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Dear Steve,

Land at Model Farm, Cardiff Airport – Parc Busnes Porth Cymru

I refer to our meeting at the Vale of Glamorgan Council's offices on 11 November 2019 with your clients and Darren Parker of RPS, and our subsequent meeting at your office on 18 December 2019. As you are aware, Legal & General Strategic Land Limited owns 109 ha (269 acres) and has submitted a planning application for the following:

B1 Offices	2.91 ha
B1 Industrial	11.30 ha
B1 Trade Centre	2.54 ha
B1/B2	3.77 ha
B8 Warehousing	10.71 ha
Total	31.23 ha (77 acres)

You have requested more detailed information on the costs and other variables set out in the submission by RPS and I set out below this information:

1. Land Value

The land value of £8.8 million is as set out in an asset valuation prepared by Knight Frank LLP, the retained asset valuers for Legal & General. This is part of a wider portfolio valuation and therefore please let me know if you require a certificate of value.

2. Site Abnormals and Development Infrastructure

Please find attached a report 'Cost Plan No. 3A – Site Infrastructure Works' prepared for Legal & General Strategic Land Limited by RPS, dated 3 October 2019. This report sets out a detailed cost estimate for site abnormalities and development infrastructure of £22.541 million.

Please note that this cost plan is based upon the known site abnormal and development infrastructure works required to facilitate the masterplan including the construction of the new road and improved access arrangements onto the existing roads. However, these figures are subject to revision in the event of further constraints being identified.

We have taken a view on construction costs for this programme by using the 'Building Cost Information Service (BCIS) Index Value'. BCIS is a provider of cost and price information for the UK construction industry and derived from data collected and managed by the Royal Institution of Chartered Surveyors (RICS). This data is used to model construction, maintenance and insurance costs. The costs set out below are from BCIS pricing books, based upon current market rates forecast to Quarter 2, 2019.

3. Values and take-up rates

The Development Appraisal, dated 1 October 2019, was prepared on ARGUS Developer software, version 8.0. Set out below is a brief commentary on the rental values adopted in the appraisal, capitalisation yields and take-up rates.

In terms of demand, we worked within the broad land use allocation proposed of use classes B1, B2 & B8. There is, however, a general growth in 'frontage leisure' demand with hotels, family pubs and drive-thrus all options which could be explored here and, in addition, Cardiff & Vale College has announced plans for a new campus at the airport which may generate spin-off activity.

We recognise that there is a distinction between the uses set out in the planning application and market opportunities for ancillary development consistent with planning policy. Indeed, we anticipate a marketing strategy that reacts to market demand and includes a broad range of uses within the employment classification. We have assumed the following:

- Annual take-up of 50,000 sq ft of industrial accommodation under use class B1/B2/B8 with an assumed construction cost of £65 per sq ft. We have assumed rental income based on £7.50 per sq ft (rising to £8.00 per sq ft in year 4), based upon emerging evidence in Cardiff and Bridgend, with a 12-month rent free period and standard letting and legal fees.

At Forest Farm, Coryton, Cardiff, developer David Herbert Builders has secured a pre-let of 15,000 sq ft on one acre to a distribution user at £8.00 per sq ft whilst on Bridgend Industrial Estate developer Robert Hitchins has secured a letting to Travis Perkins of 15,000 sq ft on a 1.75 acre site also at £8.00 per sq ft for the unit in isolation and £12.00 per sq ft including the yard. Developer St Modwen has confirmed it is to build two units at Celtic Business Park, Newport totalling 27,000 sq ft and 105,000 sq ft with quoting rents of £7.00 and £5.95 per sq ft respectively. At Gwaelod-y-garth, north Cardiff, developers Short Bros have recently instructed Cushman & Wakefield and Knight Frank to market a new-build rown of 6no. starter units of 1,000-1,500 sq ft (now under construction) at rents of £9.50-£10.50 per sq ft, a record high for South Wales for standard industrial specification units.

- Annual take-up of 10,000 sq ft of B1 office accommodation under use class B1 with an assumed construction cost of £135 per sq ft. We have assumed rental income based on £15.00 per sq ft with a 12-month rent free period and standard letting and legal fees.

We have noted an upturn in demand for out of town offices after a decade of under-performance following the great financial crisis. Rents for secondhand stock in greater Cardiff are now at £10-15 per sq ft and we have assumed the top end of this range for new-built accommodation.

