



Report

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CIL Development Viability Study: Additional Employment Testing Birmingham City Council

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For and on behalf of GVA Grimley Ltd

Foreword

This Addendum is to be read in conjunction with GVA's 'CIL Economic Viability Assessment Birmingham City Council' of October 2012.

1. INTRODUCTION

- 1.1 GVA has been instructed by the Council to carry out further work in respect of a number of employment scenarios, industrial and business park development in Greenbelt areas and offices in the prime and fringe of the city centre, to demonstrate the ability of different sizes of employment to potentially contribute to a CIL Charge.
- 1.2 As noted in the Report of October 2012, it is open to the Council to show through its Development Plan and other work what form of employment is anticipated to be delivered during the currency of the CIL Tariff, and to propose a CIL rate that can be afforded by those proposals.

2. ANALYSIS

- 2.1 The 6 additional development schemes have been discussed and agreed with Officers at the Council, including modified versions of schemes 18-22 (Section 6), and additional testing of a potential development of a business park on a greenbelt site. The details of the scenarios are summarised in the Table below.
- 2.2 The appraisals we have undertaken are for a hypothetical scheme in the Study Area and are not site specific. As such the appraisals are high level and cannot be used as an example of what an individual developer would be prepared to pay for land at any given location. The appraisals do not account for sunk costs or abnormal costs. The majority of assumptions within the appraisals are generic based on market comparables - the specifics of any scheme could have a significant impact on residual value e.g. site servicing costs.
- 2.3 In order to test the viability of a range of schemes on greenbelt employment land, three different scenarios have been tested.

Table 1: Summary of Development Typologies

Scenario	Type	Use Class	GIA Sq M	Car Parking Spaces	Gross site Ha
A	Greenbelt Industrial (Pre-let)	B1a/B2/B8	9,300	n/a	1.50
B	Greenbelt Industrial (Speculative)	B2/B8	4,700	n/a	0.75
C	Greenbelt Business Park (Speculative)	B1a	2,200	78	0.35

Scenario	Type	Use Class	GIA Sq M	Car Parking Spaces	Gross site Ha
D	City Fringe (Speculative)	B1a	6,700	30	0.22
E, F	City Prime (Speculative and Pre-let)	B1a	10,700	50	0.22

2.4 A summary of the values adopted is set out in the Table below.

Table 2: Summary of Rents, Yields and Rent Free Periods

Scenario		
A	Rent per Sq M	£65
	Yield	6.75%
	Rent Free – months	9
B	Rent per Sq M	£65
	Yield	7.50%
	Rent Free – months	18
C	Rent per Sq M	£172
	Yield	7.50%
	Rent Free – months	24
D	Rent per Sq M	£237
	Yield	7.50%
	Rent Free – months	24
E	Rent per Sq M	£306
	Yield	6.75%
	Rent Free – months	30
F	Rent per Sq M	£296
	Yield	6.75%
	Rent Free – months	30

Green Belt Employment Land

2.5 We have made a number of standard assumptions as detailed below.

Table 3: Summary of Assumptions

Item	Industrial (Pre-let)	Industrial (Speculative)	Business Park
Build Cost per sq m	£485	£485	£893

Item	Industrial (Pre-let)	Industrial (Speculative)	Business Park
Enabling Costs	5%	5%	5%
Professional Fees	10%	10%	10%
Contingency	5%	5%	5%
Letting Costs	15%	15%	15%
Investment Sale Costs	1.25%	1.25%	1.25%
Finance	7.50%	7.50%	7.50%
Profit on Cost	18%	20%	20%

Land Trader Model

2.6 Testing has also been undertaken using a Land Trader Model, which assumes that land is bought, planning permission is obtained, necessary employment works are carried out, an appropriate profit on cost is taken, and the serviced land is then sold on.

2.7 This model makes the following assumptions:

Table 4: Summary of Assumptions

Item	Land Trader Model
Enabling Costs	To be Advised
Professional Fees	10%
Investment Sale Costs	1.5%
Finance	7.50%
Profit on Cost	20%

(Results – to be reported at a later date)

City Centre Offices

2.8 For city centre offices, in each instance, the land price but not the size of the land has been increased from the 2012 testing in order to reflect current market conditions. An allowance has also been made for joint agency fees rather than sole agents. We have made a number of further assumptions as detailed below.

