



Representations to North Dorset District Local Plan

On behalf of Neal's Yard Remedies, Gillingham

Report date: January 2014



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Prepared for:
Neal's Yard Remedies

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1. INTRODUCTION

- 1.1 These representations and accompanying pro-formas are submitted on behalf of Neal's Yard Remedies (NYR). Vail Williams LLP has submitted representations on each stage of the new Local Plan to date, promoting 0.95ha of surplus land at the NYR site, Peacemarsh, Gillingham for residential development (see plan at Appendix 1).
- 1.2 These representations seek to build on those previously submitted, commenting, as per the Council's guidance note, on the soundness and legality of the Submission draft of the Local Plan.
- 1.3 NYR is one of the largest employers in the town of Gillingham and is thus a major employer in the District. NYR is the pre-eminent supplier of ethical, organic health and beauty products and the provision of therapy treatments in the UK. NYR has been manufacturing its products since 2005 at its ecologically built manufacturing, warehousing and company head office site at Peacemarsh in Gillingham. The company currently employs over 120 people at its Peacemarsh site.
- 1.4 NYR was formed in 1981 and is proud to continue to be an independent, family owned British business with a reputation for world class products. NYR manufactures these award winning products from the finest organic and natural ingredients, sustainably sourced from trusted suppliers in the UK and worldwide.
- 1.5 NYR works with and is accredited by organisations such as The Soil Association, Carbon Neutral and the FairTrade Foundation to help set the standards in organic beauty. NYR is also proud to be
 - The UK's first certified organic health and beauty company
 - The UK's first high street retailer to launch certified organic essential oils
 - The first company to produce Soil Association certified organic cosmetics
 - Among the first companies to launch skincare enriched with Fairtrade certified ingredients
- 1.6 NYR has 40 retail stores in the UK and 100 therapy treatment rooms attached to the stores (including a therapy room at its Peacemarsh site). NYR also sells through its network of over 6000 independent direct selling consultants in UK.
- 1.7 Internationally NYR is currently sold in 21 countries across 5 continents, has over 300 global outlets and over 3000 independent direct selling consultants.
- 1.8 NYR turnover for the year to March 2013 was £26 million and the company continues to grow at double digit percentage growth in the current year. The 5 year projection for the business is to broadly double in size, with consequent significant increase to its headcount for manufacturing, warehousing, marketing, customer service, finance, IT and administration functions at the Peacemarsh site.
- 1.9 NYR is committed to its site in Gillingham and to the expansion of ecologically built factory and offices on the site as part of its continued UK and international growth plans.

- 1.10 As part of a review of operations, NYR has identified a surplus of land to the front (North West) of the existing commercial buildings on site which could be used to provide residential development and assist North Dorset District Council in achieving its housing target. The site is in a sustainable location in the north of Gillingham, adjacent to many facilities and a short distance from the town centre with all of its services and facilities.
- 1.11 Not only would the residential development provide additional dwellings for the town on a previously developed site, it would be used to fund the expansion of NYR to ensure that it maintained its position of one of the leading employers in the town and district.

2. THE SITE

- 2.1 The site is identified at Appendix 1 and comprises 0.95ha (2.3 acres) of surplus land in the north eastern corner of NYR's site.
- 2.2 The site has been identified as surplus to NYR's requirements. Due to the internal layout of the buildings and processes on site any expansion of the existing buildings on site is likely to take place to the south and west.
- 2.3 The site comprises relatively flat grassed area with some flower beds.
- 2.4 The site is within the urban area and adjacent to residential development to the north and east.

3 NEAL'S YARD REMEDIES ASPIRATIONS

- 3.1 As one of the major employers in Gillingham, NYR is committed to this site for its commercial operations. Indeed, it is actively considering expanding its commercial operations on site. The proposed expansion will take place adjacent to the existing building to the south and/or west, making best and most efficient use of the site and maintaining its operations in a cluster of buildings.
- 3.2 Having undertaken a review of operations, it is clear that the site which is the subject of these representations is surplus to NYR's requirements. Redevelopment of the identified land for residential purposes would not prejudice the continuing use of the site for commercial uses and would not hinder NYR's expansion plans. On the contrary, it would help fund expansion of their operations.
- 3.3 Previous viability reports and an Employment Land Review (attached as appendices to this report) confirmed that employment development is not viable on this site nor is there demand for it, then the land would be most unlikely to come forward for commercial development. Residential development is a viable option that would accord with many of the policies in the draft plan.

