

# **Black Country Joint Core Strategy Sample Sites Viability Study**

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# Black Country

## Joint Core Strategy

### Sample Sites Viability Study

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## **Executive Summary**

### **Introduction**

The Black Country Joint Core Strategy (JCS) proposes that, over the period of the Strategy to 2026, a significant amount of existing employment land will change to residential use, whilst a large amount of the existing low quality employment land will be upgraded to strategic quality.

Mott MacDonald alongside GVA Grimley have undertaken a strategic study that considers the viability of delivering development sites across the Black Country for residential and commercial uses to inform the JCS. The assumptions used in this study are based upon the guidance in applicable emerging planning policy, the nature of actual sites and the current uses of proposed allocations. In order to reach strategic conclusions a representative sample of real sites across the Sub-Region was used to develop an evidence base. This evidence based approach is dependant on the chosen sample, and policy conclusions should only be drawn from an aggregated understanding of the outputs of this study.

There is no single definition of what makes one site 'viable' when compared to another, therefore we have examined a number of factors that when combined, help to indicate the viability of sites within the sub region.

We have looked at the sites and used models to establish the following outputs:

1. The likely value of sites in their existing use and their useful economic life.
2. The viability of a 'serviced' site conforming to emerging planning policy.
3. Potential infrastructure and remediation costs associated with returning the site to a standard suitable for development (a 'cleared and serviced' site).

All of these outputs contain qualitative as well as quantitative elements which need to be considered as a whole to fully understand the outputs of the study.

The likely value and potential viability of the sites have been assessed through development appraisals. A baseline assessment has been produced using the current depressed market conditions, but this has been supplemented for residential sites by an additional assessment of the potential land value uplift in an 'intermediate' market. This intermediate market scenario was designed to represent a reasonable mid-point in values between the 'baseline' position and the peak 'improved' market experienced in summer 2007. These assessments have assumed a cleared and serviced site is available.

The potential infrastructure and remediation costs in order to deliver a cleared and serviced site have been assessed through desk studies and site walkovers as well as engagement with utilities infrastructure providers. An overview of the approaches adopted to undertake these appraisals and the outcomes from them can be found in this Executive Summary. Further detail can be found in the full report and a full description of the approach adopted is contained in Appendix D.

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## Key Findings

In summary, and due in part to the current market conditions being experienced nationally all residential and commercial sites prove problematic to deliver in the current market scenario within the sub-region. However under the intermediate scenario the viability of residential sites is enhanced, as explained in further detail below. Over the long timeframe of the JCS, it is expected that the value of some local quality employment sites will decrease. This will improve the viability of redevelopment proposals.

Further detail regarding these key findings concerning the viability of residential and commercial development appraisals, undertaken assuming a cleared and serviced site and infrastructure works/remediation required, is provided below.

## Approach to Development Appraisals

Development appraisals have been undertaken on all sites on the basis that they are cleared and serviced. A baseline scenario has been assessed using the current market conditions (recession – June 2007) for all sites. This has been supplemented by an additional assessment of the potential land value uplift in an ‘intermediate’ market scenario (for residential sites only). This intermediate market scenario was designed to represent a mid-point in values between the ‘baseline’ position and the peak ‘improved’ market experienced in summer 2007. Development appraisals produce residual land values which provide the basis for our assessment of viability.

### Potential Existing Use Value Assessment

To consider the likely viability of the residual land values generated by our development appraisals, our approach has been to examine the following issues:

- The likely value of the sample sites in their existing uses;
- Alternative uses which generate a higher land value than employment and residential uses, and their implications upon development viability/delivery;
- Value/ worth of the site to the owner in its existing use – whilst the site could be of low value, the value to the owner could bear little relation to its market value, if the profit generated by the occupier’s business is high;
- Whether occupiers of sample sites could find alternative business premises if required; and
- Are the costs of the new premises and/ or relocation costs that would be incurred likely to be prohibitive to relocation?

Our approach has been to undertake a qualitative assessment of the residual land values produced for sample sites having regard to the above issues, to enable strategic conclusions and the potential impact on development viability and deliverability over the plan period to be drawn.

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## Limitations and Caveats

Whilst our assessment of potential existing use values is undertaken at a strategic level, it does provide a high level assessment of the value of the sites in their existing use and therefore an indication of what land owners value aspirations may be. However, it should be noted that our assessment does not consider the following issues (although further detail on all of these is provided in the main report), all of which could have a significant negative impact on development viability, these include: extent of inspection, land acquisition and relocation costs, higher value alternative uses, leases/ legal issues, fragmented ownership, site specific unknown issues, remaining economic life of buildings, contamination and empty rates liability

In addition to the above the viability assessments have also considered the costs of potential remediation and demolition to a standard suitable for development (a 'serviced' site).

## Residential Development Viability

### Current Market Conditions (Baseline Scenario)

Under this scenario all the residential sites reviewed would be problematic to deliver. The principal factors that reduce the potential viability of these residential sites are:

- The prevailing market conditions; and
- The impact of previous site uses in terms of remediation and demolition costs.

Sites brought forward in the short term will need considerable market intervention from both public and private sectors. The industrial legacy has led to issues of contamination which in the current market make these sites difficult to deliver. If such issues could be mitigated without cost to the developer a cleaned and serviced site would have a reasonable value and this could deliver new housing.

*Under current market conditions 5 of the 16 residential sites examined were found to be potentially viable (this does not include costs of acquisition/ relocations).*

### Intermediate Market Scenario

The viability of each of the residential sites was also modelled, assuming an improvement in market conditions, our intermediate market scenario. This scenario is based on a number of assumptions that reasonably replicate the mid-point of the last economic cycle, which increases the residual land value that serviced sites generate.

*Under intermediate market conditions 12 of the 16 residential sites examined were found to be potentially viable (not inclusive of land acquisition/ relocation costs).*

In the short term our review of current and intermediate scenarios suggests that 2/3 of residential sites (if currently available) will need market intervention to make them deliverable. In the longer term improved market conditions should result in only 1/3 of the sites requiring intervention, to enhance viability as a result of the increased value of the site.

Where remediation and demolition costs are high, intervention will be required regardless of the scenario (based on the affordable provision assumed and planning gain) as on these sites the cost of dealing with the contamination and demolition issues is greater than the value of the serviced site.

### Residential Sensitivity Tests

In order to ascertain the impacts on viability of both the current market conditions and emerging planning policy, further analysis was undertaken to test alternative policy and market scenarios.

The impact of removing the requirement for the provision of affordable housing was modelled on an example site. In addition to the baseline and intermediate market scenarios already considered above an improved market scenario (seeking to replicate market conditions in summer 2007) was also modelled. This incorporated significantly improved residential sale values, shorter build periods, lower risk and profit allowances for developers reflecting less riskier market conditions and appropriate finance costs.

The outcome is presented below:

<b>Site 7 (4.64 ha – net)</b>	<b>Site Viability (indicative land value)</b>	<b>Site Viability (per net hectare)</b>
Baseline	£1,550,000	£334,335
Baseline with no Affordable Housing	£4,200,000	£905,172
Intermediate Market Scenario	£4,450,000	£959,052
Improved (Summer 2007) Market Scenario	£6,100,000	£1,314,655

Source: GVA Grimley, 2009

The property market baseline report (Appendix A) highlighted that a significant fall in land values has been experienced since 2007. Anecdotal evidence suggests that residential land values experienced in 2007 may not return for a significant number of years. This puts the achievement of the assumptions adopted in our ‘improved’ and ‘intermediate’ market scenarios in the near future into question, and hence the improved viability of residential development. Additional requirements such as the Code for Sustainable Homes and requirements of the Community Infrastructure Levy (CIL), could subdue the extent of the recovery in residential land values in the future.

Whilst it would be contrary to current policy to remove or relax the requirement for affordable housing, the analysis demonstrates that viability would be significantly improved should this occur and these requirements be relaxed. This result is not surprising, given that only half of the sites developed in the Black Country in recent years have achieved the requirement for 25% affordable housing. This is because developers have been able to demonstrate to the respective Local Planning Authorities on a site-specific basis that the proposals would be

unviable if the full provision was made. It also highlights that applying a flexible approach means that residential development in the Black Country can be achieved.

## **Commercial Development Viability**

### **Strategic Employment Appraisals**

Our appraisals suggests that developing employment sites in the region will be more challenging than residential sites. This is to be expected, as industrial land values for development (rents and capital values) are generally lower when compared to residential land values, and the margin between construction costs and the receipts received for the end industrial product is generally narrower. Hence, a lower residual land value for serviced sites is generally delivered.

The lower margin means that appraisals are more sensitive to either a fall in sales values/ investment value of the end product, or an increase in build costs, hence site values can quickly become either negative or positive given changes in market conditions.

### **Baseline Strategic Employment Appraisals**

Our baseline strategic employment appraisals demonstrate that delivering employment based development within the sub region is unviable for a number of reasons, the following key reasons being:

- The current prevailing market conditions have had a significant impact upon the market inputs to the development appraisals, this has resulted in a significant fall in the investment sale value of the end development;
- Our development appraisals assume that development is undertaken on a speculative basis, which developers view with increased risk when compared to sites where occupiers are secured on a pre-let or design and build basis. In addition, the current market conditions have reduced developer's appetite for undertaking speculative industrial development. It is therefore likely that developers will seek to develop sites on a 'design and build' basis in the future. The viability of potential employment sites will be enhanced when occupiers are found in advance of development commencing i.e. design and build, as securing an occupier will expose the developer to much lower risk;
- We have assumed a cost equating to £484.37 psm (£45.00 psf) to build industrial units to a strategic specification. Our assumptions could be refined as masterplans for each site evolve; and
- We have applied an average of £53.81 psm (£5.00 psf) rental value to all strategic sites throughout the four Black Country Local Authorities based on the limited transactional evidence for large distribution premises across the Black Country. In reality, the rental value could be increased if some sites are able to accommodate a higher proportion of either trade counter units or smaller unit schemes, as proposals for each site are required.

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## Strategic Employment Viability

This strategic study indicates that there is clearly a need to investigate how the viability of strategic employment sites will be improved. The following points highlight potential issues which could be addressed and which may add value to the strategic employment sites, hence improving their viability on a site by site basis:

- If strategic sites are able to accommodate larger industrial units (over 10,000 sq m (107,639 sq ft) they are more likely to be attractive to occupiers seeking distribution premises. These units could also achieve lower build costs and, whilst a deduction in rent would need to be made to allow for the increased floorspace, our initial appraisals suggest that viability could be improved. However, this study indicates that the provision of larger industrial units on some of the sample sites could prove challenging, given site configuration/ layout of the sample sites tested;
- Alternative Uses – Viability could be improved by allowing flexibility in planning policy to enable other uses aside from B2, B8 and Sui Generis uses to be accommodated. However, it is recognised that in many cases alternative uses would be contrary to both current national and local policies and the expectations of officers/ members; and
- Our assessment of the split of B2/ B8 uses assumed that 75% of the overall space on each site (having allowed for sui generis uses) are envisaged to be for B8 uses based on emerging JCS policy. Units for B8 uses are typically 5,000 sq m (53,820 sq ft) and above. This requirement for 75% B8 could be relaxed where sites are unable to accommodate large units of this scale, in order to accommodate smaller buildings which are more likely to attract B2 occupiers as well as a number of B8 occupiers. The need to provide the market with planning flexibility needs to be carefully considered to ensure that it's appropriately balanced alongside JCS aspirations.