Table 5: Summary of Assumptions

Item	Fringe (Speculative)	Prime (Speculative)	Prime (Pre-let)
Build Cost per sq m	£1,290	£1,600	£1,600
Enabling Costs	10%	10%	10%
Professional Fees	10%	10%	10%
Contingency	5%	5%	5%
Letting Costs	15%	20%	20%
Investment Sale Costs	1.25%	1.25%	1.25%
Finance	7.50%	7.50%	7.50%
Profit on Cost	20%	20%	17.5%

Fringe City Speculatively Let

- 2.9 It is noted that the 2012 appraisal made no allowance for car parking, which does not reflect reality. The 2013 appraisal has allowed for rental income from onsite car parking at £1,500 per space.

Prime City Speculatively Let

- 2.10 The rent has been marginally increased from 2012 to reflect current market conditions, and a separate allowance has been made for car parking income.

Prime City Pre-let

- 2.11 Further to the 2012 testing, a greater allowance has been made for car parking (the number of spaces has increased to 50).

Residual Land Value

- 2.12 The Residual Land Value for each scenario has been compared with a Base Land Value, which then allows for a margin from which CIL/S.106 can be provided (taking into account cashflow and finance charges).

Table 6: Base Land Values

Area	Adopted Base Land Value	Per Hectare	Per Acre
Greenbelt Industrial (Pre-let)	£1,195,000	£803,100	£325,0000
Greenbelt Industrial (Speculative)	£604,000	£803,100	£325,000

Area	Adopted Base Land Value	Per Hectare	Per Acre
Greenbelt Business Park (Speculative)	£283,000	£803,100	£325,000
City Centre Fringe	£550,000	£2,471,000	£1,000,000
City Centre Prime	£3,300,000	£14,826,000	£6,000,000

3. RESULTS

- 3.1 The appraisals are appended, and the Table below summarises the maximum CIL charges per square metre for the different scenarios tested. We have assumed that there is effectively no payment required under a S106 Agreement.

Table 5: Maximum CIL

Scenario	Type	Maximum CIL (40% Cushion)
A, B, C	Greenbelt Employment Land	(to be Reported at a later date)
D	City Fringe Offices	£0
E, F	City Centre Prime Offices	£0

4. CONCLUSIONS

- 4.1 The further testing has demonstrated that both speculatively let and pre-let offices in the Prime City Centre and the City Fringe of Birmingham cannot support a CIL payment.
- 4.2 It should also be noted that the appraisals have been undertaken on a high level basis, and that there can be exceptional costs for individual sites that can mean that the residual land value is materially reduced.



Report

Appendices

**Birmingham City Council – Additional Employment CIL Testing
City Fringe Office**

REVENUE

Fringe City Centre Office	5,600.00 sq-m at 237.00 psm/pa	1,327,200	
Car Parking Spaces	30 units at 1,500.00 ea./pa	45,000	
Inv.Value-A	Net annual income	1,372,200	
	Capitalised at 7.5% Yield	18,296,000	
	Less Unpaid Rent: 24 Months Income	2,744,400	
	Less Purchasers costs at 5.8%	1,002,994	14,548,606
		REVENUE	14,548,606

COSTS

Site Value		264,000	
Site Stamp Duty	at 4.00%	10,560	
Site Legal Fees	at 1.00%	2,640	
Site Agency Fees	at 0.50%	1,320	
		Site Costs	278,520
Fringe City Centre Office	6,700.00 sq-m at 1,290.00 psm	8,643,000	
Undercroft Car Parking	30 spaces at 10,000.00 ea.	300,000	
Contingency	at 5.00%	447,150	
Professional Fees	at 10.00%	894,300	
Enabling And Infrastructure Costs	at 10.00%	894,300	
		Build Costs	11,178,750
Letting Agents Fee	at 15.00%	205,830	
Letting Legal Fees	at 5.00%	68,610	
Invest.sale Agents Fee	at 0.75%	129,698	
Invest.sale Legal Fees	at 0.50%	86,465	
		Disposal Fees	490,603
INTEREST			175,671
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Mar 12)		
Fringe City Centre Office (bld.)	Month 1 to 12 (Mar 12 - Feb 13)		
Undercroft Car Parking (bld.)	Month 1 to 12 (Mar 12 - Feb 13)		
Contingency	Month 1 to 15 (Mar 12 - May 13)		
Professional Fees	Month 1 to 15 (Mar 12 - May 13)		
Enabling And Infrastructure Costs	Month 1 to 15 (Mar 12 - May 13)		
Inv.Value-A 7.5%	Month 8 (Oct 12)		
PROFIT	2,425,062	COSTS	12,123,544
PROFIT/SALE	16.67%	PROFIT/COST	20.00%
IRR	N/A	RENT COVER	1.8 years
YIELD/COST	11.32%		