- 3.4 Given NYR's ambition to expand its operations on site, the residential development of the identified land will significantly assist the funding of the construction of the additional floorspace and therefore cement NYR's growing presence in Gillingham for the foreseeable future.
- 3.5 This expansion would be a major investment in the local economy, and would provide additional jobs and boost to the local economy, whilst also allowing part of the site to be redeveloped and contributing to the delivery of the identified housing target for North Dorset.

4 DEVELOPMENT OPPORTUNITIES

- 4.1 The site is noted in the Local Plan as an employment site due to its current uses. The site measures a total of 3ha, with approximately 0.5ha site coverage with commercial buildings. The balance is therefore 2.5ha comprising the access road and currently undeveloped land.
- 4.2 NYR has ambitions to extend the commercial buildings on site in an organic fashion, responding to changes in market demand and resultant staffing and factory requirements.
- 4.3 NYR is considering expanding the commercial buildings on site. Due to the position of the existing buildings and commercial (factory) processes on site NYR would seek to extend its existing buildings to the south / west of the existing buildings. Given that the access road dissects the site through the middle it is NYR would not propose to develop new buildings to the north of the road given the resultant detachment from the existing buildings and processes.
- 4.4 It is therefore logical that as part of the expansion plans and taking account of recent residential development to the east and south of the site, that alternative uses are pursued for the surplus element of the site. This would assist in funding the expansion of NYR thus maintaining its presence in the town.
- 4.5 This option would retain the majority of the site (approximately 2ha) in commercial use and allow further space to expand.
- 4.6 Previous representations have explained that, based on the viability report (which demonstrates that neither industrial nor office uses are financially viable on this site) and current lack of demand for employment land, speculative commercial development is unlikely to be forthcoming on this site. It is clear that NYR is likely to be the only commercial company that would locate on this site.
- 4.7 NYR would only look to expand onto land to south / west, leaving the land in the north west as surplus. Given location of the site adjacent to residential development, it is a logical solution to allocate part of the site for residential development.

5. JUSTIFICATION FOR THE PROPOSED ALLOCATION OF NYR FOR RESIDENTIAL DEVELOPMENT

Site Specific Reasons

- 5.1 As detailed above, the proposed allocation would essentially be enabling development to help fund the expansion of the existing commercial uses and thus the creation of jobs and economic development.
- 5.2 Given NYR's growth plans, the internal circulation roads on site will need to be upgraded to ensure a suitable flow of traffic around the site. Parking on site is also a challenge and further parking is required to ensure enough spaces to allow staff and visitors to site can park safely.
- 5.3 The expansion plans will provide floorspace to facilitate the commitment to the continued location of NYR at the site and in Gillingham.
- 5.4 Notwithstanding the above intention for the majority of the site to remain in commercial use, we consider that the land identified at Appendix 1 has great potential for residential development to assist the Council in achieving its housing target.
- 5.5 Given NYR's environmental credentials, there is a possibility that the site could be developed with low carbon houses which would accord with policies proposed in the draft Plan.

Planning Policy

- 5.6 The total housing target to be provided in the District for the plan period (2011-2026) is 4,200 homes, with about 1,490 to be provided in Gillingham. Much of Gillingham's housing target will be taken up by the Southern Extension which is estimated to provide 1,240 dwellings during the plan period. This leaves 250 additional dwellings to be delivered in Gillingham during the plan period. Given its scale and the current state of the economy, there is a likelihood of slippage in the delivery of such a large extension. We consider that the Council is over-reliant on the extension to deliver such a significant part of the District's housing target, and should seek to allocate a number of smaller sites that will come forward in the first 5 years.
- 5.7 Such a site is that at NYR which is 0.95ha and could deliver 30-40 houses, dependant on detailed design.
- 5.8 Having reviewed the SHLAA it is apparent that there are number of sites that have been considered acceptable on the northern edge of Gillingham thus confirming that the Council is not averse to sites in the north of Gillingham. Notwithstanding that, the continued allocation of the site for employment uses demonstrates that the Council supports the principle of development on the surplus land at the site.
- 5.9 As stated above, it is short-sighted of the Council to rely on a single major site to deliver all of its housing requirements. The Council needs to identify alternative sites to come forward to provide supply in addition to the major urban extensions to ensure that demand can be met at any time.

