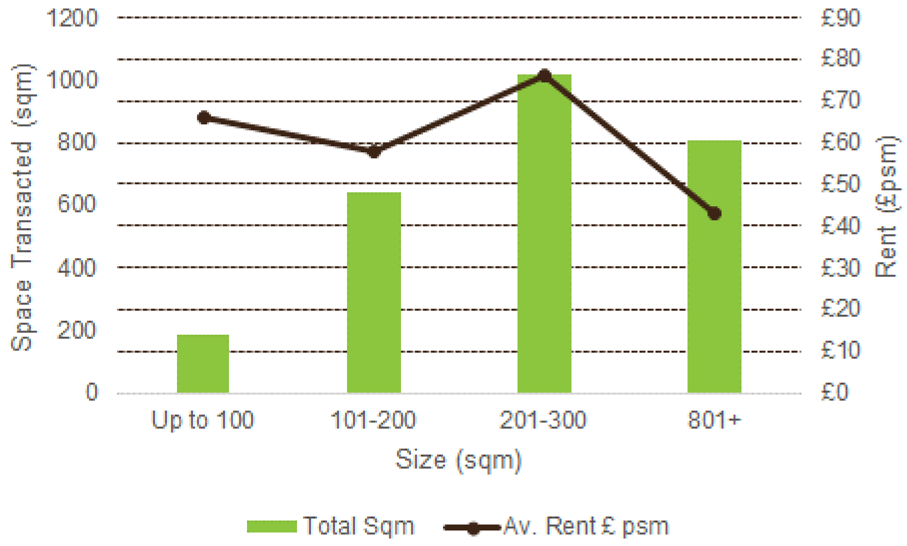


Source: Land Allocations DPD Viability Study, 2013 and Aspinall Verdi using EGi (2017)

2.26 However, it is difficult to be conclusive in providing an up-to-date opinion of value given the limited number of transactions registered on EGi since 2015. Although, of the 12 deals noted there is an indication that rental values have increased to correspond with the comment by a local agent[23] that increased demand has driven rental value growth (see Figure 2.7). The majority of deals have achieved on average between £58-£66 psm (£5.39-£6.14 psf).

[23] See RICS Commercial Market Survey Q1 2017

Figure 2.7 - Summary of Rents Since 2015, by Unit Size



Source: AspinallVerdi using EGi (2017)

2.27 Our review of the industrial market evidence suggests the following rental values:

Table 2.6 – Industrial Rental Value Assumptions

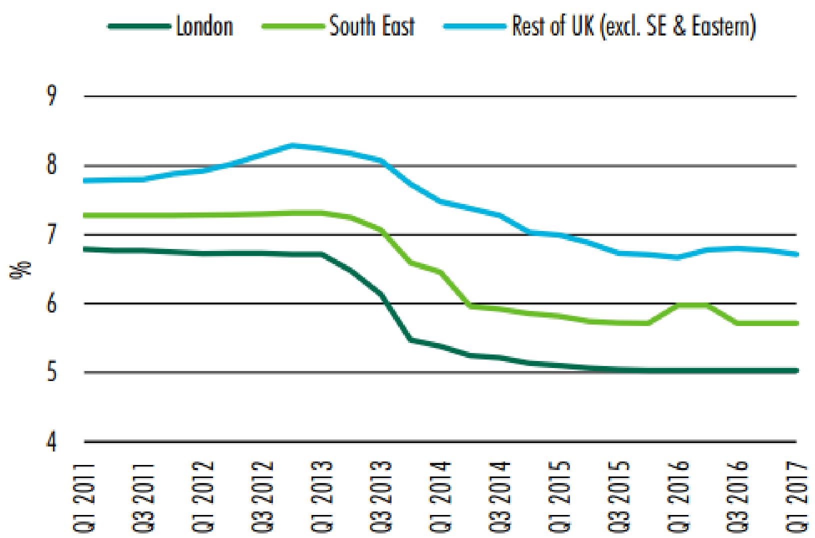
	Rent (psm)	**Rent (psf)**
Kendal	£55	£5.12
Cartmel Peninsula	£55	£5.12
Ulverston	£55	£5.12
Kendal Rural (M6 Corridor)	£75	£6.98

Source: AspinallVerdi

2.28 In terms of yields, CBRE's UK Prime Rent and Yield Monitor Q1 2017 indicated that prime yields have remained stable, with the 'Rest of the UK (excluding South East / Eastern) at just below 7% (see Figure 2.8 below).