## Local Employment Allocation

Local quality sites are likely to provide much smaller units than those envisaged for strategic quality sites to cater for market demand, and the rental value of smaller units is generally higher. In addition, a lower specification and quality could reduce the build costs for these sites when compared to strategic employment sites.

The development appraisal of a sample local employment site indicates that such sites are likely to be increasingly viable as market conditions improve when compared to strategic employment sites. However, small unit schemes for local employment purposes cater for the local employment market. Many occupiers prefer secondary modern industrial accommodation, which usually is let at a significant rental discount when compared to new build premises. As such, the extent of demand for small unit schemes for local employment purposes should be considered further, to ensure that demand is of significant scale to fulfil the aspirations of the JCS.

## Infrastructure and Remediation Assessment

A site walkover visit and desktop study has been undertaken to establish the following for each of the sites;

1. An assessment of the potential infrastructure works required to deliver a serviced site as a result of engagement with utility infrastructure providers and a review of the current site access provision.
2. An assessment of the potential remediation and demolition required to provide a cleared site.

Further detail of the methodology adopted is contained in the main report. The detailed context of these findings, including the method by which remediation allowances were estimated, is presented in Appendix D. It is recommended that this appendix is consulted to develop a full understanding of the context of our findings.

### **Infrastructure Findings**

The utility companies identified no significant concerns with respect to delivery of water, waste water, gas or electricity services to any of the sites. Some sites will require improvements to local infrastructure but the cost allowances estimated as a result of the scope of the study carried out did not suggest that these are likely to have a significant impact on site viability.

An assessment of the current highway access arrangements for each the sites has also been carried out and it identified no significant concerns. Prior to development a more detailed traffic impact assessment will be required which may identify local works required in order deliver proposed developments.

### **Remediation Findings**

The assessment of the potential remediation and demolition issues which may exist on the sample sites has revealed a significant number of locations with potentially high costs. The majority of these costs relate to the industrial legacy of the sub-region and are associated with either the remediation of contaminated land or the demolition and removal of existing buildings. These costs have a potentially significant impact on the viability of the sites.

All of the sample sites are Brownfield. Whilst a detailed analysis of Greenfield sites is outside the scope of this study it is reasonable to expect that remediation and demolition costs would not apply in these locations. By contrast Greenfield sites may require higher infrastructure/ servicing costs, which would increase the cost of their delivery.

### **Risk Mitigation**

This section provides detail of areas of potential risk mitigation in the viability assessment.

Due to the strategic nature of this study a number of assumptions have been made and have been agreed with the client group. Risk could be minimised by undertaking detailed investigations into a number of areas and may as a result increase the viability of some of the sites investigated. Whilst this activity is outside of the brief of this strategic study detailed investigations to help quantify potential costs include:

- Ground Investigations including a review of previous mining uses. This issue is of particular importance to the client group. We understand that sites generally need to be larger than 30 acres to support commercial mining. On smaller sites mining can be part of the remediation and excavation strategy, especially where the revenue from mining can offset the cost of the remediation and dealing with any contaminants. Further investigation of this issue on sites of sufficient size is recommended;
- Building Surveys including asbestos surveys;
- Building Inspections; and
- Traffic Impact Assessments of the proposed developments

The following would help to better define the residual land value:

- Site Master Planning/Feasibility;
- Land/ Property Ownership information; and
- Market engagement to increase understanding of supply and demand requirement for a range of industrial units.

All these detailed investigations would reduce risk and confirm the unknowns of this strategic study.

## Implementation

This section provides detail of areas of potential mechanisms for implementation of development in the sub region

As a result of the current economic conditions being experienced there are a number of factors of relevance here that are discussed below. These include:

- Public/ private sector intervention;
- Land Assembly;
- Planning Policy
- Funding;
- Community Infrastructure Levy (CIL), Code for Sustainable Homes and Renewables;
- Empty Rates; and
- Phasing.

We discuss the implications of each, in turn below:

### Public/ Private Sector Intervention

Whilst the current market is uncertain and private sector investment has dramatically reduced residual values, capital values and rents provide the public sector with opportunities (where funding permits) to assist in delivering serviced 'fit for purpose' sites by both:

1. Assembling land (where ownership is fragmented) so that when the market improves there will be a steady supply of 'fit for purpose' sites in the development pipeline; and

2. Giving consideration to restarting Local Authority led housing development either alongside or in addition to RSL's, and by so doing be able to draw down investment from the HCA allocated for such development activity.

In coming months there will be a delivery role for both the public and private sector in bringing forward development through the BCJCS period. In recent years the public sector has intervened in a number of sites across the Black Country, providing considerable funding, to help facilitate development. Examples include i54, Castlegate Business Park, Opus 9, Mercury Business Park, Wolverhampton Science Park, IMI, Apollo Park and Walsall Waterfront etc. These examples have and are playing a significant role in the sub-regions delivery of new build employment premises.

Whilst, due to market conditions, the viability gap for future development sites has increased we would expect that public sector investment/ intervention, whilst likely to be at reduced levels will continue in future years. This will be limited due to the known, expected reductions in public sector capital and revenue funding and the proposed reductions in public sector spending indicated by the next Corporate Spending Review (CSR) during the period 2011-14.

Any public sector investment will need to be supplemented by private sector investment to ensure that sites are brought forward. Whilst, this is currently at low levels we would expect private sector investment to increase as confidence returns to the market and the economy starts to move out of recession. As with any comprehensive programme of land use change investment will need to be targeted at the priority projects within the sub-region.

### **Land Assembly**

A key concern in the Black Country as a result of its industrial legacy is the costs associated with land assembly/ acquisition (which may require CPO) and in many cases decontamination/ remediation works where land is in multiple, fragmented ownership. Such site preparation works can be cost prohibitive and in many cases deem specific sites unviable when taken in isolation. In this light the following needs to be considered:

This study, by its nature, has been undertaken at the strategic level and as a result we have provided a qualitative assessment of land assembly/ acquisition issues. To provide greater certainty on such costs we advise that a red book valuation be undertaken to more closely determine the quantum of cost associated with land assembly/ acquisition.

### **Planning Policy**

A further challenge for partners and their respective officers/ members will be the flexibility of planning and economic development policy (that was developed in a buoyant market) to accommodate change. Policy has a key role to play in ensuring that the sub-region meets the objectives of the JCS and achieves the desired transformational change. It will be essential that policy planners work closely with economic development officers to ensure that sites that are brought forward are market facing and are attractive to both commercial investors and/ or help to meet housing need.

It is therefore essential that partners give due consideration to the ways by which they could support the development industry during the current recession. There are a number of key ways in which this could be achieved including reducing S106 contributions i.e. affordable housing, reviewing policy on development density/ mix, ensuring that the product that will be provided on site is in alignment with market demand and for residential sites that of housing need in order for development on site to be kick started.

## **Phasing**

The phasing of development land and the timing within which it is brought to market will be a priority throughout the life of the BCJCS. Priority will need to be given to sites that have reduced delivery risks i.e. those with planning consent and/ or agreed S106 and are cleared and serviced as defined throughout this study. The Local Authorities will need to prioritise those sites that will assist them in delivering net housing growth in alignment with agreed RSS targets.

## **Funding**

The deliverability of these key sites and the funding to facilitate this is a key risk in the current economic climate. The availability of funding is having an impact upon both the private and the public sectors. As a result any developments that are seeking to release funding through agencies such as Advantage West Midlands or the HCA will need to ensure alignment with key public sector priorities.

Clearly restricted availability of funds will require the Authorities to carefully consider local needs and priorities and phase market intervention and development approval accordingly.

Traditional methods of implementing site development through site disposal and Public Sector 'pump-priming' are of limited success in the current economic climate of restricted credit and funding availability. We would expect that this type of involvement would increase as the market improves. While there remains some private sector property investment activity the balance of investment risk profile has moved significantly from that experienced over the preceding 10 year period.

The implementation of public sector development sites is increasingly moving towards joint investment models using vehicles such as local asset backed vehicles (LABV's). This model allows Public Sector equity in the form of land or buildings and private sector equity in investment cash for the purpose of improving the land and/ or buildings to the joint benefit of the equity holders. Typically these arrangements are renewable on 10-12 year contracts.

We are aware of the existence of some significant tax benefits which seek to support the development of Brownfield and contaminated sites. This is a specialist area and we would recommend that the Authorities seek specific support if they wish to understand these opportunities in more detail. Some information regarding these potential benefits is contained within Appendix K.

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## **Community Infrastructure Levy, Code for Sustainable Homes and Renewables**

As the plan period continues development costs could increase in the light of a number of current policy proposals at both a national and local level. These include the potential Community Infrastructure Levy (CIL), increases to the Code Level for Sustainable Homes from 3 at present to 6 and more stringent measures to ensure that environmental sustainability is maximised, including the utilisation of renewable energy sources to ultimately arrive at carbon neutral (zero carbon) developments. All of these measures will impact upon developers costs and will have implications for residual land values. We recommend that the Local Authorities consider the implications of each of these factors individually as more detail regarding the cost implications of their implementation is known.

### **Community Infrastructure Levy**

The Community Infrastructure Levy (CIL) is intended to seek community benefit. Whether or not the fee to the developer will increase or decrease will depend on the charging schedule yet to be determined by the charging authorities. The CIL is not however designed to prohibit development, rather it is intended to raise extra funds from a wider range of developments, specifically from smaller sites and from a wider range of land uses.

The development formula should remove the current uncertainty as from the outset a developer or landowner will be able to calculate the amount of contributions that they will be required to pay.

### **Code for Sustainable Homes and Renewables**

The regional policy of requiring that 10% of energy demand on a given development site be met by local renewables will have an impact on capital costs and therefore land values. The 'London Renewables Tool Kit' indicates that the requirement will add around 3% to the overall capital cost of the works.

National policy is developing the Building regulations to achieve the Zero Carbon Home by 2016. This ambition is leading to the staged modification of Part L of the Building Regulations to reduce the allowable carbon emissions from new developments. In public sector development the Code for Sustainable Homes is the principal tool for measuring the wider sustainability of residential developments.

A recent estimate of the costs of delivery of the various levels contained within the code for sustainable homes is included below.

Costs Extracted from 'Cost Analysis of The Code for Sustainable Homes' (Chapter 4) showing the increased cost of delivery of CSH levels compared to the cost of 2006 building regulations.

