Covent Garden and Riverside House, Leamington Spa

Assessment of the Applicant's Development Viability Submission on Behalf of Warwick District Council

4 January 2018 - Private and Confidential

Contents

1 Introduction

Overview

1.1. JLL has been instructed by Warwick District Council (WDC) to review the viability analysis that the Applicant, PSP Warwick LLP, has submitted in connection with their proposals for the Covent Garden and Riverside House sites in Leamington Spa.

1.2. We understand that PSP Warwick LLP is a joint venture between Warwick District Council and PSP Facilitating Limited (the later we understand is an organisation that specialises in partnering with public sector organisations to deliver development projects).

1.3. At present, WDC occupy Riverside House which is located on Milverton Hill, Leamington Spa. The Applicant is seeking planning permission to relocate WDC's offices to another site within WDC's ownership at Covent Garden. The site at Covent Garden currently accommodates a multi-storey public car park which is close to the retail centre of Leamington Spa.

1.4. The Applicant is seeking full planning permission to demolish the existing car park and erect offices of up to 2,685 sq m (28,901 sq ft), 44 residential units and a new car park providing 617 spaces (extending to 14,980 sq ft). The full planning application proposals are crystallised in Planning Application (**Ref: W/17/1700**).

1.5. Once WDC is able to relocate to the newly developed offices at Covent Garden, the Riverside House site will then be surplus to requirements. The Applicant has applied for outline planning permission (**Ref: W/17/1701**) for the demolition and redevelopment of the Riverside House site to provide new residential buildings ranging from 2.5 to 6 storeys. The outline planning application will provide up to 170 residential dwellings, including access and landscape, with all other matters being reserved.

1.6. Both planning applications are currently classified as 'registered' and are yet to be determined, and were submitted in **mid-September 2017**.

1.7. The Applicant considers the overall scheme to be unviable and is seeking to remove the affordable housing provision in both applications (i.e. both the Covent Garden and Riverside House sites).

1.8. WDC's New Local Plan (Policy H2), which was adopted in **September 2017,** states that residential development on sites of 11 or more dwellings or where the combined gross floor space is more than 1,000 sq. m will not be permitted unless provision is made for 40% affordable housing. The policy also provides however that the level of affordable housing will be subject to negotiation when a planning application is submitted, and that the viability of the development will be a consideration in such negotiations. In addition, the policy provides scope for the Council to accept contributions of equivalent value in lieu of on-site delivery, in exceptional circumstances. This should include financial contributions, land, or off-site provision of affordable homes. In such cases, the developer will be required to demonstrate why on-site delivery is not practical.

1.9. This report considers the information submitted by the Applicant and focuses on the viability issues relating to the submitted planning applications. This report will inform WDC's discussions with the

Applicant regarding the proposed reduced level of affordable housing to be provided on both sites, to inform whether it is appropriate or not from a development viability perspective.

Context and Scope of the Report

1.10. The Applicant instructed BNP Paribas Real Estate to assess the viability of each scheme. BNP Paribas Real Estate (BNP) submitted an initial viability assessment in report format to WDC dated **April 2017** and revised this report in **August 2017**. JLL were provided with a copy of BNP's draft report on the **23 June 2017** and provided a fee proposal, along with our initial comments, at that time. We were instructed in **mid-August 2017** to review the updated viability analysis provided by the Applicant.

1.11. Both planning applications were submitted to WDC on **11 September 2017**, after the date BNP submitted their final report to the Council. As such, there are a number of changes that appear to have been made to the final proposals as submitted, which do not appear to have been crystallised in BNP's updated **August 2017** report. JLL have reviewed the appraisals provided by BNP, but updated our viability analysis to reflect the submitted scheme, where relevant.

1.12. JLL has undertaken a review of the viability information, focussing on the financial assessment of development viability, to examine the viability of the scheme as submitted by the Applicant (i.e. with no affordable housing provided). We have adopted this approach so that our viability appraisals can be more easily compared to the approach to viability testing undertaken by the Applicant. This approach is also useful to assess whether the Applicant's proposals generate a 'surplus' which could be used to increase the level of affordable housing or other planning obligations.

Remaining Structure of the Report

1.13. This remainder of this report is structured as follows:

- **Section 2** - provides an overview of both sites and the planning policy context;
- **Section 3** - provides an overview of the Applicant's planning application proposals for both sites;
- **Section 4** - sets out the Applicant's development viability position, and the evidence that they have submitted to support their case for a reduced level of affordable housing on each site.
- **Section 5** - undertakes a critical assessment of the viability information provided by the Applicant and the assumptions that they have adopted in their development viability appraisal analysis.
- **Section 6** - provides our assessment of the viability of the scheme, having regard to the findings of Section 5 of our report. It also provides an overview of the discussions undertaken with the Applicant's advisors during **December 2017** and our updated development viability advice; and
- **Section 7** - provides our summary and conclusions.

2 Site Context

Location

2.1. Both sites are located centrally within Leamington Spa, approximately 48 km (30 miles) to the south east of Birmingham; approximately 18 km (11 miles) to the south west of Coventry and approximately 23 km (14 miles) to the south west of Rugby.

2.2. Junction 14 of the M40 motorway is approximately 10 km (6 miles) to the south providing links to both Birmingham and London, and the wider Midlands motorway network.

2.3. Leamington Spa Rail Station is located 1.3 km (0.8 miles) south of Milverton Hill and 1.8 km (1.1 miles) south of Covent Garden. The station provides regular services to both Birmingham and London.

2.4. Birmingham International Airport is approximately 40 km (25 miles) to the north west.

Situation and Description

Milverton Hill/Riverside House

2.5. The site at Milverton Hill comprises an irregular shaped parcel of brownfield land measuring approximately 1.88 hectares (4.65 acres). The site is accessed via Milverton Hill on its northern boundary and slopes down towards the River Leam at its southern boundary. We understand that part of the site is located in Flood Zone 3 (i.e. the site has a high probability of flooding) and assume that this constraint has been adequately taken into account by the Applicant's proposals.

2.6. The site currently accommodates Warwick District Council's office building, which comprises a four storey brick-built building dating from the 1970's/1980s period. We understand that the existing building extends to approximately 5,574 sq m (60,000 sq ft) Gross Internal Area (GIA), although we have not undertaken a measured inspection of the building. We have 'cross-checked' this area against the Valuation Office Agncy (VOA) Rating List, which suggests a slightly larger area of 5,722.93 sq m (61,601 sq ft) when all areas of the building are included (i.e. some relatively small areas appear to be sublet by WDC to tenants).

2.7. The site has a tarmacadam car park which accommodates approximately 120 spaces. The site also features landscaping and trees to its western and southern boundaries Some of the trees are mature and are of a significant size.

2.8. WDC's offices are predominantly bound on all by residential properties, both apartment blocks and traditional housing. However, the south eastern corner is bounded by The Leamington LAMP, Sea Cadet Corps and Royal Naval Association amongst other occupiers. We understand that there are a number of listed buildings in the nearby area.

Covent Garden

2.9. The site at Covent Garden is located between Russell Street and Tavistock Street and is located only 0.4 miles from the retail centre of Leamington Spa. The site measures approximately 0.55 hectares

(1.36 acres) and is rectangular in shape, of relatively flat topography, and located within Flood Zone 1 (i.e. the site has a low probability of flooding).

2.10. At present, the site accommodates to the public a multi storey and surface car park providing approximately 511 car parking spaces, which is open to the public from 7am to 8pm.

2.11. Nigel Simkin MRICS undertook an inspection of both sites on the **21 September 2017**. This included walking both sites, but it did not involve an internal or measured inspection.

Planning Overview

Planning Policy Context

2.12. The statutory development plan for Warwick District comprises the national planning policies set out in the National Planning Policy Framework (NPPF), and the recently adopted New Local Plan for Warwick District (adopted in **September 2017**).

2.13. The Milverton Hill site is not within the Leamington Spa Conservation Area; however, it does sit on the boundary of a Conservation Area (within which the rest of Milverton Hill is included). In contrast, the Covent Garden site falls within a Conservation Area.

2.14. In addition, the following should be noted:

- The Riverside House site is allocated for Housing (reference **Housing Allocation H14**).
- The Covent Garden site falls within the **WDLP Retail Area** (**Policy TC2**).

2.15. We therefore consider there to be a positive planning policy context for the proposals for each site in principle, given that the relocation of the Council's offices will release a key housing site for residential development.

Planning History

2.16. We have not undertaken a detailed review of the planning policy and history position to inform this report. However, we understand that the Applicant submitted the following planning applications on **Monday 11 September 2017**:-

- **Riverside House, Milverton Hill, Leamington Spa** – An outline planning application for the demolition of Riverside House and the redevelopment of the site to provide new buildings ranging from 2.5 to 6 storeys for up to 170 residential dwellings **(Planning Application Reference Number W/17/1701).** The planning application was registered on the **18 September 2017**.
- **Covent Garden Multi Storey Car Park, Russell Street, Leamington Spa** – A full planning application for the demolition of Covent Garden Multi-Storey car park and pedestrian footbridge, and the erection of mixed use buildings comprising new 2,685 square metres (GIA) of offices over four floors; a new multi-storey car park over four floors; and 44 residential units (**Planning Application Reference Number W/17/1700**). The planning application was registered on **Monday 18 September 2017**.

2.17. The next section provides an overview of the development proposals set out in each planning application.

3 The Development Proposals

3.1. The Applicant's development proposals are crystallised in outline planning application **W/17/1701** (Riverside House) and full planning application **W/17/1700** (Covent Garden)**.**

Description of Development

3.2. The description of development for Milverton Hill/Riverside House is set out in the outline planning application (Planning Application **Reference Number W/17/1701**) and is as follows:

> *'Outline planning application including access and landscape, with all other matters reserved, for the demolition of Riverside House and the redevelopment of the site to provide new buildings ranging from 2.5 to 6 storeys for up to 170 residential dwellings (use class C3) at Milverton Hill, Leamington-Spa'*

3.3. The description of development set out in the full planning application for Covent Garden (Planning Application **Reference Number W/17/1700**) is as follows:

> *'Full planning application including means of access, appearance, landscaping, layout and scale, for the demolition of Covent Garden Multi-Storey car park and pedestrian footbridge, and the erection of mixed use buildings comprising new 2,685m2 (GIA) offices (use class B1) over four floors including plant room; a new multi-storey car park over four floors, comprising 617 car park spaces and 3 external spaces, 20 motor cycle spaces and 30 cycle spaces; and 44 residential units (use class C3) with 44 cycle spaces for the apartments'*

3.4. The following paragraphs set out our understanding of the proposed scheme for each site.

Type and Quantum of Development Proposed

3.5. The type and quantum of development for each site is as follows:-

Covent Garden

3.6. The Applicant's proposals for the Covent Garden site involve 44 residential units; 31,173 sq ft (2,896 sq m) of office floor space; and a new car park providing 617 spaces (which extends to approximately 14,980 sq m). These figures are in accordance with the full planning application that has been submitted, and vary slightly from the figures provided in BNP's assessment at **Paragraph 2.2.1**.

3.7. It is assumed that all of the office floor space would be occupied by WDC, and that the car park would be open to the public. We have not been provided any details of the nature of the 'pre-let' agreement (or similar) between the Applicant and Warwick District Council, and accordingly, are uncertain as to whether it includes the offices and the car parking, and on what terms the District Council will occupy the new offices. The nature of the transaction agreed between the Applicant and WDC will have a significant impact on the viability of this project (and hence the ability to deliver affordable housing and other planning contributions). This is considered later in this report.

3.8. **Table 3.1** below sets out the anticipated schedule of residential accommodation for the Covent Garden site, in line with BNP's assessment at **Paragraph 2.2.1**.

Table 3.1 – Proposed Residential Accommodation at Covent Garden.

Unit Type	Number of Units	Average Floor Area Per Unit (sq ft)	Total Floor Area (sq ft)	Total Floor Area (sq m)
1 bed – 2 person	20	518	10,361	963
2 bed – 2 person	19	805	15,286	1,420
2 bed – 4 person duplex	5	835	4,176	388
	44	**678**	**29,823**	**2,771**

Table 2.2.1 of BNP Paribas August 2017 Report

3.9. However, having reviewed the planning application subsequently submitted, we anticipate that the proposals will provide the following floor space:

- **29,570 sq ft (net)** of residential floor space (44 apartments) – i.e. the same amount of dwellings, but a slightly lower floor area;
- **24,230 sq ft (Net Internal Area, NIA)** of office floor space; and
- **617** Car Parking Spaces.

3.10. A copy of our detailed analysis of the residential element of the scheme is attached at **Appendix 1.** We have adjusted our development viability appraisals to reflect the accommodation provided in the relevant plans associated with the planning application. Should these be udpated again, this may have an impact on development viability.

Riverside House/Milverton Hill

3.11. The proposals for Riverside House/Milverton Hill are illustrative, given that an outline planning application is proposed (and hence full details are not being considered at this stage).

3.12. We understand that this site will be redeveloped for residential use of up to 163,563 sq ft (15,193 sq m) Gross Internal Area (GIA), according to BNP's report and development appraisal analysis.

3.13. However, for the purpose of undertaking our viability assessment of this scheme, in the absence of detailed architect's plans or an illustrative layout, we have assumed an 'indicative' residential layout to inform our floor space assumptions, assuming a 'cap' on the number of units at 170, in line with the description of development. Our detailed assumptions to derive a mix of development to inform our viability appraisal are also attached at **Appendix 1**.

Summary

3.14. Although it should be noted that the Applicant's proposals for the Covent Garden site are relatively crystalised, as they are detailed in the full planning application, the proposals for Riverside

House/Milverton Hill are illustrative, given that an outline application is pursued. Hence, there is very limited detail at this stage in terms of the precise detail of the proposals (for example, in terms of unit types and floorspace areas).

3.15. We have therefore needed to make a range of assumptions as to how a developer/house builder will bring forward future proposals at the reserved matters stage at Riverside House/Milverton Hill, given the parameters set out in the description of development. We have assumed that dwellings would be delivered in apartment format, at typical average sizes that we believe would be optimum in the current market.

