Appendix 5

Gatwick Green: Viability & Deliverability

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1. Introduction

1.1.1. The NPPF focuses heavily on the deliverability of housing sites via paragraph 67 and in the definition for 'deliverable' in the glossary. Most of the guidance focuses on maintaining a 5 year housing land supply.

1.1.2. While the emphasis on housing is easy to understand given the housing crisis facing the UK, it's actually commercial uses, rather than housing, which are more challenging to deliver viably. While housing is viable in most locations provided the cost of enabling infrastructure is manageable, commercial uses are more location specific.

1.1.3. As we detail below, the proposed Gatwick Green allocation is potentially an employment location of national and regional significance given its prime location –

- **M23**: Adjacency to the M23, the major north / south highway corridor in the region, affords the site high visibility which office and hotel uses desire; easy access to the motorway is a vital prerequisite for industrial and distributions uses;
- **Gatwick Airport Train Station:** Adjacency to the Gatwick Airport train station which is connected directly to 129 train stations and indirectly to over 700 stations with just one change with further improvements planned. Such connectivity is highly attractive to commercial uses; and
- **Gatwick Airport:** Gatwick Airport is the 2nd largest airport in the UK handling 46 million passengers per annum and over 100,000 tons of freight. It is no coincidence that the region's largest employment area, Manor Royal covering 240 ha is located nearby to the Airport. The attractiveness of airport locations for business is evident throughout the world via the growth of Airport Cities. This is discussed further in Appendix 2: Employment Land Need.

1.1.4. Crawley's current adopted Local Plan has an identified employment land shortfall of 35 hectares. While many adjacent local authorities may be of the view that they can attract this unmet employment demand, in reality commercial investment will only happen where achievable rents (capitalised) exceed the costs of development. For instance, surrounding employment markets such as Tandridge's are much weaker with lower rents, weaker yields and subsequently much smaller occupier demand. This is due to their much poorer rail and road connections and absence of a major economic generator similar to the Airport. While Reigate and Banstead, like Crawley, is serviced directly by the M23, it doesn't have a motorway junction allowing easy access onto and off the motorway. The only M23 junction serving Reigate and Banstead is the M23 Spur into the Airport. In recognition of this accessibility, the Council have just allocated a 30 ha employment site in its recently adopted Development Management Plan (DMP - Policy HOR9).

1.1.5. We evidence below the viability and deliverability of the proposed Gatwick Green allocation for major mixed-use commercial development of up to 265,000 sqm (2.85M sq ft) of floorspace. This regional and nationally significant opportunity can only be realised should the current Airport land safeguarding be removed as proposed by the Council and the site positively planned for in the new Local Plan.

2. Commercial Values

2.1. Offices

2.1.1. Current headline rents for Grade A offices nearby to Gatwick Airport are around £30psqft. These values are found in Manor Royal and City Place, Beehive Ring Road to the south of the Airport. These are some of the highest rents in the region.

2.1.2. The potential of the area around the Airport for new office development has already been recognised in the Reigate and Banstead DMP (adopted in 2019) which allocates 31 ha of land for strategic employment (Policy HOR9 – Horley Business Park (HBP)) north of the Gatwick Green site and adjacent to the M23 Spur. The viability evidence that supported the Reigate and Banstead DMP and the HOR9 allocation is detailed within the Reigate and Banstead Local Plan Viability Study (2018). This Study values new offices at HBP based on a rent of £32.5 psqft , 5.25% yield and 12 months rent free lease incentives.

2.1.3. These values give a similar capital value to the Savills assumptions used in our high level viability testing at 35 psqft rent, 5.75% yield and 24 months rent free / voids.

2.2. Industrial

2.2.1. Headline industrial asking rents in the Gatwick Airport Property Market Area (PMA) are between £14 and £15 psqft for Grade A premises (Table 1). The industrial rents in Manor Royal and surrounding Gatwick Airport are some of the highest in the wider region. Recent transactions show 1 to 2 months free rent on 5 year leases. This converts a headline rent of £14 psqft to an effective rent of about £13.40 psqft. Yields for A Grade premises are strong at 4.3%.

