Vale of Glamorgan

Model Farm - Viability Assessment Review – **FINAL FOR ISSUE**

August 14, 2022

Contents

Report title: Vale of Glamorgan

Prepared by: Tom Merrifield BSc (Hons) MRICS. RICS Registered Valuer
Director, Cardiff

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For and on behalf of Avison Young (UK) Limited

1. Background & Terms of Instruction

1.1 Avison Young are instructed by Vale of Glamorgan CBC (The Client) to provide a review of the updated information provided in respect of the viability assessment previously provided.

1.2 The previous report provided by Avison Young was on the instructions of the client, and is dated May 2020. This report should be treated as a reference to our below review.

1.3 Our instruction is to advise on the impact of more recent information disclosed by Legal & General (The Developer) on the viability of the development at Model Farm.

1.4 Legal & General have been advised by Sutton Consulting and RPS on their development plans.

1.5 Sutton Consulting provided copy of their development appraisal, dated October 2019, which was used as reference in the original Avison Young viability review in May 2020.

1.6 <u>Confidentiality</u> - Our report is prepared for the client and, as with out previous report, contains detailed costs information and analysis. All information within this report should be treated in the strictest confidence and is intended for the client addressee only, for the purposes of planning review.

1.7 <u>Independence & Impartiality</u> – Avison Young have acted with complete impartiality and objectivity and without interference or influence. The report is prepared by Tom Merrifield, a Director in our Cardiff Office. Tom is an MRICS Qualified Chartered Surveyor and an RICS Registered Valuer. Where appropriate we have referenced all relevant sources of information, including original sources of information in our 2020 report and the recent information provided.

1.8 We confirm Avison Young have the level of expertise, experience and market knowledge to complete this work.

1.9 <u>Conflicts of Interest</u> - We confirm Avison Young have no conflict of interest in providing impartial advice in this matter.

2. Avison Young Credentials

2.1 Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its Principals & Directors.

2.2 Founded in 1978, with legacies dating back more than 200 years, the company comprises approximately 5,000 real estate professionals in 108 offices in 15 countries. The firm's experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the offi¬ce, retail, industrial, multi-family, residential and hospitality sectors.

2.3 Avison Young creates real economic, social and environmental value as a global real estate advisor, powered by people. As a private company, our clients collaborate with an empowered partner who is invested in their success.

2.4 Our integrated talent realises the full potential of real estate by using global intelligence platforms that provide clients with insights and advantage. Together, we can create healthy, productive workplaces for employees, cities that are centres for prosperity, and built spaces and places that create a net benefit to the economy, the environment and the community.

2.5 The Cardiff office of Avison Young contains a multi-disciplinary team providing a wide range of property services including development advisory, investment agency, occupational agency, leisure agency and cross sector valuation advisory services. The office also benefits from a building surveying, planning and a social housing valuation teams that covers the whole of the UK.

3. Development Summary & Update

3.1 The development proposal is for a site comprising a total of 77 acres (31.23 hectares) on the edge of Rhoose & Barry in South Wales. This land forms part of a land ownership totalling 269 acres (109 hectares) held by the developer.

3.2 The report we provided in 2020 provided a detailed background to the site including its location and positioning from a national, regional and local perspective. This report references contents of that submission.

3.3 The land is made up of predominantly made up of agricultural land, currently operated as Model Farm.

3.4 The land is accessed from Port Road which lies to the North. Port Road in turn provides link onto A4232 PDR via Culverhouse Cross interchange, accessible via the newly built A4226 road.

3.5 We understand that the site, in total, has the potential to accommodate up to 1.7 million sqft of business accommodation, across multiple sectors, mainly manufacturing, distribution, lighter industrial and offices.

3.6 In our previous report we outline the position of the site in respect of a Business Park context and the established business park locations across Cardiff and South Wales.

3.7 In terms of proximity to the subject site and activity since our report in 2020, there have been trends and changes in the following developments/disposals which are relevant in assessing overall demand in the sector and in respect of the subject site:

Bro Tathan - since we produced this report the Bro Tathan Business Park, constructed on the former St Athan Army & air camp Base, has continued its establishment and whilst activity has been limited, the park came close to securing a major occupier in the securing of a memorandum of understanding with Britishvolt to develop a new vehicle electric battery plant. The proposal was ultimately understood to be too time sensitive for the site to be operational in time. The positive from this is a sense that the location can establish itself as attractive to major facilities of this nature.