3.16. The next section sets out the Applicant's development viability position.

4 The Applicant's Viability Position

4.1. This section provides an overview of the approach, methodology and assumptions adopted by the Applicant and their advisors, BNP Paribas, to reach their conclusions regarding the development viability of the planning application proposals of both sites in their updated assessment dated **August 2017**. Where appropriate, we have also had regard to the previous viability submission which was provided to WDC in **April 2017.**

Overview of the Applicant's Approach

4.2. The Applicant, and their advisors BNP, have undertaken a development viability appraisal (based upon the residual method of valuation) to assess the viability of the planning application proposals. The Applicant has tested one scenario for each of the sites, which reflects the planning application proposals (i.e, the proposal to deliver 0% affordable housing on each site). There are no further sensitivity tests undertaken by BNP (i.e which consider the impact of a fully policy compliant position).

4.3. The Applicant has utilised the 'Argus Developer' computer software model to undertake their development viability appraisal. Argus Developer is a typical software package used by the development industry to assess the viability of development sites. An Argus Developer appraisal model has been undertaken for each site, and a 'combined appraisal' has also been undertaken of both projects, to demonstrate the overall scheme gap, assuming that the projects are interlinked.

4.4. The Applicant's approach assumes a fixed level of developer's return (profit) of approximately **20%** on GDV (Gross Development Value) for both schemes, albeit that lower levels of profit are sensitivity tested of **17%** as part of BNP's sensitivity testing.

4.5. BNP also assess growth in sales values by **3% per annum** in real terms. They have not applied growth to build costs in this scenario.

4.6. The Applicant has adopted the residual method of development appraisal, the output being a Residual Land Value (RLV) for each site. This approach is in line with RICS Guidance 'Financial Viability in Planning' (2012). The RLV is then compared with the Site Value benchmark that BNP have also assessed for each site, to assess whether each scheme is viable.

The Applicant's Viability Findings

4.7. **Section 5** of BNP's **August 2017** report sets out the findings that BNP have researched and assessed in relation to the site. BNP's findings relating to development viability are as follows:

Table 4.1: BNP's Viability Findings

Site	Residual Land Value (£)	Proposed Site Value Benchmark (£)
Covent Garden	-£6.30 million	£2.95 million
Riverside House	£3.37 million	£3.44 million
Combined Appraisal	**- £2.94 million**	**£6.39 million**

Source: BNP Report (August 2017)

4.8. **Table 4.1** shows that BNP anticipate that the proposed development at Covent Garden will generate a significantly negative Residual Land Value of **- £6.3 million** (and accordingly, is unviable).

4.9. In contrast, the proposed development at Riverside House will produce a positive Residual Land Value of **£3.37 million**, but this does not exceed the proposed Site value benchmark of **£3.44 million.** However, combined, the overall Residual Land Value is still negative and would equate to approximately minus **£2.94 million**.

4.10. BNP argue at **Section 5.2** of their **August 2017** Report that, given that the combined Residual Land Value is significantly lower than the proposed benchmark land value, the sites would not come forward (or would also require a significant amount of subsidy to bring them forward). This would be the case regardless of whether 0% affordable housing is provided, as BNP's figures do not include the provision of affordable housing. If affordable housing was included in BNP's scheme, this would widen the gap that BNP have reported, based upon their viability analysis.

4.11. In terms of the Site Value Benchmark for each site, **Section 5.1** of BNP's **August 2017** report details the assumptions that BNP have applied. BNP's approach to Site Value benchmarking is summarised in the paragraphs below.

Riverside House

4.12. BNP have arrived at a value of **£3.44 million** for Riverside House, which is based upon a valuation that we understand that the Applicant has received of the existing building which was undertaken by Colliers International. This equates to approximately £55.84 per sq ft based upon the VOA's assessment of the Net Internal Area (NIA) on the Valuation Office Agency (VOA) website.

4.13. We have asked for a copy of this valuation, but have not been provided a copy by the Applicant. Hence, we are unable to interrogate the assumptions made in the valuation (in particular, upon what basis the valuation was made and whether the property was assumed to be vacant etc.).

4.14. However, in order to provide a 'sense check' of BNP's proposed Site Value benchmark, we have researched and assessed the local office market. Our research has revealed that there are very few, if any, comparable office buildings of this size in the District from which to derive an opinion of sales value (on a freehold capital basis, i.e. assuming that the existing office building will be sold with vacant possession when WDC vacate the office building).

4.15. We are aware of the following transactions:

- **Jephson Court, Leamington** – Which comprises an office building of approximately 6,050 sq ft (NIA) which sold in **May 2016** for £810,000. This equates to approximately £133.88 per sq ft capital value. This building is clearly smaller than the subject site and hence it is likely that a higher value will be achievable on a '£ per sq ft' basis for this building.

- **Neville House, Gallows Hill, Leamington** – Which comprises a 1980s office building which sold with vacant possession in **January 2016** for £1.71 million. This equates to £94.15 per sq ft. We understand that the total site comprised approximately 2.8 acres.

4.16. Whilst the transactional evidence is limited, and the buildings are not as large at the existing office building at Riverside House (which would mean that the capital value per sq ft would usually be lower), our analysis suggests that the valuation relied upon by the Applicant produces a value which is at the lower end of the range that we would anticipate for a building of this scale and in this location in Leamington. The Applicant should therefore provide full information on the Colliers CRE valuation that they have relied on to ensure that the proposed Site Value benchmark of **£3.44 million** is robust. In the absence of further information from the Applicant, we have adopted this figure for the purposes of our viability analysis, given that it falls at the lower end of the range that we would anticipate. This issue has subsequently been addressed by the Applicant as discussed in **Section 6.**

Covent Garden

4.17. The Applicant has not undertaken a detailed valuation of the existing car park, which they have indicated at **Paragraph 5.1.2** provides approximately 511 car parking spaces. They have, however, reviewed the Valuation Office Agency draft 2017 Valuation List, which indicates a Ratable Value (RV) of £177,000 for the car park (which they have adopted as a Market Rent). They have applied 6% yield to capitalise this income, which generates a capital value of **£2.95 million**.

4.18. The assumptions applied by the Applicant have been reviewed by JLL Car Park Consultants, who have made a range of comments on each valuation. Their detailed comments are attached at **Appendix 2**.

4.19. In summary, JLL Car Parking Consultants anticipate that both valuations are at the ‘upper end’ of the range that they would anticipate. This would have the effect of artificially enhancing the Site Value benchmark for the Covent Garden Site (which would reduce the scope for affordable housing). However, it could also have the impact of over-estimating the value of the completed car park in the proposed scheme for Covent Garden (which would artificially enhance the viability of the scheme).

4.20. JLL Car Parking Consultants have made a number of comments on BNP’s approach to valuing the existing car park:-

- **There are several limitations with the approach to utilising the VOA’s Rateable Value (RV) to inform BNP’s valuation.** For example, such an approach assumes that the asset is in good repair and that the VOA’s assessment will not be challenged by the owner if it is understated. In addition, our Car Park Consultants suspect that a ‘costs’ approach has been adopted by the VOA; however, this is often not reflective of how an operator would value the opportunity in the market.

- **The RV is capitalised at a yield of 6%.** The capitalisation and rent are inextricably linked, and the lowest yields are paid for car parks where they are let to tenants of strong covenant strength on long leases (etc). As the car park is not currently let on this basis, an allowance would need to be required to reflect the risk of achieving a letting (either through increasing the yield or making specific allowances to reflect the rental void etc.).

4.21. These observations should be taken on board by the Applicant and their assessment updated accordingly, to ensure that their calculation of the Site Value benchmark is robust. Again, through subsequent discussions with BNP in December 2017, the Applicant has addressed these comments as discussed in detail in **Section 6.**

Combined Site Value Benchmark

4.22. Accordingly, BNP contend that the combined benchmark Site Value would be in the order of **£6.39 million.**

4.23. Clearly, given that the Applicant's combined Residual Land Value of **-£2.94 million** produces a negative, this is below the proposed Site Value benchmark of **£6.39 million** (i.e. the value of both sites in their existing use). This leads BNP to conclude that the combined proposals are not viable and that no affordable housing can be provided.

Sensitivity Testing

4.24. BNP have also undertaken a range of sensitivity tests to reduce the level of developer's return for risk (profit) from 20% to 17%, as well as inflating values in the development viability appraisal by 3% per annum in real terms.

4.25. BNP's findings are that even if developer's return for risk (profit) is reduced to 17% and values grow by 3% in real terms, a combined Residual Land Value of only £3 million is generated, which is significantly below the Site Value benchmark that has been proposed.

Summary and Observations

4.26. We have several strategic observations to make on the Applicant's viability analysis:

- **Covent Garden** - The Residual Land Value generated by the Covent Garden scheme according to BNP is *significantly negative* with 0% affordable housing provided, even before the Site Value benchmark is taken into account. This means that if the Applicant's viability analysis is taken at face value, the scheme would require significant 'gap' funding in order to deliver a viable scheme and also return an appropriate land value to the landowner (which is assumed to be WDC/the JV) in line with the Site Value benchmark proposed of £2.95 million (which we believe may be over-stated).

- **Riverside House** - The proposals for Riverside House generate a *positive* Residual Land Value, according to BNP's viability analysis. However, the Residual Land Value of **£3.37 million** is marginally under the proposed Site Value benchmark of **£3.44 million** proposed by BNP. Therefore, the Applicant's viability analysis suggests that even when viewed in isolation, the Riverside House Scheme *would not* be able to deliver any affordable housing.

- **Combined Appraisal** - Our final observation is that the combined scheme would still require significant gap funding when viewed together, even where 0% affordable housing is delivered. The Applicant has not stated how they believe this gap will be met and hence why they believe the proposals are deliverable, other than stating in Section 6 that: *'the Applicant will be reliant upon future growth in sales values to 'make good' the shortfall so that they can receive a normal level of developer's return'*. It should be noted that BNP's own analysis at **Paragraph 5.2.2** suggests that 3% growth in sales values *would not* be sufficient to meet the gap that BNP have identified.

4.27. In light of these observations, it is necessary to interrogate the assumptions that BNP have applied to both generate the proposed Site Value benchmarks and the Residual Land Values of the proposals for each site, to ascertain whether or not they are robust and hence whether their viability argument is justified.

5 Critical Assessment of the Applicant's Viability Submission

5.1. This section undertakes a critical assessment of the Applicant's viability submission. We highlight the areas where we believe that further interrogation or information is required, or where assumptions or the Applicant's approach should be revised.

Viability Approach

5.2. The Applicant's advisors, BNP, have undertaken a development appraisal utilising the Argus developer software model to assess the viability of the scheme. This approach is based upon assessing all revenues anticipated by each development proposal, and then deducting the costs of development, including a fixed level of developer's return (profit) in order to provide an incentive for the developer to undertake the scheme as required by the National Planning Policy Framework (NPPF).

5.3. The output of the development viability appraisal is a Residual Land Value (RLV), which can then be compared with the benchmark Site Value, in order to gauge viability. If the level of the RLV is below the Site Value benchmark, then the proposals are not viable. However, if the RLV exceeds the anticipated Site Value benchmark, the project is viable. This approach is supported by the RICS Guidance Document 'Financial Viability in Planning' (2012).

5.4. We have approached the assessment of the viability of the scheme in a similar, but slightly different way, when compared to the Applicant. The Applicant has prepared two development viability appraisals (one for each planning application proposal). They have then combined them into an overall appraisal to generate a combined RLV for both schemes. They have then compared this with the combined Site Value benchmark for both sites.

5.5. In contrast, our approach has been to undertake individual residual development appraisals of each planning application proposal for each site, and then assess the Site Value benchmark for each site. This approach shows which of the proposals are viable and which are not viable, based upon the level of affordable housing assumed.

5.6. We have undertaken our viability assessments based upon the Applicant's proposals (i.e. assuming that 0% affordable housing is delivered in both scenarios). This indicates whether there is a 'surplus' in each scheme which could contribute to affordable housing and other planning obligations. We have then considered whether any surplus generated which could contribute to assisting the delivery of an unviable site (rather than contributing to affordable housing). It should be noted that no allowance has been made for the Community Infrastructure Levy (CIL) or other planning obligations in any of our appraisals, as requested by WDC Planning Officers. In reality, if these costs are identified and included in the development appraisal they will impact on scheme viability reported in here.

5.7. Please note that we have not been provided details of the nature of the transaction (e.g. Pre-let agreement or similar) between Warwick District Council (WDC) and the Applicant. The Applicant's proposals are based upon the assumption that WDC will take a lease of the office element at Covent

Garden, and in addition to this, the owners of the Site would require a Site Value benchmark for each site. We are uncertain whether each site is owned by the Applicant or WDC at this stage.

5.8. Please note that for the purposes of our development and viability assessment, the development viability appraisals produced in this report do not comprise a valuation in accordance with the RICS Professional Standards 'the Red Book' and are for the purposes of assessing the viability of the scheme in line with RICS Guidance 'Financial Viability in Planning' 2012 only.

Development Viability Appraisal Assumptions

5.9. The following paragraphs set out the assumptions that the Applicant has adopted in their development viability appraisal of each site, and provides our comments/analysis, as appropriate.

5.10. Given that there has been an update to the Applicant's development viability appraisals, for the purposes of this report, we focus on the development appraisals of the Applicant's proposals that were provided to us in **August 2017**, given that that this is their most up to date viability analysis. As discussions have then subsequently taken place with the Applicant following reporting our draft assessment of the Applicant's evidence, we detail these and the impact on the viability analysis, at **Section 6** of this report.

5.11. However, where other assumptions made in the previous **April 2017** assessment are relevant, we have also mentioned these, as appropriate.