CSH Level	Detached House		End Terrace House		Flat	
	Cost (£)	%	Cost (£)	%	Cost (£)	%
1	£765	1%	£775	1%	£460	1%
2	£2,188	2%	£2,358	3%	£1,763	2%
3	£4,751	5%	£4,927	7%	£2,892	4%
4	£11,593	13%	£9,000	12%	£5,487	7%
5	£21,847	24%	£17,528	23%	£10,264	13%
6	£37,817	41%	£31,207	41%	£19,080	24%

Therefore whilst any additional cost undermines viability, the impact of the 10% renewables requirement is small in relation to the cost of implementing the full code and indeed dealing with the wider industrial legacy of contamination and demolition.

### Empty Rates

The reduction in empty rates relief (100% for the first six months, followed by 0% for the remaining period that the building remained unoccupied) has had a significant impact on developers, particularly in light of the current UK recession and downturn in the property markets. These factors have reduced the demand for completed industrial buildings built on a speculative basis, and hence increased the already extensive marketing void periods required to attract an occupier (in the absence of securing a pre-let agreement).

Developer's appetite for speculative industrial/ distribution development has been adversely affected, given that a significant business rates liability will now apply to an extensive marketing period. In particular, larger industrial/ distribution premises generally take longer to let and will incur significant Empty Property Rates liability 6 months after completion, making the speculative development of single, larger industrial/ distribution property particularly unattractive to developers. As a result this liability will need to be considered by partners when bringing sites forward, particularly where developers are speculatively considering developing.

## Conclusions

Detailed conclusions are provided in the final report. In summary, delivering development in the current market is a challenge across the country and the Black Country sub region is no exception. In the Black Country additional challenges also exist as a result of the industrial and mining legacy of the region which has resulted in widespread contamination and significant demolition requirements at former industrial locations.

The sub region does benefit from its historic industrial development which means that the developments proposed can predominantly be accommodated by the existing utilities infrastructure.

This analysis demonstrates that sites in the sub-region can deliver new housing given enhanced market conditions (intermediate scenario). The main sub-regional challenge is instead the delivery/ phasing of enhanced commercial/ employment sites and it is anticipated that market (likely public sector) intervention will be required to achieve the aspirations set out in the JCS. This is perhaps unsurprising as there is an established pattern of public sector intervention being required to deliver development in the sub-region and wider area.

## **Final Report**

### **1. Introduction**

This report has been prepared for the four Black Country (BC) Authorities (Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Walsall Council and Wolverhampton City Council) and the Black Country Consortium in order to assist all partners to consider the viability of potential site allocations within their Joint Core Strategy (JCS). The JCS includes proposals for the regeneration of a number of Brownfield sites throughout the BC sub-region. The proposals for the redevelopment of these sites include some identified by the Local Authorities (LA's) in the JCS as future residential locations and some as future strategic employment locations.

This report assesses a representative sample of sites which lie within the potential development locations identified within the JCS and seeks to analyse their potential viability/deliverability to fulfil the aspirations of the JCS over the plan period. This has been achieved by undertaking 25 'high level' development appraisals, applying JCS policy to the sites.

The selected sites have been assessed to determine the redeveloped land value of these sites after applying the costs of redevelopment and the implementation of local planning policy as identified in the JCS. This includes estimates of the costs of demolition, remediation, and utility infrastructure improvements which would be required to provide a 'clean and serviced' developable site. It is through consideration of these values and costs that an understanding of the viability of the sites selected can be developed.

Given the significant changes in market conditions as a result of the economic recession currently being experienced across the development sector, this viability study is key to understanding the deliverability of the combined local planning requirements and the sub-regional planning policy as identified in the JCS. It needs to be recognised that these policies were developed in the buoyant market conditions that prevailed when the policy framework was established.

The report summarises the key findings of this analysis and presents the evidence base supporting these outputs in the form of appendices which include more detailed information regarding each of the aspects assessed.

Due to the strategic scope of this Study there are many unknowns for each individual site, and further technical work and investigation would be required to refine proposals and potential schemes and clarify both cost and value issues. Whilst we have highlighted pertinent issues throughout our report, these are by no means inclusive of all issues that may be encountered or detected by further technical work, which would be required to assess development viability of each site in more detail. It is therefore worth emphasising the strategic level at which this exercise has been undertaken, and the limited investigations that have been undertaken as part of the scope for this work. In addition, the prevailing market conditions render any assessment of viability a particularly challenging exercise, given the absence of transactional evidence and the uncertainty relating to future market conditions prevailing at the present time.

It should also be noted that to date there is no clear definition of 'viability' of a given development and that viability is often a subjective concept which rests with the aspirations or operational requirements of the key stakeholders involved (namely landowners, developers, and occupiers). Therefore, this report should not be seen as offering a definitive guide to the viability of any one specific development, it does however provide an indication of the relative viability of each of these sites for the uses envisaged by the JCS.

The remainder of this report is structured as follows:

- Section 2 summarises the approach undertaken to this study;
- Section 3 outlines the key findings of the viability analysis for the residential development sites;
- Section 4 outlines the key findings of the viability analysis for the commercial development sites;
- Section 5 outlines the key findings of the analysis of infrastructure and remediation issues;
- Section 6 provides commentary on areas of potential risk mitigation
- Section 7 provides commentary on potential considerations during the implementation of the JCS; and
- Section 8 draws together the key conclusions for this work.

The appendixes to this report contain full details of the assumptions made in order to carry out this viability assessment and the methodologies adopted in carrying out assessments. These assessments have led to the production of an evidence base which is also included within the appendixes alongside further information which may be useful to the client group. A full list of appendixes and their contents follows;

<b>Appendix</b>	<b>Contents</b>
A – Black Country Property Market Assessment	Black Country Joint Core Strategy Assessment of Site Viability – Overview of the Black Country Property Market
B – General Policy Assumptions	General Policy Assumptions as agreed with the Authorities  General 'Baseline' Residential mix approach
C – Site Specific Assumptions	Site specific assumptions as agreed with the Authorities  Commentary on the site by site approach

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D – Infrastructure and Remediation Assessment Methodologies	Detail of the Methodology adopted when undertaking the infrastructure and remediation assessments  Detailed Geo-Environmental assessment methodology for cost development
E – Site Evaluation Summary Sheets	Detailed summary sheet for each evaluated site bringing together the outcomes of all assessments carried out
F – Site Land Value Appraisals	Detailed site viability assessment methodology  Land value appraisal summary sheets – Baseline scenario  Anchor Brook development commentary  Land value appraisal summary sheets – Intermediate scenario
G – Utility Assessments	Site utility demand assumptions  Site potable and waste water use and production estimates  Site by site utility infrastructure requirements summary
H – Highways Access Assessments	Plan assessments of likely highways access improvement requirements
I – Geo-Environmental Assessments	Site by site Geo-Environmental assessments including cost estimates
J – Sustainability Commentary	Commentary regarding the potential impact of future changes to local and national policy regarding the delivery of sustainable developments.
K – Potential Tax Benefit Information	Information regarding potential benefits to developers undertaking remediation works

The next section summarises the approach taken in undertaking this Study.

## **2. Approach**

### **2.1 Site Selection**

The sample sites were chosen in consultation with the Local Authorities to provide a representative sample of the likely residential and strategic employment development locations as identified in the JCS. To best reflect the proposed development mix in the region it was agreed that in each Local Authority area two strategic employment sites and four residential development sites would be appraised.

Following this initial selection the sites were considered as a whole and modified to ensure that a suitable representative geographical sample had also been selected. This included consideration of location, site size, the availability of site specific information and site accessibility.

Therefore, the sample sites, which have been assessed, represent a wide mix of sites across the four Black Country authorities which all have varying site constraints, infrastructure requirements, constraints to development, local property market issues, ownerships and physical components, i.e. cleared sites, industrial estates etc.

### **2.2 Assessment of Site Viability**

This section of the methodology helped to define the viability of a 'serviced' site conforming to emerging planning policy. Alongside the viability assessments an analysis of infrastructure and remediation, including acquisition costs was provided. Further detail on how each of these key issues has been applied is provided in Appendix F.

Development appraisals have been undertaken for all sites on the basis that they are cleared and serviced. Sites were appraised based upon two scenarios, as follows:

1. Baseline Scenario (all sites); and
2. Intermediate Market Scenario (residential sites only).

We summarise below what each of these has considered. Further detail on the assumptions applied to each of these scenarios is provided in Appendix F.

#### **2.2.1 Baseline Scenario**

The baseline scenario provided an indication of the viability of the sites based upon current market conditions and applied assumptions that are compatible with this. We developed three sets of assumptions for:

1. Residential Development Appraisals;
2. Strategic Employment Appraisals; and

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### 3. Local Employment Site.

Further detail on the assumptions applied is provided in Appendix F.

#### **2.2.2 Intermediate Market Scenario**

We applied a sensitivity test that has tested an 'intermediate' market scenario (for residential sites) which has taken a midway view on the assumptions adopted above. We have sensitivity tested all residential sites to reflect changes in finance costs, a reduction in developers profit, increased sales values and sale rates and an increase in development densities equating to 50 dwellings per hectare, assuming a residential mix equating to 30% apartments to align with the emerging JCS policy. Further detail on the assumptions applied is provided in Appendix F.

Having adopted the above assumptions, our development appraisals indicate that a significant improvement to the viability of a serviced site would be generated by improved market conditions equating to the above.

The ability of these market assumptions to be met is uncertain at this time, and may or may not be achieved in the future. In addition, to date the extent of the market recovery and its timing is unknown, which adds further uncertainty to the deliverability of the assumptions adopted in our sensitivity test, and hence the likely timing of an improvement to the development and viability of our appraisals.

#### **2.2.3 Existing Use Value Assessment**

To consider the likely viability of the residual land values generated by our development appraisals, our approach has been to examine the following issues:

- The likely value of the sample sites in their existing uses;
- Alternative uses which generate a higher land value than employment and residential uses, and their implications upon development viability/delivery;
- Value/ worth of the site to the owner in its existing use – whilst the site could be of low value, the value to the owner could bear little relation to its market value, if the profit generated by the occupier's business is high;
- Whether occupiers of sample sites could find alternative business premises if required; and
- Are the costs of the new premises and / or relocation costs that would be incurred likely to be prohibitive to relocation?

Our approach has been to undertake a qualitative assessment of the residual land values produced for the sample sites having regard to the above issues, to enable strategic conclusions and the potential impact on development viability and deliverability over the plan period to be drawn.

The following paragraphs set out the research undertaken to address the issues above, and assess the residual land value generated by our development appraisals.

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## 2.2.4 Limitations and Caveats

Whilst our assessment of potential existing use values is undertaken at a strategic level, it does provide a high level assessment of the value of the sites in their existing use and therefore an indication of what land owners value aspirations may be.