2.29 However, more local evidence indicates yields are higher in South Lakeland. The Land Allocations DPD Viability Study used 7.5% for industrial space in the east and west, and 8% for distribution space. We have been further provided with evidence to suggest yields have increased to 8.5% (Lambert Smith Hampton).

Figure 2.8 - CBRE UK Prime Rent and Yield Monitor

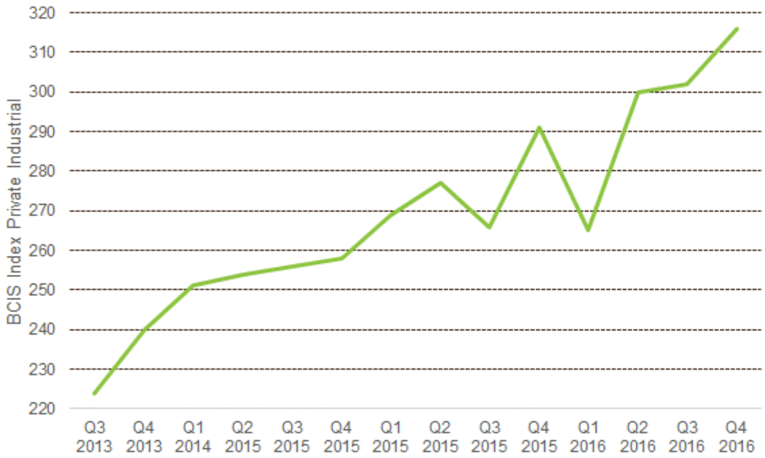


Source: CBRE UK Prime Rent and Yield Monitor Q1 2017

2.30 Whilst rental values have risen on average by up to £11psm (c.£1 psf) in the east and M6 corridor, and £18psm (c.£1.70 psf) in the west of the District i.e. Ulverston, we have not re-appraised a standalone industrial scheme. This is for the following reasons:

- CIL is not currently charged on industrial development following the HDH viability study in 2014
- the Council has economic development policies and strategies to encourage appropriately located commercial development to deliver jobs and growth
- the future of CIL is uncertain following the national CIL Review
- the likelihood is that industrial development will take place on brownfield land, which has additional costs associated with bringing forward development
- Build costs for industrial space have continued to increase at quite significant rates. This is shown by the BCIS Industrial Index below (Figure 2.9).