Covent Garden Site

Revenue

- **Residential** - 44 residential units have been assumed by BNP, in line with a description of development. A Net Sales Area (NSA) of 29,823 sq ft has been assumed by BNP, which is broadly in line with the planning application plans, albeit we have adjusted this area based upon our review of the submitted plans (which appear to have been updated slightly to a NSA of 29,570 sq ft). Our analysis is attached at **Appendix 1.**
- The Applicant has applied a sales value of £400 per sq ft, which equates to an average price per dwelling of £271,118. JLL's Residential team have reviewed the Applicant's assumptions, and have revised the area to 26,570 sq ft (net) for the 44 apartments, in line with the Architect's plans.
- JLL's Residential Team have also reviewed the Applicant's proposed pricing for the apartments envisaged, and increased the average rate to £411.06 per sq ft. This is based upon the comparable information that JLL Residential team have researched and assessed for Leamington Spa Town Centre, and the pricing exercise of each dwelling anticipated on the plans. This adjustment has increased the value that JLL anticipates in our development appraisal, when compared to the appraisal prepared by BNP. This will have a positive impact on development viability. A copy of our detailed pricing exercise is attached at **Appendix 1**. This demonstrates a more refined approach in arriving at an average rate per sq ft, when compared to BNP's approach.
- **Offices** – the Applicant has assumed a Net Internal Area (NIA) of 24,230 sq ft of offices at a rental rate of £17.50 per sq ft per annum. A rent free period of one year and three months appears to have been assumed in capitalising the market rent at a yield of 6.5%.

We have reviewed these assumptions with JLL's Office Agency and Investment teams. We have increased the rent applied by BNP from £17.50 per sq ft to £21.00 per sq ft per annum, based upon our review of the local market and JLL's Office agents anticipated rents in Leamington Spa for new build office floorspace. Whilst our office agency teams recognise that there are few (if any) comparables for new build office space in Leamington Town Centre, they anticipate that even a rent of £21 per sq ft is low, and developers would be likely to seek to 'engineer' a higher level of rent in the market in order to improve the viability of the scheme. In addition, BNP have allowed a cost for 'CAT B' (i.e. Tenant's fit out) in their development appraisal which any prudent developer in the market would seek to rentilise (i.e. add 'on top' of the rent if they are to bear this cost rather than the Tenant). We consider this issue later in the sections that follow.

We have capitalised the rent at a much lower yield of 5%, given WDC's covenant strength and assuming WDC enter into a 20 year lease without break. However, it is difficult at this stage to accurately value the office element without being advised of the terms agreed between the Applicant and WDC. We consider this in further detail below.

- **Residential Ground Rents** – the Applicant has assumed that an annual ground rent of £300 per annum for each residential apartment would be generated, which they have capitalised at 5%. We have adopted these assumptions for the purposes of our development appraisal, as they fall in line with the range that we would anticipate.
- **Car Parking Revenue** – the Applicant has assumed 617 car parking spaces as part of the Covent Garden scheme, at an initial market rental value per unit of £827 per annum, capitalised at 5%. This has been reviewed by JLL's car parking consultants who believe that there are a range of shortcomings in the way that the car parking has been valued by BNP, the overall impact of which JLL's consultants anticipate would inflate the Applicant's assessment of the value of the car parking (artificially enhancing the scheme's viability). A copy of JLL Car Parking Consultant's comments are attached at **Appendix 2.**

  In summary, BNP have adopted a different approach to undertaking this valuation (when compared to how they have assessed the existing car park) which is a 'market' based approach (i.e. they have considered the revenue and costs associated with the operation of the car park). Whilst JLL Car Parking Consultants are more comfortable with this approach, they are confused as to why this approach has not been adopted for the valuation of the existing car park (and in any event, why details of the current income from the existing car park cannot be provided by WDC (who form half of the joint venture partnership) so that they can be relied upon to inform BNP's valuation. This would provide much more reliable information which could be more accurately valued.

  JLL's Car Park Consultants also state that the revenue appears to be overstated in this valuation (as the £3 daily rate appears to include VAT). In addition, the costs of the assessment appear to be understated (particularly when considering the total cost of the existing business rates, which at 47.9 pence in the £1, could in isolation be a cost which exceeds the total costs that BNP has assumed in their development appraisals.

  We therefore anticipate that the value of the car parking element is over-valued in BNP's appraisal (a factor which will paint an over-optimistic picture of the viability of the proposals). We have adopted the Applicant's assumptions for the purpose of our development viability appraisal analysis; however, the Applicant should consider the comments that JLL's Car Parking Consultants have raised and update their assessment of value so that the impact can on development viability can be properly understood. The Applicant subsequently reviewed their assessment to reflect many of JLL Car Parking Consultant's comments, which is discussed at **Section 6**.

- **Purchaser's Costs** – we have adopted purchaser's costs and Stamp Duty Land Tax (SDLT) at the prevailing rate, along with agents and legal fees at 1% and 0.5% respectively, in line with market practice. This approach is slightly different to that adopted by the Applicant, who have deducted 6.8% Stamp Duty, which is slightly inconsistent with the way that Stamp Duty should be calculated, following the changes made to the **March 2016** budget.

Development Costs

- **Acquisition Costs** – we have allowed for SDLT at the prevailing rate in line with the **March 2016** budget for the purposes of our development viability assessment. We have applied agent's fees at 1% and a further 0.8% for legal fees (the latter allowing for VAT at 20%), in line with market practice. This is broadly in line with the approach taken by the Applicant, albeit that as with the purchaser's costs, we have applied SDLT in line with the refinements made in the **March 2016** budget.
- **Construction Costs – Car Parking** – the Applicant has assumed a construction cost of £12,470 per space for the 617 units to be provided. This falls in line with the costs that JLL Building Surveyors would anticipate for multi-storey car parking in Leamington Spa.
- **Offices** – the Applicant has assumed a floor area of 31,137 sq ft Gross Internal Area (GIA) to which they have applied a build cost rate of £165.99 per sq ft. We have adopted this area but have applied a slightly lower rate of £162.50 per sq ft. BNP assumed a total build cost of £5,115,051; however, the figure in their appraisal was £5,174,406. We have applied the rate per sq ft anticipated by the Applicant's Cost Consultant, Arcadis, in their Executive Summary (given that JLL Building Surveyors are broadly comfortable with this rate).
- **Apartments** – the Applicant has assumed a gross area of 36,468 sq ft, to which we have adjusted to 34,788 sq ft assuming a gross to net ratio of 85% based on the NSA. We have applied a build cost rate of £155.15 per sq ft, having regard to Arcadis' Cost Plan.
- **Contingency** – the Applicant has assumed a 5% contingency. This is a high level of contingency in our experience. We have applied 3% contingency, in line with our market experience.
- **Office Fit-Out** – the Applicant has assumed a figure of £3,107,385 in addition to the standard construction costs provided in Arcadis's Cost Plan (which supports the Applicant's viability submission). We have revised this figure in our development appraisal to £1,815,734 so that it is in line with Arcadis' Cost Plan, for given that JLL Building Surveyors have reviewed the Cost Plan and are broadly comfortable with the calculations that Arcadis have provided. We have not included the additional allowance for furniture, IT infrastructure, relocation of CCTVs which we anticipate will increase costs to broadly the level anticipated by BNP in their viability appraisal.

  However, we have considered the inclusion of this cost further as part of our viability analysis, given that CAT B office 'fit-out works 'would usually be a tenant's cost and hence would not be included in the development appraisal as a cost to the developer (as discussed briefly above regarding office rental levels).
- **Demolition and Enabling Costs** – the Applicant has assumed £900,000 for site wide demolition and enabling works. We have reviewed this with colleagues in JLL's Building Surveying team. We originally thought that Arcadis' Cost Plan excludes enabling and demolition works and the Applicant had not provided an analysis of how the £900,000 has

been estimated. Hence, JLL Building Surveyors were unable to provide any further comments on whether this cost assumption is robust. We queried this with BNP and they referred us to the breakdown of this cost in Arcadis' report. We have therefore assumed that these allowances are robust for this purposes of our development viability appraisal as a breakdown between demolition costs and services allowances has been provided. Should further comfort be required on this items an appropriate qualified cost consultant should be appointed by the Applicant (in the absence of further information being provided by the Applicant or their advisors).

- **Professional Fees** – the Applicant has assumed 10% professional fees. We have adopted this level of professional fees, given that this site falls within the Conservation Area, where professional fees are usually higher.
- **Marketing and Letting** – the Applicant has assumed a 1.5% allowance for marketing, and a 10% letting fee and 5% letting legal fees. We have adopted these assumptions in our development appraisal (assuming that both parties would require some external representation by property agents in order to agree the office lease). If this is not the case, the letting fee could be removed from the appraisal, which would improve the viability of the scheme.
- **Disposal Fees** – the Applicant has assumed 1% Sales Agent's fees and 0.5% Sales Legal fees. We have adopted this assumption in our development appraisal.
- **Finance** – the Applicant has assumed a 7% finance rate. In our experience, finance rates typically range between 6% - 7%. We have therefore adopted a slightly lower rate of 6.5% for the purposes of our development appraisal.
- **Developer's Return for Risk (Profit)** – the Applicant has assumed 20% developer's return for risk (profit) on Gross Development Value (GDV), across both the commercial and residential elements of the scheme. Whilst we are comfortable with 20% on GDV return on the residential element (given that the scheme involves high density apartment dwellings, which are viewed as more risky than traditional market housing), we have reduced the level of profit on the commercial element to 15% on cost, given that:
  - Commercial developers usually equate profit 'on cost' rather than 'on GDV/sales values';
  - The lower level of developer's return for risk of 15% is the market norm for commercial development (and is arguably generous, given that it is assumed that all of the office floor space is pre-let to WDC and hence the developer's risk is lower).

  This should improve the viability of the Applicant's proposals in JLL's development viability appraisals.

Riverside House Site

5.12. The following sets out the assumptions that the Applicant has adopted in relation to the Riverside House Site, and the adjustments that we propose in our development viability appraisal.

Revenue

- The Applicant has assumed 170 residential apartments on the Riverside House site, which equates to 123,560 sq ft NSA. Whilst the 170 residential units is crystallised in the

Applicant's description of development, the area is not, and hence we are unsure as to how BNP have generated this assumption. We have therefore assumed that 170 apartments would be provided and have assumed 'optimum' area sizes for each apartment, based upon the analysis in **Appendix 1**. This generates a slightly larger area of 128,500 sq ft NSA in our development appraisal.

- The Applicant has applied an average sales value of £380 per sq ft. We have adopted a slightly higher rate of £384.05 per sq ft (based upon the analysis we have undertaken of the scheme and the pricing exercise of each individual unit). This analysis is also included at **Appendix 1**.
- **Residential Ground Rent** – the Applicant has proposed a ground rent of £300 per annum per dwelling, which they have capitalised at a yield of 5%. We have adopted these assumptions for the purposes of our development appraisal.

Development Costs

- **Acquisition Costs** – the Applicant has adopted standard acquisition costs equating to 5% SDLT, 1% agent's fees and 0.8% legal fees. We have adopted these assumptions, albeit that we have adjusted the level of SDLT in our appraisal to ensure that it is in line with the **March 2016** budget Stamp Duty Land Tax (SDLT) thresholds.
- **Construction Costs** – the Applicant has assumed a GIA of 154,451 sq ft for the 170 apartment dwellings proposed. We have assumed a GIA of 151,176 sq ft (assuming 85% circulation space for the apartments), in line with standard market practice.

  In terms of construction costs, the Applicant has applied a rate of £163 per sq ft, drawing on Arcadis' assessment of the Covent Garden Scheme. It should be noted that a full Cost Plan has not been provided for the Riverside House scheme. We have reviewed this rate with data provided by the Build Cost Information Service (BCIS). BCIS report a rate of £145.25 per sq ft based on the 'median' build cost for apartments of 3-5 storey when rebased to Leamington as at Quarter 3 2017, (assuming that it is increased to allow for 12.5% for external costs). In contrast, the 'upper quartile' figure provided by BCIS is £171.93 per sq ft (including a 12.5% allowance for externals).

  Whilst the site is not within the Conservation Area, three sides of the site are adjacent to it. In addition, we understand from WDC Planning Officers that the site is also adjacent to a number of Listed Buildings (and hence WDC Officers anticipate that a high quality design would be required to be brought forward by any developer at the Reserved Matters stage). We have therefore adopted the Applicant's cost assumption of £163 per sq ft, (as this is higher than the 'median' BCIS build cost, but not as high as the 'upper quartile' build cost provided by BCIS).
- **Contingency** – as with the previous appraisal, the Applicant has applied 5% contingency on construction costs. We have reduced this element to 3%, in line with standard market practice, and considering the risks that we anticipate to be associated with the scheme.
- **Demolition and Site Preparation** – the Applicant has assumed an allowance of £250,000 for the demolition of the Riverside House buildings. We have reviewed this assumption with JLL Building Surveyors and who believe this is appropriate, given that it falls within the range of £4 to £5 per sq ft when assessed against the existing buildings. Therefore, we have adopted £250,000 in our development viability appraisal.
- **Culvert Diversion** – this was previously not included in the **April 2017** Report BNP provided, but was referred to in the text of the report. We queried this and BNP updated their

development appraisal analysis in **August 2017** to include an allowance of £725,000. However, no evidence was provided to substantiate this figure further. We reviewed this with JLL Building Surveyors who state that it is very difficult to estimate whether this figure is robust at this stage, without being provided with further details (in terms of rates and quantities assumed to divert the culvert). We have assumed that the figure is robust for the purposes of our viability appraisal. The Applicant provided further justification for this figure in the form of a quotation from Severn Trent to substantiate this figure.

The Applicant has applied 10% professional fees on construction costs. We have adopted this figure, given the site's proximity to the Conservation Area and a number of Listed Buildings, as discussed above.

- **Disposal Costs and Marketing** – the Applicant has assumed 1.5% of GDV for marketing. We have assumed this level in our development appraisal, as it falls within the range of 1% to 2% that we would usually anticipate.
- **Sales Agent's Fee** – the Applicant has assumed a sale's agent fee of 1% and we have incorporated this within our allowance for both sales agent and marketing fees of 2.5%.
- **Sales Legal Fee** – the Applicant has assumed 0.5% and we have adopted this rate in our development appraisal.
- **Finance** – the Applicant has assumed 7% debit rate on finance. We anticipate debt finance rates of between 6% - 7%, and hence we have adopted a debit rate of 6.5% in our development appraisal.
- **Developer's Return for Risk (Profit)** – the Applicant has assumed 20% on GDV. We have adopted this rate is our appraisal. Although levels of developer's return are falling in prime areas such as Leamington Spa, the development of apartments is perceived as being more risky by developers and house builders in the market, hence a higher level of profit is justified.

Site Value Benchmark

5.13. As discussed above, it is also appropriate that the Applicant considers the level of Site Value benchmark for the site, so that the RLVs can be compared with the Site Value benchmark, to assess scheme viability.

