



Significant Capital Allowance Investment Opportunity

**BIO-SCIENCE FACILITY, LOWER PARLIAMENT STREET, NOTTINGHAM**

Nottingham City Council Lease

# THE OPPORTUNITY

Unique opportunity to acquire a new bio-science incubator facility let on a long lease to a major city council with significant capital allowances providing an attractive post tax return.

Prominently located at Lower Parliament Street, Nottingham adjacent to the existing Bio-City buildings within Nottingham's creative quarter.

There are estimated £9,750,000 of available capital allowances to a purchaser which at a higher tax rate of 45% are worth **£4,387,500** over a 5 year period.

150 years long-leasehold interest at a peppercorn rent from Nottingham City Council.

Nottingham City Council is to provide a loan to the purchaser of £11,011,200 for a 5 years period at a fixed interest rate of 4.50% which equates to £495,484 interest per annum. No amortisation required during this period.

Construction commenced in August 2015 on the new Biocity Science building over ground and 4 upper floors providing state of the art laboratory and office accommodation and extending to 52,475 sq ft NIA. Willmott Dixon is the appointed contractor.

Purchaser equity requirement of **£6,748,800** which after interest charges provides a net annual pre tax yield of 3.18%.

To be let to Nottingham City Council for 30 years from completion of this transaction on a full repairing and insuring lease at an initial rent of £714,000 per annum equating to £13.61 per sq ft. The rent is reviewed every 5 years in line with the CPI index compounded annually.

Post tax annual yields are Year 1 - 7.54%, Year 2 - 6.86%, Year 3 - 6.27%, Year 4 - 5.76%.

Sub-let to Biocity the UK's leading Bioscience incubator organisation.

At year 5 Nottingham City Council have an option to purchase the building for £15,300,000. If the council exercise their option then the **post tax IRR is 7.96%** with an anticipated **after tax profit of £2,528,419 which is a 37.5% return of equity.**

Total construction costs are £26million, however, by way of a grant and other council funds, the total price sought inclusive of stamp duty is **£17,760,000 (Seventeen Million Seven Hundred and Sixty Thousand Pounds)** reflecting a pre-tax yield of 3.95% adopting purchasers costs of 1.8%.

If the option to purchase is not exercised then there will be 25 years remaining on the lease.



# THE CITY

Nottingham is the capital of the east Midlands and is one of the most vibrant and growing cities in the UK. Located 130 miles north of London, 53 miles north east of Birmingham and 73 miles south of Leeds, the city is centrally located and benefits from excellent motorway, rail and air links;

- £570m recently invested in expanding the tram network.
- £800m currently being invested in upgrading the road networks and creating an integrated transport hub.
- At the heart of crucial road networks east-west and north-south - the M1, M42 and A46.
- From Nottingham, London is accessible in 99 minutes, almost every UK region in two hours, and mainland Europe in four.
- East Midlands airport is one of the UK's main freight and passenger airports, flying to 90 international destinations, plus access within an hour to three other airports.

Many global companies have made Nottingham their home including, E.ON, Alliance Boots, Speedo, Paul Smith and Changan with over 50 regional and national companies choosing the city as their HQ. Key reasons include;

- One of the largest labour pools in the UK – 887,000 working age people.
- Two world-leading universities with 60,000 students providing a strong talent pool.
- 54% of the population in Nottingham holds a degree level qualification with 59% of jobs in knowledge intensive industries.
- £12.1billion local economy.
- Cost competitive location with salary and office costs between 5-7% lower than the UK average providing improved profitability.
- Excellent quality of life with international sport, top-class retail, strong cultural offer and tranquil countryside nearby.



# LIFE SCIENCES

The Universities of Nottingham and Nottingham Trent, are known internationally for the excellence of their research and collaboration with businesses. They provide a first-class talent pool for companies with over 4,500 students graduating every year in subjects allied to life sciences in areas including pharmacy, biomedical imaging, bioinformatics and clinical translational research.

