



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 (2012 Report).

## 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 the Green Belt 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 2012 Report, 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 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 the proposed release of c 80 ha of Green Belt at Peddimore. The details of the scenarios are summarised in the Table below.

**Table 1: Summary of Development Typologies**

Typology	Type	Use Class	GIA Sq M	Car Parking Spaces	Gross site Ha
<b>Scheme 18</b>	City Prime (Speculative and Pre-let)	B1a	11,300	50	0.22
<b>Scheme 19</b>	City Fringe (Speculative)	B1a	6,700	30	0.22
<b>Scheme 20</b>	Green Belt Business Park (Speculative)	B1a	2,200	78	0.35
<b>Scheme 21</b>	Green Belt Industrial (Speculative)	B2/B8	4,700	n/a	0.75
<b>Scheme 22</b>	Green Belt Industrial (Pre-let)	B1a/B2/B8	9,300	n/a	1.50

- 2.2 The changes made from the testing in the 2012 Report are:
- Fringe City Speculatively Let - It is noted that the 2012 appraisal made no allowance for car parking, which does not reflect reality. The updated appraisal has allowed for 50 basement car spaces. The rent has been marginally increased,

and a separate allowance has been made for car parking income at £1,500 per space.

- Some changes have been made to the values and rent free period periods adopted.

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

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

Scenario		Original Assumptions	New Assumptions
Scheme 18 (Speculative)	Rent per Sq M	£302	£306
	Yield	7.0%	6.75%
	Rent Free – months	18	30
Scheme 18 (Pre-let)	Rent per Sq M	£296	£296
	Yield	6.25%	6.75%
	Rent Free – months	30	30
Scheme 19	Rent per Sq M	£237	£237
	Yield	7.5%	7.50%
	Rent Free – months	12	24
Scheme 20	Rent per Sq M	£172	£172
	Yield	8.0%	7.50%
	Rent Free – months	12	24
Scheme 21	Rent per Sq M	£54	£54
	Yield	8.0%	7.50%
	Rent Free – months	12	18
Scheme 22	Rent per Sq M	£54	£54
	Yield	6.75%	6.75%
	Rent Free – months	0	9

2.4 We have made a number of standard cost assumptions as detailed below. These are the same as those in the October 2012 Report except for the Profit, which is now calculated reference to Costs rather than the GDV.

**Table 3: Summary of Cost Assumptions**

Item	Scheme 18 City Prime Office	Scheme 19 City Fringe Office (Speculative)	Scheme 20 Business Park (Speculative)	Scheme 21 Industrial (Speculative)	Scheme 22 Industrial (Pre-let)
Build Cost per sq m	£1,600	£1,290	£893	£485	£485
Enabling Costs	10%	10%	5%	5%	5%

Item	Scheme 18 City Prime Office	Scheme 19 City Fringe Office (Speculative)	Scheme 20 Business Park (Speculative)	Scheme 21 Industrial (Speculative)	Scheme 22 Industrial (Pre-let)
Professional Fees	10%	10%	10%	10%	10%
Contingency	5%	5%	5%	5%	5%
S106 & S278 Costs	£0	£0	£0	£0	£0
Letting Costs	20%	20%	15%	15%	15%
Investment Sale Costs	1.25%	1.25%	1.25%	1.25%	1.25%
Finance	7.50%	7.50%	7.50%	7.50%	7.50%
Profit on Cost	Speculative 20% Pre-let 17.5%	20%	20%	17.5%	20%

2.5 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.

#### Residual Land Value

2.6 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). The Base Land Values remain unchanged from those used in the 2012 Report.

**Table 4: Base Land Values**

Area	Adopted Base Land Value	Per Hectare	Per Acre
City Centre Prime	£3,300,000	£14,826,000	£6,000,000
City Centre Fringe	£550,000	£2,471,000	£1,000,000
Green Belt Business Park (Speculative)	£281,000	£803,100	£325,000
Green Belt Industrial (Speculative)	£602,000	£803,100	£325,000
Green Belt Industrial (Pre-let)	£1,205,000	£803,100	£325,000