Figure 2.9 - Increasing Industrial Build Costs



Source: BCIS Private Industrial Index

3 Retail Market Evidence (A1)

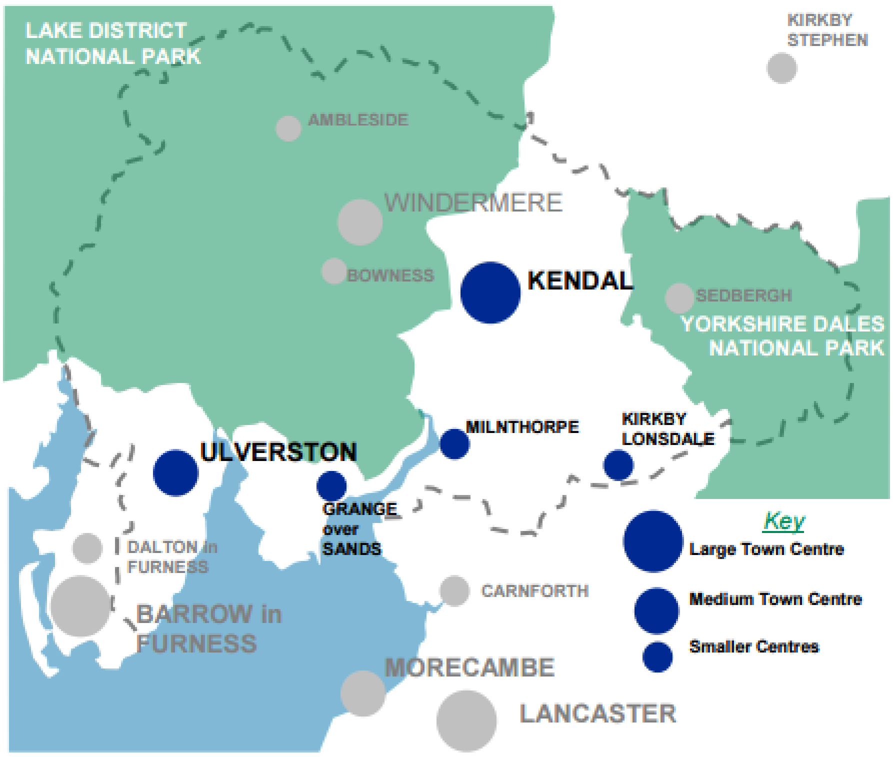
3.1 This section reviews the retail market in South Lakeland (excluding the National Parks). To reiterate, CIL is only chargeable on net additional supermarket and retail warehousing floorspace at rate of £150 psm (£14 psf). However, the Local Plan Land Allocations DPD (2013) does not allocate any sites for retail use.

3.2 It should be noted that the majority of transactions registered on EGi will be for second-hand space, and thus will have a downwards impact on the values presented within this section. In our conclusions, we make note to the values in the most recent deals and where possible, identify any deals for new-build space.

3.3 The structure of this market assessment is by retail sub-sector, but it also has regard to the shopping hierarchy presented in Figure 3.1 below. This mirrors the Key Service Centres map with Kendal and Ulverston the principal shopping destinations. The secondary centres are comprised of Grange-over-Sands, Milnthorpe and Kirby Lonsdale. It is also evident that there is no key shopping destination within the AONB, with Carnforth to the south in in Lancashire the key retail centre and Milnthorpe providing the retail needs of residents in the north of the AONB.

3.4 Note the National Park boundaries have now changed and are as hatched in Figure 1.3.

Figure 3.1 - Shopping Hierarchy and other town centres



Source: Local Plan Land Allocations (2013, page 15)

High-Street Retail

3.5 There is no current CIL charge on high-street retail space. Typically, because land in town centres is generally at the top of the land value hierarchy, new retail space on the high-street is provided via refurbished units already existing within retail centres. This is not classified as net additional space and therefore would not carry a CIL charge.

3.6 We have been provided with evidence of planning consents regarding A1 uses, this primarily demonstrates a loss of A1 space in Kendal and Ulverston to uses such as A2-A3, B1a, D2 or C3.

3.7 However, to review rental values for high-street space we have analysed EGi lease deals since 2010. Table 3.1 summarises our findings for the two key retail centres. It should be noted the EGi data is treated with caution given that it is not explicit as to whether the rents are Zone A or an average rent across the whole floor area.

Table 3.1 – High-Street Retail Rents Since 2010, Kendal and Ulverston

Market Area		Net Area (sqm)	Rent (psm)	Rent (psf)
Kendal	Maximum	1,728	£287	£37.31
	Average	173	£146	£13.58
	Median	89	£152	£14.13
Ulverston	Maximum	380	£183	£16.99
	Average	175	£115	£10.71
	Median	122	£128	£11.93

Source: AspinallVerdi using EGi (2017)

3.8 The table above supports the assumption that Kendal is a higher value area than Ulverston for high-street retail space. HDH had indicated prime rents for shops in the best locations were c.£200 psm+ (£18.60 psf), but that rents drop sharply away from the key shopping streets to around £120 psm (£11.16 psf) [24]. The table shows prime rents in Kendal have reached £287 psm, but this was for a small 31 sqm (338 sqft) unit in 2013.

3.9 From our evidence, prime retail space is generally achieving rents of between £220-£280 psm (£20-£26 psf) and this tends to be for retail space within Westmorland Shopping Centre and Blackhall Yard Shopping Centre. Albeit, we note from EGi availability data, that there are a number of vacant units within these centres, perhaps an indication that rents above £220 psm are optimistic in the current retail climate.