5.14. The RICS Guidance Note 'Financial Viability in Planning' states at **Paragraph 2.3.1** that the Site Value benchmark should be as follows:-

> '*Site value should equate to the market value subject to the following assumption: that the value has regard to the development plan policies and all other material planning considerations and disregards that which is contrary to the development plan'.*

5.15. However, the guidance also states that the practitioner should also have regard to the current use value, alternative use values, market/transactional evidence, and all material considerations including planning policy, in deriving the Site Value.

5.16. BNP's approach has been to consider the sites in their current/existing use, and assess the value that the existing uses generate. They confirm at **Paragraph 5.1.2** that: *'We have not added a premium as* *the Council's objective is to bring both sites forward to provide new offices, rather than to secure a return on a site disposal'*.

5.17. We have therefore reviewed the approach that the Applicant has taken to valuing both sites in their current use at **Paragraph 5.1** of this report.

Riverside House

5.18. We have adopted the Applicant's assumption of **£3.44 million** as discussed in the previous section. Although this is on the lower end of the range that we would anticipate based upon our review of the local office market, the Applicant has now provided the Colliers CRE valuation that they relied on to arrive at their assessment of the Site Value benchmark with which we are comfortable with the assumptions adopted.

Covent Garden

5.19. We have adopted the Site Value benchmark proposed by the Applicant for the purpose of our initial viability testing; however, the observations of JLL's Car Parking Consultants were subsequently taken on board by the Applicant and their assessment was updated accordingly, to ensure that their calculation of the Site Value benchmark is robust. This is considered later in Section 7.

Site Value Benchmark Summary

5.20. Our above analysis would mean that the Site Value benchmark, based upon the information that has been provided to us, are as follows:

- **Riverside House - £3.44 million** (subject to receiving a copy of Colliers CRE's valuation that the Applicant and their advisors have relied upon).
- **Covent Garden** - **£2.95 million** – (albeit that we highlight that the Applicant should adjust their assessment to reflect the issues that have been raised by JLL's Car Parking Consultants who have highlighted that there are a number of issues which mean that BNP's valuation is at the higher end of the range that we would anticipate, and hence this would have the impact of over-inflating the Site Value benchmark threshold and reducing the scope of the scheme to contribute to affordable housing and planning contributions accordingly). The Applicant considered these comments and updated their assessment as discussed in **Section 6.**
- **Combined residual land value - £6.39 million**

5.21. The next section considers JLL's analysis of development viability and our findings.

6 JLL Analysis of Development Viability

6.1. This section sets out our analysis of the development viability of the scheme, drawing upon our analysis of the Applicant's approach and assumptions, which is discussed in the previous section. Our internal findings are set out in the following paragraphs. We discuss our updated viability analysis later in this section.

JLL Development Viability Appraisals

JLL's Initial Viability Analysis

6.2. **Table 6.1** below sets out the findings of our development viability appraisal analysis, when JLL's assumptions are utilised to assess the viability of the scheme.

6.3. We have undertaken our analysis assuming that each site is considered in isolation, and then compared the RLV produced for each site with its Site Value benchmark. Having undertaken this exercise, we then consider the viability of the overall proposals, assuming that the Section 106 Agreement for both applications is to be linked.

6.4. **Table 6.1** below sets out our findings.

Table 6.1 - JLL Development Viability Appraisal Findings

	Riverside House	Covent Garden
Residual Land Value (£)	£7 million	£0.3 million
Site Value Benchmark (£)	£3.44 million* (* However, this figure may need to be revised if Colliers CRE Valuation is received from the Applicant. JLL Office Team anticipate that this proposed benchmark is at the lower end of the range that they would anticipate).	£2.95 million** (**albeit that the Applicant should take on board the comments made by JLL's Car Parking Consultants and refine their assessment accordingly. JLL Car Parking Consultants anticipate that the valuation of the site is overstated)

Source: JLL Analysis (November 2017)

6.5. **Table 6.1** above shows the following:-

Riverside House

6.6. When viewed in isolation, the Applicant's proposals for Riverside generate a significant residual land value, which is significantly above the Site Value benchmark proposed by the Applicant of **£3.44 million.**

6.7. Therefore, if this scheme were to come forward independently of the Covent Garden scheme, the site would generate a significant residual land value over and above the Site Value benchmark proposed by the Applicant and reviewed by us. This indicates that in theory, this site could contribute to affordable housing and other planning contributions (as there is essentially a surplus of approximately **£3.56 million** above the proposed Site Value benchmark).

Covent Garden

6.8. In contrast, our development viability appraisal results for the Covent Garden site generate a small positive land value of **£0.3 million**. This indicates that if the proposals for this site were to come forward in isolation, the Applicant would receive a residual land value (RLV) of **£0.3 million** for the site. This is clearly significantly below the proposed Site Value benchmark of £2.95 million, and hence the scheme, when viewed in isolation, is not viable (even with 0% affordable housing).

6.9. However, it should be noted that this assumes the following:

- WDC take a lease at a rent of £21.00 per sq ft per annum. In reality, JLL's Office team believe that a prudent developer in the market would seek to 'engineer' a higher rent to ensure that the scheme is viable. We have not been provided with the detail of the transaction proposed between the Applicant and WDC. It will however have a significant impact on the viability of the Covent Garden scheme. If WDC could pay a higher rent, this could reduce the project gap significantly, and may generate a surplus that could contribute to affordable housing and other planning contributions.

- Within our development viability appraisal, as previously discussed, we have included the significant cost attributed for tenant's 'Category B' fit-out of approximately £1.8 million (albeit that we have still excluded the cost of relocating CCTV, IT Infrastructure, and furniture etc. from the development appraisal). This is assumed to be the developer's cost, whereas it is usual in the market that this cost would normally be borne by the tenant, WDC (or alternatively, the rent increased further by the developer to reflect the fact that they are providing the tenant's fit out). If this cost were removed from the development viability appraisal (and/or the rent increased as we have advised), this would significantly improve the underlying viability of the scheme and, depending upon the precise assumptions adopted, may remove the project gap to deliver the Covent Garden scheme altogether.

The Combined Viability Position

6.10. Having regard to our findings set out above, our summary is as follows:

- JLL's RLV of the proposals for Riverside House exceeds the proposed Site Value benchmark, calculated by the Applicant, and hence there are surplus moneys in this scheme which could either:
  - Contribute to the delivery of affordable housing and other planning contributions at Riverside House; or
  - Could be utilised to 'cross-fund' the delivery of the Covent Garden scheme (if required).
- In contrast, the proposals for the Covent Garden scheme do not generate a positive land value which exceeds the Site Value benchmark of the existing car park. However, the rental level of £21 per sq ft per annum is low in the market for new build office space in a town centre location. JLL office agents advise that any prudent developer would seek the tenant (in this case, WDC) to pay a higher rent to improve project viability. In addition, it is not typical that the developer would pay for the cost of WDC's fit out works, and this is a further factor which reduces the viability of the proposals for the Covent Garden site.

- We have not been provided any information on the terms agreed between the Applicant and

WDC (albeit that the Applicant has subsequently addressed this as set out later in this Section. Hence, it was very difficult to value the office element of the proposals and the corresponding impact on the development viability of the scheme. We have assumed a rent of £21 per sq ft per annum and capitalised the rent at a yield of 5% based upon an assumption that WDC will sign a 20 year lease term. However, if more favourable rental terms could be offered by WDC, we anticipate that this would significantly improve development viability further. Hence, this would reduce (and perhaps remove) the viability gap (i.e. the need for the Riverside House scheme to 'cross-fund' the project at Covent Garden). This in turn would enable the Riverside House scheme to contribute to affordable housing and other planning contributions.

6.11. In light of the above, we believe that it is therefore critical for the Applicant to provide further information on the terms agreed with WDC, so that the viability of the Covent Garden scheme can be more accurately assessed. In the absence of these critical details, we are unable to conclude whether or not the Covent Garden scheme requires support from the Riverside House scheme. This has been considered by the Applicant following the submission of our 2nd Draft Report on the **7 December 2017**, as discussed later in this section.

6.12. If the Covent Garden scheme generates a project gap, WDC Members will need to then balance the benefits of the terms agreed between WDC and the Applicant for their new office floor space in the Covent Garden scheme, with the impact on the ability of the Riverside House scheme to contribute to affordable housing and other planning contributions.

6.13. Members of Planning Committee should also be aware that if WDC can offer more favourable lease terms to the Applicant than those we have assumed, this would significantly improve the viability of the proposals and *may* remove the need for the scheme to be 'cross-funded' by the Riverside House scheme (which will ultimately reduce the ability of affordable housing to be delivered at Riverside House).

6.14. A copy of our initial development appraisal analysis is attached at **Appendix 3**.

6.15. The next section provides a brief overview of the discussions with the Applicant during **December 2017** and our revised viability analysis.

Revised JLL Viability Analysis following the Review by the Applicant

6.16. Following the completion of the above viability analysis and the submission of our second draft report to WDC and the Applicant's advisors on the **7 December 2017**, a response to our initial viability analysis was provided by BNP later that day. A copy of this response and the Applicant's revised appraisal is attached at **Appendix 7**.

6.17. We then prepared a detailed update note which reviewed the response provided by the Applicant which was forwarded to WDC Officers on the **14 December 2017**. This note included an updated viability analysis and highlighted (in red) a number of areas which required confirmation from either WDC or the Applicant. In brief, these were as follows:

- Confirmation was required from BNP regarding the allowance for demolition of £900,000 for the Covent Garden site, and whether it was robust;
- Detailed calculations were requested from BNP to demonstrate exactly how they had arrived at their revised car parking valuation; and

- There were a range of assumptions relating to the valuation of the car parking (such as occupancy levels, business rates and operator's profit) that had been updated by BNP but required final review by JLL Car Parking Consultants.

6.18. The main change to BNP's updated viability analysis was that the Applicant's advisors provided details of the nature of the transaction between WDC and the Applicant. BNP confirmed on the **7 December 2017** that:-

- No rent will be payable from WDC to the Applicant when the buildings at the Covent Garden site are completed.

- WDC will retain the freehold ownership of the Covent Garden site.

6.19. Therefore, WDC is essentially receiving new office accommodation in its built form, rather than receiving a Site Value benchmark (land value) for both the Riverside House and Covent Garden sites. The latter was the position previously presented by BNP in their viability analysis (which we adopted for the purpose of our viability analysis).

6.20. In addition, the Applicant's advisors subsequently confirmed by email on **12 December 2017** that WDC will also retain the ownership of the new car parking at the Covent Garden scheme, apart from approximately 40 car parking spaces that will serve the 44 residential apartments.

6.21. The RICS Guidance 'Financial Viability in Planning' (2012) states at 'Box 10: Industry Benchmarks' that the nature of the Applicant should normally be disregarded, as should any benefits or dis-benefits that are unique to the applicant. This in theory suggests that the viability assessment should be undertaken on an 'objective' basis, and disregard the circumstances of the parties involved.

6.22. However, in this case, the delivery of the offices at the Covent Garden site to WDC is a fundamental element of the transaction, as highlighted earlier in this section. In addition, the precise terms that WDC have agreed will have a significant impact on the development viability of the Covent Garden project (and hence the potential need for the Covent Garden site to be 'cross funded' by the Riverside House project, instead of affordable housing being delivered at Riverside House).

6.23. In light of this supplemental information provided by the Applicant, we have therefore updated our development viability analysis to assess two approaches as follows:

1. **An objective assessment approach** – this approach is as previously tested by both BNP and JLL, and seeks to reflect (as far as possible), the RICS Guidance which suggests that an objective viability assessment should be undertaken which disregards the particular circumstances of the Applicant.

   In essence, this approach assumes that WDC would enter into a pre-let agreement (or similar) with the Applicant for the new office and car parking space at Covent Garden, on terms that the Applicant could typically agree with a tenant in the market. This would mean that WDC would not own the freehold of either site when completed, and that they would need to pay a rent for the office building and car parking.

   This approach would however assume that the Applicant (or WDC) receives a capital sum for the Site Value benchmark (which we have now broadly agreed with BNP as being approximately **£5.89 million** for both sites).

2. **An assessment of the actual transaction** – this alternative approach to viability testing reflects, as far as we are able to ascertain, the nature of the agreement between the Applicant and WDC. We understand from the Applicant that the transaction agreed between WDC and the Applicant is as follows:

- WDC will not receive the Site Value benchmark for either Riverside House or the Covent Garden site (i.e. WDC is therefore foregoing a capital payment of approximately **£5.89 million**).
- However, WDC will retain the freehold of a newly constructed office building at nil cost, and ownership of the new car park comprising approximately 577 spaces.
- WDC will not be required to contribute towards the construction cost of:
  - The new office building (approximately **£5.07 million** before fees);
  - New car parking (approximate cost of **£7.7 million** before fees etc.);
  - All of WDC's 'Category B' fit out works (i.e. tenant's fit out will be provided by the developer) at a further cost of **£1.8 million** (excluding the relocation of the CCTV, and furniture, which are additional costs).
- As WDC will own the freehold of the new offices and the car park, they will not be required to pay a rent (as is anticipated in Approach 1 above). The level of rent under Approach 1 could be significant (for example, at £21 per sq ft, the rent would be approximately £580,830 per annum).

JLL's Updated Findings

6.24. The findings of our revised development viability appraisal analysis are set out in the paragraphs that follow. We have development viability tested the two approaches discussed above, as follows:

- **Approach 1** – An objective assessment approach (in line with the RICS Guidance).
- **Approach 2** – An assessment of the actual transaction between the Applicant and WDC.

6.25. Although this analysis is summarised in the note we produced on the **14 December 2017** (which is attached at **Appendix 5),** we have also made a further update to our development viability analysis to reflect the comments provided by JLL's Car Parking Consultants (in response to the Applicant's detailed breakdown of their car parking valuation calculations that they provided on **14 December 2017**.

6.26. The final amendments are as follows:

- The Applicant has still not reflected VAT in their assessment of the Car Parking Revenue. We have therefore adjusted the daily parking rate from £3 to £2.50 per space (to reflect VAT at 20%).
- The occupancy levels still appear high and hence could inflate turnover. However, it is very difficult to estimate exactly what the occupancy rates are, without detailed trading information

being provided for the existing car park (which would provide a guide as to how the new car park may perform). In the absence of further information, we have adopted the Applicant's occupancy assumptions.