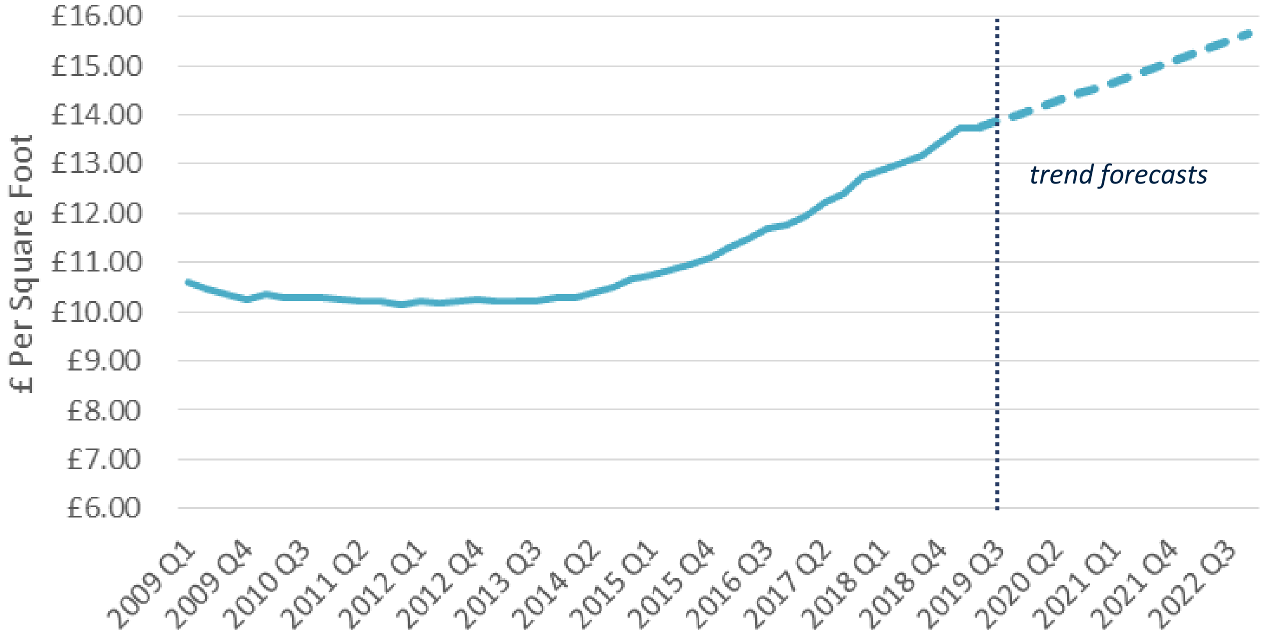
Table 1 – Recent Industrial Asking Rents within the Gatwick Market

Building	Street Name	Sq Ft Availability	Grade	Rent (£/SF)
U1/2 Centron	Crompton Way	33,466	A	£ 15.00
Space Gatwick	Faraday Road	84,540	A	£ 14.00
U1 Kelvin Lane	Kelvin Lane	30,200	B	£ 15.00
U2 Newton Road	Newton Road	13,702	B	£ 15.00
Focal Point Distribution	Fleming Way	30,183	B	£ 8.00
Vanpoulles	Telford Pl	10,697	B	£ 13.00
3B & 3C Gatwick Gate	Charlwood Road	20,027	C	£ 11.00
U2 Crompton Fields	Crompton Way	25,500	C	£ 11.00
Sterling Park, Gatwick Road	Gatwick Road	65,307	C	£ 12.00
Heath Business Centre	26 Bonehurst Rd	11,600	C	£ 11.00
U3A	Wheatstone Close	10,639	C	£ 11.00
Under 10,000 sf		30,994	B/C	Various
Total		**366,855**		

Source: Savills (2019)

2.2.2. Industrial rental trends shows healthy growth over the next few years further evidencing the strength of the Gatwick Airport industrial market.

Figure 1 – Industrial rental trends for Grade A industrial premises within the Gatwick market



Source: Savills (2019)

2.2.3. Based on the strength of the Gatwick Airport's industrial market, Savills are of the view new Grade A premises of different unit sizes would achieve the following rents –

- Up to 10,000 sqft £15 psft
- 10,000 to 100,000 sqft £14 psft
- 100,000 to 250,000 sqft £12 psqft
- 250,000 + £9 psqft

2.2.4. This equates to an average rent across all size bands of £12.50 psqft with a yield of 4.5%.

2.3. Hotels

2.3.1. Gatwick Airport represents a strong hotel market. As outlined in Savills Gatwick Economic Development Area Market Analysis Report (2018), the Gatwick Airport hotel market experiences extremely strong occupancy at over 85.5%. In fact occupancy within the Gatwick Airport market ranks number one across STR's cities index of 24 key hotel markets in the UK for 2018/19. Revenue Per Available Room (RevPar) has also improved significantly from 17th out of 24 to 10th by 2019 clearly signifying it as one of the UK's major hotel markets.

2.3.2. The Gatwick Green site is ideally located to help cater for increased hotel demand as the Airport grows from 46 million passengers towards 72 million passengers per annum. Savills are of the view that initial viability testing for new hotels within the proposed Gatwick Green allocation should be at £6,000 rent per room, 5% yield and 6 months rents free / voids. Some relevant hotel comparables are included in Table 2.

