

1 Monkspath Hall Road, Solihull

Economic and Employment Statement

June 2017



LSH Auto Properties (UK) Ltd

ECONOMIC AND EMPLOYMENT STATEMENT

For a New Mercedes-Benz Facility at No. 1 Monkspath Hall Road,
Solihull

A Report for LSH Auto Properties (UK) Ltd



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CONSTRUCTION PHASE LIFETIME BENEFITS



£20.4m

Cost of construction
(All phases)



£23.2m

Total construction
related Gross Value
Added Net Present
Value (Direct, indirect
and induced).



249 jobs

Net direct
construction jobs.



374 jobs

Total net construction
jobs during (including
direct, indirect and
induced).



OPERATIONAL BENEFITS



138 jobs

Operational net jobs
created (direct, indirect and
induced).

£0.8m

Total net operational related
Gross Value Added (Direct,
indirect and induced).

£34.9m

Net Present Value
Net operational Gross Value
Added (Direct, indirect and
induced).

TOTAL 10 YEAR BENEFITS



512 jobs

Net created and safeguarded
(direct, indirect or
safeguarded).



£58.1m

Net Present Value
Total net related Gross
Value Added (Direct,
indirect and induced).



1 : 2.4

10 year cost benefit
ratio (after discounting).



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Introduction

Kada Research were commissioned to undertake an Employment and Economic Statement for LSH Auto Properties (UK) Ltd. The report considers the economic and employment impact of a proposed new Mercedes-Benz Dealership and LSH Auto Properties (UK) Ltd HQ facility at the site of No. 1 Monkspath Hall Road, Solihull.

Figure 1 opposite shows the location of No.1, Monkspath Hall Road, Solihull, which has a prominent frontage onto the A34 and is just under a mile from Junction 4 of the M42. The location also provides easy access to Birmingham International Airport and Train Station.

Solihull Metropolitan Borough is located on the southern edge of the West Midlands Conurbation, between Birmingham and the Black Country in the west and Coventry to the east.

Solihull is at the heart of the national rail and motorway network with direct rail services to London, Birmingham and to the north along the West Coast and Chiltern Mainlines and has excellent access to other regions in the UK through the M42, which links the Borough to the M6 a the northern boundary of the Borough and the M40 to the south.

Figure 1: The Proposed Development





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Key Elements of the Proposal

The development proposal for the site comprises a major new Mercedes-Benz showroom facility together with office accommodation to house the headquarters of the operator LSH Auto Properties (UK) Limited. The development comprises a high quality architect designed car showroom with workshops and office accommodation over three floors. The approximate floor areas for the development are presented in table one. The building has an estimated total floor space of some 16,500 m².

As described above and set out in the table, the development will comprise a regionally significant car dealership which will include sales, maintenance/repair and a new office headquarters for LSH Auto Properties (UK) Ltd. The sales element will comprise both new and used vehicles.

The office element at second floor will be additional to the activities of a normal car dealership. The offices will comprise the UK headquarters of the operator. The operator is active in 9 countries with in the region of 22,000 employees (see inward investment benefits later). Individuals located at the site will therefore be managing other operations within the UK. The staff based within these offices therefore will include Senior Management at Board level and also functions including Finance, Marketing and other key headquarters activities.

Table 1: Key Elements of the Proposal

Level	Description	Area m ²
Ground Floor	Car Showroom	1,941
	Ramp	229
	Covered Car Bays	2,203
First Floor	Sales Office	874
	Ramp	371
	Used Car Parking Bays	2,492
Second Floor	LSH Auto Offices	978
	Workshop	2,728
	Roof Terrace	1,422
	Ramp	373
Third Floor (Roof)	Car Storage	2,905
	Total m ²	16,516 m ²



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Local Authority Context

The Solihull Local Plan 'Shaping a Sustainable Future', sets out Policies for Sustainable Economic Growth with Policy P3 focusing on the Provision of Land for General Business and Premises.