- We have reduced the Applicant's assumptions for operating profit from 30% to 17.5% of net operating income, in line with typical levels of profit required by operators in the market which is typically between 15% and 20%.

- We have kept the yield at 5% which was utilised by the Applicant; however, this is at the lower end of the range that JLL Car Parking Consultants anticipated.

6.27. Our revised development viability analysis is set out below.

Approach 1 – Objective Approach to Assessment

Table 6.2 - JLL Revised Development Viability – Approach 1 Objective Assessment

Site	Residual Land Value (£)	Site Value Benchmark (£)	Surplus/Deficit
Covent Garden	- £3.55 million	£1.45 million (Although trading information for the existing car park should ideally be provided in order to generate a more accurate assessment, the value now proposed by the Applicant equates to typical land values in Leamington Spa which provides a useful 'sense check' on the Site Value benchmark proposed. We have therefore adopted the £1.45 million figure on this basis, in the absence of further information from the Applicant)	**-£5 million (deficit)** This is the amount of 'gap' that would be required to generate a viable scheme (assuming that the £1.45 million needs to be paid to the owner as a Site Value benchmark).
Riverside House	£7 million (no change from previous analysis)	£3.44 million (no change from previous analysis as findings of Colliers CRE valuation accepted by JLL)	**£3.56 million (surplus)** This is the amount of land value over and above the Site Value benchmark which would be used to meet the gap at Covent Garden (assuming that no affordable housing is provided at Riverside House).
Overall Surplus / Deficit			**-£1.44 million** **(This is the amount of shortfall if both projects are combined).**

Source: JLL Analysis (January 2018)

6.28. **Table 6.2** above shows that if the pre-let to WDC was agreed at a rent of £21 per sq ft, and WDC have their own fit out paid for by the developer, the 'project gap' at Covent Garden required would be approximately **£5 million** in order to ensure that the proposed site was viable and the revised Site Value benchmark of **£1.45 million** is generated to the land owner (the Applicant/WDC), in line with the NPPF.

6.29. **Table 6.2** also shows that the Riverside House sites generates a surplus of **£3.56 million** (if no affordable housing or other planning contributions is provided) which could be used to 'cross fund' the Covent Garden site to improve viability. However, **Table 6.2** shows that there would still be a project gap of approximately **£1.44 million**.

6.30. Our analysis therefore suggests that, based upon the assumptions adopted, there would be no surplus which could contribute to affordable housing or other planning contributions if the projects are combined. However, this position could still change if:

- WDC could take a long lease at a higher rent to improve project viability;
- WDC could fund their office fit out works cost of approximately **£1.8 million** (as is standard practice in the market).

6.31. Under these circumstances, project viability could improve significantly. In turn this would improve project viability and could mean that a position could be achieved where the project does not require cross subsidy from Riverside House (meaning that in turn, affordable housing could be provided at the site). We have not sensitivity tested how this could be achieved, given that there are a range of variables that would need to be agreed (in particular, regarding WDC's precise lease terms) in order to undertake such an assessment.

Approach 2 – Assessment of the Actual Transaction

6.32. As an alternative approach to assessing viability, we have also considered the nature of the proposed transaction between the Applicant and WDC, to assess the impact on development viability.

6.33. We anticipate that this will be important for planning committee members, as they will need to balance:

- The benefits of the transaction that we understand that the Applicant has agreed with WDC (i.e. the delivery of the replacement offices and car parking at nil rent and nil cost, including the provision of WDC's fit out works of the offices (also at nil cost)), with:
- The impact that this approach may have on the delivery of affordable housing at Riverside House.

6.34. In order to refine our approach to viability assessment, we have undertaken a further development viability appraisal of the Covent Garden site, which assumes that the office and car parking elements will be delivered to WDC at a nominal value of £1 each (i.e. at nil cost).

6.35. The cost of the offices and car parking are still included, as the Applicant will still be expected to construct these elements and deliver them to WDC when completed. **Table 6.3** sets out our findings.

Table 6.3: JLL Findings for Approach 2 – Assessment of the Actual Transaction

	Riverside House	Covent Garden	
Residual Land Value (RLV)	£7 million (no change)	-£13.46 million	**-£6.46 million** (The project gap if the total receipt from Riverside House with no affordable housing is utilised to 'cross fund' the gap at Riverside House).
Site Value Benchmark	£3.44 million (no change as Colliers CRE Valuation accepted by JLL)	£1.45 million (Revised Value proposed by BNP following JLL comments).	**£4.89 million** (The total level of Site Value benchmark WDC/The Applicant would receive if Approach 1 was taken).

Source: JLL Analysis (January 2018)

6.36. **Table 6.3** shows that, as the Applicant will be required under the terms of the transaction to deliver the offices and car park to WDC at nil cost (in exchange for WDC's Site Value benchmark of **£4.89 million**), the scheme would not be viable and would require cross subsidy of the total residual land value generated by Riverside House of £7 million (where no affordable housing or planning contributions are provided) in order to improve the viability of the Covent Garden scheme. However, we would estimate that there would still be a project gap of approximately **£6.46 million**.

6.37. Our analysis suggests that there is no scope for the Riverside House site to provide affordable housing or other planning contributions (provided that WDC's new offices and car park is to be delivered at 'nil cost' in exchange for not receiving the Site Value benchmark for each site).

6.38. However, several things should be noted:

- Our analysis therefore suggests that the impact on the deliverability of affordable housing could be mitigated by WDC taking a different approach to delivery (i.e. Approach 1), where WDC take a new office and car park on favourable leasehold terms. If the terms of this transaction were structured more favourably than we envisaged in our viability testing, the investment value of this lease could be very well received by investors in the market and would generate a significant capital receipt as an investment to the Applicant.

  This in turn would significantly enhance the residual land value of the Covent Garden site and would reduce the impact on affordable housing at Riverside House. However, this approach would mean that WDC would have a significant rental obligation (which is likely to be in excess of £500,000 per annum). WDC would however receive the capital receipts for each site (i.e. the Site Value benchmarks) of approximately **£4.89 million**, if this approach was taken.

- Under the current terms of the transaction (Approach 2), WDC are effectively receiving an enhanced Site Value benchmark, as the construction costs of the new offices and car parking of approximately £12.76 million (which excludes the additional costs of WDC's fit out works at £1.8 million, and the additional costs relating to CCTV and furniture etc.). This cost of construction significantly exceeds the Site Value benchmark anticipated for the existing assets of **£4.89 million.**

- In addition, WDC's investment value of the completed offices and car park would be much higher than **£4.89 million** (for example, if WDC were to enter into a 'sale and leaseback' arrangement for the office and car park at a later date, whereby WDC would sell its freehold interest and rent the building from the purchaser).

6.39. Notwithstanding the above issues, our sensitivity test of Approach 2 (which we understand best reflects the terms agreed between the parties (based upon the information provided by the Applicant and their advisors BNP) is that if WDC is to be provided with new, replacement offices and car parking at nil cost, there is no scope for affordable housing to be provided in either Covent Garden or Riverside House.

6.40. A copy of our updated development viability appraisal analysis is attached at **Appendix 6**.

6.41. The next section provides our summary and conclusions.

7 Summary and Conclusions

Overview

7.1. JLL has been instructed by Warwick District Council (WDC) to review the development viability analysis that the Applicant, PSP Warwick LLP, has submitted in connection with their proposals for the Covent Garden and Riverside House sites in Leamington Spa.

7.2. PSP Warwick LLP is a joint venture between Warwick District Council and PSP Facilitating Limited, (the latter is an organisation that specialises in partnering with public sector organisations to deliver development projects).

7.3. At present, WDC occupy Riverside House which is located on Milverton Hill, Leamington Spa. The Applicant's proposals are to seek planning permission to relocate WDC's offices to the Covent Garden site, which currently comprises a multi-storey car park near to the retail centre of Leamington Spa. This would in turn release the Riverside House site for residential development.

7.4. A full planning application (**Reference Number: W/17/1700**) has been submitted for office redevelopment, alongside 44 residential units and a new car park comprising 617 spaces on the Covent Garden site. In addition, an outline planning application has been submitted for the Riverside House site for residential development of up to 170 apartment dwellings.

Initial Viability Analysis

7.5. The Applicant, and their advisors BNP, consider that the overall scheme (when combined) is unviable, and are seeking to remove the affordable housing provision in both applications (i.e. both Covent Garden and Riverside House sites). This is contrary to WDC's new Local Plan **Policy H2,** which requires 40% affordable housing to be provided, unless a lower level can be justified on grounds of development viability.

7.6. JLL have undertaken a detailed review of the Applicant's development viability position and the information and evidence that they have submitted to support it. BNP's **August 2017** report sets out the findings that BNP have researched and assessed in order to assess the viability of each site.

7.7. BNP's findings are as follows:

Table 7.1: BNP’s Viability Findings

Site	Residual Land Value (£)	Proposed Site Value Benchmark (£)
Covent Garden	-£6.30 million	£2.95 million
Riverside House	£3.37 million	£3.44 million
Combined Appraisal	**- £2.94 million**	**£6.39 million**

Source: BNP Report (August 2017)

7.8. We have made several observations on BNP’s findings, which are as follows:

- **Viability of Covent Garden** - The residual land value generated by the Covent Garden Scheme is significantly negative even where 0% affordable housing is provided. This means that if the Applicant's viability analysis is taken at face value, the scheme would require significant gap funding in order to generate a viable scheme and return an appropriate land value to the owner (i.e. Site Value benchmark).

- **Viability of Riverside House Proposals** - The proposals for Riverside House generate a positive residual land value according to BNP's viability analysis. However, the Applicant's own viability position suggests that even when 0% affordable housing is provided, the Riverside House proposals only generates a value broadly in line with the Site Value benchmark (and hence no affordable housing is viable, even when the site is viewed in isolation).

- **Combined Appraisal** - Our final observation is that even where the schemes are conjoined, they would require significant gap funding when viewed in order to generate a viable scheme, even where 0% affordable housing is provided in both scenarios (according to the Applicant's viability analysis).

7.9. BNP suggest in **Section 6** of their **August 2017** report that: *'the applicant will be reliant on future growth in sales values to make good any shortfall and produce a normal level of developer's return'.* Notwithstanding this, BNP's sensitivity analysis suggests that even a 3% assumed growth in sales values would not be sufficient to meet the viability gap they have identified.

7.10. We have undertaken a detailed review of the Applicant's development viability information and undertaken our own development viability appraisal analysis. This has revealed a range of assumptions adopted by the Applicant that we have adjusted in order to inform our own development viability appraisal analysis.

7.11. The most critical element of missing evidence is that the Applicant did not originally provide any details of the nature of the transaction agreed between the Applicant and the proposed tenant (WDC). We identified that the level of rent and lease terms that have been agreed will have a ***critical impact*** on the development viability position, and hence the ability of both sites to contribute to affordable housing and other planning contributions.

7.12. JLL's initial findings of development viability were as follows:

Table 7.2 - JLL Development Viability Appraisal Findings

	Riverside House	Covent Garden
Residual Land Value (£)	£7 million	£300,000
Site Value Benchmark (£)	£3.44 million* (* This figure was subject to receiving a copy of the Colliers CRE Valuation from the Applicant).	£2.95 million** (**Albeit that the Applicant were asked to consider the comments made by JLL's Car Parking Consultants and refine their assessment accordingly).

Source: JLL Analysis (November 2017)

7.13. **Table 7.2** above shows that when viewed in isolation, the Riverside House Scheme provides a significant residual land value over and above the Applicant's proposed Site Value benchmark. This indicates that this scheme could contribute to affordable housing and other planning contributions, when viewed in isolation.

7.14. In contrast, our assessment of the Covent Garden proposals indicated that a positive residual land value is created; however, this does not exceed the Site Value benchmark of **£2.95 million** that the Applicant has proposed. In theory, this suggested that the Covent Garden Scheme is unviable based upon the assumptions adopted (and the surplus generated by the Riverside House Scheme, where no affordable housing or planning contributions are provided, could be used to generate a viable scheme at Covent Garden).

7.15. However, the advice from JLL's Office agency and investment teams is that a prudent developer (i.e. the Applicant) would seek to 'engineer' a higher rent than the £17.50 per sq ft assumed by the Applicant, to ensure that the scheme at Covent Garden is viable. This is a typical approach for new office developments in town centre locations.

7.16. In addition, in arriving at our assessment of the residual land value for Covent Garden, the cost of the Tenant's 'CAT B' fit-out of approximately £1.8 million is allowed for as the developer's cost (excluding CCTV relocation and furniture). It is typical practice in the market that this cost is borne by the tenant (i.e. WDC), rather than the developer. This is an additional factor which significantly reduces the viability of the Covent Garden scheme. For example, if WDC (as the tenant) paid for this fit-out, the Residual Land Value would be much closer to the proposed Site Value benchmark (as this cost would be removed from the development appraisal), and hence the requirement for this scheme to be 'cross funded' by the Riverside House site would be significantly reduced (assuming that the Site Value benchmark proposed by the Applicant remains the same). In turn, this would mean that the Riverside House scheme could deliver affordable housing and other planning contributions.

7.17. Hence, given our review of the Applicant's viability evidence, and the initial figures that we have researched and assessed, we identified to WDC Planning Officers that it was critical for the Applicant to provide further information on a range of items and in particular, the nature of the transaction agreed with the proposed tenant, WDC, so that the viability of the Covent Garden scheme can be more accurately assessed. In the absence of these critical details, we are unable to conclude whether or not the Covent Garden site requires support from the Riverside House scheme (or elsewhere), due to the uncertainty relating to the precise terms of the transaction and the impact on project viability.

7.18. We anticipated that members of WDC's Planning Committee will need to balance the benefits of the terms agreed between WDC and the Applicant for their new office space at Covent Garden, with the impact of these terms on the ability of the Riverside House scheme to contribute to affordable housing and other planning contributions. Members of Planning Committee will need to be aware that if more favourable lease terms could be agreed between WDC and the Applicant (and the approach to Tenant's fit out clarified), this could significantly improve the viability of the proposals and may remove the requirement for the Covent Garden proposals to be 'cross funded' by the Riverside House scheme. This would in turn enable affordable housing and other planning contributions to be delivered at Riverside House (although the extent of which is uncertain and would depend upon the lease terms agreed).