However, it should be noted that our assessment does not consider the following issues:

- **Extent of inspection** – we have not undertaken internal inspections or measurements of any buildings in the industrial areas considered. Given that the existing use values we anticipated are based upon indicative floor areas, they should be viewed with caution (further detail is provided in Section 6);
- **Land Acquisition or Relocation costs** – Both land acquisition and relocation costs could be significant, depending on the uses/ occupiers that are at present on site. Some industrial operations use plant and machinery, which can prove extremely expensive to relocate. The presence of occupiers with such equipment may vary over time as occupiers move to, and relocate from the industrial areas on their own accord. Given that we have not had internal access to the buildings, the incidence of such uses is not captured in our assessment, but could have a significant negative impact on development viability (further detail is provided in Section 6);
- **Higher value alternative uses** – where land owners' have aspirations for the possibility of securing higher value alternative uses, these uses are usually viewed as preferable to residential development and value aspirations will be higher. Typically higher value alternative uses include food retail, where the land values for suitable sites are often significantly higher than those anticipated for residential development (further detail is provided in Section 4);
- **Leases/ legal issues** – we have not undertaken any internal inspections of the buildings or inspected any ownership documents, title deeds/ reports on title. These exercises could highlight significant issues, such as multiple tenures, lease structures and occupiers, which would have a significant impact on a sites value (further detail is provided in Section 6);
- **Fragmented ownership** – our site assessments have assumed that sites are assembled and ready for development. In some instances, the sites could be fragmented and be subject to a number of rights, leases, covenants etc. In these instances, public sector intervention may be required to assist in assembling the site, given that the private sector developers or land owners may not be able to negotiate satisfactorily with owners to assemble the sites (further detail is provide in Section 6);
- **Site specific unknown issues** – if a detailed valuation was undertaken, this may highlight site specific issues which are unknown and not factored into our strategic assessment. These could include the presence of contamination, ground condition and other cost liabilities, over and above our assumed levels. Such costs are likely to have a significant impact on a site's potential existing use value, and may actually reduce the value of specific sites due to the extent of liability for contamination present (further detail is provided in Section 6);

- **Remaining economic life of buildings** - The economic life of buildings in their existing use is likely to reduce over time as identified in the Black Country Employment Land Review. This factor is not captured in our assessment of potential land values, which has been undertaken at a point in time. This issue is critical over the life of the BCJCS plan period, and will be a key factor influencing the deliverability of sites for redevelopment (further detail is provided in Section 4);
- **Contamination** – this issue whilst not considered as part of the existing use value assessment is covered in analysis undertaken by Mott MacDonald (further detail is provided in Sections 5 & 6); and
- **Empty Rates Liability** – we have not taken into account the potential impact of Empty Rate Liabilities on our potential existing use value assessment (but we do address this issue in Section 6).

The viability assessments have also incorporated the potential costs of remediation and demolition in order to return the sites to a standard suitable for development (a 'serviced' site).

### 2.2.5 Summary

The determination of site viability in this context relates to the commercial viability of a cleared and serviced site, considered alongside the costs of delivering a site to this condition. The main findings of the development viability assessments and the infrastructure and remediation implications are presented in Sections 3-5 of this report and at Appendix E.

The next section provides the key findings of the analysis undertaken to determine the viability of residential development.

## 2.3 Assessment of Infrastructure and Remediation Requirements

An assessment of each sites current condition and use was undertaken in order to support the assessment of viability and to help estimate potential costs which may be required in order to deliver cleared and serviced sites. These assessments were carried out through site walkover visits, supported by desk top research. An overview of the approach adopted is contained below and the full detail of the methodology adopted is provided within Appendix D.

### 2.3.1 Utilities Infrastructure Assessment

Providers of Gas, Electricity, Clean (Potable) Water and Waste Water have been engaged in order to try and identify any investment in their infrastructure which may be required to support the developments proposed. The utility providers have been approached and asked to evaluate their systems and identify areas where existing systems would require works to facilitate development, beyond expected developer connections into the relevant network for a development of that type.

The utilities providers were supplied with the proposed number of residential dwellings, which for the purposes of the utilities assessment was based on development of the identified net developable area at 55 dwellings per hectare (dph). Where required by the utility provider conservative estimates of the demand which may result from the proposed developments has also been supplied.

All of the utilities have emphasised the impact of development on utility infrastructure networks has to be considered in the context of the wider existing network and that it is not possible to sensibly model the impact on a hypothetical future network. Consequentially assessment has been based on a specific proposed development and its impact on the existing network.

In some cases the utility providers have not been able to provide an assessment of the potential impact of the proposed development. Where this was the case a conservative estimate of the demand which may result from the proposed developments has been compared against the likely recent historic demand based on site use. Both of these demand estimates have been based on industry standard design approaches. It has been assumed that future industrial uses would follow current best practice in the design of their process to limit potable water demand.

### **2.3.2 Highways Access Assessment**

The desktop assessment of potential highways access improvements required to support the proposed development type and scale has been carried out by an experienced highways engineer based on a review of the current site access from plans. Photographs obtained during the site visits have also been reviewed. This assessment has been carried out in order to identify whether the existing sites access is likely to be adequate for the proposed development and consider any changes to the existing highways access that may be required. Off-site highways works which may be required to support the development can only be assessed following a full traffic survey, as a result these have not been considered in this assessment.

### **2.3.3 Geo-Environmental Assessment**

Site visits were undertaken comprising a site walkover and visual inspection. During the site visit photographs were taken and the general topography, ground type and condition and any apparent environmental considerations for site development were noted. In addition observations regarding the existing structures and access on site were recorded, although no buildings were entered and no testing was carried out.

A desktop assessment of the geotechnical and environmental issues which could potentially require remediation prior to development of the sites has been undertaken. This assessment has been based on the outputs of the site visits as well as information provided by the BC Authorities. The information available has varied on a site by site basis but has always included information from the site inspection, historic mapping, aerial photography, geological mapping, and Environment Agency flood risk maps. For some sites ground investigation data, factual reports and fully developed remediation strategies have also been

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available. A detailed explanation of the approach to the development of quantities for cost estimates as a result of the Geo-Environmental Assessment is included within Appendix D.



### **3. Residential Development Viability**

This section deals with the valuation of land in its current use and the viability of a 'serviced' site conforming to emerging planning policy which is proposed for residential development. It includes the key findings of the appraisal of the viability of residential development sites, including the sensitivity analysis undertaken and the factors that influence this.

#### **3.1 Sales Values**

Due to the prevailing market conditions (recession) residential sales values are low and as a result it is not the optimum time to be undertaking viability analysis (particularly as this has to be undertaken at the current point in time). As a result we have undertaken sensitivity testing to assess alternative scenarios.

Residential sales values across the Black Country have previously been in the order of £2,045 to £2,153 per sq m (£190- £200 per sq ft), depending upon the nature of residential accommodation offered and precise location. However, in prevailing market conditions sales rates ranging from £1,615- £1,830 per sq m (£150-£170 per sq ft) is more appropriate. We have therefore applied an average sales rate to all types of dwellings envisaged in our appraisals throughout the Black Country of £1,722 per sq m (£160 per sq ft) in our baseline 'current market' scenario.

In addition, the sales period anticipated by developers have significantly reduced, given the fall in demand for residential development and hence the completed product. Prior to the credit crunch and subsequent economic downturn/recession, we would expect developers to assume 4-6 private residential dwellings per month to be sold on average. However, in prevailing market conditions, it is likely that only 1-2 private sales per month could be achieved, and hence the development period anticipated would be lengthened to reflect the reduced take up of residential units.

#### **3.2 Approach to Residential Development Viability Assessments**

As outlined in Section 2 we adopted a scenario based approach to our development appraisals as follows:

1. Baseline Scenario; and
2. Intermediate Market Scenario.

The outcome of this analysis is provided in Table 3.1 below.

Table 3.1: Outcome of Residential Development Viability Assessments

Site	Proposed Use	Developable (net) Site Size (hectares)	Estimated Current Market Potential Land Value (per hectare)	Estimated Intermediate Market Potential Land Value (per hectare)	Estimated Site Remediation Costs (per hectare) *	Estimated Demolition Costs (per hectare) *
1	Residential	2.12	£520,000	£1,200,000	£760,000	£40,000
2	Residential	11.65	£520,000	£1,180,000	£330,000	£480,000
3	Residential	2.81	£520,000	£1,210,000	£310,000	£410,000
6	Residential	3.66	£520,000	£1,220,000	£227,000	£207,000
7	Residential	4.64	£330,000	£960,000	£200,000	£990,000
8	Residential	3.77	£320,000	£1,040,000	£160,000	£710,000
9	Residential	7.30	£320,000	£1,020,000	£130,000	£1,070,000
11	Residential	9.10	£190,000	£570,000	£420,000	£680,000
15	Residential	6.3	£680,000	£1,330,000	£140,000	£210,000
16	Residential	3.52	£570,000	£1,350,000	£290,000	£430,000
17	50% Residential 50% Local Quality Employment	3.87	£-250,000	£50,000	£20,000	£0
18	Residential	0.82	£610,000	£1,350,000	£110,000	£1,000
19	Residential	2.94	£560,000	£1,140,000	£120,000	£870,000
21	Residential	3.23	£540,000	£1,120,000	£1,270,000	£350,000
22	Residential	13.14	£630,000	£1,290,000	£310,000	£250,000
24	Residential	4.69	£550,000	£1,140,000	£90,000	£90,000

\* Further information regarding the development of these costs is contained within Section 5 and Appendix D

Key
Potentially unviable (land assembly costs not included)
Potentially viable (land assembly costs not included)

Source: GVA Grimley/ Mott MacDonald, 2009

### 3.3 Key Findings

Table 3.1 above indicates that 5/ 17 residential sites are potentially viable under the baseline scenario and 12/17 under the intermediate market scenario. As previously indicated this assessment takes into consideration the potential costs of site remediation and demolition but does not provide a cost for land acquisition as the provision of this level of details is outside of the scope of this strategic study.

We would anticipate, though that the cost of land acquisition (due to factors such as the density of development and number of occupiers on these sites etc) would be of sufficient scale to make all sites unviable, and would therefore require public/ private sector intervention to facilitate development. We provide further advice on implementation in Section 7 of this report.

### 3.4 Sensitivity Testing

Our development appraisals have been undertaken during a period of significant economic and property market uncertainty, where significant falls in values have been experienced across all property sectors. Our baseline appraisals assume current day sales/ rental values

as at June 2009. However, this approach only reflects a limited picture of development viability, given the significant phasing period required to release many of the site for development, and the life of the Black Country Joint Core Strategy (BCJCS).

As a consequence of the above factors, a 'point in time' assessment of development viability could change over the life of the development as market conditions change, and the viability of development sites would alter accordingly. We have therefore sought to 'sensitivity test' key variables to test the likely viability of sites over the BCJCS period.