Sustainable economic growth is important to Solihull's success as an attractive place to live, work and invest. It will enable increased prosperity, opportunity, well-being and quality of life and will potentially provide a better quality of life for individuals and communities experiencing high unemployment.

To encourage sustainable economic growth and provide a broad range of employment opportunities the Council will plan for a continuing supply of employment land. Policy 3 (p62) highlights provision for sufficient employment land to support a range of employment uses and potentially encourage and support local enterprise.

Table 2 opposite, identifies the strategic sites that comprise the Council's supply of main employment land for this purpose. This proposal falls within site number 26.

Table 2: Key Elements of the Proposal

Site	Site No.	Available Allocated Land (Ha)	Readily Available Allocated Land (Ha)	Preferred Use Class Purpose
TRW Stratford Road Shirley	25	18.5	18.5	B1, B2, B8
Solihull Business Park, High-lands Road, Monkspath	26	6.0	6.0	B1, B2, B8
Fore, Stratford Road. Adj. M42	27	2.0	2.0	B1
Chep/Higgingson, Bickenhill Lane, Bickenhill	28	4.0	0.0	B1, B2, B8
Land North of Clock Inter-change Coventry Road	29	2.0	1.0	B1
Land Adjacent Birmingham Business Park	31	9.0	0.0	B1, B2, B8
Total		41.5	27.5	



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Local Authority Context (Continued)

To ensure that an adequate supply of land remains available for employment purposes, sites will be protected for their allocated purposes. Alternative uses may be allowed where the following criteria are met:

- The site is relatively isolated from other business premises or is out of place in the context of other neighbouring uses, such as residential; or
- It is clearly demonstrated that there is no longer a need to retain the site/premises for their intended business class purpose; or
- In the case of vacant premises, there is no longer a reasonable prospect of attracting business development in market terms;
- The alternative use will support sustainable development principles and will directly support employment locally;
- There is no conflict with other policies of the Local Plan or National Planning Policy.

The evidence base for the local plan also shows that Solihull has a substantial supply of vacant business premises comprising an equivalent land supply of about 12.6ha of offices.

The Local Plan indicates there are a number of employment sites where opportunities to recycle employment land may come forward. It notes that substantial recycling of land has already occurred in older premises at Cranmore Industrial Estate (Monkspath) to create new offices and modern industrial/warehouse units.



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Property Context

The current building at 1 Monkspath Hall Road was developed in the early 1990's and has been occupied by Prologis UK. The current occupiers have taken new accommodation and are relocating to a site at Blythe Valley Park, with the new accommodation providing modern offices in an improved configuration.

The existing building comprises a two storey building on a site of approximately 2.4 acres. The building we understand provides a total net area of 21,413 ft², although it should be noted that the ground floor reception area is 687 ft² with a double height atrium. The central atrium effectively splits the building into two wings.

The building, whilst partially updated in the 'common areas' will require significant adaptations to ensure that the accommodation is made attractive to alternative occupiers. It is unlikely that the building will attract a single occupier given its sub-divided floorplates and therefore would have to attract occupiers that may take a 'wing' on each floor. At the ground floor the wings are not of equivalent size, with the West and East Wings comprising 5,265 ft² and 3,804 ft² respectively.

From an office occupier's perspective the building may not be attractive as the location lacks nearby amenities for employees (within walking distance).

The location of the site is highly prominent and therefore bringing forward a high profile gateway development is appropriate. There is a significant cluster of car dealerships with very close proximity which makes the location attractive for car retailing. A map is provided overleaf (Figure 2) indicating the location of other nearby car dealerships.