Updated Viability Analysis

7.19. Following the submission of our second draft report for review by the Applicant and their advisors, BNP provided further information on the nature of the transaction agreed with WDC.

7.20. BNP have advised us that both the new office accommodation and car parking at the Covent Garden site will be delivered to WDC at 'nil cost', and WDC will retain the freehold ownership of the site.

7.21. Although this is a bespoke approach which is specific to the circumstances that the Applicant and WDC have agreed, our viability analysis above suggests that the nature of the transaction (and the underlying terms) has a key impact on development viability. We therefore undertook an updated analysis of development viability, reflecting the following approaches:

1. **Approach 1 - An objective assessment approach** – this seeks to reflect the approach taken by BNP and JLL's original approach to assessing viability, and seeks, as far as possible, to undertake an objective assessment of viability in line with the RICS Guidance.

2. **Approach 2 - An assessment of the actual transaction** – this approach reflects, as far as we are able to ascertain, the nature of the agreement between the Applicant and WDC, whereby WDC do not receive a land value (Site Value benchmark) for the Riverside House or Covent Garden sites, but instead, WDC retain the freehold ownership of the Covent Garden site and have their offices and car parking built at 'nil cost'.

Findings for Approach 1

7.22. The findings of our development viability analysis for Approach 1 suggests that on the current assumptions adopted, the Riverside House proposals could in theory deliver affordable housing and other planning contributions on the site, provided that the land value is not required to 'cross fund' the delivery of the project at Covent Garden. In contrast, the delivery of the viability of the Covent Garden site is sufficiently negative (even where no affordable housing is provided), and hence would require funding from the Riverside House site.

7.23. However, our viability analysis does indicate that the precise lease terms signed by Council under this scenario for the Offices and Car Parking at Covent Garden will be key to understanding viability. WDC could pay a higher rent than assumed by the Applicant and take more favourable lease terms (factors which could significantly improve the project viability of the Covent Garden scheme, and perhaps mitigate or maybe even remove the need for the site to be cross funded by the Riverside House scheme). This would in turn release the value at Riverside House to deliver affordable housing and other planning contributions.

Findings for Approach 2

7.24. In contrast, our viability assessment of Approach 2 highlights that as WDC will be receiving reconstructed office and car parking at 'nil cost', this has a significant impact on the development viability appraisal of the project and generates a significant project gap (even where no affordable housing is provided at both Riverside House and Covent Garden).

7.25. Therefore, this means that the surplus generated by the Riverside House scheme where no affordable housing is provided would need to be utilised to assist in cross funding the deliverability of the proposals for Covent Garden. This indicates that, based upon the current approach where the Council receives a brand new office building, office buildings and car parking at nil cost, there is no scope for either affordable housing or other planning contributions to be provided at either Riverside House or Covent Garden. In addition, the Applicant will need to consider ways to reduce the viability gap as far as possible, perhaps by seeking to reduce the costs of construction.

Appendix 1 – JLL Analysis of Residential Sales Values and Area Analysis

JLL Analysis of Covent Garden Resdiential Scheme

Level	1 Bed (Sq m)	Value (£)	Value £ PSF	2 Bed (Sq M)	Value (£)	Value PSF
g.1	50.3	£240,000	£443			
g.2				75.55	£290,000	£357
g.3				79.85	£310,000	£361
g.4				71	£280,000	£366
g.5	50.3	£240,000	£443			
g.6	50.3	£240,000	£443			
g.7	46	£230,000	£465			
g.8	46	£230,000	£465			
g.9	50	£240,000	£446			
1.1				73.73	£300,000	£378
1.2				75.55	£300,000	£369
1.3				79.85	£320,000	£372
1.4				71	£290,000	£379
1.5	50.3	£250,000	£462			
1.6				76	£300,000	£367
1.7	46	£240,000	£485			
1.8	46	£240,000	£485			
1.9				73.6	£300,000	£379
2.1				73.73	£300,000	£378
2.2				75.55	£300,000	£369
2.3				79.85	£320,000	£372
2.4				71	£290,000	£379
2.5	50.3	£250,000	£462			
2.6				73	£300,000	£382
2.7	46	£240,000	£485			
2.8	46	£240,000	£485			
2.9				73.6	£300,000	£379
3.1	48	£240,000	£465			
3.2				73.5	£325,000	£411
3.3				73.5	£325,000	£411
3.4				73.5	£325,000	£411
3.5				73.5	£325,000	£411
3.6				73.5	£325,000	£411
3.7	53.6	£260,000	£451			
3.8				71	£290,000	£379
3.9	50.3	£250,000	£462			
3.10				76	£300,000	£367
3.11	46	£240,000	£485			
3.12	46	£240,000	£485			
3.13				73.6	£300,000	£379
4.1	49.2	£250,000	£472			
4.7	46	£240,000	£485			
4.8	46	£240,000	£485			
4.9				73.6	£300,000	£379
Totals	**962.6**	**£4,840,000**	**£467**	**1784.56**	**£7,315,000**	**£381**

Sq Ft	**29,570**
Total Rev	**£12,155,000**
Average	**£411.06**

Duplex	
Duplex	
Duplex	
Duplex	
Duplex	*Area has been estimated for this unit.

Riverside House Development
Illustrative Mix - 170 Apartments

Assumed Mix	No. Of Apartments	No of Beds	Sq Ft	Total Sq Ft	Value Per Unit	Total Value	Value PSF
30%	51	1	600	30,600	£250,000	£12,750,000.00	£416.67
65%	110	2	800	88,000	£300,000	£33,000,000.00	£375.00
5%	9	3	1100	9,900	£400,000	£3,600,000.00	£363.64
100%	**170**			**128,500**		**£49,350,000.00**	

£384.05 per sq ft average

Appendix 2 – Review by JLL Car Parking Consultants

Stage 1 comments on the valuations for viability undertaken by BNP Paribas.

Caveats:

We have not:

- seen the full report from BNP
- inspected the site
- seen the proposals for proposed new development
- been provided with trading data for the existing car park, or a business plan / budget for the new car park
- independently verified any of the information provided
- been provided with a valuation date – we have assumed the 16th November 2017
- been provided with a report on title – we have assumed that the title is freehold and there are no restrictions or covenants in place
- been provided with a condition report- we note that multi-storey car parks built in this era are subject to increasing repair liabilities and their remaining useful economic life may be adversely affected
- been provided with details of any permits / season ticket schemes that are in place.

Background

We understand that the Covent Garden car park in the centre of Leamington Spa is a 511 space Multistorey car park that is close to the town centre. From GoogleMaps it would appear that the car park comprises a mix of Multistorey car park with a surface section to the west. From Warwick District Council's website this is broken down into 473 normal spaces plus 36 parent and child bays and 2 electric charging bays.

The current charging regime is

Length of stay	Charge per period
0 – 30 minutes	£0.50
30 minutes – 1 hour	£1.00
1 hour – 1.5 hours	£1.50
1.5 hours – 2 hours	£2.00
2 hours – 2.5 hours	£2.50
2.5 hours or more	£3.00

The car park is open between 7am and 8pm.

BNP Existing Use Valuation Approach

BNP have calculated the existing use value based on an investment approach, which capitalises a rental value at a yield.

The rental value that BNP adopted is £177,000, which is the rateable value. This is an assessment of the annual rent that a tenant would pay in the market for the premises – assuming it is in good repair and condition.

We set out below the rateable value assessment of the premises sourced from the Valuation Office Agency ("VOA"):

Floor	Description	Unit	Price per Unit	Value
Ground	Disabled Parking Space(s)	8	£355.57	£2,845
Ground	Parking Space(s)	545	£296.31	£161,489
Ground	Parent & Child Spaces	36	£355.57	£12,801
		589		**£177,135**

This figure is rounded down to £177,000.

We note that there appear to be a number of issues with adopting this figure as being equivalent to a Market Rent, which we set out below:

- The number of spaces appears to be materially larger than our understanding of the spaces in the car park
- As this is an assessment for tax, this figure has not been agreed between the two parties; ie if the District Valuer ("DV") arrives at a figure that is lower than a Market Rent the asset owner will not dispute the assessment
- The DV will assess the property as if it were in repair – this is a significant assumption as repair costs for MSCPs have a significant impact on the viability of the asset going forwards.
- As a specialist asset the District Valuer might not have used a market based approach (ie working out the net income and adjusting that into a rent that a tenant would pay) but instead use a cost approach. A cost approach would assess the value of the land together with the cost of the building and other improvements works on top of it. This is then decapitalised to form a rent. We suspect that this is the approach that has been adopted as the parent and child and disabled spaces are valued at a higher rate than the normal spaces, which could reflect their larger size, rather than them generate a higher income. The advantage to the DV of this approach is that it becomes easier to value lots of assets as the model can just be rolled out. The downsides is that this is not reflective of the approach an operator in the market would adopt. An open market approach would assess the potential income that could be generated over the lease period and pay accordingly. Car park values should reflect prominence, demand, competition and proximity to destinations, rather than the construction type of the car park.

The rateable value is capitalised at a yield of 6%. The capitalisation and the rent are inextricably linked as the assumptions on the sustainability and expected growth in the rent are very important.

The keenest yields in the market are paid for car parks where:

- It is let to a tenant with a strong covenants
- It is let on a long lease 15+ years with preference for 25+ years
- there is sufficient rent cover from the operational asset
- the asset has a long remaining useful life
- the income increases over the term – with most demand for annual RPI linked increases

The car park is not currently let on that basis so an adjustment would have to be made for the risk in achieving a letting (at the rent set out above) – which could either be through a discount to the yield or the explicit allowance for a rental void, letting and legal costs.

Yields for investment car parks range between 4.5% - 8%.

The total value reported is [£2,760,000?] or [£5,400?] per space.

BNP Valuation Approach for the Redeveloped Car Parking asset

We note that the redeveloped car park is large (617 spaces an increase of 106 spaces) and will be situated within a development of 44 new residential units, and 30,000 sq ft of offices.

As noted above, we have not seen the scheme layout, but have assumed that the car park will be prominent and that with the new development this will increase the attractiveness of this location and increase demand.

The approach that BNP have adopted for this valuation is a market based approach – ie they have considered the revenue and costs associated with the operation of a car park. We consider this approach to be correct, and wonder why this was not applied to the first valuation?

We have tried to replicate their calculations and set these out below:

Period	Spaces	Days	Day Rate	Weeks	Occupancy	Revenue
Weekday	617	5	£3	52	70%	£336,882
Weekend	617	2	£3	52	90%	£173,254
					Total	£510,136
					say	**£510,000**

The estimated revenue of £510,000 is based on the day rate of £3. Assuming that the day rate has not changed then we would note that the £3 day rate includes VAT at 20%, which an operator would net down from their receipts. Therefore there is the possibility that the figure BNP are adopting is overstated by 20%. We have not seen the car park so can not comment further on the trading, however, our feeling is that the occupancy levels feel high.

BNP calculate the net income by netting down the revenue by 10% or £51,000 for costs, to give £459,000 (£744 per space). These operational costs will include staff, installation of machinery and their maintenance, lighting, electricity phone repair, cleaning and business rates. We note that the current business rates are £177,000 so allowing for a UBR of say 0.48 this would give a rates liability of c.£85,000, which is already in excess of the costs figure adopted, before adjustment is given to a reval of the larger improved car park.

Therefore, based on the information provided and our limited investigations it would appear that both the revenue is overstated and the costs are understated.

The difference between revenue and costs is the net income. We note that this is not the same as a rent payable to a landlord, otherwise there would be no benefit to the operator taking a lease on. An operator's profit should be allowed for which would normally be based on the revenue received, and adjusted for the risks taken on – ie the lease terms, the repair liabilities and the nature of the car park.

BNP capitalise their net income at a yield of 5%. If this was a pure rent (and accounted for the factors set out above – ie the car park was let on a 25 year lease to a good covenant with annual RPI increases) then it might achieve this yield. However, there is no pre-let in place, the car park would have not trading history to support a rent cover calculation and Leamington Spa is not a core location for investors.

Conclusion

From our Stage 1 overview of the assets out initial comments is that both valuations appear to be "full". We would recommend further investigation to determine a more accurate valuation under both scenarios this would include:

- An inspection of the car park
- Review of the historic trading
- Review of the repair and condition of the car park
- Creation of detailed shadow P&L
- Review of the development proposals and their impact on the car park.