## (Scheme 29) Green Belt Release – 80 ha of Employment Land at Peddimore

- 2.7 The Council has proposed a release of Green Belt land at Peddimore, Minworth to provide a high quality employment site of 80 ha. The site lies in close proximity to the M42 junction 9 and existing employment areas at Minworth and Kingsbury. It is proposed that 40 ha of the site should be safeguarded for B1 (c) or B2 uses.
- 2.8 Future development will need to ensure:
- High quality design and landscaping;
  - Access improvements: A network of integrated pedestrian and cycle routes will be required throughout the site which should be linked to the adjoining residential areas proposed to the east of the A38 and the North Birmingham cycle network;
  - New bus connections will be required including direct links to Sutton Coldfield Town Centre, Birmingham City Centre and the major residential areas of Sutton Coldfield, East Birmingham and North Solihull;
  - Enhancement of the biodiversity value of the site such as enhancements to Peddimore Brook and reinstatement of hedgerows.
- 2.9 A Supplementary Planning Document will be prepared before development commences to address issues of design, access and phasing to ensure a comprehensive development and relationship with Langley SUE (Policy GA5).
- 2.10 The Council has estimated the cost of providing Off-site Highway Works to permit the scheme to be developed. These are assessed to be in the order of £14.7m excluding professional fees for essential works, and an additional c £13m for desirable works. This does not take into account other costs such as the provision of services, strategic landscaping and on-site highways. We would expect these other costs to be not less than £50,000 per acre inclusive of preliminaries and fees. This suggests that the cost of Enabling Works would be not less than £25m and could be significantly higher.
- 2.11 The testing makes the following assumptions:

**Table 5: Summary of Assumptions**

Item	Scheme 23
Serviced land	80 ha
Market Value of serviced land	£556,000 per ha £225,000 per acre
Time to sell	16 years
Enabling Costs	£25m
Planning Costs	£500,000
S106 Costs	£0

Item	Scheme 23
Sale Costs	1.25%
Finance	7.50%
Value inflation	0%
Cost inflation	0%
Profit on Cost	20%
Base Land Value	£20m (£247,000 per ha £100,000 per acre)

### 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**

Typology	Type	Maximum CIL	Maximum CIL (40% Cushion)	CIL 2012 Report
Scheme 18	City Prime (Speculative and Pre-let)	£0	£0	£55
Scheme 19	City Fringe (Speculative)	£0	£0	£25
Scheme 20	Green Belt Business Park (Speculative)	£0	£0	£15
Scheme 21	Green Belt Industrial (Speculative)	£0	£0	£0
Scheme 22	Green Belt Industrial (Pre-let)	£0	£0	£0
Scheme 29	Green Belt Peddimore 80ha	£0	£0	£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 The testing also shows that development on Green Belt land cannot support a CIL payment.

- 4.3 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.





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**Appendices**

**Birmingham City Council – Additional Employment CIL Testing  
Scheme 18 City Centre Office – Pre-let 2014 Values & Costs**

**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	
<b>Inv.Value-A</b>	Net annual income	2,877,800	
	Capitalised at 6.75% Yield	42,634,074	
	Less Unpaid Rent: 30 Months Income	7,194,500	
	Less Purchasers costs at 5.8%	2,337,218	33,102,356
(Net Income: 2,877,800)		<b>REVENUE</b>	33,102,356

**COSTS**

Site Value		1,456,000	
Site Stamp Duty	at 4.00%	58,240	
Site Legal Fees	at 1.00%	14,560	
Site Agency Fees	at 0.50%	7,280	
		Site Costs	1,536,080
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 20.00%	575,560	
Letting Legal Fees	at 5.00%	143,890	
Invest.sale Agents Fee	at 0.75%	302,226	
Invest.sale Legal Fees	at 0.50%	201,484	
		Disposal Fees	1,223,161
<b>INTEREST</b>	<b>(See CASHFLOW)</b>		1,249,896
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)		
<b>PROFIT</b>	4,930,720	<b>COSTS</b>	28,171,637
<b>PROFIT/SALE</b>	14.90%	<b>PROFIT/COST</b>	17.50%
<b>IRR</b>	N/A	<b>RENT COVER</b>	1.7 years
<b>YIELD/COST</b>	10.22%		

**Birmingham City Council – Additional Employment CIL Testing  
Scheme 18 City Centre Office – Speculative 2014 Values & Costs**

