1 Commercial Market Review

1.1 This paper provides the background to the value assumptions made in assessing the commercial development viability. The purpose of the overarching study is to test the viability implications of the City of Bradford Metropolitan District Council Core Strategy Polices Review (CSPR) policies and to advise on potential changes to the CIL Charging Schedule.

2 Existing Evidence Base

2.1 DTZ (now Cushman and Wakefield) carried out the previous viability study (Bradford Community Infrastructure Levy Viability Evidence 2015) to inform Bradford's Community Infrastructure Levy (CIL) Charging Schedule. This concluded that there should be no CIL rate levied on commercial office or industrial development by showing development as unviable.

2.2 AspinallVerdi have since been involved in the Employment Needs and Land Review (ENALR) Assessment working alongside Peter Brett Associates (now Stantec) from January 2019. This involved consulting with a number of local property agents and the wider property industry at a Bradford Chamber of Commerce event (in June 2019). We do not intend to repeat our market research provided in support of this study as it can be found as part of the Council's Local Plan evidence base. However, we provide a brief comment below on the industrial and office markets in the context of CIL.

2.3 We have also been appointed with BDP to advise on the Business Development Zones in Bradford namely Bowling Back Lane, Keighley and Shipley. The aim is to improve these established industrial areas to make them more attractive to occupiers and investors.

3 Industrial

3.1 Since the DTZ study the industrial market has continued to perform well nationally, regionally and locally, defying the performance of the wider commercial and retail markets. There has been both rental and capital value growth, yield compression, as well as rising land values across West Yorkshire. In Bradford, there is demand from both occupier and developer / investor in the industrial sector and new build development has come forward and been taken-up, for example:

- Riverside Business Park in Keighley was a 270,000 sqft speculative development of B2 and B8 space which was sold on a freehold basis to occupiers.
- Nano Park is a development of hybrid workshop / office space at the top of the M606 totalling 18,000 sqft where rental values have been around £7.50 psf for small 2,000 sqft hybrid space.

- Sapper Jordan Rossi (formerly Baildon Business Park) is a 150,000 sqft development of general industrial and warehousing space which has achieved record capital values of £85-£100 psf (depending on the size of unit).

3.2 This demonstrates that there has been new build development activity and that schemes are viable. However, what is clear is through the Employment Needs study is that there is a lack of good quality, unconstrained sites to bring forward development and meet demand. The portfolio of existing sites is comprised of previously developed land and therefore, viability is more challenging. However, the existing market balance (supply and demand) is considered to be positive for development as there is a lack of good quality existing stock to meet demand.

- The table below compares the assumptions used by DTZ in 2015 and our opinion of value at the time of this report. For new build industrial space, this shows that rents have increased and that yields have improved, albeit this is strongly linked to the quality of the operator and it is challenging to predict for the purpose for an area wide viability study. For hybrid workshop space the Nano Park, Newall scheme is an example that rents above £6.50 psf can be achieved where rental values have been around £7.50 psf.

Table 3.1 - Comparison of B2-B8 Industrial Assumptions, DTZ & AspinallVerdi

	DTZ (2015)	**AspinallVerdi (2019)**
Rents (Gross £psf)	£5.00-£6.00	£5.50-£6.50
Yields	7.50%	5.00-7.50%
Rent Free	12	6-12
Capital Value Range (including purchasers' costs) (say)	£58.30 - £70.00 (£64.00)	£64.14 - £119.85 (£86.50)

Source: DTZ and AspinallVerdi

3.3 There is also a strong demand for freehold industrial space in Bradford, particularly from local and regional companies that would rather have an asset than a liability. A couple of the example developments above have both been developed speculatively and sold the freehold space achieving record capital values per square foot. Through local agent consultation we understand freehold capital values are now in the order of £85-£100 psf from a historic £70-£75 psf.

3.4 On this basis, or at the top end rent shown above in Table 3.1~~Table 2.1~~, then new build development can be viable but as stated above this will be dependent upon the characteristics of the site and whether the build costs can be kept to below £60 psf.

3.5 As you can see from the above Table 3.1~~Table 2.1~~ there has been a 35% increase in notional average values between 2015 and 2019, however the range and therefore risk is much greater.

3.6 Construction costs for industrial units have increased by 46%[1] over the same period. DTZ applied a construction rate of £450 psm (£518 psm including 15% externals) based on BCIS costs rebased to Yorkshire and Humber. The current BCIS costs are £658 psm.

3.7 Accordingly, costs have increased at a greater rate than values and therefore we do not consider the circumstances are any more viable to introduce CIL. This is particularly the case given the current economic climate and uncertainty around Brexit.

4 Offices

4.1 Since the DTZ study the office market in Bradford has remained relatively unchanged and demand remains weak from both investor and occupier. Significant new build office developments since the global financial crisis have only really taken place in London, the home counties and major regional cities. Leeds is the most active office market in West Yorkshire with development coming forward and achieving rental values up to £30.00 psf. The previous study carried out by DTZ concluded that rental values for new build space would be £18.00 psf in Bradford City Centre and £13.00 psf in out of town / city locations. DTZ adopted yields of 8.50% and 12% respectively.

4.2 With the exception of the Lower Railway Road development in Ilkley, following our agent consultations as part of the Employment Needs Study we are not of the view that the above rental values are currently obtainable in the market; and c. £118psm /£14.00 psf (city centre) and £118psm / £11.00 psf (out of town) respectfully is more likely. For development to be viable without public sector intervention a substantial amount of space would need to be pre-let at a strong rent (i.e. those quoted by DTZ) to bring space forward. This is because the rent free and void periods factored into an appraisal will create cashflow and viability issues when build costs continue to rise[2].

4.3 Construction costs for offices have increased by 13% over the same period. DTZ applied a construction rate of £1,180 psm (£1,357 psm including 15% for external works) based on BCIS costs rebased to Yorkshire and Humber. The current BCIS[3] costs, rebased to Yorkshire and Humber, are £1,343 psm.

[1] Building Cost Information Service, RICS ((£658 psm - £450 psm) / £450 psm = 46%) - https://service.bcis.co.uk/BCISOnline accessed 19 July 2019
[2] DTZ applied a construction cost rate of £110-£120 psf, BCIS (June 2019) shows lower quartile rates are between £124-£140 psf for offices
[3] Building Cost Information Service, RICS - https://service.bcis.co.uk/BCISOnline accessed 19 July 2019

4.4 Given the increase in construction costs and limited capital value growth, we do not consider the circumstances are significantly more viable to introduce CIL on office development.

5 Conclusions

5.1 DTZ concluded that there should be no CIL charged on both industrial and office-based development by showing development to be unviable.

5.2 Through our work on the ENALR and Business Development Zones study we conclude that industrial development can be viable in Bradford. However, this is still challenging and dependent upon covenant strength, location, land acquisition price, site specific constraints and driving construction costs down. We would therefore not recommend applying a CIL to industrial development as this would simply add cost to development which could undermine delivery.

5.3 In terms of new build office development, this is even more challenging from a viability perspective and applying a CIL would again add cost and undermine delivery.

5.4 In the case of both commercial and office development the evidence on values / costs trends since the previous CIL study (2015) does not demonstrate that there has been any substantial improvement to viability of these uses to justify introducing a CIL charge. Therefore, it is considered the adopted CIL charging schedule of zero for these uses remains appropriate.

S:_Client Projects\1904 Local Plan and CIL Viability Study_Bradford MDC_Reports\1906 Commerical Market Paper\191120 Bradford Commercial Market Paper v7.docx

Aspinall Verdi