The site offers extensive opportunity to develop parcels of land to suit occupier design & build requirements across multiple sectors. The site has extensive infrastructure in place following the acquisition of accommodation by Aston Martin.

FORD, Bridgend – the closure of the former FORD plant has completed, and the site is no longer operational for the business. The site has now been marketed by CBRE's London Office on behalf of FORD and a bidding deadline drew our 2 prospective purchasers. We are of the understanding that the site is now under offer to a single, development led rather than owner-occupier, purchaser for an undisclosed sum.

Aberthaw Power Station – the former power station has been acquired in early 2022 by Cardiff Capital Region (CCR), acquired from RWE with Savills as agents. The site is circa 500 acres and has been acquired to provide a renewable energy hub for the region. CCR are funded by Welsh Government and UK central government and represent 10 Local Authority regions.

4. Sector Market Update

4.1 The impact of COVID has been significant across the commercial property market in the UK and in South Wales the trends have been similar.

4.2 The Leisure and Retail sectors have been hardest hit, followed closely by office demand and take up.

4.3 The impact on footfall was unsurprisingly significant with restrictions meaning businesses suffered nightmare scenarios which are taking time to recover and, in some instances, are leading to largescale business reforms to survive. Sadly, in some instances businesses have been unable to weather the storm such was the impact. On the positive, the bounce back has been significant, and footfall is returning to pre-pandemic levels although concern now exists around the cost-of-living and associated impact of rising inflation and interest rates.

4.4 The relevance of the leisure and retail sector to the subject site is around demand levels for the “frontage land” which comprises 5 acres. The demand for this land is, as outlined in our previous report, focussed on the F&B, hotel and drive-thru markets and each of these markets are performing to strong levels since the lifting of COVID restriction. This is due to a combination of factors – the hotel demand is strong off the back of a growth in “staycation” demand, the F&B and drive-thru markets, whilst again support by holidays locally, are further seeing an increase off the back of the growth in localised demand - where working remotely/working from home are driving an increased footfall.

4.5 The office sector was another victim of the pandemic - as outlined by Sutton Consulting in their update letter, businesses are trying to establish their occupational needs in the longer term off the back of the new working patterns. A general market anticipation and perception is that an occupier’s needs are in general terms now circa 40% lower than they were pre-pandemic, means the footprint requirements for businesses are that much lower. As a result this has had a knock-on effect in the demand levels generally.

4.6 The anticipation is, as outlined by Sutton Consulting, that the demand is lower in the short to medium term but that this will in general terms improve but with a higher level of smaller requirements for space which would previously have been for larger footprints. Again, as Sutton Consulting correctly identify, the major impact on the office sector is toward the City Centre take-up and demand rather than on business parks.

4.7 The industrial and logistics sector has been the one sector that has suffered the least impact from the pandemic, to the point that the sector has in general terms witnessed a dramatic increase in demand and, as a result, in values. This is down to a number of factors, not least the further drastically accelerated growth in home delivery sector from the likes of Amazon, DPD, Hermes, etc where a stronger need has been seen for not only the major distribution facilities but also for more regional hubs to service demand.

4.8 The increased R&D demand seen off the back of the pandemic has further fuelled demand and, in general terms across the whole of the UK, the sector continues to thrive. In South Wales more specifically, there is a generally low level of supply in this sector and with the heightening demand, this has led to an increase in the rental and capital value tone that has been identified in the Sutton Consulting report.

5. Previous Viability Assessment Summary

5.1 The previous report provided by Avison Young has been used in providing this update report and should be read in conjunction with our report and conclusions.

5.2 Our review considered that the development rate that was anticipated in the developers appraisal, at a net rate of 146,000 sqft of commercial development annually for the first two years, dropping to 111,000 sqft being developed annually thereafter was not, in our opinion, likely to be achievable given demand levels for the sector generally and the other specific issues around location, employment supply, etc. The review document provided information around take up at various other business parks in South Wales – whilst demand has increased these take-up statistics remain largely comparable with the 2020 report.

5.3 In our report we concluded that an annual take up of circa 50,000 sqft of logistics and light industrial accommodation would be realistic level, with circa 4,000 sqft annually of office accommodation. Both were calculated over a 23-year timeline.