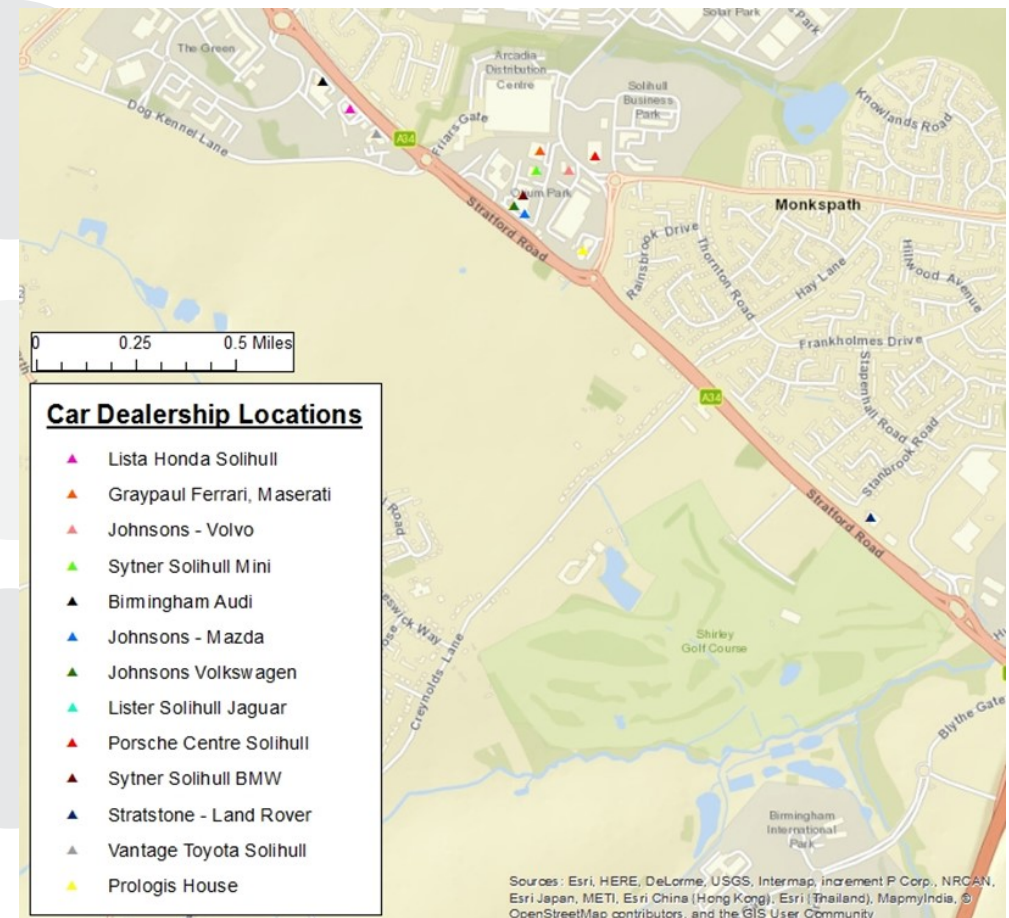
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Property Context Continued

In summary, the existing building is over 20 years old and will require significant updating and adaptation to make the accommodation attractive to office occupiers. However, since the office development was conceived the nature of the location has changed with a significant cluster of 12 car dealerships within easy walking distance. The proposed development will therefore further underpin this cluster and also introduce a high quality landmark development. The proposed development will also include the UK headquarters of the operator and thus a significant number of high quality management roles.

The next sections of the report present findings of the impact model, both in terms of construction and operational impacts, followed by results of the cost benefit analysis.

Figure 2: Plan of Car Dealerships





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Approach to impact assessment

There are two major components to valuing the economic benefits of development proposals – those associated with the construction phase and those associated with its subsequent operation or use.

The impact assessment process broadly follows five steps highlighted in Figure 3.

This statement has been produced using an employment-based assessment which is founded on the number of direct jobs created or safeguarded as a result of the project, which is used to estimate indirect and induced jobs generated.

As well as presenting estimates of direct, indirect and induced jobs, the impact assessment takes this a step further to estimate the resultant gross value added (GVA) which is the primary government measure of the contribution to the economy through a project or in an area more generally.