**Birmingham City Council – Additional Employment CIL Testing
City Centre Office - Speculative**

REVENUE		Prime City Offices – Speculatively Let	
City Centre Office	9,300.00 sq-m at 306.00 psm/pa	2,845,800	
Basement Parking	50 units at 2,500.00 ea./pa	125,000	
Inv.Value-A	Net annual income	2,970,800	
	Capitalised at 6.75% Yield	44,011,852	
	Less Unpaid Rent: 30 Months Income	7,427,000	
	Less Purchasers costs at 5.8%	2,412,748	34,172,104
		REVENUE	34,172,104
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COSTS			
Site Value		1,810,000	
Site Stamp Duty	at 4.00%	72,400	
Site Legal Fees	at 1.00%	18,100	
Site Agency Fees	at 0.50%	9,050	
		Site Costs	1,909,550
Prime City Centre Office	11,300.00 sq-m at 1,600.00 psm	18,080,000	
Basement Car Parking	50 spaces at 25,000.00 ea.	1,250,000	
Contingency	at 5.00%	966,500	
Professional Fees	at 10.00%	1,933,000	
Enabling And Infrastructure Costs	at 10.00%	1,933,000	
		Build Costs	24,162,500
Letting Agents Fee	at 15.00%	445,620	
Letting Legal Fees	at 5.00%	148,540	
Invest.sale Agents Fee	at 0.75%	311,993	
Invest.sale Legal Fees	at 0.50%	207,996	
		Disposal Fees	1,114,149
			1,291,354
INTEREST			
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Mar 14)		
Prime City Centre Office (bld.)	Month 4 to 18 (Jun 14 - Aug 15)		
Basement Car Parking (bld.)	Month 4 to 18 (Jun 14 - Aug 15)		
Investment Sales	Month 18 (Aug 15)		
PROFIT	5,694,551	COSTS	28,477,552
PROFIT/SALE	16.66%	PROFIT/COST	20.00%
IRR	N/A	RENT COVER	1.9 years
YIELD/COST	10.43%		

**Birmingham City Council – Additional Employment CIL Testing
City Centre Office – Pre-let**

REVENUE

City Centre Office	9,300.00 sq-m at 296.00 psm/pa	2,752,800	
Car Parking Spaces	50 units at 2,500.00 ea./pa	125,000	
Inv.Value-A	Net annual income	2,877,800	
	Capitalised at 6.5% Yield	44,273,846	
	Less Unpaid Rent: 30 Months Income	7,194,500	
	Less Purchasers costs at 5.8%	2,427,111	34,652,235
		REVENUE	34,652,235

COSTS

Site Value		2,688,000	
Site Stamp Duty	at 4.00%	107,520	
Site Legal Fees	at 1.00%	26,880	
Site Agency Fees	at 0.50%	13,440	
		Site Costs	2,835,840
Prime City Centre Office	11,300.00 sq-m at 1,600.00 psm	18,080,000	
Basement Car Parking	50 spaces at 25,000.00 ea.	1,250,000	
Contingency	at 5.00%	966,500	
Professional Fees	at 10.00%	1,933,000	
Enabling And Infrastructure Costs	at 10.00%	1,933,000	
		Build Costs	24,162,500
Letting Agents Fee	at 15.00%	431,670	
Letting Legal Fees	at 5.00%	143,890	
Invest.sale Agents Fee	at 0.75%	313,851	
Invest.sale Legal Fees	at 0.50%	209,234	
		Disposal Fees	1,098,644
INTEREST			1,394,178
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Mar 14)		
Prime City Centre Office (bld.)	Month 4 to 18 (Jun 14 - Aug 15)		
Basement Car Parking (bld.)	Month 4 to 18 (Jun 14 - Aug 15)		
Investment Sales	Month 18 (Aug 15)		
PROFIT	5,161,074	COSTS	29,491,162
PROFIT/SALE	14.89%	PROFIT/COST	17.50%
IRR	N/A	RENT COVER	1.8 years
YIELD/COST	9.76%		