

Ceiri Rowlands
Senior Planner
Planning & Transportation Services
Vale of Glamorgan Council

By email: cerowlands@valeofglamorgan.gov.uk

3 March 2022

Dear Ceiri,

Planning Application 2019/00871/OUT - Land at Model Farm, Port Road, Rhoose

I refer to your various discussions with Darren Parker of RPS and my previous discussions with your property adviser, Steve Gibbon of Avison Young. As you know, Legal & General Strategic Land Limited owns 109 ha (269 acres) and has submitted a planning application for the following:

B1 Offices	2.91 ha
B1 Industrial	11.30 ha
B1 Trade Centre	2.54 ha
B1/B2	3.77 ha
B8 Warehousing	<u>10.71 ha</u>
Total	31.23 ha (77 acres)

You have requested updated information on costs and other variables set out in the submission by RPS and I set out below this information:

1. Site Abnormals and Development Infrastructure

The site abnormals are derived from 'Cost Plan No. 3A – Site Infrastructure Works' prepared for Legal & General Strategic Land Limited by RPS, dated 3 October 2019. This report sets out a detailed cost estimate for site abnormals and development infrastructure of £22.541 million, as at October 2019.

This cost plan was based upon the known site abnormal and development infrastructure works required to facilitate the masterplan including the construction of the new road and improved access arrangements onto the existing roads, subject to revision in the event of further constraints being identified.

The construction prices date from October 2019 and, assuming ONS indexation for construction cost prices for infrastructure from Oct 2019 to the latest available figure in Dec 2021, see Appendix 1, this would now be circa £24.29 million.

Construction costs for this programme were derived from the 2019 'Building Cost Information Service (BCIS) Index Value', managed by the Royal Institution of Chartered Surveyors. There will be cost price inflation since 2019 however we have not yet determined the scale of any increase. The ONS

'Construction Output' Prices suggests an increase of 7.65% for 'Private Industrial' from October 2019 to December 2021, the latest available data, see [link](#).

2. Impact of Covid-19 and update on demand / take-up

The pandemic has had a markedly different impact upon the various sectors of the commercial property market. City centre uses have generally suffered, not least retail and leisure, whilst the industrial sector has been a significant winner. A commentary on recent industrial land transactions is attached as Appendix 2.

Industrial demand – there is, currently, a record low level of availability of secondhand industrial stock and consequently rising rental levels across all sectors. There has been a rise in urban logistics enquiries however we also see strong demand from a range of other distinct industrial sectors including small multi-let schemes, trade counter operators, life sciences, energy / battery storage and data. Indeed, there is also an underlying core demand from local and regional businesses seeking to expand or relocate.

St Modwen has confirmed that it will be quoting £7.75/£8.00 per sq ft for its next scheme at St Modwen Park, Llanwern, Newport (see [link](#); 4no. speculative units from 16,558 sq ft to 43,487 sq ft) whilst developer London Metric is quoting £8.00 per sq ft for its speculative new-build unit of 33,000 sq ft at Axis 32, Forest Farm, Coryton, Cardiff See brochure [link](#). These are strong rental levels for South Wales however reflects the lack of Grade A floorspace and a stronger linkage with Bristol / Avonmouth where industrial and logistics rents are now at £7.00-9.00 per sq ft and, for smaller multi-let units up to £14.00 per sq ft.

Industrial take-up - we assumed annual take-up of 50,000 sq ft of industrial accommodation under use class B1/B2/B8 with an assumed construction cost of £65 per sq ft. We assumed rental income based on £7.50 per sq ft (rising to £8.00 per sq ft in year 4), based upon emerging evidence in Cardiff and Bridgend, with a 12-month rent free period and standard letting and legal fees. The construction price would need to be revised however rents have risen to potentially £8.00 per sq ft and capitalization yields have further compressed to partly offset increased construction costs.

Office demand – office demand is weak at present as occupiers wait to see the strength of the 'return to the office' following the pandemic and they will plan their occupational footprint accordingly. There is however an increase in activity for small-scale office suites.

Office take-up – we assumed annual take-up of 10,000 sq ft of B1 office accommodation under use class B1 with construction cost of £135 per sq ft. We assumed rental income based on £15.00 per sq ft with a 12-month rent free period and standard letting and legal fees. Our view is that office demand is uncertain for the next 2/3 years and we would be better to focus upon industrial, logistics, campus headquarters and frontage users. In any event, we assumed a relatively small take-up of offices per annum.

Frontage users – in our appraisal, we worked within the broad land use allocation proposed of use classes B1, B2 & B8. There is, however, a general growth in 'frontage leisure' demand with hotels, family pubs and drive-thrus, all options which could be explored here. In addition, Cardiff & Vale College has announced plans for a new campus at the airport which may generate spin-off activity. With rents of £40-

£50 per sq ft being paid for drive-thru units and net initial yields of sub 5% for this type of stock such development would be attractive. A recent example would be Starbucks, Newport East where the rent equates to £44.44 per sq ft (lease dated 14 Nov 2021) with the investment being marketed at 4.93% see brochure [link](#).