We have applied the following sensitivity tests:

1. **No Affordable Housing** – We have tested the impact of no affordable housing on one chosen site. This creates an improvement in development viability from the landowner's perspective, as the potential site value would increase. If a site has already been acquired by a developer (the price paid for the land is set), a reduction in affordable housing would increase the developer's return for risk (profit); and
2. **Improved market scenario** – This scenario has been applied to our baseline case for one site but the following adjustments have been made;
  - 20% increase in residential sale values to £2,066.67 per sq m (£192 per sq ft);
  - A reduced build and sale period (by increasing the residential take up rate to reflect 6 private residential sales to the market per month);
  - A reduction in developer's risk for return (profit) to 15% of residential sales. This level of profit was more commonplace prior to the 'credit crunch'; and
  - Increased finance costs to 7% (Assuming that the financial markets return to pre-credit crunch levels. This assumes a Bank base lending rate of 5%).

The outcome of these sensitivity tests, using Site 7, is shown below:

Site 7 (4.64 ha – net)	Site Viability (indicative land value)	Site Viability (per net hectare)
Baseline	£1,550,000	£334,335
Baseline with no Affordable Housing	£4,200,000	£905,172
Intermediate Market Scenario	£4,450,000	£959,052
Improved (Summer 2007) Market Scenario	£6,100,000	£1,314,655

Source: GVA Grimley, 2009

The above sensitivity test assumes values akin to 2007 (pre-credit crunch and subsequent economic downturn/ recession).

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### 3.5 Summary

The assessments of residential development viability indicate that 5/ 17 sites are potentially viable under the baseline scenario and 12/17 under the intermediate market scenario. This assessment is inclusive of the potential costs of site remediation and demolition but does not provide a cost for land acquisition. We would anticipate that the cost of land assembly would be of sufficient scale to make all sites unviable, and would therefore require public/ private sector intervention to facilitate development.

Current residential sales values are low and it is unclear as to when these values will begin to return to levels experienced in 2007 (prior to the credit crunch). Anecdotal evidence suggests that residential land values experienced in 2007 may not return for a significant number of years. As such, it is likely that a significant period of time will elapse until market conditions improve to the extent tested in our 'improved market' scenario. This puts the achievement of the assumptions adopted in both our 'improved and intermediate market scenario' in the near future into question, although it is our expectation that these levels will return during the course of the plan period. Additional requirements such as the Code for Sustainable Homes and requirements of the Community Infrastructure Levy (CIL) (see Section 7), could limit the extent of the recovery in residential land values in the future.

Our 'no affordable housing' scenario assumes that the requirement for affordable housing would be removed. We would note that such a scenario is contrary to current policy and is unlikely to be supported by Local Authority officers and members. Further, it is expected that housing demand in the future will be for higher, not lower, levels of affordable housing. Taken in this context, if feasible, a reduction in affordable housing requirements would improve the financial viability of development by either improving the land receipt to the landowner where developers have not purchased the site. This increase (may) be enough to induce a land owner to bring their site forward for redevelopment.

Where a site has already been acquired by a developer, it is crucial to ascertain what the developer paid for the site. In this scenario the land value is fixed, and hence any improvement to development viability will increase the developer's return for risk (profit).

Where sites have been bought in strong market conditions, but values fall before development commences, this will reduce the profit that the developer could achieve, and the developer may wait until market conditions begin to improve. Where this is the case, a reduction in the affordable housing requirement is one way in which a developer can reduce costs and hence engineer a viable development. However, the requirement for Affordable Housing is set out in the JCS, and whilst its removal in certain situations could improve viability and encourage the delivery of development, there are clear policy implications for adopting this strategy.

The next section provides the key findings of the analysis undertaken to determine the viability of commercial development.

## 4. Commercial Development Viability

This section deals with the valuation of land in its current use and the viability of a 'serviced' site conforming to emerging planning policy which is proposed for commercial development. It includes the key findings of the viability of commercial development appraisals.

### 4.1 Approach to Commercial Development Viability Assessment

As outlined in Section 2 under the Baseline scenario we undertook development appraisals as follows:

1. Strategic Employment Appraisals; and
2. Local Employment Site

The outcome of this analysis is provided in Table 4.1 below and clearly shows that all commercial development sites are unavailable at the present time.

Table 4.1: Outcome of Commercial Development Viability Assessments

Site	Proposed Use	Developable (net) Site Size (hectares)	Estimated Current Market Potential Land Value (per hectare)	Estimated Site Remediation Costs (per hectare) *	Estimated Demolition Costs (per hectare) *
4	Strategic Employment	7.68	-£790,000	£120,000	£930,000
5	Strategic Employment	8.15	-£790,000	£130,000	£830,000
10	Strategic Employment	7.55	-£750,000	£90,000	£740,000
12	Strategic Employment	4.37	-£800,000	£320,000	£650,000
13	Strategic Employment	6.23	n/a	n/a	n/a
14	Strategic Employment	7.74	-£810,000	£310,000	£960,000
17	50% Residential Quality Local Employment	3.87	-£250,000	£20,000	£0
20	Strategic Employment	7.76	-£810,000	£110,000	£220,000
23	Strategic Employment	7.07	-£770,000	£110,000	£1,110,000
25	Local Employment	1.09	-£230,000	£470,000	£20,000

\* Further information regarding the development of these costs is contained within Section 5 and Appendix D

Key
Potentially unviable (land assembly costs not included)

Source: GVA Grimley/ Mott MacDonald, 2009

We summarise the key findings below:

### 4.2 Key Findings

Table 4.1 above indicates that all of the commercial sites for which development appraisals have been carried out are potentially unviable under the baseline scenario (please note that the intermediate market scenario tested changes of assumptions that were only applicable for residential sites and so does not apply here). This assessment takes into consideration the potential costs of site remediation and demolition but does not provide a cost for land

acquisition as the provision of this level of details is outside of the scope of this strategic study. A separate commentary on Site 13 is provided at Appendix F

We provide below key findings from our existing use value assessments for open storage industrial land and industrial premises:

#### **4.2.1 Open Storage Industrial Land**

The prevailing market conditions have had a significant impact on the values of industrial development land, and our appraisals suggest that negative land values for industrial development land are now common. That said, cleared industrial land could be used for open storage purposes rather than for development, and will therefore have a value (in its existing use) as open storage industrial land.

Many factors influence the value of open storage industrial land, such as location, access to highway networks, on site security and ground conditions (i.e. whether open storage sites have flat, hard-standing or concrete surfaces). We suggest that the value of open storage industrial sites would range from £100,000 to £250,000 per acre across the Black Country for an uncontaminated site. Such a liability could significantly reduce the potential existing use value that we have assessed, which in turn, may increase the viability of alternative uses.

However, many of the sample sites considered comprise large cleared areas of land not currently used for open storage purposes. Many are likely to require further work (such as securing the perimeter fencing, creating areas of hard standing/concrete and levelling) to make them more attractive to potential industrial/distribution occupiers. Given the cost to undertake these works, and the fact that many of the sites could provide large areas of open storage where a discount to reflect the quantum of land available is appropriate, it is likely that values of the sample sites for open storage purposes would be within the lower limit of the values we anticipate above.

It is unclear as to what additional land value would provide a sufficient incentive to the land owner to release land for residential development. For example, is an uplift of 20%-50% above open storage industrial land values sufficient? This is clearly a subject issue that is extremely difficult to quantify at a strategic level.

The viability of any one site (and hence the prospect of its delivery) is therefore not absolutely certain, given the factors discussed in the paragraphs above. However, it does indicate that residual land values generated by development appraisal should be above open storage land values, in order to provide an incentive for the land owner to redevelop.

#### **4.2.2 Industrial Premises**

The value of secondary industrial properties throughout the sub-region varies widely, depending upon the quantum of floorspace available, its condition and specification, alongside a range of other important factors. Typically, a range of industrial freehold capital values ranging from circa £15.00 per sq ft for the poorest accommodation, to circa £40 – 50 per sq ft freehold capital value for more modern accommodation, are appropriate.

To assess the potential value in existing use, we estimated the floor areas of existing buildings on a number of the sample sites assuming single storey development. We applied an average freehold capital value of £30 per sq ft to the floor areas estimated, to arrive at an indication of the potential freehold capital value for each site in its existing use, and indicate owners' potential value aspirations where sites comprise of industrial buildings.

Having adopted this approach, the sample sites tested suggest that many sites would produce a higher potential existing use value when compared to sites where there are no buildings present. This is due to the higher density of built development on each sample site and its consequent value. This suggests that owners are likely to require proposed redevelopment schemes to generate a much higher residual land values in order for their to be a sufficient incentive to bring sites forward for redevelopment. In addition, these sites are less likely to be delivered in the short term, if prevailing market conditions generate lower residual land values when compared to the potential value in their existing use.

A key issue is the remaining economic life of the buildings in their existing industrial use. As the remaining economic life diminishes, (and buildings become difficult, uneconomic, or impossible to re-let/re-occupy), the potential value of the premises in their existing use will decrease. When this happens, land owners will be forced to reconsider their aspirations for each site, and assess the viability of alternative uses or development options. These options could be as follows:

- Refurbish existing buildings if possible to prolong useful economic life (refurbishment would need to be cost-effective);
- Redevelop sites for their existing use (where there is no higher value alternative use);
- Redevelop for an alternative use which is higher than the existing use (assuming a positive planning policy framework for the use envisaged); or
- Clear the site of buildings and use the site as open storage land. This could be a temporary/interim solution whilst development options are considered.

It may be possible to consider industrial areas with longer/ shorter useful economic lives, which in turn would provide a useful analysis to inform a wider phasing strategy over the JCS plan period.

We provide below further analysis on the outcomes of these appraisals for the strategic employment and local employment assessments.

#### **4.2.3 Strategic Employment Appraisals**

Our baseline appraisals of strategic employment sites highlight a significant level of negative viability even where infrastructure and land assembly costs are not factored into our assessment. This is hardly surprising, in the context of the prevailing market conditions and market uncertainty highlighted in our baseline property market report (see Appendix A).

Industrial land values for development (rents and capital values) are generally lower when compared to residential land values, and the margin between construction costs and the

receipts received for the end industrial product is therefore lower, and hence a lower developed site value is produced.

The lower margin between construction cost and values also means that appraisals are more sensitive to either a fall in sales values / investment value of the end product, or an increase in build costs. The viability of industrial sites is much more sensitive to changes in variables such as value or cost, and hence can quickly become either negative or positive given small changes in the assumptions adopted within the development appraisal to reflect changing market conditions. In contrast, the margins between cost and value for residential schemes are generally much higher, and as such, residential schemes are better placed to encompass increasing costs or falls in the value of the end product.