This is estimated simply by taking the number of jobs sustained through the project and applying benchmark evidence on average GVA per FTE job. In this case, Kada estimates for GVA per FTE have been used (note: these are based on 'employee jobs', they do not account for self-employment).

Figure 3: Impact Assessment Steps





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Calculating Construction Impacts

Gross Impacts

During the construction phase, a considerable number of **direct jobs** will be created locally and regionally. Direct construction jobs for the proposal are calculated by dividing construction expenditure of £20.4m (minus land purchase costs) by GVA per FTE average for construction (for the West Midlands in 2016).

The construction industry is also a driver of growth in other sectors due to its heavy reliance on an extended and varied supply chain. It uses a wide range of inputs from many industries to produce its goods and services. Investment in the sector therefore indirectly supports a broad set of industries as the increase in final demand filters through to key industries which supply the sector and creates **indirect jobs**.

The following sectors are those that benefit most from increases in construction activity: aggregates, machinery rental, real estate; architectural/technical consultancy; plastic, wood and metal products.

Additional consumer spending attributable to the workers in construction and other industries (for example, using their wages from the construction project on household shopping) are also captured. The jobs sustained through this are referred to as **induced jobs**.

Estimating the scale of indirect and induced jobs involves applying an **employment multiplier**, in this case from the HCA Additionality Guide Fourth Edition (2015) (Table 4.12). This uses benchmarks from previous research to indicate approximately how many jobs could be expected based on the scale of the direct employment impact, the industry sectors involved and project location. The composite indirect/induced multiplier for construction is 1.5.

Net Impacts

To ensure the true added value of a development is assessed, appropriate adjustments are required to alter the impacts from gross to net. These account for leakage (the proportion of employment benefits going to people outside of the targeted areas or groups) and displacement (the proportion of benefits are considered non-additional, that take existing employment benefits from other organisations or projects elsewhere).

For construction, the rates are assumed to be low at 10% leakage and 5% displacement i.e. 10% of construction workers live outside of the local area, and that other construction projects elsewhere would only have their own benefits reduced by an equivalent of 5% of the project's construction employment value.



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Calculating Construction Impacts (continued)

Time Adjusted

Jobs created during the construction phase only last as long as the construction takes place (estimated currently at fourteen months) and are described in terms of job years.

Net present value (NPV) is an estimate of the present value of future cash receipts. In other words, the values are discounted by a specified rate of return. HM Treasury Green Book guidance has been followed which recommends discounting by 3.5% in order to determine NPV.

Deadweight Adjusted

Deadweight refers to the benefits that would have likely occurred anyway in the absence of the development. The scale of the benefits in this alternative counterfactual scenario is calculated using the exact same steps as above, but with different estimates of gross direct jobs. The counterfactual NPV is then deducted from the project NPV to produce a more accurate estimate of the project's impact.

In the case of the construction impacts, it is reasonable to expect that none of the construction benefits for the local area would have been achieved if the project construction does not take place. This can be referred to as full additionality.



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Calculating Operational Impacts

Gross Impacts

This element considers the **direct** jobs associated with the operation of the building and businesses at the redeveloped site. Similar to the construction impacts, multipliers are used to calculate the **indirect** jobs and **induced** jobs. Based on the HCA Additionality Guide Fourth Edition (2015), the composite indirect/induced multiplier for the economy-wide average is 1.4. A consistent approach has also been followed to calculate GVA by multiplying the number of jobs by GVA per head benchmarks for the economy as a whole.

Net Impacts

For operations, the net impact adjustment rates are assumed to be low at 10% leakage and 5% displacement i.e. 10% of site workers live outside of the local area, and other businesses elsewhere would only have their own benefits reduced by an equivalent of 5% of the project's operational employment value.

Time Adjusted

Unlike construction benefits which are captured for the length of time they are working on the site (i.e. job years), jobs generated to perform ongoing / operational duties are subject to persistence and decay effects.