Appendix 3 – Copy of JLL Development Viability Appraisals

Riverside House
Multi Sales Approach

Development Appraisal
JLL
14 November 2017

APPRAISAL SUMMARY JLL

Riverside House
Multi Sales Approach

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Residential Units	170	128,500	384.05	290,297	49,350,425
Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**
Residential Units	170	1	54,000.00	300	51,000
Investment Valuation					
Residential Units					
Current Rent	51,000	YP @	5.0000%	20.0000	1,020,000
GROSS DEVELOPMENT VALUE				**50,370,425**	
NET REALISATION				**50,370,425**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price (4.64 Acres 1,508,228.13 pAcre)			6,998,179		
				6,998,179	
Stamp Duty			339,909		
Agent Fee		1.00%	69,982		
Legal Fee		0.50%	34,991		
				444,882	
CONSTRUCTION COSTS					
Construction	**ft²**	**Rate ft²**	**Cost**		
Residential Units	151,176 ft²	163.00 pf²	24,641,765	**24,641,765**	
Contingency		3.00%	739,253		
Demolition			250,000		
Culvert Diversion			725,000		
Section 106/278			1		
CIL			1		
				1,714,255	
PROFESSIONAL FEES					
Professional Fees		10.00%	2,464,176		
				2,464,176	
DISPOSAL FEES					
Sales Agent And Marketing Fee		2.50%	1,259,261		
Sales Legal Fee		0.50%	251,852		
				1,511,113	
FINANCE					
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)					
Land			1,024,944		
Construction			1,353,731		
Other			143,296		
Total Finance Cost				2,521,971	
TOTAL COSTS				**40,296,340**	
PROFIT					
				10,074,085	
Performance Measures					
Profit on Cost%		25.00%			
Profit on GDV%		20.00%			
Profit on NDV%		20.00%			
Development Yield% (on Rent)		0.13%			
Equivalent Yield% (Nominal)		5.00%			
Equivalent Yield% (True)		5.16%			
IRR		26.49%			
Rent Cover		197 yrs 6 mths			

Riverside House
Multi Sales Approach

Profit Erosion (finance rate 6.500%)	3 yrs 6 mths

Riverside House
Multi Sales Approach

Initial
MRV
51,000

Riverside House
Multi Sales Approach

Covent Garden
Base Appraisal

Development Appraisal
JLL
14 November 2017

APPRAISAL SUMMARY **JLL**

Covent Garden
Base Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**	
Apartments	44	29,570	411.06	276,251	12,155,044	

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Offices	1	24,230	21.00	508,830	508,830	508,830
Apartment Ground Rent	44			300	13,200	13,200
Carparking	617			827	510,259	510,259
Totals	**662**	**24,230**			**1,032,289**	**1,032,289**

Investment Valuation					
Offices					
Market Rent	508,830	YP @	5.0000%	20.0000	
(2yrs Rent Free)		PV 2yrs @	5.0000%	0.9070	9,230,476
Apartment Ground Rent					
Current Rent	13,200	YP @	5.0000%	20.0000	264,000
Carparking					
Current Rent	510,259	YP @	5.0000%	20.0000	10,205,180
					19,699,656

GROSS DEVELOPMENT VALUE			**31,854,700**
Purchaser's Costs	6.45%	(1,270,628)	
			(1,270,628)
NET DEVELOPMENT VALUE			**30,584,073**
NET REALISATION			**30,584,073**

OUTLAY

ACQUISITION COSTS				
Residualised Price			342,800	
				342,800
Agent Fee		1.00%	3,428	
Legal Fee		0.50%	1,714	
				5,142
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Carparking	617 un	12,471	7,694,328	
	ft²	**Rate ft²**	**Cost**	
Offices	31,173 ft²	162.50 pf²	5,065,613	
Apartments	34,788 ft²	155.15 pf²	5,397,395	
Totals	**65,961 ft²**		**10,463,007**	**18,157,335**
Contingency		3.00%	544,720	
Office Fit Out			1,816,557	
Demo and Enabling			900,000	
Section 106 and CIL			1	
				3,261,278
PROFESSIONAL FEES				
Other Professionals		10.00%	1,815,734	
				1,815,734
MARKETING & LETTING				
Letting Agent Fee		10.00%	50,883	
Letting Legal Fee		5.00%	25,442	
				76,325
DISPOSAL FEES				
Sales Agent Fee		1.00%	305,841	
Marketing on Resi		1.00%	121,550	
Marketing on Offices			1	
Sales Legal Fee		0.50%	152,920	
				580,313

Covent Garden
Base Appraisal

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		47,913	
Construction		1,099,562	
Letting Void		100,329	
Total Finance Cost			1,247,804
TOTAL COSTS			**25,486,730**
PROFIT			
			5,097,343
Performance Measures			
Profit on Cost%	20.00%		
Profit on GDV%	16.00%		
Profit on NDV%	16.67%		
Development Yield% (on Rent)	4.05%		
Equivalent Yield% (Nominal)	5.00%		
Equivalent Yield% (True)	5.16%		
IRR	28.84%		
Rent Cover	4 yrs 11 mths		
Profit Erosion (finance rate 6.500%)	2 yrs 10 mths		

Appendix 4 – Applicant’s Response of 7 December 2017

COVENT GARDEN AND RIVERSIDE HOUSE, LEAMINGTON SPA
RESPONSE TO JLL REPORT

1. Existing Use Value for Riverside House

JLL's report states that they have requested a copy of the Colliers valuation of the site. This request has never been communicated to us. We attach a copy of Collier's report which shows how they arrive at their capital value of £3.44 million.

Colliers have considered transactions of other offices in the area which show a range from £71 to £109 per square foot. They consider that in the context of the condition of Riverside House, a discounted value of £56 per square foot would be appropriate.

We are happy to accept JLL's suggestion that a higher benchmark land value should apply to Riverside House, and taking the lower end of the range of comparables cited in their report (£94.15 to £134 per square foot), Riverside House could have a value of **£5.65 million to £8.03 million.**

Adopting one of the two ends of this range as the benchmark land value for Riverside House would significantly reduce or indeed eliminate the surplus that JLL suggest.

2. Existing Use Value for Covent Garden

JLL suggest that our existing use value for the Covent Garden Car Park is overstated, although the commentary at Appendix 5 of JLL's report does not provide an opinion of value. This also has implications for the residual value of the proposed development, which reprovides the car park.

JLL appear to suggest that the value of the car park is likely to be significantly lower than we have estimated in our report, however it is unclear from their note what value they are actually suggesting.

They also suggest that we should value the car park on the same basis for establishing the benchmark land value as we employ for the car park in the proposed development.

Based on the 511 existing spaces, and applying the assumptions set out in section 4.2.4 of our report but making the further following adjustments to reflect JLL's commentary:

- Reduce weekday occupancy from 70% to 40% and weekend occupancy from 90% to 60%.
- Deduct business rates of £85,000 per annum.
- Deduct an operator's profit of 30% of net income.
- Increase yield from 5% to 7%.

Based on these adjustments, the capital value of the existing car park would be **£1.45 million.** We trust that JLL accept that this reflects the issues highlighted in their report. We are happy to discuss any other adjustments they wish to test.

3. Value of replacement car park

We have taken on board JLL's comments on the value of the replacement car park and adopted the following additional assumptions:

- Deduct business rates on a pro-rata basis from the existing £85,000 per annum to reflect on increase to 617 spaces (circa £103,000 per annum).
- Deduct operator's profit of 30% of net income.
- Increase yield from 5% to 6% to reflect JLL's comments.

As a result of these adjustments, this would reduce the capital value of the replacement car park to £4.16 million. JLL's appraisal of the Covent Garden scheme shows a capital value of £10.21 million for the car park, which is based on income of £510,000 per annum with none of the deductions and adjustments they suggest in their Appendix 5. We have therefore replicated JLL's appraisal using **all their assumptions**, and the change to the capital value of the car park reduces the residual land value from **£0.3 million to -£3.67 million.**

4. Implications of the changes to car parking capital value

JLL suggest that the Riverside House development will generate a residual land value of £7 million. If the benchmark land value based on Colliers' valuation of £3.44 million is deducted, there would be a surplus of £3.56 million. This of course assumes that JLL do not increase the benchmark land value, which they note is low in their opinion.

The deficit on the Covent Garden site that requires cross subsidy from Riverside House is £3.67 million, assuming that the site has no existing use value at all. Clearly, there is a difference in opinion between ourselves and JLL, but their report does not provide an opinion. Having made the adjustments that they suggest, we consider that the existing car park has a value in the region of £1.45 million. If this is factored into the assessment, then both schemes taken together would be in deficit (see Table 4.1).

Table 4.1: Appraisal outcome using JLL's inputs for RH and CG and reflecting their suggested changes to car park valuations

	Riverside House	Covent Garden
Residual land value	£7.00 million	-£3.67 million
Site value benchmark	£3.44 million	£1.45 million
Surplus/deficit	£3.56 million	-£5.12 million

5. The value of the Council's new offices and the terms of the deal

JLL's report suggests that their office team "believe that a prudent developer in the market would seek to 'engineer' a higher rent to ensure that the scheme is viable". There are clearly limits to any developer's ability to 'name their price' and if the rent is too high and there are lower priced alternatives in the market, space would not be taken up.

We have re-run the appraisal to determine the level of rent that would be required to bridge the gap between the surplus generated by Riverside House (delivered as a 100% private scheme) and the deficit generated by Covent Garden. The rent would need to increase beyond the £21 per square foot that JLL admit is un-evidenced by any transactions to £26 per square foot. This would increase the costs to the Council – in this notional exercise – from £508,000 per annum to £630,000 per annum.

In any event, the terms of the commercial deal between the Council and Warwick PSP LLP are that there will be no rental payment and that the Council will retain freehold ownership of the new offices in exchange for the value achieved on the Riverside House site. The question of whether a rent of £21 or £26 per square foot can be achieved is therefore a moot point.

If the notional value of the office is removed from the Covent Garden appraisal, the negative residual land value worsens to -£10.17 million. If the benchmark land value of Riverside is set aside, a deficit of circa £3.2 million would remain.

PROPERTY REPORT

Riverside House, Milverton Hill, Leamington Spa CV32 5HZ

Property Summary

Inspection Date: 27 July 2016

Location

The property is located on the western fringe of Leamington Town Centre at the junction of the Warwick New Road and Milverton Hill, approximately 0.25 miles east of the town centre. Warwick town centre is approximately 1.9 miles east of the property, via the A452.

The immediate surrounding area is predominantly residential in nature albeit within a short walk of the town centre.

Leamington Spa is a popular Warwickshire commuter town with good road and rail communications. Junction 14 of the M40 motorway is approximately 6.4 miles south of the Town Centre via the A452 and junction 15 is 5.2 miles via the A429. The A456 and A458 Trunk Roads provide further local access to Birmingham to the east and the towns of Stourbridge, Kidderminster and Worcester to the west/south-west.

Leamington Spa railway station is located approximately ½ mile to the south of the property providing a direct service between Birmingham Snow Hill Station and London Marylebone on the Chiltern Mainline.

Description

The subject property comprises a 4 storey office building, originally constructed in the early 1980's of concrete frame construction with brick and block elevations, surmounted by a hipped tiled roof.

Externally the property benefits from a large tarmacadam car park, for approximately 120 vehicles to the side and rear of the building with 2 vehicular access / egress points directly off Milverton Hill. The topography of the site slopes from north to south and there are a number of mature trees across the site.

We have not carried out an internal inspection of the property however the property appeared to be in generally reasonable condition commensurate with its age and use.

There is a small parcel of land directly to the rear of the property, which separates the car park and the River Leam.

Areas

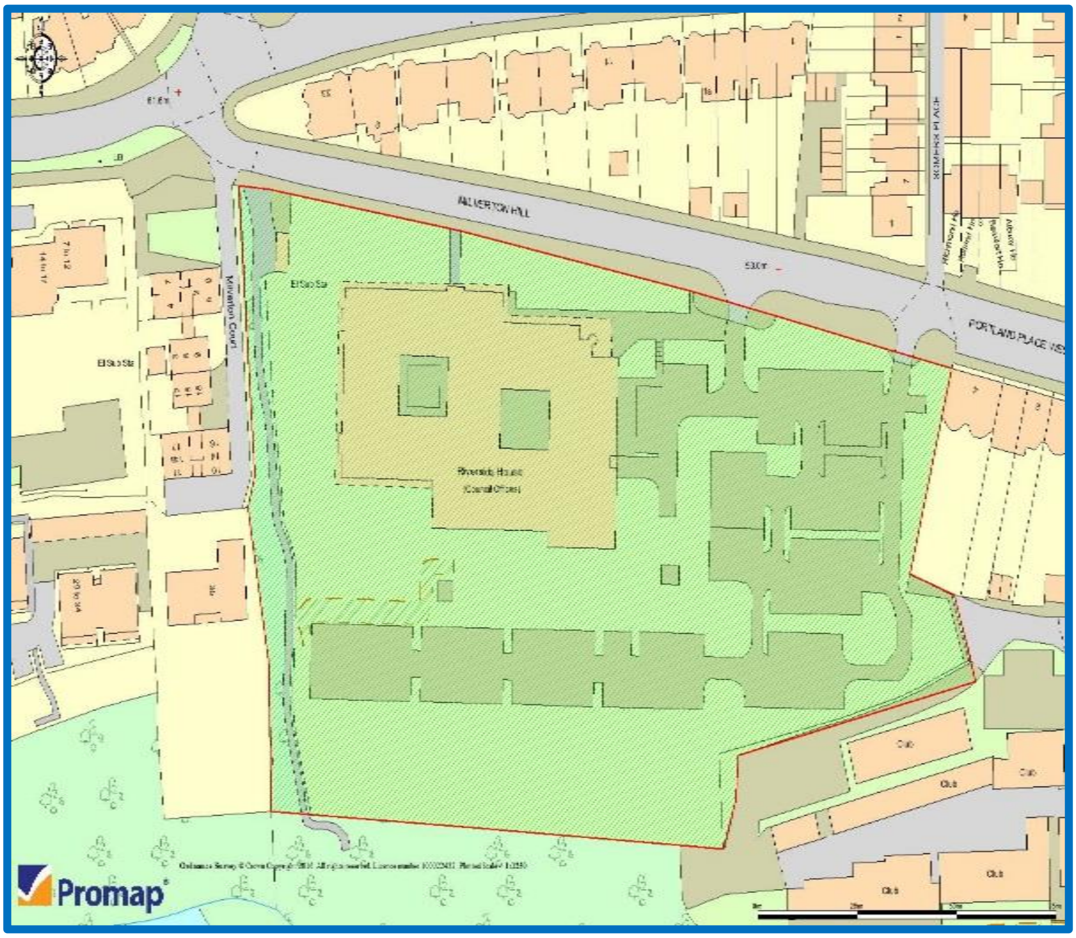
We have electronically measured the site area in accordance with the title plan held at Land Registry and we calculate the site area to be approximately 4.65 acres (1.88 ha).

The building to site ratio is approximately 30% which is relatively low for an office building and reflects the large car park.

Tenure We understand the property is held Freehold

Rateable Value The Rateable Value is £640,000 pa.

Site Plan



Condition The building appears to be in good condition commensurate with its age and use.

Environmental We have not had sight of any environmental reports for the subject property. Prior to its current use the land was the site of Feldon School.

Planning The adopted local planning policy is set out in the saved policies of the Warwick District Council Local Plan (1996 – 2011) which is currently being reviewed. A new Local Plan was submitted for examination in January 2015 and is currently under examination by the Planning Insepctorate for adoption. The subject property has been identified in the new Local Plan as an Urban Brownfield Site, allocated for housing development under policy H14, and considered suitable for an estimated 100 dwellings.

The property is not Listed and is situated outside of the Royal Leamington Spa Conservation Area.