Table 2 – Comparable Hotel Transactions

Year	Hotel	No. Rooms	Capital Value	Rent per key	Terms
2019	Premier Inn Cardiff Custom House	248	£1,302,000	£5,250	New 30 year lease with a tenant only break in year 20. Rent reviews linked to CPI with a collar and cap of 0% and 4%.
2019	Premier Inn Milton Keynes	180	£1,026,000	£5,700	New 25 year lease with a tenant only break in year 20. Rent reviews linked to CPI with a collar and cap of 0% and 4%, compounded annually.
2018	Travelodge London Heathrow T5			£7,233	20 years term certain. 5 yearly upwards only rent reviews linked to the higher of RPI (uncapped) or market rent. 5% NIY.
2018	Travelodge Lincoln Centre	127	£742,950	£5,850	New 25 year lease on a proposed Travelodge. Rent reviews linked to RPI, 5 yearly (1-4% cap & collar).
2018	Travelodge Gosport	70	£350,000	£5,000	New 25 year lease subject to 5 yearly upward only rent reviews linked to CPI with a collar and cap of 1% and 4%.
2018	Travelodge Dagenham	82	£429,250	£5,235	New 25 year FRI lease, subject to 5 yearly upward only rent reviews linked to CPI with a collar and cap of 1% and 4%.
2018	Travelodge Solihull	82	£565,800	£6,900	New 35 year lease, subject to 5 yearly RPI reviews compounded annually (1-4% cap & collar).
2018	Travelodge East Grinstead	72	£380,160	£5,280	New 25 year FRI lease subject to 5 yearly RPIX collared at 1% with a cap of 5%.

Source Savills (2019)

3. Viability & Deliverability

3.1.1. Based on Gatwick Green's market attractiveness for a range of commercial uses, we have undertaken initial high level viability testing using the following floorspace mix –

- 160,000 sqm GEA of B8, B2 and B1c industrial and warehousing
- 52,500 sqm GEA of B1 office / R&D
- 52,500 sqm GEA of hotel use.

3.1.2. These floorspace levels are based on a high level capacity assessment for the 59 ha site as explained in the 'Site Capacity' sub section of the Crawley Local Plan Employment Land Trajectory representation. Table 3 details the key value assumptions for each land use type (Section 2) along with the key cost assumptions used.

Table 3 – High Level Viability Testing Assumptions

	Office	Warehouses	Hotel
Floorspace Gross to Net	80%	90%	80%
Rent	£377 psqm (£35 sqft)	£134.50 psqm) (£12.50 (psqft)	£6,000 rent per room
Yield	5.75%	4.5%	5%
Letting Assumption	24 months' rent free / voids	12 months' rent free / voids	6 months rents free / voids
Purchaser's Costs	6.8%		
Developer's Profit	15% of GDV	15% of GDV	10% of GDV
BCIS Base Build Costs	£2,128 psqm (£198 psqft)	£887.50 psqm (£82.5 psqft)	£80k per key £2,104 psqm (inclusive of professional fees, externals & contingency)
External Works	10%	10%	Included in base build cost
Contingency	5%	5%	Included in base build cost
Professional Fees	10%	10%	Included in base build cost
Site Access	£10 million		
Marketing & Letting	10% Letting Agent Fees 5% Letting Legal Fees		
Disposal Fees	1% Sales Agent Fees		

	0.50% Sales Legal Fees
Finance	6.5%
Construction	7 years

3.1.3. Based on these assumptions the proposed Gatwick Green allocation generates a Residual Land Value (RLV) of circa £72.5 million, or over £1.2 million per gross hectare. At this level the land value is significantly higher than the site's existing use value. For instance the Government's latest 'Land Value Estimates for Policy Appraisal' (2017) estimates agricultural land in the Coast 2 Capital LEP area to be £22.5k per gross hectare. This is over 50 times lower than the estimated RLV generated by the proposed Gatwick Green allocation.

3.1.4. To incentivise land owners to release their land for development, it is not uncommon for local authorities to gross up agricultural values by 10-20 times to establish a 'Greenfield' Benchmark Land Value (BLV) as part of their local plan and CIL viability studies. Most of these studies typically established Greenfield BLVs within a range of £250k-£400k per gross hectare. At these levels, the RLV generated by the proposed Gatwick Green allocation (£1.2 million per gross hectare) still leaves significant head room to help fund wider strategic infrastructure and community benefit beyond the £10 million we have include for site access in our viability appraisal.

3.1.5. Finally the £72.5 million RLV for Gatwick Green could be improved further if the site was phased into smaller parcels with more regular capital receipts being achieved as each parcel is sold or developed. Currently we have assumed the full capital receipt for each land use is only achieved at the very end of the build period. This effectively increases the project's total finance costs as the income to pay off the debt is delayed until the very end of the project.

Prepared by:	Mark Powney **Director** Planning and Economics

Checked by:	Rory Brooke **Director** Planning and Economics

Mark Powney
Director

+44 (0) 203 107 5418
+44 (0) 797 077 0492
mark.powney@savills.com