**REVENUE**

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	
<b>Inv.Value-A</b>	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
(Net Income: 2,970,800)		<b>REVENUE</b>	34,172,104

**COSTS**

Site Value		1,682,000	
Site Stamp Duty	at 4.00%	67,280	
Site Legal Fees	at 1.00%	16,820	
Site Agency Fees	at 0.50%	8,410	
		Site Costs	1,774,510
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 20.00%	594,160	
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	1,262,689
<b>INTEREST</b>	<b>(See CASHFLOW)</b>		1,276,363
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)		
<b>PROFIT</b>	5,696,042	<b>COSTS</b>	28,476,062
<b>PROFIT/SALE</b>	16.67%	<b>PROFIT/COST</b>	20.00%
<b>IRR</b>	N/A	<b>RENT COVER</b>	1.9 years
<b>YIELD/COST</b>	10.43%		

**Birmingham City Council – Additional Employment CIL Testing  
Scheme 19 City Centre Fringe – 2014 Values & Costs**

<b>REVENUE</b>		File: 2012 Fringe City May 14	
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	
<b>Inv.Value-A</b>	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
(Net Income: 1,372,200)		<b>REVENUE</b>	14,548,606
<b>COSTS</b>			
Site Value		208,000	
Site Stamp Duty	at 1.00%	2,080	
Site Legal Fees	at 1.00%	2,080	
Site Agency Fees	at 0.50%	1,040	
		Site Costs	213,200
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 20.00%	274,440	
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	559,213
<b>INTEREST</b>	<b>(See CASHFLOW)</b>		172,778
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)		
<b>PROFIT</b>	2,424,665	<b>COSTS</b>	12,123,940
<b>PROFIT/SALE</b>	16.67%	<b>PROFIT/COST</b>	20.00%
<b>IRR</b>	N/A	<b>RENT COVER</b>	1.8 years
<b>YIELD/COST</b>	11.32%		

**Birmingham City Council – Additional Employment CIL Testing  
Scheme 20 Green Belt Business Park – 2014 Values & Costs**

**REVENUE**

Business Park	1,860.00 sq-m at 172.00 psm/pa	319,920	
<b>Inv.Value-A</b>	Net annual income	319,920	
	Capitalised at 7.5% Yield	4,265,600	
	Less Unpaid Rent: 24 Months Income	639,840	
	Less Purchasers costs at 5.75%	231,936	3,393,824
	(Net Income: 319,920)	<b>REVENUE</b>	3,393,824

**COSTS**

Site Value		31,500	
Site Legal Fees	at 1.00%	315	
Site Agency Fees	at 0.50%	158	
		Site Costs	31,973
Office Business Park	2,200.00 sq-m at 893.00 psm	1,964,600	
Surface Car Parking	78 spaces at 3,000.00 ea.	234,000	
Contingency	at 5.00%	109,930	
Professional Fees	at 10.00%	219,860	
Enabling And Infrastructure Costs	at 5.00%	109,930	
		Build Costs	2,638,320
Letting Agents Fee	at 10.00%	31,992	
Letting Legal Fees	at 5.00%	15,996	
Invest.sale Agents Fee	at 0.75%	30,252	
Invest.sale Legal Fees	at 0.50%	20,168	
		Disposal Fees	98,409
<b>INTEREST</b>	<b>(See CASHFLOW)</b>		59,370
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Mar 12)		
Building Costs	Month 2 to 7 (Apr 12 - Sep 12)		
Contingency	Month 2 to 7 (Apr 12 - Sep 12)		
Professional Fees	Month 2 to 7 (Apr 12 - Sep 12)		
Enabling And Infrastructure Costs	Month 2 to 7 (Apr 12 - Sep 12)		
Investment Sales	Month 8 (Oct 12)		
<b>PROFIT</b>	565,753	<b>COSTS</b>	2,828,071
<b>PROFIT/SALE</b>	16.67%	<b>PROFIT/COST</b>	20.00%
<b>IRR</b>	N/A	<b>RENT COVER</b>	1.8 years
<b>YIELD/COST</b>	11.31%		

**Birmingham City Council – Additional Employment CIL Testing  
Scheme 21 Green Belt Industrial - Speculative 2014 Values & Costs**