- 5.10 The land identified for residential development at Appendix 1 is in a sustainable location, close to existing services and approximately 1.5km from the town centre with its additional shops and facilities. The NPPF's presumption in favour of development, together with the Government's desire not to retain vacant commercial land if there are suitable alternative uses are material considerations in the allocation of this site for residential development and should weigh heavily in its favour.
- 5.11 Draft Plan Policy 11 (The Economy) seeks to ensure the vitality of market towns. The continued location and indeed expansion of NYR at the site in Gillingham will ensure that it will continue to contribute to the local economy.
- 5.12 At paragraph 6.23 of the draft Plan the Council highlights that Gillingham has 17.5ha of available employment land which is approximately 8.3ha more than its identified need to 2026. This is the highest of the market towns in the District and accounts for 35% of the employment land for the District.
- 5.13 This alone demonstrates that, in accordance with the NPPF, there is no need to safeguard the entire NYR site for employment, particularly as the needs of the business can be accommodated on other parts of the site.
- 5.14 The appended employment report demonstrates that the site is not required for employment land. Furthermore, the viability reports also appended show that speculative commercial development is not viable.
- 5.15 The most likely increase in employment floor space on the site would be from NYR and their potential expansion plans have been broadly outlined above.

Proposed change to policy in the Local Plan

- 5.16 As outlined in our representation pro-formas, we consider that the continued allocation of the site for employment uses only is unsound due to oversupply and conflict with the NPPF. The NPPF states that
- "Planning policies should avoid the long term protection of sites allocated for employment use where there is no reasonable prospect of a site being used for that purpose. Land allocations should be regularly reviewed. Where there is not reasonable prospect of the site being used for the allocated employment use, applications for alternative uses of land or buildings should be treated on their merits having regard to market signals and the relative need for different land uses to support sustainable communities."* (Paragraph 22)
- 5.15 Paragraph 8.78 should be amended to remove reference to the NYR site for employment uses. The text for Policy 17 should be amended to remove point 'm' which refers to NYR unless it can be amended so that alternative (residential) uses can be considered, based on viability and need (for both employment land and housing).

6. CONCLUSIONS

- 6.1 The site has potential for further development. This document and previous representations have identified surplus land of 0.95ha which the Council proposes is safeguarded for employment use.
- 6.2 There is no justification for the retention of the entire site for employment uses given the current oversupply of employment land in the District, the lack of demand for employment land in the market and the fact that developing employment floorspace is unviable.
- 6.3 The residential development of the identified part of the site is logical, and it can be achieved whilst safeguarding a large proportion of the site for existing and proposed commercial development. As detailed above, a development of low carbon houses would also contribute towards the policies in the local plan.
- 6.4 The Plan is considered unsound due to the Council's proposed safeguarding of the site for employment uses and its overreliance on the urban extension to the South of Gillingham for the majority of housing land supply in Gillingham. There are no contingencies should the development of the urban extension be delayed, which is not uncommon in large strategic sites.
- 6.5 NYR would support an alteration of the plan to remove the references to the NYR site as an employment site (or at least allowing flexibility for residential use on the identified land).