Frontage user take-up – we assumed annual take-up of 5.0 acres of employment land sold in the first two years at £150,000 per acre changing to 3 acres per annum from year 3 onward at £200,000 per acre. Two years on, both the rate of take-up and price per acre is, in our view, likely to be higher; there is a lack of serviced employment sites and recent evidence illustrates a marked increase in price paid per acre.

There are few opportunities to acquire fully serviced development land in South Wales. There may be demand from aviation related projects but in addition we anticipate demand from local and regional companies seeking to develop and own their facility.

We assumed an annual sale of a 1.0-acre frontage site (e.g., hotel, day care centre, vets, etc) at a land price of £600,000 per acre, for higher value land uses. This could now be higher.

3. Public Sector activity

The site is strategic in nature and offers the opportunity to attract higher value added investment and employment.

The airport is a focal point for planning policy with Welsh Government's National Development Framework supporting the '*... growth and development of Cardiff Airport*' under Policy 32 which also states support for '*... development of land adjacent to Cardiff Airport which is part of the Enterprise Zone where it supports the function of the airport*'.

In terms of economic development policy, the establishment of the Cardiff Airport & St Athan Enterprise Zone again illustrates Welsh Government's commitment to supporting the airport as a '*... quality environment in which to do business*'. The EZ Strategic Plan 2018-2021 stated '*... the gateway site has the potential to be a hub for future development to accommodate freight and R&D, and there is an aspiration to enhance the current academic provision within the Zone*'. In addition, the Economic and Industrial Strategy for the City Deal refers to the airport as an opportunity area.

CCR City Deal is reported to be looking at acquiring the nearby Aberthaw power station site where the opportunities afforded by exceptional power connectivity as well as rail links offer energy and data are combined with a site of unprecedented scale in South Wales. The Aberthaw brownfield site would combine well with the greenfield Model Farm site to offer a balanced portfolio of 'shovel-ready' employment sites.

The scheme has been discussed with officials from both Welsh Government and the City Deal for Cardiff Capital Region, both of whom have commissioned property strategies seeking to bring forward Grade A employment buildings and 'shovel-ready' fully serviced development sites.

The 116 acre Brocastle site, see brochure [link](#), located immediately to the south of Bridgend, provides useful evidence of how investment in infrastructure into a large employment site can lead to new investment and job creation. The decision by Welsh Government to invest in site infrastructure has led to this strategic employment site attracting two large investment projects, both in the hands of solicitors.

Conclusion

This is a major project that can transform the approach to Cardiff airport and associated Enterprise Zone. With the appropriate investment in site preparation and infrastructure this can be an attractive strategic employment site and act as a focus for investment and employment. The proposed acquisition of the Aberthaw coal fired power station site by CCR City Deal will bring a renewed public sector focus to this part of the Vale of Glamorgan which can only benefit the subject site.

Development sites of this scale are difficult to procure and deliver, requiring a significant amount of investment in infrastructure. However, the Brocastle site shows how investment in infrastructure can be well rewarded.

In summary, there has been movement in costs and values however the broad overall position on viability remains unchanged. There are however few first class strategic sites of this nature that can underpin Wales' inward investment efforts to attract or retain mobile projects, particularly in 'value added' sectors. A consented scheme would allow the site to be formally marketed and to have a more realistic chance of attracting such investment.

Please contact me if you have any queries regarding the above.

Yours sincerely



Chris Sutton
Sutton Consulting Limited
chris.sutton@suttonconsulting.co.uk

Appendix 1: Extract from Office for National Statistics ‘Construction Output Prices’ indices, see [link](#)
 Infrastructure prices of £22.541 million in October 2019 would now, broadly, be £24.29 million. Index 110.8 (Oct 2019) to 119.4 to (Dec 2021).

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Table 2: New work output prices (not seasonally adjusted)