Nottingham has made world-leading discoveries including Ibuprofen and the MRI scanner and employs 38,000 people across 14,000 life science and healthcare related companies. The two universities produce a continuous stream of spin-out life science businesses that are breaking new ground in areas from drug delivery systems to biomedical diagnostic tools. Nottingham's £25m Centre for Biomolecular Sciences brings together the expertise of over 300 world-leading scientists in drug discovery, cancer research, stem-cell science, bacteriology and regenerative medicine. Nottingham is the home for cutting edge companies such as Boots UK, Reckitt Benckiser, Parexel, Fresenius Medical Care, Merck and Molecular Profiles.



Located in Scotland (Newhouse) and England (Nottingham) Biocity is the UK's leading bioscience incubator organisation providing the conditions that sustain more than 80 fast growing businesses.

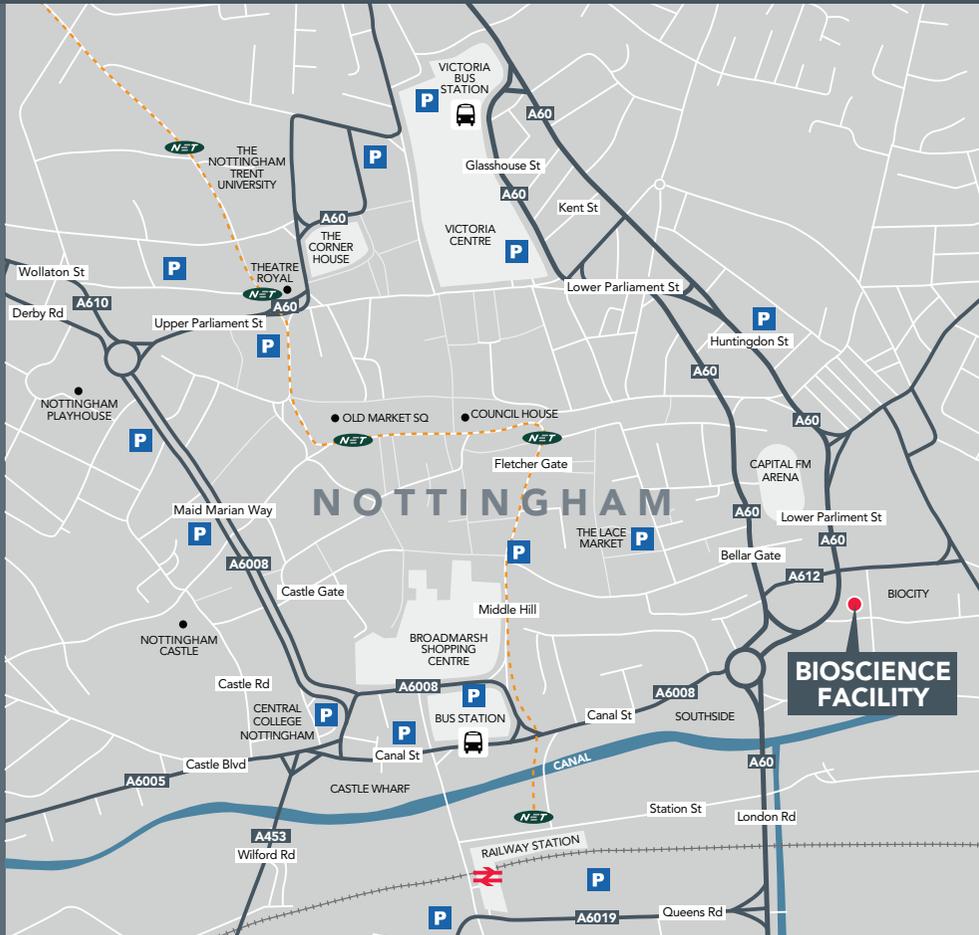
Established in 2003 Biocity provides state of the art laboratories and commercial offices to rent alongside experienced business support to early stage companies in the life science sector. The existing facilities in Nottingham cover 116,000 sq ft over three buildings employing around 600 people. BioCity Nottingham has an impressive 91% survival rate of companies located at the facility.



// BIOCITY, NOTTINGHAM

# THE SITE

The site is prominently situated in Nottingham's Eastside Regeneration Zone, part of the creative quarter about 800m south-east of the city centre. It is bounded by Lower Parliament Street, Plough Lane, Pennyfoot Street and is immediately adjacent to the existing Biocity facility and a short walk from Nottingham Rail Station. Nearby is the Capital FM Arena, the NCT Bus Depot and the BBC Nottingham studios.