5.4 The timeline for the roadside element was perceived to be circa 1 acre every 3 years, for a 21-year period.

5.5 The rental tone adopted was at £7.50 - £8.00 psf on the logistics space with £15,00 psf on the office accommodation. Whilst considered to be on the optimistic side, we largely supported these rental levels.

5.6 The yield profile for the logistics space was adopted at a 6.75% in our review report. An office market yield of 7.75% was adopted.

5.7 We adopted a build rate in line with BCIS in our appraisal review.

5.8 Our viability review concluded that the project would be significantly unviable on the basis of the information provided at that time, and our own investigations and analysis work.

6. Update Information Provided

6.1 Sutton Consulting have provided the client with an update letter, dated March 2022, copy of which is attached in the appendices of this report.

6.2 The letter provides a background to the updated information in respect of the variables and cost information provided in the original development appraisal.

6.3 The variables and changes to cost information are, in summary, as follows:

CONSTRUCTION COSTS	An increase based on Sutton Consulting use of ONS Construction Output data suggesting increase in costs of 7.65%
IMPACT OF COVID	Summary of impact on office, retail and leisure sectors with impact considered to be based around office sector in respect of this development
LAND TAKE-UP	Remaining consistent with the original development appraisal at: Employment Land – 5 acres per annum years 1 & 2 lowering to 3 acres per annum year 3 onwards Frontage Land – 1 acre per annum but with commentary that " this could now be higher" Considered a more focussed approach to logistics and industrial sectors.
VALUE	**Rentals** Industrial – now higher at £8.00 psf. Improved yields Offices – no change. Focus on logistics and industrial sectors. Frontage - tone at £40-£50 psf. **Capital Values** Industrial - £150,000 per acre Years 1&2 rising to £200,000 per acre thereafter Offices – As above Frontage – revised to £600,000 per acre.

6.4 In their report, Sutton Consulting have provided commentary on the sector demand levels and, in the section above, we have provided commentary on this view. We largely agree with the basis of their letter on perceived demand levels.

6.5 No full revised development appraisal has been provided and the information is a revision, in part, of the original appraisal which we were provided for the 2020 review report we produced. We are therefore responding to the contents of the letter from Sutton Consulting where the relevant issues and changes were identified.

6.6 This information forms the basis of the consideration by Sutton Consulting, that whilst “there has been a movement in costs and values” the “broad overall position on viability remains unchanged”. That is in reference to the previous report where the development was anticipated to be financially unviable without external funding support.

7. Consideration of Impact on Viability

7.1 As noted already a revised development appraisal has not been submitted – we are of the understanding one has not yet been completed.

7.2 We are therefore only able to comment on the information provided above in section 4 as updated on the original development appraisal.

7.3 We summarise below the basis of our opinion on the revisions contained in the Sutton Consulting letter.

Construction Costs

7.4 The Sutton letter provides an update on basis of ONS data whereas the original development appraisals completed were based on BCIS data set.

7.5 The BCIS dataset for the original development appraisal was on the October 2019 time set.

7.6 We have reviewed BCIS data and it apparent that build costs have unsurprisingly increased significantly over the period October 2019 to date, rising from a general build costs index figure of 362.4 to 426.9.

7.7 An increase at this rate provides for an actual increase of **17.798 %** over the period between the original development appraisal to date. This is some **10%** higher than the ONS data increase used in the Sutton Consulting letter.

7.8 In monetary terms, the increase in costs based on BCIS information, would represent an increase of **over £4 million** in build costs.

7.9 It is our opinion this is a more accurate reference rather than a reliance on ONS data. Clearly there is a significant impact on cost which, without a major adjustment of the other factors (namely yield & capital and rental values) there will be a serious impact on viability.

Rentals and values

Logistics & Distribution Rentals

7.10 The Sutton Consulting summary letter provides an increase on the rental tone for logistics space, increased by 0.50p psf. Office space remained level.

7.11 The improvement in the logistics and industrial sector has been evident and in our summary above we have provided commentary on how this has generated an increased rental tone. The development of Model Farm would be seen to try to attract larger lettings, on scale, rather than smaller lets which would be unrealistic. The rental adopted in the original development appraisal was in our opinion, optimistic – to the point where we adopted a lower rental tone. This was on the basis of the evidence provided having been for accommodation we considered to not only be smaller (reference point above about scale), but further that it was for accommodation let in a superior and more accessible locations. Whilst the rental tone and market rates have caught up to an extent, our opinion was that the tone previously was a little over-estimated and, therefore, the market has now “caught-up” with this level.