Our baseline 'current market' strategic employment development appraisals produce unviable results for the following key reasons:

- The current prevailing market conditions have impacted upon the market inputs to the development appraisals. Investment yields applicable to the rental income that a scheme would produce have increased, which has resulted in a fall in the investment value of the end development. This is a key factor to rendering many industrial / commercial developments unviable;
- We have assumed a cost equating to £484.37 psm (£45.00 psf) to build industrial units to a strategic specification. At this stage, in the absence of a masterplan, a definitive specification of a strategic quality industrial unit, or the size of the units which could be accommodated on the sites, our build cost assessments lie within the range anticipated by the Building Cost Information Service (BCIS), and are our professional judgment as to the appropriate rate of build cost to apply based on the current available information. Therefore, our assumptions could be refined as masterplans for each site evolve; and
- We have applied an average of £53.81 psm (£5.00 psf) rental value to all strategic sites throughout the four Black Country Authority Districts. In reality, the rental value could be increased if some sites are able to accommodate either trade counter units or small unit schemes. This could improve the viability of strategic employment sites. At this level of assessment, we have applied an average or blended rate of £5.00 psf in the absence of further detailed information, to inform our high level assessments.

A key factor to the negative viability of strategic employment sites is the prevailing market conditions. We have also sensitivity tested the likely effect of assumptions reflecting market conditions as they were prior to the credit crunch in 2007, however, even in these market conditions our appraisals show that the viability of strategic employment sites, although showing improved viability, would still only be marginally viable. This could indicate that the rent and build costs assumed in our appraisals could be examined in greater detail to assess whether additional value can be negotiated on a site specific basis (as a developer would seek to pursue over the course of their involvement with the scheme) to ensure that maximum value is gained on each site and therefore viability improved.

The following paragraphs highlight potential issues which could be addressed which may add value to the strategic employment sites and hence improve their viability:-

- **Economies of Scale** – Economies of scale could be achieved by incorporating larger industrial units (over 10,000 sq m (107,639 sq ft)) as part of the masterplans for each site. Such units would be more palatable to occupiers seeking distribution premises but would also have lower build costs associated in the order of £376.73 psm (£35.00 psf). This represents a significant reduction in build costs if achievable, and hence would improve the viability of strategic employment sites accordingly.
- It should however be noted that it could prove difficult to assemble an area large enough to accommodate the physical requirements of such a building, having regard to the strategic employment sample sites tested. For example, a 10,000 sqm distribution warehouse would require approximately 2.5 hectares of land to accommodate it. The land would need to be configured in such a way to accommodate a large distribution shed. Many of the subject sites could provide a 2.5 hectare site, but could not provide a site capable of accommodating a 10,000 sqm distribution unit capable of meeting occupier requirements. This could limit the ability of some of the strategic employment sites to accommodate larger distribution warehouses in the future.
- **Alternative Uses** – Viability could be improved by allowing flexibility in planning policy to enable other uses aside from B2, B8 and Sui Generis uses to be accommodated. Examples could include:
  - **Residential** – Mixed-used development of strategic sites which incorporated residential uses could be considered to improve the viability of strategic employment sites, given that the residential elements of the scheme could be used to ‘cross-fund’ employment development to improve overall site viability;
  - **Supermarkets** - Despite the prevailing market conditions, where demand is identified, supermarkets can produce land values equating to circa £2.47 to £4.94 million per hectare (£1m to £2m per acre), which could be used to cross-fund employment development and other areas of the site;
  - **Public Houses** – Where there is sufficient employment development or identified local demand, other uses such as public houses can often be delivered up front and create a capital receipt in the early years of development in the order of £500,000 to £750,000, which could be used to improve viability of the overall site; and
  - **Trade Counter / Quasi Retail Units** – Some strategic employment sites may benefit high visibility / proximity to key roads or arterial networks. In these cases, areas with high-visibility could be used for higher value uses such as retail / automotive / trade counter purposes, where rents and hence land values are often higher, which would improve the overall viability of employment schemes.

Some of these potential alternative uses could also be mechanisms for increasing the viability of proposed residential developments

- **Split of B2/B8 Uses** – We have highlighted that to date there is no clear definition of what factors constitute a strategic quality employment site. Although we have assessed the split of B2/B8 uses envisaged by the GVA Grimley Ltd prepared Black Country Joint Core Strategic Final Report April 2008. Reflecting on the B2/B8 split that we have assumed, 75% of the overall space on each site (having allowed for sui generis uses) are envisaged to be for B8 uses. Prevailing market demand at this time for such uses tends to be for units above 5,000 sq m (53,820 sq ft) and above. This requirement could be relaxed where sites are unable to accommodate units of this scale, in order to accommodate smaller buildings where market demand is likely to be a more flexible B2/B8 planning permission. As a general rule, the market tends to seek as flexible accommodation as possible, to ensure that changes in market demand can be incorporated over time. Clearly, the need to provide the market flexible planning consents but also seek to accommodate the aspirations for BCJCS in terms of B2/B8 split requires careful consideration in the future to ensure that the planning policy strikes the most appropriate balance.

#### 4.2.4 Local Employment Appraisals

Turning to our local employment appraisals, it should be noted that the rent applied is higher than that adopted for strategic employment appraisals, given that local quality sites would accommodate much smaller units than those envisaged for strategic quality sites, and the rental value of smaller units are generally higher. In addition, we have reduced the build costs applied to local employment sites, to reflect the fact that units could be provided at a lower specification and quality when compared to strategic employment sites. This assumes that small units could be incorporated in terraces of units (rather than as individual stand-alone style industrial units) in order to benefit from the economies of scale associated with this method of construction.

We have also sensitivity tested the local employment site to encompass improved market conditions as experienced prior to the credit crunch in 2007. Our indicative appraisals show that local employment sites are likely to be increasingly viable as market conditions improve when compared to strategic employment sites, given that higher rents are anticipated and that the accommodation could be provided at cheaper build costs. However, many of the larger sites allocated for local employment in the JCS are of significant scale. Small unit schemes for local employment purposes cater for the local employment market, and many occupiers in this market tend to prefer secondary modern industrial accommodation (which trades at a significant discount to new build units), rather than brand new industrial accommodation which attract a premium in rental or capital values. As such, it is likely that demand for small unit schemes for local employment purposes is unlikely to be of significant scale to encompass many of the sites envisaged by the JCS in the future.

### 4.3 Summary

The assessments of commercial development viability indicate that 9/ 10 commercial sites are potentially unviable under the baseline scenario (the intermediate market scenario only tested changes of assumptions for residential sites and so does not apply here).

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The baseline appraisals of strategic employment sites highlight a significant level of negative viability even where infrastructure and land assembly costs are not factored into our assessment. This is for the following key reasons:

- The current prevailing market conditions have impacted upon the market inputs to the development appraisals. Investment yields have increased, which has resulted in a fall in the investment value of the end development;
- We have assumed a cost to build industrial units to a strategic specification which could be refined as masterplans for each site evolve; and
- We have applied an average rental value to all strategic sites. In reality this could be increased if some sites are able to accommodate either trade counter units or small unit schemes.

Our indicative appraisals show that local employment sites are likely to be increasingly viable as market conditions improve when compared to strategic employment sites, given that higher rents are anticipated and that the accommodation could be provided at cheaper build costs.

The following section outlines the potential contamination and infrastructure costs associated with returning sites to a standard suitable for development (a 'serviced' site).

## **5. Infrastructure and Remediation**

This section deals with potential contamination and infrastructure costs associated with returning the site to a standard suitable for development (a 'serviced' site). It contains the outcomes of the existing site condition assessments described in Section 2 and Appendix D. The issues identified within this section must be resolved for a site in order to deliver it to a clean and serviced condition.

### **5.1 Utilities Infrastructure**

Consultation with the bodies responsible for the provision and maintenance of water, waste water, gas and electricity supply infrastructure within the Black Country sub region identified few locations within the sample which required investment.

As a result of the industrial development of the sub-region there has been significant historic investment in the utilities infrastructure and Brownfield sites in the Black Country are therefore generally well serviced. The consultations which took place identified only minor localised investment requirements which would typically lie within the expected scope of both commercial and residential developments.

### **5.2 Site Highways Access**

The scope of the study carried out did not identify any significant costs associated with the provision of permanent and suitable site access from the highway. The impact of the development proposals on the wider local highway network has not been reviewed and it is possible that off-site works which could have significant cost implications may be required to facilitate site development.

### **5.3 Geo-Environmental Issues**

All of the sites within the sample for this study have historically been developed for industrial use and as a result of this the desk studies have identified a number of recurring issues across the sample. Understanding of these issues is important as resolution of them requires significant investment and consequentially increases the costs associated with delivery of a serviced site.

The main issues which exist across the sites are:

1. Contamination as a result of industrial uses;
2. Legacy issues associated with historic mining activities; and
3. Demolition requirements of existing building superstructures and substructures and of historic building substructures.

We consider each in turn below:

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### **5.3.1 Contamination**

The desk top study and site visual inspections indicated that on all of the sites there was a high chance of contamination although the estimated cost of dealing with this varied considerably. The contamination of a number of the sites is likely to include toxins which would require specialist disposal at significant cost and an allowance for this has been included where appropriate.

Cost allowances for the resolution of the anticipated contamination issues vary considerably from £20,000 per hectare to £1,270,000 per hectare with an average of £273,000 per hectare. This is a scale of cost which can have a significant influence over the viability of a site. Cost allowances for each site are included within tables 3.1 and 4.1.

### **5.3.2 Mining**

Throughout the Black Country sub-region historic mining activity has resulted in a number of significant potential barriers to development. These include uncapped mineshafts, unrecorded mineshafts, underground mines with potential for collapse and arisings and contamination as a result of mining processes. A number of these issues have been identified as a result of the desk studies carried out although it is likely given the sub regions heritage that further issues remain. An allowance for the remediation of these issues has been included within the contamination allowances above.

### **5.3.3 Demolition**

All but one of the sites evaluated within this study have been identified as requiring demolition to bring the site to a 'serviced' condition. The scope of this demolition can vary considerably and within this study a number of the sites which have been 'cleared' through removal of the superstructure (above ground) require further demolition works to the substructure (below ground).

Demolition costs can vary considerably and are dependant upon a number of site specific factors including the potential contamination of the building materials themselves as a result of use of the building. The assessment of demolition costs has made allowances for those factors which can be determined within the scope of the desk study including an allowance for the removal of asbestos where appropriate.

Cost allowances for the demolition of any remaining structures on each site vary considerably from only £1,000 per hectare to £1,110,000 per hectare with an average of £533,000 per hectare. This is again a scale of cost which can have a significant influence over the viability of a site. Cost allowances for each site are included within tables 3.1 and 4.1.

## **5.4 Summary**

The assessment of the existing condition of the sites has identified two key conclusions which can be drawn about the delivery of cleared and serviced Brownfield sites in the Black Country sub-region, as follows:

1. The costs of delivery of infrastructure to support development on Brownfield sites in the areas assessed with a legacy of industrial development are generally not significant in the context of the viability of the sites; and
2. This legacy of industrial development results in a number of contamination and demolition issues which require significant expenditure to allow for delivery of cleared and serviced sites.