// LOWER PARLIAMENT STREET, NOTTINGHAM

# THE DEVELOPMENT

Willmott Dixon is the appointed contractor and work commenced in August 2015 on the construction of the state of the art facility which is over ground and 4 upper floors. The trophy building has the following specification,

// NIGHT TIME VISUAL, LOWER PARLIAMENT STREET



In-situ concrete frame construction.

Aluminium rainscreen cladding panels with bronze anodized finish.

Solar shading provided by a series of interconnected vertical rods and lights designed by award winning artist Wolfgang Buttress.

Sedum blanket roof system at ground floor podium level and an asphalt roof finish with aluminium parapet coping at plant roof level.

Extensive double glazed units with circular domed rooflights over podium level.

4.7m slab to slab floor height to accommodate a 1150mm clear service zone providing a 2.7m internal floor to ceiling height in the labs and 3.45m in the offices.

Ground floor reception leading to a central core comprising 3 lifts, staircase and male, female, disabled WC's.

Ground floor accommodation to provide high quality offices, meeting rooms, break out space together with a dedicated bike store, service yard and plant rooms.

Upper floors to provide high tech laboratory, office and meeting room accommodation.

BREAM excellent target.

// BUILDING VISUAL, POPLAR STREET

The property has been designed to ensure future flexibility with the building easily capable of serving one, two or three tenants without significantly changing the layout allowing conversion to grade A offices if required.

The contractor Willmott Dixon is under a fixed price contract to build the property in line with the agreed specification for a total project cost of £26million. The project is part funded by way of a grant from the Local Growth Fund of £6.7million with the remaining funds provided from Nottingham City Council. In the unlikely event that Willmott Dixon fail to complete the project in line with their fixed price contract any cost overruns are the responsibility of the proposed tenant Nottingham City Council.



# THE CONSTRUCTION TEAM



**WILLMOTT DIXON**

MAIN CONTRACTOR  
**Willmott Dixon Construction**



PROJECT MANAGER / QS / CDM  
**Gleeds**



ARCHITECT  
**CPMG Architects**



LANDSCAPE DESIGNERS  
**Ares Landscape Architects**



PLANNING CONSULTANTS  
**P&DG**



STRUCTURAL & CIVIL ENGINEERING  
**Morgan Tucker**



BUILDING SERVICES ENGINEER  
**Couch Perry & Wilkes**



BUILDING CONTROL  
**NCC Building Control**



ACOUSTIC CONSULTANTS  
**RPS Acoustics**



BREEAM ASSESSOR  
**HRS Services**



ECOLOGY CONSULTANT  
**Middlemarch Environmental**

# THE ACCOMODATION

Currently under construction the property will provide the following net internal areas;

FLOOR	LABORATORY	OFFICE	CONFERENCE/ ANCILLARY	TOTAL
Ground	186	5,862	3,058	9,106
1st	7,111	3,225	325	10,661
2nd	7,139	3,709	149	10,997
3rd	7,139	3,709	89	10,937
4th	7,034	3,709	31	10,774
<b>TOTAL</b>	<b>28,609</b>	<b>20,214</b>	<b>3,652</b>	<b>52,475</b>

The total site area is 0.52 acres.



// GROUND FLOOR



// UPPER FLOORS L01 - L04



// UPPER FLOOR ALTERNATIVE LAYOUT



// CROSS SECTION

# THE TENANCY

// THE COUNCIL HOUSE, OLD MARKET SQUARE © Visit England



## TENURE

150 years long leasehold interest from Nottingham City Council at a peppercorn rent.

## TENANCY

From completion of this transaction the entire property (which will be still under construction) is to be let to Nottingham City Council on a 30 years full repairing and insuring lease at an initial rent of £714,000 per annum equating to £13.61 per sq ft. The rent is reviewed every 5 years in line with the CPI index upward only and compounded annually.

The tenant has an option to purchase the property in year 5 for £15,300,000.

Nottingham City Council will sub-lease the property to Biocity Nottingham at practical completion.