	Housing (public and private)			Infrastructure		
	Index (2015=100)	percentage change over		Index (2015=100)	percentage change over	
		1 mth	12 mths		1 mth	12 mths
Apr	110.9	0.3	4.6	105.0	0.3	4.3
May	111.2	0.3	4.8	105.3	0.3	3.7
Jun	111.6	0.3	4.6	105.7	0.3	3.9
Jul	111.4	-0.2	3.8	105.7	0.0	3.3
Aug	111.2	-0.2	3.4	105.5	-0.2	3.0
Sep	111.2	0.0	2.4	106.0	0.5	3.1
Oct	111.4	0.1	2.7	105.9	-0.1	3.1
Nov	112.5	1.1	3.4	107.0	1.0	3.9
Dec	112.5	0.0	3.2	106.9	0.0	3.6
2019 Jan	112.8	0.2	2.4	107.2	0.2	3.6
Feb	113.4	0.6	3.3	108.3	1.0	4.8
Mar	113.6	0.2	2.8	109.0	0.7	4.1
Apr	114.3	0.6	3.1	109.7	0.6	4.5
May	115.0	0.6	3.3	110.3	0.6	4.7
Jun	115.3	0.3	3.3	112.2	1.7	6.1
Jul	115.5	0.2	3.7	112.8	0.6	6.8
Aug	115.3	-0.2	3.6	112.9	0.0	7.0
Sep	115.3	0.0	3.7	111.5	-1.2	5.2
Oct	114.7	-0.5	3.0	110.8	-0.7	4.5
Nov	114.8	0.1	2.0	110.8	0.1	3.6
Dec	114.2	-0.5	1.4	110.8	0.0	3.7
2020 Jan	114.7	0.5	1.7	111.2	0.3	3.8
Feb	114.8	0.0	1.2	111.0	-0.2	2.5
Mar	114.6	-0.1	0.9	111.3	0.3	2.1
Apr	114.8	0.2	0.4	111.4	0.1	1.5
May	114.8	0.0	-0.1	111.4	0.0	1.0
Jun	115.0	0.1	-0.3	111.9	0.4	-0.3
Jul	115.4	0.3	-0.1	112.1	0.2	-0.7
Aug	115.4	0.1	0.1	112.0	-0.1	-0.8
Sep	115.8	0.3	0.4	112.2	0.2	0.6
Oct	115.9	0.1	1.0	112.5	0.3	1.6
Nov	116.1	0.2	1.1	114.9	2.1	3.7
Dec	116.2	0.1	1.8	115.1	0.2	3.8
2021 Jan	116.9	0.6	1.9	115.5	0.4	3.9
Feb	117.2	0.3	2.1	115.8	0.3	4.3
Mar	118.0	0.7	3.0	114.1	-1.5	2.5
Apr	118.7	0.5	3.4	114.6	0.4	2.8
May	120.0	1.1	4.5	115.3	0.7	3.5
Jun	120.9	0.8	5.2	115.8	0.4	3.5
Jul	122.4	1.2	6.1	116.2	0.4	3.7
Aug	124.1	1.4	7.5	117.0	0.6	4.5
Sep	124.1	0.0	7.2	117.3	0.2	4.5
Oct	125.8	1.4	8.6	119	1.5	5.8
Nov	127.4	1.3	9.8	119.1	0.1	3.7
Dec	127.7	0.2	9.9	119.4	0.2	3.7

Source: Office for National Statistics

Appendix 2: Land Values - industrial / employment land comparables for Rhoose

Quinn Radiators

Brochure [link](#) here. Effectively a land transaction as the purchasers are looking at a redevelopment of this one million sq ft factory on 40 acres. The price of c.£35m (£875k per acre) reflects the proximity to Vantage Data Centers & IQE and strong connectivity in terms of data and (subject to upgrade) the electricity supply.

Brocastle

Brochure [link](#) here. The site is under offer in two large parcels to two occupiers including a tech business. The price is understood to be £175k per acre.

CAF, St Modwen Business Park, Newport

Brochure [link](#) here. Unit of 165,000 sq ft built by St Modwen on a site of 16 acres. CAF paid St Modwen £225k per acre with the price agreed in 2018 (CAF then paid for the building in addition).

Pencoed Technology Park

Brochure [link](#) here. Land to the north of the M4. Plots sold off now, including to Trebor Developments who developed a speculative 45,000 sq ft unit (under offer). The price was c.£150k per acre however, in our view, Welsh Government did not push the land values.

Axis 32, Forest Farm, Coryton, Cardiff

A site of 2.47 acres sold by local developers to London Metric in 2021 for £1.2 million (£485,000 per acre) and now being developed to provide a new-build unit of 33,000 sq ft quoting £8.00 per sq ft. See brochure [link](#).

Cardiff general

Lamby Way 2018 – Sale of 1.8 acres to Biffa £500,000 = £277,800 per acre

6 Tremorfa 2017 – Sale of 2.31 acres to Sims £575,000 = £248,500 per acre

Nettlefold Road 2017 – Sale of 7.91 acres to Dog Trust £2,750,000 = £347,000 per acres

Pacific Business Park 2018 – Sale of 1 Acre to Private Individual £350,00 = £350,000 per acre

Chepstow

Mon Motors acquired 8.94 acres in Dec 2017 for £2.1 million = £235,000 per acre. This is now historic evidence.

Avonmouth

Brochure [link](#) here. Land values of £350-£450k being paid by a number of occupiers for land at Avonmouth, alongside the M49 motorway (new junction recently opened). Deals include:

2017 DHL 15 acres £360k per acre

2018 Amazon UK 33.5 acres £375k per acre

2019/2020 Volvo Trucks, CSG, Dawson Rentals, Bristol & Avon, Wren Kitchens at c.£450k per acre.

2022 agents now quoting £490k-£525k per acre

UK-wide

The industrial sector has performed strongly during the pandemic, not least because of the boost from urban logistics. There are deals taking place at £800k - £2.0m per acre in the larger conurbations of the UK. Even though Wales is less attractive to big-box distribution, our view is that South Wales is now under-priced in terms of employment land values.