The following section identifies areas of risk mitigation for the assessments undertaken.

## 6. Risk Mitigation

Due to the strategic nature of this Study a number of assumptions have had to be made and have been agreed with the client group. Risk could be minimised and unknowns confirmed by undertaking detailed investigations into a number of areas and may as a result increase the viability of some of the sites investigated. Whilst this activity is outside of the brief of this strategic study detailed investigations to help quantify potential contamination and infrastructure costs include:

- **Ground Investigations** – As a result of detailed ground investigations and ongoing monitoring a more accurate decontamination and remediation strategy could be developed for which greater confidence can be obtained.
- **Building Surveys (inc. asbestos)** – A detailed survey of existing buildings, which included asbestos surveys, would result in increased confidence of the demolition costs or potential for refurbishment. As the demolition costs are a significant proportion of the costs associated with delivering a serviced site for development a reduction may have a significant impact on viability.
- **Traffic Impact Assessments** – By undertaking a full traffic impact assessment the potential section 278 requirements of the site can be identified.
- **Site Masterplanning/Feasibility** – By undertaking a site masterplanning exercise it may be possible to demonstrate that building types which have currently been earmarked for demolition could be retained and/or refurbished at a significant reduction in cost to the developer whilst also offering a more sustainable solution. This exercise may also allow areas of hard standing or existing internal site access roads to be retained.
- **Ownership Investigation** – A detailed assessment of current occupancy levels, tenancy agreements and land ownership would allow a more accurate estimate of the likely site acquisition and land assembly costs to be made. This would again have a significant impact on the viability of the site and enable more detailed site specific appraisals to be undertaken.
- **Market Engagement** – By better understanding the existing market and the supply and demand requirements the Authorities can focus delivery of the JCS in line with market requirements.

The following section describes items which the Authorities may consider in order to assist with the implementation of the JCS.

## 7. Implementation

As a result of the current economic conditions being experienced there are a number of factors of relevance here that are discussed below. These include:

- Public/ private sector intervention;
- Land Assembly;
- Planning Policy;
- Funding;
- Community Infrastructure Levy, Code for Sustainable Homes and Renewables;
- Empty Rates;
- Phasing. and
- Mining

### 7.1 Public/ private sector intervention

It needs to be recognised that whilst the current market is uncertain and private sector investment has dramatically reduced the residual land values, capital values and rents providing the public sector with opportunities (where funding permits) to assist in delivering serviced 'fit for purpose' sites by both:

1. Assembling land (where ownership fragmented) so that when the market improves there will be a steady supply of 'fit for purpose' sites in the development pipeline; and
2. Giving consideration to restarting Local Authority led housing development either alongside or in addition to RSL's, and by so doing be able to draw down investment from the HCA allocated for such development activity. For example, Birmingham City Council have recently established the Birmingham Municipal Housing Trust in response to this point to deliver social housing and to help kick start the housing market in the City.

In coming months there will be a delivery role for both the public and private sector in bringing forward development through the BCJCS period. In recent years the public sector has intervened in a number of sites across the Black Country, providing considerable funding, to help facilitate development. Examples include i54, Castlegate Business Park, Opus 9, Mercury Business Park, Wolverhampton Science Park, IMI, Apollo Park and Walsall Waterfront etc. These examples are playing a significant role in the sub-regions delivery of new build employment premises.

Whilst, due to market conditions, the viability gap for future development sites has increased we would expect that public sector investment/ intervention, whilst likely to be at reduced levels will continue in future years. This will be limited due to the known, expected reductions in public sector capital and revenue funding and the proposed reductions in public

sector spending indicated by the next Corporate Spending Review (CSR) during the period 2011-14.

Any public sector investment will need to be supplemented by private sector investment to ensure that sites are brought forward. Whilst, this is currently at low levels we would expect private sector investment to increase as confidence returns to the market and the economy starts to move out of recession. As with any comprehensive programme of land use change investment will need to be targeted at the priority projects within the sub-region.

## **7.2 Land Assembly**

A key concern in the Black Country as a result of its industrial legacy is the costs associated with land assembly/ acquisition (which may require CPO) and in many cases decontamination/ remediation works where land is in multiple, fragmented ownership. Such site preparation works can be cost prohibitive and in many cases deem specific sites unviable when taken in isolation. In this light the following needs to be considered:

This study, by its nature, has been undertaken at the strategic level and as a result we have provided a qualitative assessment of land assembly/ acquisition issues. To provide greater certainty on such costs we advise that a red book valuation be undertaken to more closely determine the quantum of cost associated with land assembly/ acquisition.

## **7.3 Planning Policy**

A further challenge for partners and their respective officers/ members will be the flexibility of planning and economic development policy (that was developed in a buoyant market) to accommodate change. Policy has a key role to play in ensuring that the sub-region meets the objectives of the JCS and achieves the desired transformational change. It will be essential that policy planners work closely with economic development officers to ensure that sites that are brought forward are market facing and are attractive to both commercial investors and/ or help to meet housing need.

It is therefore essential that partners give due consideration to the ways by which they could support the development industry during the current recession. There are a number of key ways in which this could be achieved including reducing s106 contributions i.e. affordable housing, reviewing policy on development density/mix, ensuring that the product that will be provided on site is in alignment with market demand and for residential sites that of housing need in order for development on site to be kick started.

## **7.4 Funding**

The deliverability of these key sites and the funding to facilitate this is a key risk in the current economic climate. The availability of funding is having an impact upon both the private and the public sectors. As a result any developments that are seeking to release funding through agencies, such as Advantage West Midlands or the HCA will need to ensure alignment with key public sector priorities.

Clearly restricted availability of funds will require the Authorities to carefully consider local needs and priorities and phase market intervention and development approval accordingly.

Traditional methods of implementing site development through site disposal and Public Sector 'pump-priming' are of limited success in the current economic climate of restricted credit and funding availability. We would expect that this type of involvement would increase as the market improves. While there remains some private sector property investment activity the balance of investment risk profile has moved significantly from that experienced over the preceding 10 year period.

Implementation of public sector sites is moving far more towards joint investment models using vehicles such as local asset backed vehicles (LABV's). These financial and legal entities make provision for the public sector to form time limited equity based legal development relationships with the private sector. The model allows Public Sector equity in the form of land or buildings and private sector equity in investment cash for the purpose of improving the land and/or buildings to the joint benefit of the equity holders. Typically these arrangements are renewable 10-12 year contracts allowing the public sector to opt out with equity growth and revenue from the vehicle in a reasonable timeframe.

These forms of agreement can and have been with both investors/developers and end users (typically retailers) where site improvements in or close to town and city centres also contribute to community benefit and social value through regeneration with mutual financial benefit to equity holders as well as improving facilities for residents.

With careful consideration the preparation of sites such as those highlighted in this report, if identified early enough in the agreement cycle, can be considered as part of the equity contribution from public sector equity holders. There are no limits to the number of public sector organisations that can join together to provide land and buildings as long as this agreement is through a consortium that has executive powers over the assets.

Forming these agreements, compiling suitable equity packages, assembling LABV private sector 'Partners', valuing assets, working through onward development, investment monitoring, land and asset disposal, refurbishment, letting and maintenance of stock, due diligence and forming and advising on governance for such vehicles is available through this consortium.

We are aware of the existence of some significant tax benefits which seek to support the development of Brownfield and contaminated sites. This is a specialist area and we would recommend that the Authorities seek specific support if they wish to understand these opportunities in more detail. Some information regarding these is contained within Appendix K.

## **7.5 Community Infrastructure Levy, Code for Sustainable Homes and Renewables**

As the plan period continues it is expected that development costs will increase in the light of a number of current policy proposals at both a national and local level. These include the potential Community Infrastructure Levy (CIL), increases to the Code Level for Sustainable Homes from 3 at present to 6 and more stringent measures to ensure that environmental

sustainability is maximised, including the utilisation of renewable energy sources to ultimately arrive at carbon neutral (zero carbon) developments.

All of these measures will impact upon developers costs and will have implications for the residual land values. We recommend that the Local Authorities consider the implications of each of these factors individually as more detail regarding the cost implications of their implementation is known.

### **7.5.1 Community Infrastructure Levy**

The Community Infrastructure Levy (CIL) is intended to seek community benefit. Whether or not the fee to the developer will increase or decrease will depend on the charging schedule yet to be determined by the charging authorities. The CIL is not however designed to prohibit development, rather it is intended to raise extra funds from a wider range of developments, specifically from smaller sites and from a wider range of land uses.

The development formula should remove the current uncertainty as from the outset a developer or landowner will be able to calculate the amount of contributions that they will be required to pay.

### **7.5.2 Code for Sustainable Homes and Renewables**

The regional policy of requiring that 10% of an energy demand on a given development site be met by local renewables will have an impact on capital costs and therefore land values. The 'London Renewables Tool Kit' indicates that the requirement will add around 3% to the overall capital cost of the works.

National policy is developing the Building regulations to achieve the Zero Carbon Home by 2016. This ambition is leading to the staged modification of Part L of the Building Regulations to reduce the allowable carbon emissions from new developments. In public sector development the Code for Sustainable Homes is the principal tool for measuring the wider sustainability of residential developments.

Current cost indicators suggest the Code for Sustainable Homes (CSH) and therefore compliance with a wider sustainability agenda is significantly higher than the cost of compliance with the 10% renewables target.

Meeting the requirements of the code up to Level 4 does not automatically require the application of on site renewable generation technologies. It may be that up to this level improved sustainability can be achieved through means alternative to generation, consideration should therefore be given to the overall sustainability of the development and the cost of achieving this.

The recent Communities and Local Government report "Cost Analysis of The Code for Sustainable Homes" suggests that the current benchmark costing for achieving Code Level 6, which incorporates zero net emissions of carbon from all energy use in the home, varies between a 25% and 40% increase in construction costs dependent on development type.

However we note that the same report also anticipates the costs of delivering the code will fall over time.

A recent estimate of the costs of delivery of the various levels contained within the code for sustainable homes is included below.

Table 6.1: Costs Extracted from 'Cost Analysis of the Code for Sustainable Homes' (Chapter 4) showing the increased cost of delivery of CSH levels compared to the cost of 2006 building regulations.

CSH Level	Detached House		End Terrace House		Flat	
	Cost	%	Cost	%	Cost	%
1	£765	1%	£775	1%	£460	1%
2	£2,188	2%	£2,358	3%	£1,763	2%
3	£4,751	5%	£4,927	7%	£2,892	4%
4	£11,593	13%	£9,000	12%	£5,487	7%
5	£21,847	24%	£17,528	23%	£10,264	13%
6	£37,817	41%	£31,207	41%	£19,080	24%

Therefore whilst any additional cost undermines viability, the impact of the 10% renewables requirement is small in relation to the cost of implementing the full code and indeed dealing with the wider industrial legacy of contamination and demolition.