The persistence of the benefits refers to how many years the benefits are expected to last and the period over which benefits will accrue until they reach their full potential. In this instance, a ten year time frame has been chosen based on experience of the time taken for previous facilities to bed in.

For the rate at which benefits will decay (i.e. the proportion of annual benefits expected to be lost from one year to the next due to economic changes, other investment decisions, etc), a decay rate of 10% per annum has been used.

Calculation of the NPV follows the same approach as for construction impacts using a standard discount rate of 3.5% per annum.

Deadweight Adjusted

In the case of the operational impacts, it is reasonable to expect that some of the benefits for the local area would have been achieved if the project did not take place. For example, workers may have created new employment opportunities for themselves elsewhere or the project operators may have pursued alternative initiatives in the future. However, it is not expected that the same level of impacts would be achieved in this alternative scenario. The project can therefore be viewed as offering partial additionality.



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Economic Impacts

This section presents findings of the impact model, both in terms of construction and operational impacts, followed by results of the cost benefit analysis.

Summaries of the project employment and GVA impacts are presented in Tables 1 and 2. Overall, the project is expected to sustain **470 net jobs** and generate **£58.1m net GVA (£47.5 if deadweight is taken into account)**. This gives a benefit cost ratio of **2.4** (i.e. for every £1 invested £2.40 is generated for the local economy).

Table 2: Project GVA Impacts

	Gross	Net	NPV	Minus Deadweight
Construction	£27,312,233	£23,351,960	£23,239,148	£23,239,148
Operational	£7,690,041	£6,574,985	£34,858,993	£24,295,662
Total	£35,002,275	£29,926,945	£58,098,142	£47,534,810

Table 1: Project Employment Impacts

	Gross			Net			Minus Deadweight
	Direct	Indirect / Induced	Total	Direct	Indirect / Induced	Total	
Construction	291.5	145.7	437.2	249.2	124.6	373.8	373.8
Operational	115.5	46.2	161.7	98.8	39.5	138.3	96.4
Total	407.0	191.9	598.9	347.9	164.1	512.0	470.1



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Construction Impacts

The project will result in 291.5 direct construction job years (FTE) based on construction costs of £20.38m (excluding land purchase) divided by £69,900 average GVA per head of a construction worker. According to the construction schedule, this is expected to be divided between 250 job years in year one of the project and 41.5 job years in year two.

Applying a composite multiplier of 1.5 for the construction sector to take account of indirect and induced employment, this produces an overall employment impact of 437.2 gross jobs. Using the construction GVA per head average for direct jobs and an economy-wide GVA per head average for indirect/induced jobs, this equates to a gross GVA impact of £27.3m.

Applying adjustments for leakage (10%) and displacement (5%), this produces an employment impact of **373.8 net construction jobs** and net construction GVA of £23.4m.

Considering that some of the construction benefits will be achieved in a future year (year two), a discounting rate is applied which has a small effect and alters the estimate to a **GVA NPV of £23.2m**.

Because the counterfactual scenario does not account for any similar construction impacts to take place in the absence of the project, deadweight is set at zero, which produces a deadweight-adjusted construction GVA NPV of £23.2m.



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Operational Impacts

The project will result in the following direct employment impacts:

- 55 jobs (FTE) at the Solihull dealership will be safeguarded as a result of the project.
- An additional 27 jobs (FTE) will be created at the dealership linked to the new facilities and growth plans for the business.
- 33.5 jobs (FTE) will be created by location of the LSH Auto HQ to the site.

This produces an employment impact of **115.5 direct jobs** sustained by the project.

Applying a composite multiplier of 1.4 to take account of indirect and induced employment sustained by the project, this produces an overall **employment impact of 161.7 gross jobs**. Using an economy-wide GVA per head average, this equates to a gross GVA impact of £7.7m.

Applying adjustments for leakage (10%) and displacement (5%), this produces an employment impact of **138.3 net operational jobs and net GVA of £6.6m**.