[24] HDH Planning and Development CIL Viability Study, 2014, para 4.6

3.10 We recognise that Blackhall Yard is not a typical shopping centre, and is more of a parade of small shops. We have anecdotal evidence to suggest that this part of Kendal suffers from a lack of pedestrian flow and this has resulted in a high turnover of units, providing further support to suggest that rents above £220 psm are unrealistic.

3.11 From the EGi database, there is no significant variation in rents achieved in 2010 versus those achieved between 2015-2017 and whilst there is evidence of prime retail space achieving rents greater than the £120 psm (£11.16 psf) value assumed within HDH's study, we not feel it is necessary to appraise a retail town centre typology because:

- There is no high-street retail allocation in the Land Allocations DPD – nor proposals for any major town centre redevelopment / regeneration projects
- The economics behind delivering this type of space is difficult – major town centre schemes are complex developments usually involving site assembly issues, service diversion costs and other abnormals costs
- There is evidence of A1 high-street retail space being lost to other uses indicating a lack of demand for high-street space
- This is supplemented by a further 38 units currently available in Kendal[25]
- As the following section will demonstrate, generally growth in the retail sector has come from value brands such as Lidl and Aldi, and not your typical 'high-street' occupiers – this is discussed below in more detail.

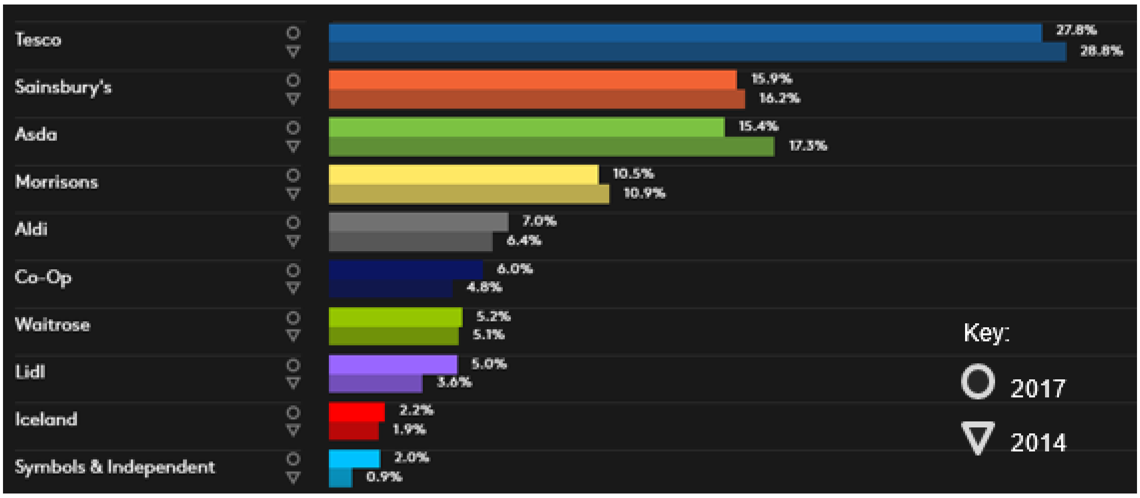
Supermarkets and Retail Warehouses

3.12 The convenience retail sector has seen a significant change since the financial crisis of 2007/08. In the years following 2008, supermarkets appeared to weather the economic storm with most operators aggressively expanding (commonly referred to as the race for space). Operators were able to competitively bid for sites as they were able to take advantage of other sectors in the property market being much weaker. During this period of growth there was a strong appetite from operators to open large format stores of up to circa 11,150 sqm. With this format of store providing a mixture of convenience and comparison retail.

3.13 In recent years shopping patterns have changed significantly: there is more reliance for online shopping combined along with customers supplementing a 'big' shopping trip with regular smaller shops during the week. Also some customers are splitting their shopping trips between the big four supermarkets (Tesco, Sainsbury's, Asda and Morrisons) and discounters such as Aldi and Lidl. This has led to discount supermarkets gaining market share at the expense of the big four (see Figure 3.2).