**REVENUE**

Small Scheme Employment	4,700.00 sq-m at 54.00 psm/pa	253,800	
<b>Inv.Value-A</b>	Net annual income	253,800	
	Capitalised at 7.5% Yield	3,384,000	
	Less Unpaid Rent: 18 Months Income	380,700	
	Less Purchasers costs at 5.75%	184,000	2,819,300
	(Net Income: 253,800)	<b>REVENUE</b>	2,819,300

**COSTS**

Site Value		1	
Site Stamp Duty	at 4.00%	0	
Site Legal Fees	at 1.00%	0	
Site Agency Fees	at 0.50%	0	
		Site Costs	1
Small Scheme Employment	4,700.00 sq-m at 485.00 psm	2,279,500	
Contingency	at 5.00%	113,975	
Professional Fees	at 10.00%	227,950	
Enabling And Infrastructure Costs	at 5.00%	113,975	
		Build Costs	2,735,400
Letting Agents Fee	at 10.00%	25,380	
Letting Legal Fees	at 5.00%	12,690	
Invest.sale Agents Fee	at 0.75%	24,000	
Invest.sale Legal Fees	at 0.50%	16,000	
		Disposal Fees	78,070
<b>INTEREST</b>	<b>(See CASHFLOW)</b>		54,722
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Mar 12)		
Small Scheme Employment (bld.)	Month 4 to 10 (Jun 12 - Dec 12)		
Contingency	Month 4 to 10 (Jun 12 - Dec 12)		
Professional Fees	Month 4 to 10 (Jun 12 - Dec 12)		
Enabling And Infrastructure Costs	Month 4 to 10 (Jun 12 - Dec 12)		
Investment Sales	Month 10 (Dec 12)		
<b>PROFIT</b>	-48,893	<b>COSTS</b>	2,868,193
<b>PROFIT/SALE</b>	-1.73%	<b>PROFIT/COST</b>	-1.70%
<b>IRR</b>	N/A	<b>RENT COVER</b>	-0.2 years
<b>YIELD/COST</b>	8.85%		

**Birmingham City Council – Additional Employment CIL Testing  
Scheme 22 Green Belt Industrial - Pre-let 2014 Values & Costs**

**REVENUE**

Pre-let Sale	9,300.00 sq-m at 54.00 psm/pa	502,200	
<b>Inv.Value-A</b>	Net annual income	502,200	
	Capitalised at 6.75% Yield	7,440,000	
	Less Unpaid Rent: 9 Months Income	376,650	
	Less Purchasers costs at 5.75%	404,539	6,658,811
	(Net Income: 502,200)		<b>REVENUE</b> 6,658,811

**COSTS**

Site Value		1	
Site Stamp Duty	at 4.00%	0	
Site Legal Fees	at 1.00%	0	
Site Agency Fees	at 0.50%	0	
		Site Costs	1
Pre Let Sale	9,300.00 sq-m at 485.00 psm	4,510,500	
Contingency	at 5.00%	225,525	
Professional Fees	at 10.00%	451,050	
Enabling And Infrastructure Costs	at 5.00%	225,525	
		Build Costs	5,412,600
Letting Agents Fee	at 10.00%	50,220	
Letting Legal Fees	at 5.00%	25,110	
Invest.sale Agents Fee	at 0.75%	52,766	
Invest.sale Legal Fees	at 0.50%	35,177	
		Disposal Fees	163,273
<b>INTEREST</b>	<b>(See CASHFLOW)</b>		101,909
7.50% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Mar 12)		
Pre Let Sale (bld.)	Month 4 to 10 (Jun 12 - Dec 12)		
Contingency	Month 4 to 10 (Jun 12 - Dec 12)		
Professional Fees	Month 4 to 10 (Jun 12 - Dec 12)		
Enabling And Infrastructure Costs	Month 4 to 10 (Jun 12 - Dec 12)		
Investment Sales	Month 10 (Dec 12)		
<b>PROFIT</b>	981,028	<b>COSTS</b>	5,677,783
<b>PROFIT/SALE</b>	14.73%	<b>PROFIT/COST</b>	17.28%
<b>IRR</b>	N/A	<b>RENT COVER</b>	2.0 years
<b>YIELD/COST</b>	8.85%		