

North Tyneside Local Plan

**Area Wide Viability
Assessment**

**Update, June 2016 -
Commercial Evidence**

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Introduction

This assessment of area wide viability of commercial development has been prepared to help inform the North Tyneside Local Plan. This evidence regarding commercial development viability in North Tyneside should be considered in conjunction with the Area Wide Viability Assessment (AWVA) published in November 2015 and AWVA Update published in June 2016.

Within North Tyneside, there are a number of large successful commercial sites, such as Silverlink Retail Park, Cobalt Business Park, Quorum Business Park, and also some significant development sites in the pipeline, such as Indigo Park, Swan Hunter and Northumberland Park. These sites have the potential to be very successful; however there will be limited demand for new speculative developments outside of these primary sites within the Borough.

The table below outlines the assumptions that have been used in developing the commercial typologies. They are meant to represent typical new developments in the Borough, although are likely to be subject to significant fluctuation even within a Borough as small as North Tyneside. After considering the Gross Development Value and Gross Development cost, we have looked at whether a reasonable return can be provided to both the landowner and developer in order for the schemes to be considered viable.

A reasonable return to the developer has been assumed to be 20% of the Gross Development cost. The current economic market provides great risk and uncertainty. The amount of speculative development across all property types has dramatically reduced in the last decade. A developer is now very unlikely to undertake commercial development unless they can be confident that they will be able to find an end user and/or purchaser, along with achieving that level of profit. Lenders will also require this confidence in order to be able to provide lending facilities.

A reasonable return for the landowner has been assessed on the basis of whether a threshold land value can be achieved. This has been considered on a price per hectare basis, and this does vary across property types – retail land is worth more than industrial land for instance.

Assumptions

	Supermarket	Retail parade	Retail Warehouse	Industrial	Office	Hotel & Restaurant
Size (sq m)	2323	920	323	929	13470	60 beds 566m2 restaurant
Site Area (ha)	0.75	0.2	0.75	0.2	0.6	0.2
Rent (per sq m)	£200	£188	£290	£65	£ 172	£4,000 per room £160 restauarnt
Rent free period	6 months	12 months	12 months	3 months	6 months	6 months
Yield	6%	8%	7%	8%	7.5%	6%
Build Cost (per sq m)	£1,384	£804	£1,615	£52	£1404	£45,000 per room £1,643 restuarnt
Land Value (£ per ha)	£1,500,000	£1,500,000	£1,500,000	£250,000	£750,000	£1,000,000

Evidence has been taken from a variety of sources, including published indices (eg BCIS), commercial property databases (CoStar), evidence from real life development appraisals, industry standards and discussion with developers and other professionals, and the writer's own knowledge.

General Assumptions

For each appraisal the following general assumptions were made:

1. External works were calculated at 20% of the construction cost.
2. Professional fees were 10% of the build costs
3. Stamp duty was calculated using the HMRC stamp duty calculator
4. Purchaser's costs were at 5.8%
5. The finance has been calculated at a rate of 5.75%

Appraisal Outcomes

Industrial

This development was based upon a new single warehouse of 929 sq m with the need for new infrastructure. Based on the assumptions adopted and a land cost of £250,000 per hectare the proposed development would not provide the required return to the developer. This is not unexpected given the lack of speculative industrial development within the local and regional market, which highlights the challenges of making such schemes financially viable. However, Indigo Park demonstrates how developers would now be taking schemes of this nature forward through marketing the site for end users first. Once an end user is secured, then the development becomes a lot safer, which would result in a drop in yield and ensure that a reasonable return can be provided to the developer. A large scheme of this nature is also only likely to go ahead if external funding can be obtained in order to obtain the large scale infrastructure required for the development.

Supermarket

We have assumed a development similar in scale to the Aldi supermarket development at Foxhunters Road and have adopted a site area of 0.75 hectares which is apportioned equally between the structure and onsite car parking. An appropriate developers profit for a scheme of this nature is considered to be 20% profit on development cost. Based on a land cost of £1,250,000 and the assumptions contained within the appraisal the proposed development would turn out a profit, although the scheme would be considered to provide a sub-market return. As supermarkets provide a more secure end user than a retail warehouse, then developers may be willing to lower their profit expectations to ensure that the scheme is deliverable.

Retail Parade

The appraisal for this development was based upon a similar scheme to that of Northumberland Park providing 12 retail units with associated car parking. Again an appropriate developers profit on cost is thought to be 20%. Based on a land cost of £300,000 equating to £1,500,000 per ha and the assumptions contained within the appraisal the proposed development would provide a profit on cost of 21%. This is very much on the margins of viability, and would be very much subject to the location within the Borough. There are unlikely to be options for new retail centres in existing locations, which limits them to new being new retail centres in new conurbations of significant numbers ie 2000 dwellings plus. Even then, as demonstrated by Northumberland Park, demand can be slow and a developer must account for significant void and rent free periods.

Retail Warehouse

We have based a scheme on the new development currently being constructed adjacent to Silverlink Retail Park and have used this as a guide to the assumptions made within our own

appraisal. Based on a land cost of £1,150,000 and the assumptions made the proposed development would provide a profit on cost of 20.33%. Again, this is at the very margins of viability, and would therefore be subject to significant risk if developed speculatively without an end user or within the existing main retail park at Silverlink.

Office

We have assumed an office development of similar specification to the Cobalt Business Park totalling 13,470 sqm. Office development within the region remains very difficult without significant subsidy or tax advantages due to low rental values and relatively poor occupier demand. Based on a land cost of £450,000 and the assumptions contained within the appraisal the proposed development would provide a negative profit on cost. Without being developed on one of the two existing primary office parks in the Borough (Cobalt and Quorum), and without significant external funding support, there is unlikely to be any speculative development of this nature.

Hotel

We have assumed a development similar to the new Premier Inn hotel and associated restaurant development in Whitley Bay. Based on a land value of £1,000,000 per hectare, this provides a developers return of 13%. Again, ensuring a pre-let may see a developer willing to lower their expected return or result in less stringent borrowing restrictions. There will be limited demand for new hotel accommodation in the Borough, and any locations less attractive than Whitley Bay sea front are likely to struggle to achieve similar returns.

Conclusions

These are the most common development types that we currently see in the Borough, although of course there may occasionally be other development types as well. However, as all of the above typologies are on the margins of being able to deliver reasonable returns, any other riskier, less common developments are also likely to struggle to deliver a surplus. Therefore a careful approach to requirements for S106 contributions should be taken to ensure commercial development schemes are deliverable.

Overall, current observations and experience demonstrate that whilst this is the case development is taking place within North Tyneside. Frequently for commercial schemes these are driven less by speculative development and more aligned to sites marketed and developed with specific occupiers in mind. Major current retail development is underway at present at Silverlink Point, adjacent to the A19(T) whilst an extension to Northumberland Park District Centre benefits from planning permission and is expected to commence shortly. At Tyne Tunnel Trading Estate construction is currently underway at Axis19 with lettings agreed with business looking to locate to the site. At Weetslade (Indigo Park) in the North West of the Borough, Highbridge are currently marketing the site for bespoke manufacturing and industrial units.