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Legal statement

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APPENDIX 1

Location Plan



APPENDIX 2

Viability Report



APPENDIX 3

Employment Land Review



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Making commercial sense of property

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**NEAL'S YARD REMEDIES
PEACEMARSH, GILLINGHAM
NORTH DORSET
SP8 4EU**

VIABILITY REPORT

PREPARED FOR

NEAL'S YARD REMEDIES

BY VAIL WILLIAMS LLP

19th December 2012

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Appendix 1 Site Location Plan and Proposed Development Area

Appendix 2 Development Appraisals

Appendix 3 Indicative Values to Promote Employment Development

1.0 Introduction

- 1.1 This report addresses the question of viability for the redevelopment of the vacant land adjacent to Neal's Yard. The report considers the potential site values that may be achievable subject to the necessary planning consents.
- 1.2 In considering these matters we have had regard to the market conditions at the end of 2012 and the effect of those conditions upon the prospects for development in line with the site's current planning allocation for employment uses.

2.0 The Site

- 2.1 The site is located on the northern outskirts of Gillingham at Peacemash, adjoining a recently constructed doctor's surgery with frontage to B3092.
- 2.2 The site comprises the current single storey Neal's Yard Remedies building together with an area of undeveloped land mainly to the north of the access road. The total site which is the subject of the planning permission including the existing building is understood to extend to 2.84 hectares (7 acres) approximately and is shown edged in red on the attached site plan (**Appendix1**). For the purposes of this report the assumed available development land is shown edged blue extending to 0.951 hectares (2.35 acres).

3.0 Planning Background

- 3.1 This report into viability has been prepared to accompany representations made to the Council on behalf of Neal's Yard Remedies in connection with the Council's emerging Draft Core Strategy and Development Management Policies Development Plan Document. This document seeks to allocate the site to provide for additional employment development. In addition, to accompany this viability report, we have prepared a separate analysis of the employment land issues affecting the town. We do not repeat those

comments here but note that at a meeting held between North Dorset District Council, Neal's Yard Remedies and Vail Williams held on the 3rd November 2009 that the Council stated that there is not a pressing need for more employment land and there is in fact currently an oversupply of land available for this form of development.

4.0 Market Conditions

- 4.1 The prevailing economic situation affecting the UK and Europe continues to have a depressing effect on the UK property market. The economy, although recently having re-emerged from a double dip recession, remains in a relatively fragile state. It continues to be at risk from a range of external factors e.g. Europe and World events. These have the potential to push the economy into recession yet again, like much of the Euro area.

- 4.2 World and UK growth figures are continually being revised. The Office for Budgetary Responsibility has predicted in December 2012 a small fall in GDP in the last quarter of 2012 and by 0.1% for the whole of 2012, with a return to growth to 1.2% for 2013. There continues to be volatility in world stock markets. Although interest rates remain at historical lows, banks and other lending institutions remain under pressure across the EU and in the UK. Despite some improved lending conditions, the terms upon which banks will agree to lend has meant that many companies and individuals are unable to secure funding. The consequence for the property market is that few companies are expanding. There is little prospect for significant improvement. The provision of new commercial development outside London has all but ceased. Speculative funding for office development is almost non-existent, other than for locations within London and in a very few prime locations mainly in the Thames Valley.

- 4.3 The market has been suppressed since 2008. This lack of activity is most particularly marked in the office sector. In towns where rentals are below £215m² (£20ft²), speculative new development is simply not viable with neutral or negative land values. This is strongly evidenced by the marked cessation of new developments across the region.

4.3 Property investors remain nervous of anything other than secure long term opportunities which in combination with the lack of bank finance, poor tenant demand, the impact of the recession on rental values and the significant incentives demanded by the few occupiers who are actively seeking space, all mean that developers will understandably not take the risk of building new commercial development. The consequence of all this is that, other than in a few limited hotspots, there is virtually no prospect that speculative development will restart in the foreseeable future.

5.0 Development Options and Viability Today

5.1 Central to this report is the question of land use and crucially whether there is likely to be demand for a given use.

5.2 In order to answer this question we have considered likely demand and viability for employment uses for both offices and industrial/warehousing.

5.3 Offices

5.3.1 Gillingham, like many similar towns of its size, is limited in terms of its provision of modern offices; those that do exist are largely to be found at Kingsmead Business Park. Gillingham is not an office centre the majority of those companies represented in the town being locally based.