[25] Estates Gazette Interactive, Availability Download Kendal (2017)

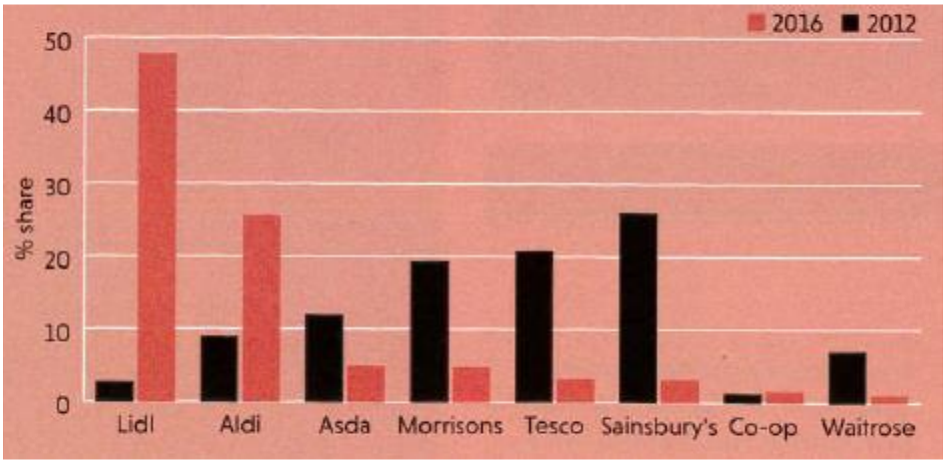
Figure 3.2 - Gross Market Share of Supermarket Retailers, September 2014 versus May 2017



Source: Kantar, World Panel (2017)

3.14 Figure 3.2 shows evidence of the big four's market share falling resulting in lower sales and reported lower profits. The combined effect of a weaker market for the top four has led them to scaling back new store openings. Whilst the smaller discount operators such as Aldi and Lidl have been growing market share leading them to continue to open new stores as shown by Figure 3.3.

Figure 3.3 - Supermarket Applications 2012 - 2016



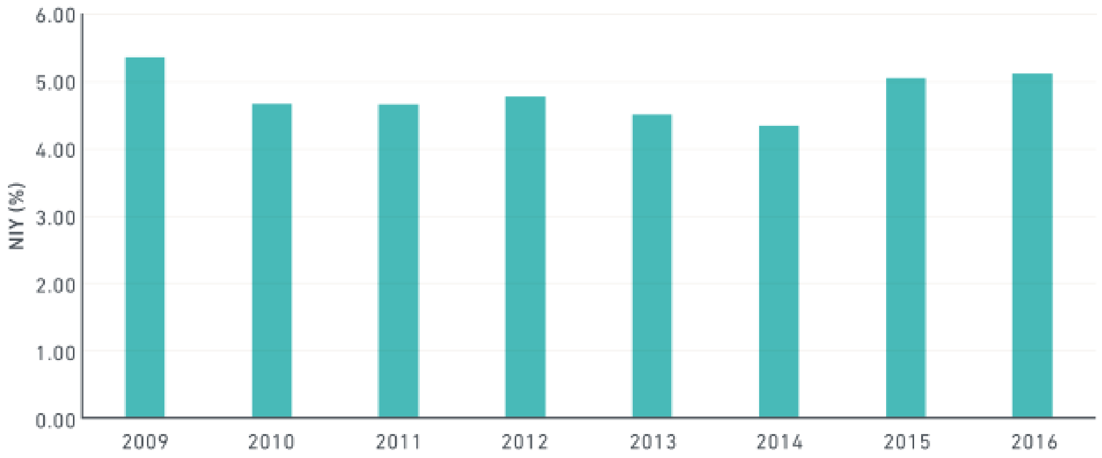
Source: Estates Gazette Interactive, Retail and Leisure Spring 2017, page 5

3.15 The uncertainty in the market led to a yield shift with investors being more selective on the tenant profile and location. In addition, operators are more selective on store locations and lease terms. Agents' have commentated as follows:

- Yields have moved out on those leases which have open market rent reviews (OMR).
- Yields are holding firm with those leases with RPI fixed increases.
- Size and location impacts yield. Larger formats are particularly unattractive as growth in the sector is now for smaller format.
- Strength of location is an important factor in attracting operators. Weaker locations will have to offer heavily incentivised terms.
- Power lies with the tenant rather than the landlord in negotiating terms.
- 25-year lease with 5 yearly fixed RPI sub 5% yield, but with OMR then there is a yield of at least 0.5%. Aldi and Lidl will commit to a 15-year lease with OMR. Therefore, you would expect the yield to be above 6%.

3.16 Evidence from Colliers shows the average yield for prime supermarket assets is relatively unmoved at around 4.5% for conventional inflation-linked rent view and long-leasehold supermarkets[26]. This is demonstrated below, whilst secondary asset yields are around 5.75-6.25%.

Figure 3.4 - Average 20-Year RPI Supermarket Yields



Source: UK Supermarket Investment Report 2016, Colliers International, March 2017, page 9

Local Market Evidence

3.17 It is evident from the EGi data that supermarket and retail warehousing space can attract longer leases between 10-25 years. Units on the high-street tend to have leases between 3-15 years. A Tesco deal (discussed shortly) in 2015, saw a 20-year lease signed with 5-yearly rent reviews and a break option at 10 years. The stronger covenant offered by retail supermarket / warehouses as an investment results in yields of between 4-6% compared to the high-street

[26] UK Supermarket Investment Report 2016, Colliers International, March 2017, page 2

where as HDH assumed, yields are considerably softer at 11%. For supermarkets, HDH assumed:

- £160 psm with a yield of 5.5% for a major supermarket operator, albeit he noted the yield was cautious and could have been 5%[27]
- £150 psm with a yield of 6.5% for a discount supermarket operator[28]

3.18 Following HDH's work, any net additional A1 supermarket and retail warehouse floorspace in South Lakeland currently carries a CIL charge of £150 psm (outside designated regeneration areas).

3.19 In South Lakeland, we note the following outstanding retail consents for A1 supermarkets:

- Hartley's (Ulverston) Ltd, Old Brewery, Brewery Street, Ulverston – full conditional approval (SL/2013/0009) for the erection of a supermarket providing 3,320 sqm of food retail floorspace on a brownfield site;
- Site Kendal Rugby Union Football Club, Shap Road, Kendal – full conditional approval (SL/2013/1120) for the erection of a Sainsbury's A1 food store providing 7,774 sqm gross (4,667 sqm net) on a mixed brown and greenfield site. Note this is currently under construction but have no value or cost based evidence associated with this development;
- Site formally occupied by Bateman's Toyota Sales Garage, Grange-over-Sands – an extant planning permission to erect a Booth's supermarket on a brownfield site to provide 1,560 gross sqm (16,792 sqft) – current status is an extension to time condition (SL/2011/1034) granting a further three years of approval (SL/2011/1034)

3.20 Furthermore, we are aware of interest from a discount supermarket chain looking for a site in Ulverston.

3.21 In terms of lease deals, there is limited evidence for supermarket and retail warehousing space registered on EGi. However, from the 13 lease transactions the table below provides a summary of the rents achieved:

Table 3.2 - Achieved Rents for Supermarket and Retail Warehousing Space

	Net Area (sqm)	Rent (psm)	Rent (psf)
Maximum	1,185	£293.53	£27.27
Average	634	£137.87	£12.90
Median	380	£118.40	£11

Source: AspinallVerdi using EGi (2017)

[27] HDH Planning and Development, CIL Viability Study Update, 2014, para 6.2
[28] HDH Planning and Development, CIL Viability Study Update, 2014, para 6.9

3.22 Within the above data, there are two deals of note for supermarket space which we consider to reflect a higher-end supermarket store. The values are c.£5-10 psm (£0.50-£1.00 psf) greater than the £160 psm (£14.88 psf) assumed by HDH:

- Tesco let 325 sqm (3,498 sqft) of foodstore/supermarket space in Grange-over-Sands for £169.29 psm (£15.73 psf) in 2015
- Booths Limited let 1,858 sqm (19,999 sqft) of foodstore/supermarket space in Milnthorpe for £166.84 (£15.50 psf) in 2012.