The impact assessment assumes that the operational jobs will have persistence of ten years, along with a decay rate of 10% per annum. Applying these adjustments and accounting for a 3.5% discount rate, operational employment represents **GVA NPV of £34.9m**.

A counterfactual scenario has been considered based on the current employment profile at the site; specifically, the scenario assumes that the 70 Prologis current team will remain (captured as 35 staff as they spend half of their time in London). The gross employment counterfactual is therefore represented as 35 direct jobs before the standard adjustments are applied.

Deducting the counterfactual net employment of 41.9 jobs (direct, indirect and induced) produces a deadweight-adjusted 96.4 net operational jobs. Deducting the counterfactual GVA NPV of £10.6m produces a deadweight-adjusted operational GVA NPV of £24.3m.



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Summary Impact of the Proposal

The proposal will result in the following construction impacts:

- **374 total net construction jobs** comprised of:
 - ⇒ 149 direct construction jobs
 - ⇒ 125 indirect and induced construction jobs
- The construction phase will generate a total NPV **GVA of £23.4m**
- **138 total operational net jobs** comprised of:
 - ⇒ 99 direct jobs
 - ⇒ 39 indirect/induced jobs.
- Total operational net NPV **GVA of £34.9m.**

The proposal will result in the following 10 year combined construction and operational benefits:

- **512 net created and safeguarded jobs** (direct, indirect and induced).
- **Total NPV GVA of £58m.**
- A benefit cost ratio of **1:2.4** (i.e. each £1 generates £2.40 in economic benefits).



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Wider Benefits

In addition to the employment and GVA impacts the proposal offers the following **property opportunities**:

- A high quality gateway scheme benefitting from the prominence of the A34.
- A development that will reinforce the existing cluster of car dealerships which are very proximate (i.e. promoting limited travelling, and stimulating a knowledge cluster).
- The development incorporates the HQ functions of the international dealership operator (and the World's Largest Mercedes-Benz Retailer) and will include a diverse range of roles and employment opportunities from management and development to sales and administration.

Mercedes-Benz offers a number of **skills and employment opportunities**:

- A comprehensive 18 month international career graduate scheme (CAReer) and industrial placement scheme.

- A Mercedes-Benz 3 year apprenticeship programme with opportunities to train as a Parts Operations Specialist, Passenger Car Technician or Commercial Vehicle Technician. The programmes offers an Institute of Motor Industry (IMI) certificates for Level 2 and 3 VCQ (Vocational Competent Qualification – delivered in the workplace) and VRQ (Vocational Related Qualification – delivered at the firm's Apprentice Academy).
- There are also internship and work experience opportunities within the wider group.
- An explicit commitment to diversity "at Mercedes-Benz, the diversity of our workforce is an integral part of our corporate culture".

Mercedes-Benz in the UK is made up of a number of divisions and is part of Daimler AG. It employs around 3,500 staff in the UK and around 11,000 colleagues employed within the franchised Retailer network.



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Wider Benefits (Continued)

At the new Solihull development the intention is to pro-actively recruit new apprentices for the workshop and junior sales trainee's reflecting a commitment towards employment and training of young staff from the local area.

Inward investment benefits in the form of the co-location of the UK headquarters for global automotive retailing group LSH Auto Properties (UK) Ltd. This will generate new high quality local employment opportunities in Solihull.

- In 2016 LSH have gone from 18,000 to 22,000 employees in 9 countries.
- It is one of the largest motor retailers in the world.
- 1 in 10 Mercedes-Benz cars on the planet come from LSH.
- Its 2015 year end revenue was £7.9 billion, with a profit of £570 million (£518 million after tax).

A commitment to the **local area** will also be realised through:

- The use of local suppliers for key aspects of business (at least 25-30% of supplier spend).
- Local employment opportunities. An estimated 85-90% of the workforce will come from within the Solihull Travel to Work area.
- Bringing an under-used and under invested site into sustainable economic use.



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