[redacted]

From: [redacted]
Sent: 02 April 2019 19:11
To: [redacted]@landmarkchambers.co.uk; [redacted]
Cc: [redacted]
Subject: BNP information - industrial land values and GL Hearn Report Comparison
Attachments: MSCI Park Royal industrial.xlsx; GLH vs BNPPRE.xlsx; RE: Local Plan examination

Hi all,

BNP have provided information in relation to the industrial land values and GL Hearn Report Comparison.

Information from BNP below in blue text and attached.

Industrial land values

- The Planning Inspectorate's "Procedural Guidance in the Examination of Local Plan" confirms that Local Plan evidence base documents in relation to housing should be no more than 3 years old. The Whole Plan Viability Study was produced in June 2017.
- We acknowledge that there has been an approximate 30% increase in industrial land values in the past year.
- Even with a 30% land value increase plus premium, the Benchmark Land Values 1 (open storage), 2 and 3 (low and mid industrial) identified in the Whole Plan Viability Study are still within the parameters of the BLVs 2, 3 and 4 used in the 2017 Study and can demonstrate viability on low and medium density development scenarios.
- The Local Plan is a long-term plan (20 years) and as such market changes and fluctuations are to be expected. The MSCI data provided by DS2 is for a very finite 1 year period. Examining the same data over a long-term term period (since 1981) demonstrates that there are value contractions over time as well as value growth and this will impact on viability over time. (See attached MSCI Park Royal Industrial graph)
- OPDC does not require Old Oak Park to be redeveloped within the first 5 years.
- OPDC notes the cited Goodman transaction. This is a large atypical site that has been identified by OPDC as a site for industrial intensification. It is not necessarily representative of other industrial sites in the area.
- Further detail attached in BNP email "RE: Local Plan Examination"

GL Hearn Report Comparison

Attached is a comparison table of inputs and methodology used by BNPPRE and GL Hearn.

The key element with this is that GL Hearn have undertaken a site specific assessment which takes into consideration the actual scheme proposed i.e. the mix of uses and scale of the development which then results in other differences to our testing. GL Hearn have adopted a master developer approach to assessment, which layers in some additional costs, but this is not necessarily unreasonable given the size of the site. There is also a considerable amount of specific infrastructure, which has been costed up and included, which was not allowed for in our area wide testing (but it would not be expected to be as they are not standard site costs). Private resi values and build costs on a base position are not far from each other and other assumptions such as profit etc. are similar as well, however there is as I mentioned earlier the additional layer of a master developer in the GL Hearn report that is not in our testing.

We can run through any discussion with them tomorrow at the premeet.

[redacted]

[redacted]

[redacted]

From: [redacted]@realestate.bnpparibas>
Sent: 01 April 2019 20:13
To: [redacted]
Cc: [redacted]
Subject: RE: Local Plan examination
Attachments: Appendix 6 -OPDC Whole Plan Resi Testing sens -5% Values 12Apr17.pdf; Industrial rent and yield analysis.xlsx; MSCI Park Royal industrial.xlsx; Costar Suite Park Royal Industrial Analytics data 1April19.pdf; JLL - Western-Corridor-Industrial-and-Logistics-Mkt-Rept-Autumn-2018.pdf

Hi [redacted]
I have put the pre-meet time into [redacted]'s and my calendars as requested.
The capital growth of 30% will result in an increase in the benchmark land values (see table below incorporating first the 30% uplift on the EUV and then allowing for the 20% premium over and above the new base EUV).

OPDC Whole Plan Viability BLV Analysis

	EUV per Ha	EUV + 20% premium (per Ha)	EUV + 30% Capital Growth (per Ha)	EUV + 30% Capital Growth + 20% Premium (Per Ha)
BLV1	£5.16m	£6.19m	£6.71m	**£8.05m**
BLV2	£6.90m	£8.28m	£8.97m	**£10.76m**
BLV3	£7.40m	£8.88m	£9.62m	**£11.54m**
BLV4	£9.70m	£11.64m	£12.61m	**£15.13m**

This increase will consequently make development less viable. Particularly given the context of sales values having stagnated at best and possibly having dropped by up to 5% as identified by DS2's representation. Appendix 6 of our report (attached for ease of reference) identifies the situation whereby sales values drop by 5%, however it holds the benchmark land values constant at the level in the 2017 report. Having said this our BLVs 2, 3 and 4 would cover the range of all but the very highest BLV identified in the +30% position reflected above. On this basis it does still show some schemes as being viable, but the High Density scheme is only viable at the highest sales values and with a maximum of 5% AH and no other planning requirements.
I will look into the comparison of ours and the GL Hearn Report tomorrow as requested and come back to you.
I have also attached further information we have put together following our research today. This has identified that the 30% capital growth based on prime rental growth and yield contraction is correct. See attached:

- MSCI data over a longer term for the Park Royal market. As you can see capital growth does go up and down over time based on market cycles, which may assist us.
- The data from the Promis report I shared with you earlier identifies that there have been growth of circa 30% in prime capital values in the Park Royal area. (See the Industrial rent and yield analysis sheet attached)
- Rental growth in London and in Park Royal in the order of 30% is further evidenced through the Colliers Industrial Rental Maps published on their website. (See the Industrial rent and yield analysis sheet attached).
- I have also sourced data form the Co-Star Suite database on sales transactions of industrial in the Park Royal area. This also supports the 30% increase in capital values between 2017 and end of 2018.
- I have attached a report prepared by JLL, which provides an update on the Western Corridor Industrial market as of Autumn 2018. This specifically identifies the West London: Greenford/Park Royal market on page 10. In particular, it identifies the following situation driving values: rising rents, record low voids, strong demand and an increasingly tight supply and restricted near-future development pipeline. A key quote on page 6 is:
  "As has been the case for the last few years, the supply and demand imbalance has continued to put upward pressure on rents across the Corridor. In the last year alone, prime headline rents in the 13 locations JLL monitors across the Corridor' rose by 10% on average. Quoting rents in Park Royal are now £20.00 psf for prime units when only five years ago these headline rents stood at £13.25 psf"

The Future forecast in the JLL report is identified as follows:

"Looking forward, given the supply and demand imbalance, we predict significant further rental growth. Our latest model-based forecasts of the MSCI (IPD) Index indicate rental growth of 7.1% pa over the next five years (2018-2022) for standard industrial units in London and 5.5% pa for standard industrial units in the inner South East over the same period. We have revised these model based forecasts up over the last 12 months reflecting the strength and momentum of the industrial market and the shortage of supply in London and the inner South East. Given that the Corridor has an all-time low vacancy and demand remains strong, there is the strong possibility that some locations within the Corridor can outperform these regional forecasts.

It should be noted that as these prime headline rents rise across the Corridor, this will have a ripple effect in the market when rent reviews take place over the coming years. Occupiers are likely to have to plan for rising property costs as rents are driven up on review. In addition, we have observed that occupiers are increasingly choosing to renew their leases and remain in the premises they are in, further highlighting the supply shortage as there is less secondhand stock returning to the market."

Trust this assists. Given me a call if you would like to discuss this.

Kind regards

[redacted]

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From: [redacted]@opdc.london.gov.uk>
Sent: 01 April 2019 17:13
To: [redacted]@realestate.bnpparibas>
Cc: [redacted]@opdc.london.gov.uk>; [redacted]@realestate.bnpparibas>
Subject: RE: Local Plan examination

Thanks very much [redacted] I have a couple of other questions.

How does the 30% capital growth affect the benchmark land values at table 4.48.1 of your report? Presumably, if this increases the benchmark land values assumed, this means that we can demonstrate that subject to all other inputs remaining as they were before, that there are more green results on the open storage, low/mid density and high sales values typologies?

It would also be useful to have a simple table comparing the assumptions on the GL Hearn report with the assumptions in your report?

Lastly, on Wednesday we will be meeting with our legal colleagues at 9am on Wednesday, would you be able to get to us for 9am too?

Any questions please let me know.

Regards [redacted]

From: [redacted]@realestate.bnpparibas>
Sent: 01 April 2019 15:33
To: [redacted]@opdc.london.gov.uk>
Cc: [redacted]@opdc.london.gov.uk>; [redacted]@realestate.bnpparibas>
Subject: RE: Local Plan examination

H[redacted]

Many thanks for your email and call.

As I mentioned in our earlier conversation, I am looking into this for you now. As discussed however, looking at the representation it is not the Goodman comparable they are referring to with respect to the 30% capital growth, they state that "London industrial shows capital growth in excess of 30%" as evidenced by data sourced from the MSCI database, which is a reliable source of data. (MSCI is Morgan Stanley Capital International, which compiles influential indexes tracked by thousands of fund managers. MSCI's indexes cover thousands of stocks under various categories and are used as benchmarks to measure the performance of portfolios and cover real estate as one of the investment markets in particular).

I have done a quick bit of research using one of the databases we subscribe to (PROMIS Local Market Reports) and this has identified that growth in capital values based on growth in both prime rents and yields for the Park Royal industrial market is circa 27% between end of 2016 to the end of 2018. On this basis growth is certainly in the order of circa 30% (see my calculations based on data form the attached Promis Report on the Park Royal industrial market. I would be grateful if you could keep this research report confidential as we are not permitted to published this, but can refer to referenced data from this.

[redacted]

I will keep looking into this to see if I can find any other data.
I hope this helps.
Kind regards
[redacted]
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From: [redacted]@opdc.london.gov.uk>
Sent: 01 April 2019 12:58
To: [redacted]@realestate.bnpparibas>
Cc: [redacted]@opdc.london.gov.uk>
Subject: Local Plan examination
Importance: High
Hi [redacted]
We had a conversation with our legal team this morning on preparation for Wednesday's session on viability. Cargiant assert that industrial land values haven increased by 30% and we need a response stating that this is an outlier.

Would you be able to provide a view on where industrial land values are heading in London and possibly West London?

Thank you.
[redacted]
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