Office Rentals

7.12 The Sutton Consulting summary letter provides for an office rental at £15.00 psf – this remains static to the original development appraisal, and is a level which we agreed was realistic for new build business park offices.

7.13 The retention of this tone would therefore not provide any reason to make the proposed development more viable, or indeed offset on increased construction costs figures.

Frontage Land

7.14 The values attributed to the frontage land element, and phasing, have not changed in our opinion.

7.15 It is our opinion that there is potentially now a slightly higher demand from this sector but, again, the perceived rental tone has largely caught up with the development appraisal and there would again be no reason to expect there is higher value.

Summary on Costs

7.16 We do not therefore, in general terms, see that the rental tone across any of the sectors has increased in a manner that would improve viability or reduce the impact of increased construction costs.

Covid, Future & Other Impacts

7.17 A breakdown on the sector specific impact of the pandemic has been provided in the sections above.

7.18 The current cost of living crisis is real, and with inflation running at 9.4% at the date of writing and expected to continue to grow, there is a serious risk to the UK's economic stability and short to medium term economic outlook. The impact of inflation on construction costs is obvious, and there is a continued inherent risk of costs escalating further.

7.19 Interest Rates have, at the most recent monetary committee, been raised again – this time by 0.5% which is the highest increase for a significant period. Still only running at 1.75% there is an expectation that interest rates will continue to grow as they represent the Bank of Englands primary mechanism to try to control inflation.

7.20 Interest rates will potentially have a bearing on not just the construction costs, but on cost of finance for the development. In our original report we completed appraisals based on a zero finance and on a construction that was subject to finance. Construction costs finance rates will undoubtably be higher now off the back of rising interest which gain impact on viability. As outlined in our original report, we feel it is important to highlight the impact that finance costs can have on a development.

7.21 No commentary has been provided on finance in the recent Sutton Consulting letter. In our previous report we highlighted the need to consider finance costs and outlined the very significant difference that a finance allowance makes to costs and ultimately viability. An allowance of 5% debit, 2% credit rate was made – in the current climate it would be out opinion these rates would require adjustment to reflect rising costs rate. In development appraisals we are now adopting a 6-6.5% debit rate.

7.22 It is becoming widely expected that the UK economy is likely to enter a period of recessionary growth in the coming months with the last quarter statistics having shown that the economy registered a negative growth. The multiple factors of living costs, continued conflict in Ukraine and associated Russian sanctions, a slowdown in China, uncertainty at home with essentially an interim government all stand to play their part in how long and how deep the recessionary impact to the UK.

8. Conclusions

8.1 We would again stress that a fully revised development appraisal has not been shared with us and this report is formed in response to the letter from, and discussions we have had, with Sutton Consulting Ltd.

8.2 Our opinion is that where construction and finance costs have changed, there has been little to no variation on incomes and capital values, and land values, which have remained consistent with the previous report we produced. Any development appraisal would therefore show a higher cost and finance charge.

8.3 In conclusion, based on the material changes we have outlined, it is our opinion that any development appraisal will very clearly show that the viability of this development would outline a **further loss over and above the level of losses we previous indicated in our report**. We are of the opinion that the significant increase in construction and potential finance costs would not be offset by any material increase in the rental or capital value being generated with those figures remaining largely unchanged since our previous report.

8.4 Whilst no development appraisal has been completed, we believe that assuming a finance charge, it is fair to expect it would be unviable to **at least an additional circa £5 million**, and potentially more.

8.5 As outlined previously, other nearby schemes have benefitted from government grant aid and funding. The allocation of public sector grant support for this scheme in the form of infrastructure and off site works, would potentially have a positive impact on the viability which stands at a significant negative. Without support it is our opinion the development is not likely to take place.

Contact details

Enquiries

Tom Merrifield BSc (Hons) MRICS
RICS Registered Valuer
Director - Cardiff
02920 248917
tom.merrifield@avisonyoung.com

Visit us online
avisonyoung.com/Cardiff

Avison Young

One Kingsway, Cardiff CF10 3AN