## 7.6 Empty Rates

Business Rates are payable by either owners or occupiers of most non-domestic premises, including both industrial and commercial buildings. Business rates are calculated on the Rateable Value (RV) of a property, which is assessed by the Valuation Office Agency (VOA).

Prior to April 2008, Industrial/ Distribution premises benefited from 100% relief from Business Rates (also known as Empty Property Rates Relief), meaning that owners of vacant industrial premises were not required to pay business rates until the property was occupied. Developers were able to build industrial/ distribution premises on a speculative basis, anticipating that when completed, the significant marketing/ void periods usually required to find an occupier for the completed buildings would not incur liability for Business Rates.

On 1<sup>st</sup> April 2008, the Rating (Empty Property) Act 2007 changed the empty rates relief rules from 100% relief on industrial buildings to 100% relief for the first six months, followed by 0% for the remaining period that the building remained unoccupied. The reduction in empty rates relief has had a significant impact on developers, particularly in light of the current UK recession and downturn in the property markets. These factors have reduced the demand for completed industrial buildings built on a speculative basis, and hence increased the already extensive marketing void periods required to attract an occupier (in the absence of securing a pre-let agreement).

Developer's appetite for speculative industrial/ distribution development has been adversely affected, given that a significant business rates liability will now apply during an extensive marketing period. In particular, larger industrial/ distribution premises generally take longer to let and will incur significant Empty Property Rates liability 6 months after completion, making the speculative development of single, larger industrial/ distribution property particularly unattractive to developers. As a result this liability will need to be considered by partners when bringing sites forward, particularly where developers are speculatively considering developing.

The following section sets out the main conclusions which can be drawn when the outcomes from specific sites are aggregated.

## **7.7 Phasing**

The phasing of development land and the timing within which it is brought to market in the Black Country will be a priority throughout the life of the BCJCS. As already identified within this Study priority will need to be given to sites that have reduced delivery risks i.e. those with planning consent and/ or agreed S106 and are cleared and ready to go i.e. are decontaminated. Further, the Local Authorities will need to prioritise those sites that will assist them in delivering net housing growth in alignment with agreed RSS targets.

It is widely anticipated that as a result of the viability gap that the majority of sites will need intervention from both the public and private sectors to enable implementation. It will be the responsibility of their partner Local Authorities to identify which sites are prioritised in this regard.

## **7.8 Mining (Open Cast)**

Mining has previously been used as a mechanism to aid the development of Black Country sites. It is known that a number of areas within the Black Country are underlain by near surface coal deposits and historically some large sites have allowed these seams to be successfully worked using open cast methods.

PPS guidance indicates that where viable, minerals should be extracted from sites prior to their development. In some cases the extraction of coal prior to development of a site can have a financial benefit to the development of the site. The majority of small Brownfield sites within the Black Country are unlikely to be 'commercially viable' as coalmining sites in their own right.

Following mining of a site which is not 'commercially viable' a loss is likely to have been made, however, as part of the mining operation it is possible that a number of contamination issues which may require remediation can be addressed during the removal and backfilling of waste materials. The loss made on the mining operation has on some sites been found to be less than the estimated cost of a remediation strategy required to bring the site to a comparable condition to that in which it is left following the completion of the mining activities. This practice can be particularly beneficial where there are basement levels included within the development.

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The approach above is not standard and can only be followed on specific sites where the availability of minerals and the proposed development support this. Detailed site investigation and consultation followed by a carefully sequenced approach to development are required in order to deliver this approach successfully as a result of additional geotechnical challenges presented by backfilled material. It is unlikely that the presence of coal or other minerals will automatically render this approach valid on a site as a number of other factors must be considered.

There have been some instances of coal being mined for profit within the Black Country but this has generally been on Greenfield sites or those of larger than 30 acres in size with a likely yield of 150,000 tonnes of coal or more. In some cases smaller sites could be viable if the coal was of a particularly high quality or was easy to extract. In any case the viability of any commercial mineral extraction would be dependant on the market value of the mineral at that time.

## 8. Conclusions

We provide below the key conclusions from the assessments of viability of both residential and commercial development sites (including the potential existing uses values on the residual land values generated) and the infrastructure and remediation implications. We conclude by commenting on the required risk mitigation to be undertaken and factors that will need to be considered to enable the delivery of the sub-regions development portfolio.

### 8.1 Residential Development Viability

The assessments of residential development viability indicate that an increasing number of sites are potentially viable under the intermediate scenario (12) than the baseline scenario (5). These assessments have included costs for remediation demolition and infrastructure, but not for land acquisition and relocation (if required). The assumptions we have used to determine the current value of the sites and determine the cost of assembling the land (where required) suggest that all the residential sites will be difficult to deliver without intervention at this time. That said, not all sites will require land assembly as some may be redundant or in public ownership and so may lead to negligible or no relocation costs, hence leading to the viability of these sites being enhanced. As time progresses we expect that all sites will undergo change. In recent years the Black Country has seen a decline in industrial uses and we anticipate this will continue and that this will impact upon a sites value. A number of costs need to be considered when determining viability and as a consequence we believe it is important to recognise that any redevelopment in the short term will need to consider the impact of these costs.

As a result of the prevailing market conditions being experienced across the whole UK (not just the Black Country) it is anticipated that a significant period of time may elapse before market conditions improve and values return to there 2007 levels. Our intermediate scenario is based on assumptions that reasonably replicate the mid point between peak (Summer 2007) and current values and so it is our expectation that this level will be reached during the plan period.

It is therefore likely that a significant period of time will elapse until market conditions improve to the extent tested in both our 'intermediate and improved market' scenarios. Additional requirements such as the Code for Sustainable Homes and requirements of the Community Infrastructure Levy (CIL), could also limit the extent of the recovery in residential land values in the future.

The 'no affordable housing' scenario if feasible, would improve the financial viability of development by increasing the land receipt to the landowner where developers have not purchased the site. This increase (may) be enough to induce a land owner to bring their site forward for redevelopment.

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## 8.2 Commercial Development Viability

The assessments of commercial development viability indicate that all sites assessed are potentially unviable under the baseline scenario (the intermediate market scenario only tested changes of assumptions for residential sites and so does not apply here).

The baseline appraisals of strategic employment sites highlight a significant level of negative viability even where infrastructure and land assembly costs are not factored into our assessment. This is due in part to the current prevailing market conditions i.e. increased investment yields and to the assumptions that we have taken (in the absence of site specific masterplans) on build costs and rental values.

The indicative appraisals for local employment sites indicate that they are likely to be increasingly viable as market conditions improve when compared to strategic employment sites, given that higher rents are anticipated and that the accommodation could be provided at cheaper build costs.

Whilst negative land values for industrial development land are now common cleared industrial land could be used for open storage purposes rather than for development, and will therefore have a value (in its existing use) as open storage industrial land. We suggest that the value of open storage industrial sites would range from £100,000 to £250,000 per acre across the Black Country for an uncontaminated site (such a liability could significantly reduce the potential existing use value). As many of the sites are likely to require further work it is likely that values of the sample sites for open storage purposes would be within the lower limit of the values we anticipate above

It is unclear as to what additional land value would provide a sufficient incentive to the land owner to release land for residential development. For example, is an uplift of 20%-50% above open storage industrial land values sufficient? This is clearly a subject issue that is extremely difficult to quantify at a strategic level.

The viability of any one site (and hence the prospect of its delivery) is therefore not absolutely certain. However, it does indicate that residual land values generated by development appraisal should be above open storage land values, in order to provide an incentive for the land owner to redevelop.

The value of secondary industrial properties throughout the sub-region varies widely, depending upon a number of factors. Typically, a range of industrial freehold capital values ranging from circa £15.00 per sq ft for the poorest accommodation, to circa £40 – 50 per sq ft freehold capital value for more modern accommodation, are appropriate. The sample sites assessed suggest that many sites would produce a higher potential existing use value when compared to sites where there are no buildings present. This is due to the higher density of built development on each sample site and its consequent value.

A key issue is the remaining economic life of the buildings in their existing industrial use. As the remaining economic life diminishes the potential value of the premises in their existing use will decrease. When this happens, land owners will be forced to reconsider their aspirations for each site, and assess the viability of alternative use or clear the site of buildings and use the site as open storage land. It may be possible to consider industrial

areas with longer/ shorter useful economic lives, which in turn would provide a useful analysis to inform a wider phasing strategy over the plan period.

### **8.3 Infrastructure and Remediation**

The assessment of the existing condition of the sites identified that the costs of delivery of infrastructure to provide a serviced site for development are generally not significant in the context of the site's viability. However, they did conclude that the legacy of industrial development results in contamination and demolition issues which will require significant expenditure to enable the delivery of a cleared site.

### **8.4 Risk Mitigation**

Risk could be minimised by undertaking a number of detailed investigations including ground investigations, building surveys (including asbestos), site masterplanning/ feasibility and ownership information. These analyses when undertaken may increase the viability of some of the sites investigated by increasing cost certainty and reducing risk pricing.

### **8.5 Implementation**

In light of the prevailing economic conditions we recommend that the partners pay particular attention to factors that will influence the implementation and delivery of the sites within the sub-region including the role of public/ private sector intervention, land assembly, planning policy, funding, implications of the Community Infrastructure Levy, Code for Sustainable Homes and Renewable energy sources, empty rates, phasing and mining.

### **8.6 Overview**

In summary then we conclude that the legacy of industrial development within the Black Country makes the deliverability of the allocated sites problematic as the value of the developed estate in many cases is insufficient to cover the costs of land acquisition and the required levels of remediation/site preparation at this moment in time. As a result where sites require land assembly and remediation the agencies responsible for delivering residential development will need to consider interventions that can support the assembly of these sites and release them for development.

The study has indicated however that even in the current market some of the sites examined do have value although it is unclear whether this would be sufficient to trigger development. If the market improves as expected, and as indicated by the 'intermediate' market scenario tested; then sites throughout the Black Country will become increasingly viable. However there remain a number of sites (largely, but not entirely, commercial) where the apparent cost of delivery of a developable site exceeds the value of the land to the extent that market (public/ private) intervention is likely to be required.

It is clear that the dramatic reduction in the pace of development across the sub-region during the current recession poses significant policy and implementation challenges to the regional stakeholders. There are a number of issues to be addressed in bringing both

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commercial and residential sites forward due to the current economic conditions and outlook in light of significantly reduced land values and the impact that this has, when taken alongside development costs, on site viability.

As sites are brought towards development this study highlights the importance of those responsible for planning policy, prioritisation and phasing in developing a full understanding of site specific constraints for each development. In order to continue to deliver the proposals of transformational land use change within the Black Country the stakeholders will need to review options for intervention and the factors that impact on implementation.