E-Mail from Growen Estates to ECC Deputy Chief Executive_23 June 2020

Subject: Moor Exchange

Hi Bindu

I hope you are well.

Following a recent dialogue with Matt I agreed to set out a more detailed response on our concerns for Moor Exchange and CIL.

Following the planning approval in January we immediately made progress with tenant dialogue and instructed architects to complete some high quality CGI's to assist these discussions. These are attached and we believe they set a new benchmark in retail centre design, akin to the recent CPG scheme at Kingsley Village, Cornwall. The proposal seeks to build upon the Met Office and Science Park tone of design. However high quality design comes at a price and at present going forward its clear retail development is going to be very challenging.

We have waited to seek retailer feedback from the post virus fallout, it is early days, however it's clear any acquisition program will be very limited and highly incentive driven to limit opening costs at new locations. This will lead to high incentive packages to secure a tenant line up, creating viability issues. Effectively developers need the fire power to entice tenant commitment.

We are talking with tenants such as M&S (with 25k Food Hall), Boots, HomeSense, Gym Group and Costa to name a few, they would deliver a high quality scheme for East Exeter. It is clear that occupiers will require a greater incentive package post Covid 19 and at a time where retail development and investment is considered risky, the days of CVAs and debt laden tenants walking away from rent responsibility have weighed heavily on the market. There have been significant negative stepped changes over the last 12 mths in the investment market. Over the last 7 years since Exeter's CIL charging schedule was introduced the retail market has seen rising build costs, falling rentals, larger incentive packages and reduced term commitment, all of these ~~a~~ffecting retail development. Most retailers have only ever paid rent on the ground floor which is immediately at odds with Councils CIL charging structure and results in a doubled up CIL charge on any unit with a mezzanine. Developers have to install 1st floor mezzanines at their cost, compounded by the fact CIL is payable on the total GIA. The recent retail woes due to Covid -19 have only added to the suppression of the viability of development.

Our argument is therefore that Governments justification for CIL on retail uses is no longer applicable or relevant. Retail is no longer a 'high value' use and is being penalised. Land values are fast heading on a par with good quality B1/B8 employment schemes which are not subject to any tax. Around the country vacant retail parks are converting to industrial use and only this week Westfield have made the ground breaking decision to turn their empty House of Fraser into a B1 office scheme, no doubt a sign of the times.

It is evident that without support from ECC on CIL, we will struggle to have any flexibility. We already have agreed to significant direct infrastructure works such as, widening of Honiton Road with new toucan crossing, bus stop relocations, signal improvements and delivery of a new Bus only link, all effectively S.106 liabilities to deliver infrastructure improvements that surpass the mitigation of impact, however, we now face an out of touch CIL regime. I note that East Devon have just reviewed their retail CIL to £0 to support all "town centre" development across their region and to £85.00 psm for out of centre schemes. Having read the "CIL Review and Cranbrook Plan DPD Viability Study Jan 2019" in this climate we would even question some of the key retail assumptions that led to level of £85.00 psm being proposed, this leaves Exeter's current level of £186psm as a significance hindrance to delivering investment and jobs.

Since Oct 2013 the charge rate has risen by 50%, whilst over the same period retail rents have dropped broadly by 30%, it is not aligned to market reality, this 'sea change' in the retail market makes the current CIL payment out of touch with current retail market dynamics. We are trying to deliver a truly aspirational retail centre and for purposes of CIL we do not benefit from being deemed a "town centre" with CIL relief. Albeit the principle that Members agreed is that Moor Exchange will act as the proposed town centre for East Exeter and the masterplan area.

We are aware of your report to the Executive and Council in July 2019 seeking approval to initiate a review of the Council's CIL Charging Schedule, and in which you correctly acknowledged that *"… insofar as CIL rates are grounded in development viability, there is a need to keep CIL charges under review, to reflect prevailing macro and local economic circumstances"*. Even before the impact of Covid-19 the prevailing macro and local economic circumstances affecting the retail sector had deteriorated markedly since adoption of the current CIL schedule in 2013. The events of the past three months have compounded those impacts, and accelerated the progression of the already fragile and precarious retail and leisure sectors towards a cliff edge. Urgent, positive, and to a degree, radical intervention is therefore needed to support its recovery, and to remove viability barriers to new investment in these sectors.

Local Authorities must support the Local Living agenda with new retail centres serving expanding communities, however, multii-tenanted schemes such as Moor Exchange are a great deal more complex and costly than the delivery of a single owner occupier location such as an Ikea or a stand alone supermarket, with wholly difference investment criteria. However with these complexities comes a truly sustainable and community facing scheme that Moor Exchange can deliver for locals, however, it needs to be supported at all levels. Local Living and sustainability has never been so important, the pandemic has proven this, it puts into question why Moor Exchange that delivers on Local Living, improved sustainability for East Exeter and 520 FTE jobs has a CIL burden to consider. Moor Exchange has the ability to create these new jobs immediately if we can entice retailers to commit to the scheme.

In the current circumstances all forms of retail and leisure will need to be 'future-proofing' their premises and operations. The new importance of 'essential' retailing and modern provision to allow for social distancing procedures, home delivery and rapidly changing shopping patterns will be essential to those retailers who survive the pandemic and following recession. The result of social distancing is that customers need better facilities and more choice in modern facilities. Moor Exchange will be popular with customers as it can provide these facilities and also assist in regeneration and securing investment for the area.

Moor Exchange will be a major growth engine for the East of Exeter. I have attached a copy of our Economic Impact Assessment prepared by Regeneris which sets out all the projected benefits resulting from the scheme if it proceeds and they are significant. The benefits flowing from Moor Exchange are especially important with unemployment expected to increase significantly during the post Covid 19 recession.

Briefly Moor Exchange will result in;

1. £15,000,000 construction investment.
2. 520 new FTE jobs
3. 160 new FTE jobs supported in the local economy.
4. £9,000,000 will be spent by the new employees in the local economy.
5. Many of the jobs will benefit the vulnerable under 25's.
6. £1,100,000 annually paid in business rates contributions

With ECC's support on CIL we have the ability to go out and sell Moor Exchange, offering the incentives that will be needed and deliver a high quality line up. It would be great achievement for Exeter in this climate to deliver a scheme such as Moor Exchange and resulting benefits. Local businesses have always believed that Moor Exchange would significantly improve the attractiveness of the wider business district.

We face a significant level of work and costs in order to progress Moor Exchange and we wish to know if ECC can offer any comfort on CIL.

At present developers are struggling to have the appetite to invest due to the risks and costs of big retail projects, in particular we have no flexibility nor ability to reach out to these occupiers with confidence. Speculative spend by developers has dried up and schemes like this may have to wait for government intervention on CIL to support viability.

We hope the above information is useful and we would welcome your thoughts and a discussion on how ECC can assist us.

Best wishes

Paul