## THE TENANT

Nottingham City Council is the non metropolitan district council for the unitary authority of Nottingham and consists of 55 councilors representing a total of 20 wards in the Nottinghamshire area.

The council is funded from a mixture of business rates, council taxes, government grants and other income derived from its substantial investment portfolio. For year ending 2014/15 the council had an income of £592million and net assets of £720million. They are considered to have excellent covenant strength.

# THE FINANCES

## CAPITAL ALLOWANCES

There are estimated to be £9,750,000 of available capital allowances on the property of which £2,250,000 are derived from the 18% pool and £7,500,000 the 8% pool. To a higher rate taxpayer these are worth £4,387,500 at a 45% tax rate. The allowances can be spread over a 5-year investment period as follows;

## CAPITAL ALLOWANCES

18% pool	£2,250,000
8% pool	£7,500,000

YEAR	31/03/16	31/03/17	31/03/18	31/03/19	31/03/20	31/03/21
Balance of 18% pool	£1,845,000	£1,512,900	£1,240,578	£1,017,274	£834,165	£684,015
Balance of 8% pool	£6,900,000	£6,348,000	£5,840,160	£5,372,947	£4,943,111	£4,547,663
Available allowances	£1,005,000	£884,100	£780,162	£690,517	£612,945	£545,599
Section 198	£0	£0	£0	£0	£0	£2,354,255

NB:

- The section 198 election assumes that the tenant exercises their option to purchase the property in year 5 and that all remaining capital allowances stay with the investor.
- The above ignores the effect of enhanced capital allowances relating to energy efficient items which could accelerate the level of allowances claimed in year 1.

## PROPERTY LOAN

Nottingham City Council is to provide a loan to the purchaser of £11,011,200 for a 5 year period at a fixed interest rate of 4.50%. The annual interest rate will be £495,484 per annum with no amortisation required on the loan during the 5 year period.

# PRICING & RETURNS

## PRICING & PRE-TAX RETURNS

We are instructed to seek a price of **£17,760,000 (Seventeen Million Seven Hundred and Sixty Thousand Pounds)** subject to contract and inclusive of stamp duty reflecting a net initial yield of **3.95%** adopting purchaser's costs of 1.8%.

After the property loan provided by Nottingham City Council of £11,011,200 the investor equity requirement is **£6,748,800**.

The rent is £714,000 per annum and the interest payable on the loan is £495,484 per annum providing a clear cash surplus of £218,516 per annum, this equates to a pre-tax annual yield on equity of 3.18%.

## POST-TAX RETURNS

By utilising the available capital allowances on the building and assuming that the investor is a 45% high tax rate payer the post tax returns are significantly enhanced, providing a substantial post tax profit anticipated to be **£2,528,419 (37.5% on equity employed)**. The key performance returns are set out in the table below:

- The returns assume that the tenant exercises its option to purchase at year 5.
- If the tenant decides not to exercise its option to purchase there will be 25 years remaining on the lease with the rent having increased at first review in line with the CPI index.

YEAR	31/03/16	31/03/17	31/03/18	31/03/19	31/03/20	31/03/21
Purchase Price	-£17,760,000					
Loan	£11,011,200					-£11,011,200
Investor Equity	-£6,748,800					
Tenant Option to Purchase						£15,300,000
Annual Rent	£247,742	£714,000	£714,000	£714,000	£714,000	£714,000
Annual Interest	-£247,742	-£495,484	-£495,484	-£495,484	-£495,484	-£495,484
Annual Profit	£0	£218,516	£218,516	£218,516	£218,516	£218,516
Available Capital Allowances	£1,005,000	£884,100	£780,162	£690,517	£612,945	£545,599
Sec 198	£0	£0	£0	£0	£0	£2,354,255
Income Tax Payable / Refunded / 45% Tax Rate	-£452,250	-£299,513	-£252,741	-£212,400	-£177,493	-£147,187
Net Cash Return	-£6,296,550	£518,029	£471,257	£430,916	£396,009	£7,008,758
Post Tax Annual Yield		7.54%	6.86%	6.27%	5.76%	
<b>Post Tax IRR</b>		<b>7.96%</b>				
<b>Post Tax Profit</b>		<b>£2,528,419</b>				

# FURTHER INFORMATION

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