3.23 In terms of retail-warehousing space, the values appear to be circa £120 psm as HDH assumed, we note the following lease deals, the majority of which from Canal Head, Ulverston:

- Unit 3, Canal Head, Ulverston – 380 sqm (4,090 sqft) of retail space achieved £134.50 psm (£12.51 psf) in 2016
- Unit 1A, 1A-1C Dowkers Lane, Kendal – a 94 sqm (1,012 sqft) unit achieved £96.20 psm (£8.95 psf) in 2015
- Unit 1, Canal Head, Ulverston – 372 sqm (4,000 sqft) of retail space achieved £107.50 psm (£10 psf) in 2013
- Unit 2, Canal Head, Ulverston – 380 sqm (4,090 sqft) of retail space achieved £148.60 psm (£13.82 psf) in 2013

Retail Market Conclusions

3.24 We have not appraised a high-street typology for the reasons aforementioned, but include a small ‘express store’ on a brownfield site as this is a more likely development scenario within existing urban areas and the Sunday trading regulations which apply to stores over 280 sqm[29]. This resulted in the likes of Tesco building ‘express’ stores which can be open for longer hours on Sundays.

3.25 The rest of our typologies have been based on evidence of market demand given that no site is allocated for retail use. We have therefore assumed the following values for those typologies.

3.26 In terms of supermarket rents, we have adopted a slightly higher rent in appraising a ‘big-four’ typology and mirrored this £5 psm increase for the discount typology. For retail warehouses we can find no evidence contrary to the assumptions adopted by HDH in the CIL Update 2014 study and have maintained a £120 psm (£11 psf) rental value.

3.27 In terms of yields, we have assumed 5.5% for convenience retail typologies and operator covenants and 6% for retail warehouses given the wider range of comparison retailers and the more fickle market for comparison goods.

[29] Trading hours for retailers: the law, Gov.UK

Table 3.3 – Retail Value Assumptions

	Size (sqm)	Rent (psm)	Rent (psf)	Yield (%)
Medium Supermarket	700 sqm	£165	£15.35	5.5%
Supermarket	4,000 sqm	£165	£15.35	5.5%
Express Store	200 sqm	£160	£14.88	5.5%
Discount Supermarket	1,700 sqmn	£155	£14.42	5.5%
Retail Warehouse	350 sqm	£120	£11 psf	6.0%

Source: AspinallVerdi

4 Other Uses

4.1 In this section we discuss our approach to the value assumptions for D2 and C1 uses.

Assembly and Leisure (D2)

4.2 HDH assumed a rental value of £100psm and a yield of 11% for leisure space. Subsequently, a recommendation of no CIL charge was made.

4.3 There is limited evidence for rents and yields of leisure space within South Lakeland. Of the deals registered on EGi, there is no rental value that exceeds the HDH assumption of £120psm.

4.4 Commercial assembly and leisure uses (e.g. cinemas) are challenging to deliver and are often 'loss leaders' as part of larger mixed use developments. There are no such proposals in the South Lakeland area. Other public / community facilities (e.g. swimming pools / leisure centres) are similarly challenging to deliver and are the types of facilities which CIL and planning gain try to delivery. Charging CIL on these uses is therefore futile.

4.5 We have not appraised these uses.

Hotels (C1)

4.6 There is limited availability of published research around new-build hotel values and yields, they also provide a complexity from a viability perspective, which is discussed in more detail shortly. Most of the published transactions are for the sale of existing county-house and town-house hotels and B&B's.

4.7 HDH appraised a 60-unit roadside hotel (over 1 acre / 0.4 ha) on the basis of £3,750 per room per year, capitalised at 6.5% to produce a value of approximately £2,150 psm (£200 psf). No alternative evidence was provided by stakeholders to counteract these assumptions.