5.3.2 Currently the Focus database indicates that there is 6,888ft² of built and available in small units of 1,000 to 2,000 sq ft where rentals are quoted at headline levels ranging from £7.12-£11.36ft², the majority of the available space is located at the Kingsmead Business Park.

5.3.3 In terms of demand the recession has had a dramatic effect on occupier demand nationally and even in the established office locations such as the M4 corridor there has been much

reduced take-up compared to recent years. In Gillingham, in the five years since the start of the recession (January 2008-December 2012) Focus records only 11 transactions totalling 15,898ft² showing a take-up rate of 3,180ft² per annum. It also records that these properties were marketed for an average of 557 days before being let. This is in line with many similar smaller towns throughout the region where the decline in economic activity has resulted in a virtually static office market. And the take up rate demonstrates the Gillingham is not regarded economically as an office centre.

- 5.3.4 The overriding issue that needs to be answered when looking at the viability of any form of development is whether existing values and anticipated demand will induce developers to build and, if so, what effect this has on land values. In our experience developers will seek a profit of 20% on development costs on any development that they undertake and consequently the difference between value of the completed buildings and the cost including the developers profit is key to determining the issue of viability. Speculative investment yields which in combination with rents directly determine a property's value are in the case of offices in the more established locations today are at circa 8%. There is no current evidence to rely upon in Gillingham; however, we suggest that given the town's profile if a developer were to consider developing in the town they would probably assume a yield of 9-10%. The consequence of these factors is that speculative development in towns where rental levels are below £20 per sq ft (Gillingham is currently circa £10-11ft²) means that positive land values can not be shown nor can a developer expect sufficient profit for new office development to occur. Put simply if a landowner is faced with a neutral or negative land value they will not sell and a developer unable to be confident of a realistic profit (20%) will not build.

5.4 Industrial/Warehousing

5.4.1 Our comments above relating to offices equally apply to this sector, albeit that as a generalisation this market has not been affected quite as badly. There is a larger existing stock of industrial/warehouse space in the town recorded on Focus at 55,076ft², the majority located on Kingsmead Business Park. Focus records that there have been 8 transactions in the period totalling 12,704ft² and that the average period that each property was on the market was 496 days. For industrial development to produce a positive land value new development needs as a rule to be able to achieve rents well in excess of £8ft²; Gillingham is significantly below this level where the highest rents currently being quoted are circa £6.60ft². Again, investment yields which are generally depressed will be further discounted in Gillingham and will we believe be similar to those for offices.

5.4.1 We attach as Appendix 2 and 3 appraisals showing the viability of both office and industrial/warehousing development on the Neal's Yard land. In view of current demand and supply levels within the town, we have approached each appraisal on the basis of a speculative first phase as it would in our view be unrealistic to assume a developer would build on the whole site speculatively in a single phase, the assumption being that if the first phase were successful that the balance of the suite could be developed assuming demand and financial viability. Therefore in both cases we have assumed that the first phase is on half of the developable land i.e. 1.18.acres. We have assumed in Appraisal 2 an office development of 29,375ft² of two storey small units at a rate of 25,000 sq ft per acre and in Appraisal 3 an industrial scheme again of small units with site coverage of 45% producing a development of 25,592ft². We have adopted current costs provided by the BCIS data base which currently is reporting construction costs being flat during the first half of 2013 but that costs are anticipated to rise from the third quarter by 3.2% per annum and subsequently by 3.5,

3.8 and then 4.9% in 2016/17. We would point out that these appraisals do not allow for any S106 CIL or S278 payments that may be imposed, and we have assumed that there will be no abnormal costs associated with the development of the site as a result of ground conditions or any contamination of the site that may be present. Any such costs would of course only worsen the situation. We have adopted an investment yield for both forms of development of 9% and rentals of £12ft² and £7ft² respectively for the offices and the industrial.