- Annual take-up of 5.0 acres of employment land sold in the first two years at £150,000 per acre changing to 3 acres per annum from year 3 onward at £200,000 per acre. There are few opportunities to acquire fully serviced development land in South Wales and we anticipate demand from aviation related projects, whether aviation sector or simply those industries requiring access to 'just in time' infrastructure. In addition we anticipate demand from those local and regional companies seeking to develop and own their facility.

At Celtic Business Park, Newport, train manufacturer CAF paid £225,000 per acre for 12 acres with an option on a further four acres. Imperial Park, Newport, the Welsh Government is selling land to NGD at £175,000 per acre whilst at Pencoed, sites have been traded at £150,000 per acre. At Bro Tathan (St Athan) sites are available at £100,000 per acre however this is very much focused upon advanced manufacturing rather than local services.

- Annual sale of a 1.0-acre frontage site at a land price of £600,000 per acre, for potential higher value land uses compatible with the wider masterplan, including hotel, restaurant and ancillary services.

The site is attractive for so called frontage users and the proximity to the airport brings another dynamic in terms of the continued flow of passing trade seeking leisure services. I was involved in the sale of the site to Holiday Inn Express at Cardiff Airport in 2006 – even at that time there was additional demand from other hotel chains, family restaurants and children's nursery all at circa £350,000 (2006 prices).

4. Funding

This scheme will require public sector funding to bring the project forward and to bridge the viability gap – in turn, this funding will only be forthcoming if planning permission is granted.

The airport is a focal point for planning policy with Welsh Government's National Development Framework supporting the '*... growth and development of Cardiff Airport*' under Policy 32 which also states support for '*... development of land adjacent to Cardiff Airport which is part of the Enterprise Zone where it supports the function of the airport*'.

In terms of economic development policy, the establishment of the Cardiff Airport & St Athan Enterprise Zone again illustrates Welsh Government's commitment to supporting the airport as a '*... quality environment in which to do business*'. The EZ Strategic Plan 2018-2021 states '*... the gateway site has the potential to be a hub for future development to accommodate freight and R&D, and there is an aspiration to enhance the current academic provision within the Zone*'. In addition, the Economic and Industrial Strategy for the City Deal refers to the airport as an opportunity area.

The scheme has been discussed with officials from both Welsh Government and the City Deal for Cardiff Capital Region, both of whom have commissioned property strategies seeking to bring forward Grade A employment buildings and 'shovel-ready' fully serviced development sites.

We have attended a meeting between Mr Tim Howard, Head of Property for Welsh Government and Chris Bradshaw (Chief Executive, RCT) and Nicola Somerville, both representing the City Deal at which the need for a pipeline of serviced development sites was acknowledged.

Subject to the planning application being approved, the intention is to submit an application for City Deal funding under its 'Wider Investment Fund' later in 2020. It is anticipated that the application will be wider than site viability.

Conclusions

In summary, this is a major project that has the ability to transform the approach to Cardiff airport and the 'Cardiff Airport and St Athan Enterprise Zone', designated by Welsh Government as a location that is capable of attracting new investment and creating significant new employment. The site can provide a critical mass of employment floorspace in this location. As previously stated, this is a site of scale which, with the appropriate investment in site preparation and infrastructure can be an attractive strategic site and act as a focus for growth.

Development sites of this scale are, by their nature, difficult to procure and deliver. Large sites require a significant amount of investment in infrastructure and the cost of these works, and the long term nature of the scheme, has a significant impact upon viability. In this instance, there is no s106 contribution that can be stripped out to make the site viable and the site is therefore likely to require public sector funding to bring the project forward. With a clear public sector focus upon the airport as a location for employment, as evidenced by the Welsh Government's National Development Framework and Enterprise Zone, there is every likelihood of securing this backin. This support is however likely to be conditional upon a planning consent being in place.

There are few international class strategic sites of this nature that can underpin Wales' inward investment efforts to attract or retain mobile projects, particularly in value added sectors. A consented scheme would allow the site to be formally marketed and to have a realistic chance of attracting such investment.

I look forward to hearing from you with respect to the above however please contact me if you have any queries.

Yours sincerely

A handwritten signature in black ink that reads 'Chris Sutton'.

Chris Sutton
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