4.8 Table 4.1 below shows evidence of three deals for hotels that took place between 2015 and January 2017. We have calculated the revenue using the 6.5% yield assumed by HDH and divided the revenue by number of rooms (as a proxy).

Table 4.1 - Hotel Deals, South Lakeland

Hotel	Location	Rooms	Sale Price	Revenue	Revenue / Room / Year
The Lymehurst Private Hotel	Grange-over-Sands	10	£550,000	£84,615	£8,462
Elton Guest House	Grange-over-Sands	7	£460,000	£70,769	£10,110
84 Milnthorpe Road	Kendal	30	£800,000	£123,077	£4,102

Source: AspinallVerdi using EGi (2017)

4.9 It should be noted the hotels in the table above are independent hoteliers and the assumptions made by HDH were based on a 'roadside hotel'. We are aware that Premier Inn are currently on site in Ulverston having had planning granted in 2016 (SL/2015/1203) for a 79 bedroom hotel. We feel the evidence presented above supports HDH's assumptions around a budget hotel achieving a revenue of £3,750 per room per year.

4.10 The viability of new hotels is determined entirely by the trading potential of the scheme which is dependent on the business model, location and competition in the vicinity. As a general comment it is apparent that since 2009 the trading performance of hotels has been adversely affected by the supply of new hotels developed during the previous cycle. Debt remains the greatest challenge to the market which demands strict criteria of location, sector and brand / management.

4.11 Independent boutique hotels face these challenges and their success or failure usually depends on the strength of the management and the quality and location of the asset. These hotels are often opened in refurbished 'country-house' properties which would not necessarily be captured by CIL (if no new floorspace is developed). Furthermore, there is a public interest allowing these hotels to develop and remain viable in order to up-keep the heritage and support the important tourism industry.

4.12 The budget / roadside hotel sector is dominated by the big chains such as Travelodge and Premier Inn. There is some flexibility as to whether developments are freehold or leasehold, but often hotels are developed in partnership with developers as part of a wider mixed use commercial or retail park scheme. Rents are generally £3,000 - £3,500 per bedroom. Yields are subject to a significant range (6-9%) with Travelodge being subject of a company voluntary arrangement (CVA) in 2016 to restructure its debt which has impacted its covenant strength. Viability in this sector is therefore marginal.

4.13 More upmarket hotels are even more difficult to prove viable. Most upmarket hotel brands are attracted to the city centres such as Manchester. Most new hotels are developed using a Management Contracting business model whereby the developer / investor takes the risk and the hotel chain operates the hotel for a fee. Due to the expensive fit-out the viability is often only achieved for the developer by the hotel bringing footfall and vitality to a wider scheme.

4.14 We have not re-appraised a hotel typology given that there would be no changed to the assumptions in light of the evidence presented and a zero rate for CIL was introduced as a result of preceding viability studies.

5 Commercial and Retail Value Assumptions

5.1 Having regard to the above, the table below summarises our value assumptions.

Table 5.1 - Value Assumptions Summary

Typology	Rent £psm	Yield %	Rent Free
Kendal & Kendal Rural Offices	£125 (£11.63 psf)	8.0%	12 months
Cartmel & Ulverston Offices	£100 (£9.30 psf)	8.5%	12 months
Kendal, Cartmel & Ulverston Industrial	£55 (£5.12 psf)	8.5%	12 months
Kendal Rural Industrial	£75 (£6.98 psf)	8.0%	12 months
Supermarkets (4,000 sqm)	£165 (£15.35 psf)	5.5%	12 months
Medium Supermarket (700 sqm)	£165 (£15.35 psf)	5.5%	6 months
Express Store (200 sqm)	£160 (£14.88 psf)	5.5%	6 months
Discount Supermarkets (1,700 sqm)	£155 (£14.42 psf)	5.5%	12 months
Retail Warehouses (350 sqm)	£120 (£11.16 psf)	6.0%	12 months

Source: AspinallVerdi

5.2 For a high-level plan wide study in South Lakeland we would typically assume a 12-month rent-free period which allows for fitting out and voids. We have adjusted this for some of the smaller typologies.

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