5.4.2 These appraisals show that neither form of development is capable of generating a positive land value or any development profit to induce the landowner to sell or for a developer to speculatively develop the land. The land is located on the northern fringe of the town, not in an established employment area; but in an area mainly characterised by residential development. We note from "The New Plan for Dorset" at 2.8.40 the following "In the early part of the Plan period, higher value business will be encouraged to locate to vacant land (at least 1 hectare) on the existing Neal's Yard Remedies site at Peacemarsh, where any new development should compliment the existing landmark building". As we have demonstrated above and throughout this report simply stating that businesses will be encouraged to the Neal's Yard site will not bring about the sites development if it is economically unviable. If new development is unviable, which it is, then no degree of encouragement will achieve the aims of the plan. Rather we believe if and when demand does eventually re emerge it is more likely to be focussed on the established locations as opposed to the Neal's Yard site. Therefore notwithstanding that we have taken an optimistic approach to rents and investment yields, it can be concluded that today and for the foreseeable future that the allocation of the land for employment purposes will simply mean that the land remains undeveloped.

5.5 Development Options and Viability in the future

- 5.5.1 In order to consider whether the longer term allocation of the land for employment use may be viable we attach as **Appendix 4** an indication in terms of both rental values and investment yields, allowing for a suitable developer's profit of 20%, which shows the degree of change that would be required for either office or industrial development to have a realistic prospect of being built.
- 5.5.2 As can be seen in the case of office development, in order to create a positive land value, albeit a very small one, and give the necessary developers profit, rental values will have to increase to £20ft² and yields reduce to 7%. Even at these rent and yield levels the land value is only just positive and we strongly doubt there would be any incentive for the land owner to sell and that the land would remain undeveloped. Similarly for industrial development even increased rentals to of £8ft² and yields reduced to 7% gives no land value and the developers profit is only 13.54%. In our opinion, given the current tone of values in the town, there is no prospect of these value levels occurring in the foreseeable future and in particular in the case of office development we consider that it is likely to be many years before profitable development could occur.
- 5.5.3 We must also point out that these examples assume building costs remain static in the future which we believe is unlikely to be the case.
- 5.5.4 Finally, we have considered the comments in the Atkins report of December 2009. In section 11 paragraph 11.33 they state that "development in some locations is not presently viable" and in paragraph 11.34 that "it is assumed that all infrastructure costs will be funded by the developer" and that "this may be unrealistic and as it can be seen makes the development in certain areas become unviable." Clearly Atkins

in 2009 were aware of the economic reality and we support there conclusions.

6.0 Conclusions

- 6.1 It is acknowledged that North Dorset District Council have aspirations to protect the future employment prospects for the town by allocating land to meet demand in the future should it occur. Nonetheless, we have clearly demonstrated in this report that today neither office or industrial development is viable, moreover our appraisals which have taken as optimistic approach as can be made today show neither a site value to the land owner nor a profit to a developer.
- 6.2 We repeat our comment in 5.5 above that our appraisals ignore S106, CIL or 278 costs and any abnormal costs associated with the site. Clearly any costs of this nature will only reduce viability and further postpone the date that development may occur.
- 6.3 The examples of the required movement in values to justify development included at Appendix 4 demonstrates, even taking the long term view, that new development is unlikely to be viable for many years. However, two further factors need to be considered in considering viability. Firstly, our appraisals assume current borrowing rates. It is widely forecast that the currently low historic borrowing rates will as the economy recovers have to increase particularly to avoid significant inflation. Secondly, building costs which fell during much of the recession can not be assumed to stay at current levels and are predicted to start to increase within the next 12 months. The consequence of either or both factors will further delay the date that any form of employment based development may become viable.
- 6.4 We have commented upon the limited supply of built stock in the town and the lack of open market transactions. If Gillingham had a viable and expanding employment sector we would have expected that developers would have undertaken more building in the past to respond to that demand. This has not taken place which we believe

underlines our comments in terms of viability; the low property values being a direct reflection of that lack of demand.

- 6.5 In our opinion there is no prospect of any form of viable employment development taking place on the Neal's Yard Remedies site today or looking forward for many years without a fundamental change in the economy of Gillingham such that it became a recognised business hub within the region. In our opinion Gillingham's proximity to other far more established centres makes this eventuality remote.