The property is located in the proposed Royal Leamington Spa Neighbourhood Plan which has been prepared by Royal Leamington Town Council.

The property has been identified and allocated for residential development, subject to adoption of the new Local Plan and therefore we consider the property has very good residential development potential. We understand the property is still occupied by Warwick District Council and therefore the timescales for development will need to take into consideration moving the workforce to new premises and preparing and submitting a planning application in the short to medium term.

Development Potential	*Development Timeframe*
Good	**Short**

Market Commentary

Market Overview

Offices

The office market in Leamington Spa has witnessed very little activity over the past few years with very few freehold sales having occurred since January 2010. The majority of transactions have been investment deals at Warwick Technology Park and Tachbrook Park with limited other comparable transactions.

Demand for headquarters offices in Leamington Spa / Warwick is limited, with the majority being located on Tachbrook Park which is the main employment site in the area and home to a number of blue chip companies such as Wolseley Plc and Accenture. The emerging planning policy seeks to encourage commercial development around the Tachbrook area, such as the new 60,000 sqft TATA headquarters building, which is a joint venture with Warwick Manufacturing Group.

Property Fundamentals

The property is an established headquarters office building dating back to the early 1980's albeit it is situated in an established residential area and has been identified as a potential residential development site in the draft Local Plan. We have therefore valued the property as residential development opportunity.

Valuation Summary

Valuation Rationale

The subject property comprises a 60,000 sq ft headquarters office building within close proximity to Leamington Spa Town Centre. The immediate surrounding area is of a residential nature and because of the Local Plan allocation our valuation assumes that the subject property would be viewed by purchasers as a residential development opportunity for either a housing development or retirement living. Leamington Spa is an affluent commuter town and therefore we are of the opinion that the site would be of interest to a wide range of residential / senior living developers..

Due to the proximity to the town centre and the topography of the site, we believe the site would be suitable for a higher density scheme, particularly given the proximity to the River Leam at the rear of the site. We are of the opinion the optimum use / value of the site would be driven by the wholesale redevelopment of the site as opposed to a residential conversion of the existing buildings.

Comparable Evidence:

As you note from the Valuation Rationale section above, we have approached our Market Value on the basis of comparable freehold sales of vacant offices/other building types within the West Midlands. The majority of transactions in this market have all been larger office investment which are not appropriate for this building.

- Wireless House, Warwick Technology Park, Warwick – Sept 2015 – Freehold . 50,000 sq ft office building, located on Warwick Technology Park sold for £5,500,000 reflecting £109 per sq ft. This was a quasi-investment deal with 10,000 sq ft let at £100,000 pa.
- 1 Chapel Street, Leamington Spa – December 2013: 2 storey office building of 6,000 sq ft sold for £500,000 reflecting £79 per sq ft.
- Bridgestone House, Tachbrook Park – July 2013. 2 storey office building comprising 13,000 sq ft sold for £1,070,000 at auction reflecting £82 per sq ft.
- Victoria Court, Leamington Spa – November 2011. 31,000 sq ft office building, close to Leamington Spa town centre sold for £2,265,000 reflecting £71 per sq ft.

The evidence suggests a range of values between £50 to £120 per sq ft dependent upon location, condition, planning/development prospects and size.

We are of the opinion that the subject property is not suitable for continued use as offices and is a residential development opportunity when taking into account the surrounding uses and proximity to the town centre, other complemtary amenities and the River Leam. We are therefore of the opinion that in its existing condition the property is worth £56 per sq ft which equates to a current Market Value of £3,440,000. This reflects a land value of £800,000 per acre.

Valuation as at 12 August 2016

Market Value £3,440,000 (Three Million, Five hundred thousand Pounds)

PSP Warwick - Covent Garden and Riverside House

Summary Appraisal for Phase 1 Covent Garden

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Cov Gdn Residential	44	29,823	411.06	278,615	12,259,042

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Cov Gdn Offices	1	24,230	21.00	508,830	508,830	508,830
Cov Gdn Car Park	617			404	249,543	249,543
Cov Gdn Ground rents	44			300	13,200	13,200
Totals	**662**	**24,230**			**771,573**	**771,573**

Investment Valuation					
Cov Gdn Offices					
Market Rent	508,830	YP @	5.0000%	20.0000	
		PV 2yrs 7mths @	5.0000%	0.8816	8,971,472
Cov Gdn Car Park					
Current Rent	249,543	YP @	5.0000%	20.0000	4,990,860
Cov Gdn Ground rents					
Current Rent	13,200	YP @	5.0000%	20.0000	264,000
					14,226,332

GROSS DEVELOPMENT VALUE			**26,485,374**
Purchaser's Costs	6.45%	(861,999)	
			(861,999)
NET DEVELOPMENT VALUE			**25,623,374**
NET REALISATION			**25,623,374**

OUTLAY

ACQUISITION COSTS		
Residualised Price	(3,671,312)	
		(3,671,312)

CONSTRUCTION COSTS

Construction	**Units**	**Unit Amount**	**Cost**	
Cov Gdn Car Park	617 un	12,470	7,694,000	
	ft²	**Rate ft²**	**Cost**	
Cov Gdn Offices	31,173 ft²	162.50 pf²	5,065,612	
Cov Gdn Residential	36,468 ft²	155.15 pf²	5,658,010	
Totals	**67,641 ft²**		**10,723,623**	**18,417,623**
Cov Gdn Contingency		3.00%	552,529	
Site wide demo and enabling			900,000	
				1,452,529
Other Construction				
Office fit out			1,816,557	
				1,816,557

PROFESSIONAL FEES			
Professional fees	10.00%	1,841,762	
			1,841,762
MARKETING & LETTING			
Marketing	1.00%	122,590	
Letting Agent Fee	10.00%	26,274	
Letting Legal Fee	5.00%	13,137	
			162,002
DISPOSAL FEES			
Sales Agent Fee	1.00%	256,234	
Sales Legal Fee	0.50%	128,117	
			384,351
FINANCE			
Debit Rate 7.000% Credit Rate 0.000% (Nominal)			
Land		(343,512)	
Construction		1,179,297	
Other		146,422	
Total Finance Cost			982,206
TOTAL COSTS			**21,385,718**

PSP Warwick - Covent Garden and Riverside House

PROFIT

		4,237,656

Performance Measures

Profit on Cost%	19.82%
Profit on GDV%	16.00%
Profit on NDV%	16.54%
Development Yield% (on Rent)	3.61%
Equivalent Yield% (Nominal)	5.00%
Equivalent Yield% (True)	5.16%
IRR	33.80%
Rent Cover	5 yrs 6 mths
Profit Erosion (finance rate 7.000%)	2 yrs 7 mths

Appendix 5 – JLL 1st Draft Note on Updated Viability

Updated JLL Viability Analysis – Riverside House and Covent Garden

1st Draft Note

14 December 2017

Introduction

This note provides an overview of the updated viability analysis that JLL has undertaken, following the Applicant's viability advisor's (BNP Paribas) response to our Second Draft Report received on the **7 December 2017**. JLL's Second Draft Report was circulated on the **7 December 2017.**

We made a range of adjustments to BNP's development viability appraisal analysis in arriving at our own initial conclusions regarding the development viability of the scheme. In brief, these were as follows:

- We updated the revenues for the residential apartments in both sites;
- We highlighted a range of queries regarding the office values applied, and in particular, the approach to assessing the viability of the Covent Garden scheme. In particular, we highlighted that it may not be appropriate to incorporate the tenant's 'Category B' fit out, which BNP had assumed was a cost to the Applicant;
- A number of queries as to how the Applicant had arrived at their assessment of the car parking revenue;
- The purchaser's costs that the Applicant had applied to the site acquisition cost were adjusted to reflect the most recent SDLT regime;
- The areas of the scheme were updated to reflect the subsequently submitted planning application proposals;
- We reduced the level of developer's contingency from 5% to 3%;
- Although we had assumed the £900,000 demolition cost for the Covent Garden site, and queried that with the Applicant as to whether it is robust; Anthony – please can you check this amount as discussed on Wednesday morning.
- We have applied a debt finance rate of 6.5%, not 7% as applied by the Applicant;
- We adjusted the approach to developer's return for risk (profit) at the Covent Garden site, to reflect the fact that the scheme is mixed-use and hence a profit of 20% on cost (rather than a higher level of 20% on GDV) is more appropriate;
- We utilised the Applicant's cost of £725,000 for the culvert at Riverside House. The Applicant has subsequently provided a quote from Severn Trent Water to justify this amount.
- We adopted the Site Value benchmarks proposed by BNP, but raised several issues relating to their assessment of the value of the existing car park at Coven Garden. The Applicant has responded to many of these issues and proposed a revised valuation of £1.45 million (approximately half of their original Site Value benchmark).

  We also requested a copy of the valuation undertaken by Colliers CRE of Riverside House. We are broadly comfortable with the Market Value reported in this valuation having reviewed its contents.

JLL's Findings

JLL's findings in our Second Draft Report were that:

- Riverside House generates a ***significant surplus*** which could either contribute towards affordable housing or the delivery at the Covent Garden site, if required;

- The Covent Garden site was not viable based upon the current assumptions adopted. However, we believed that this scheme ***could be viable*** if the District Council was to pay a higher rent and take a longer lease (a factor which would lower the yield which would increase the revenue in the development appraisal). In addition, if WDC were to pay their own 'Catergory B' fit out costs (as is typical in the market) this would also improve the viability of the Covent Garden project.

We concluded that without further information on the nature of the transaction between WDC and the Applicant, we were unable to advise on the viability of the Covent Garden site and hence the impact on the level of affordable housing at Riverside House.

The Applicant's Response

BNP circulated a note on the **7 December 2017** which addressed the following points:

- **The Existing Use Value for Riverside House** – a copy of Colliers CRE Red Book valuation to support the Applicant's proposed Site Value benchmark of **£3.44 million** was supplied. BNP also contended in their note that based on JLL's comparable evidence included in our second draft report, the Site Value benchmark could be higher and range between £5.65 million and £8.03 million.

  We have several observations on the Red Book valuation provided as follows:

  - The Date of Valuation is the **12 August 2016** (and therefore it is possible that there has been some growth in the office market since that point).
  - Colliers CRE's valuation undertakes a detailed assessment of the property, which we assume has involved undertaking a measured inspection and accessing all areas of the property.
  - Colliers CRE assessed the Market Value of the Property on the basis of comparable freehold sales of vacant offices/other building types within the West Midlands.
  - However, in the valuer's opinion, they believed that the property was not suitable for continued use as offices and that the site comprised a residential development opportunity. Colliers CRE therefore had regard to both freehold office values, but also 'sense checked' this against residual land values. Their valuation accords with a figure of £800,000 per gross acre.

  Having had the benefit of reviewing Colliers CRE's valuation, we are content with the **£3.44 million** Site Value benchmark figure proposed by BNP, given that the commentary and research in Colliers CRE's valuation is in line with the comments made by JLL Office Agency surveyors. In addition, as set out in our second draft report, we attach limited weight to the comparables we researched and assessed, given that these were for smaller buildings in more established office locations.

- **Existing use value for the Covent Garden site** – JLL's Car Parking Consultants reviewed how the Applicant has arrived at their assessment of the Site Value benchmark for the Covent Garden site, but as BNP correctly point out, did not provide an alternative assessment of it's value.

  The issues raised with BNP's assessment of the Site Value benchmark of £2.95 million (which relied on the VOA's calculation of rent of £177,000 which was capitalised at a yield of 6%), were highlighted in our second draft report.

The Applicant has not provided any information relating to the current trading figures for the existing car park, or provided a condition report. This information would assist in evaluating whether the £177,000 assessed by the VOA is robust.

There is also discrepancy, as highlighted by our original note, in terms of the number of car parks that the Applicant believes is currently in place and those assessed by the District Valuer.

BNP appear to have updated their assessment so that the same approach to valuing the car park is applied to the assessment of the existing car park to that of the new build car park. BNP have now considering the charging rates and have now made the following adjustments to reflect our commentary:

- Reduction in the weekday occupancy from 70% to 40% and weekend occupancy from 90% to 60%.
- Deducted business rates of £85,000 per annum.
- Deducted an operator's profit of 30% of net income.
- Increased the yield from 5% to 7%. (NS to check)

Based on these adjustments, BNP arrive at a reduced capital value of **£1.45 million**, which is approximately half of their original assessment of **£2.95 million**. We have not been provided with any detailed calculations which set out how they have this assessment and it would be useful to have sight of this (Anthony – have you got a brief spreadsheet for the existing and new to show how your figures have been calculated please?).

However, as a 'sense check', we have considered the proposed revised land value of **£1.45 million** against land values for development sites in town centre locations in Leamington. The existing site comprises £1.36 acres, and hence this equates to a value of just over £1 million per acre. This is realistic as a Site Value benchmark for town centre sites in Leamington Spa.

Accordingly, whilst we have some reservations as to how BNP have arrived at their revised figure of £1.45 million), our 'sense check' indicates that it is broadly in line with town centre land values in Leamington.

- **Value of the replacement car park -** JLL provided a range of comments to BNP regarding their assessment of the value of the new car park to be included in the Covent Garden scheme. The issues we raised, and how they have been addressed by the Applicant, are set out below:

  - **VAT may have been included within the £3.00 daily rate.** This does not appear to have been updated in BNP's assessment, and therefore we assume that they have allowed for VAT elsewhere.

  - **Occupancy Levels -** BNP have reduced occupancy levels from 70% to 40% in week days, and 90% to 70% at weekends respectively. This falls more in line with JLL car parking consultant's anticipated occupancy levels (NS to check with JLL Car Parking Consultants).

  - **Business Rates -** The Applicant has allowed for business rates separately, given that JLL's Car Parking Consultants have indicated that the 10% allowance for management was not enough to cover all costs. JLL Car Parking Consultants are now more comfortable with this approach (NS to check).

  - **Operator's Profit -** As no profit allowance had been incorporated, the Applicant has assumed 30% of the net income for the operator which is a figure that JLL car parking consultants are broadly comfortable with. (NS to check).

  - A yield applied has been increased from 5% to 6% to reflect that, as far as JLL is aware, there is no 'pre-let' agreement in place. BNP have utilised JLL's assumptions in their revised assessment which generates a much lower figure of **£4.16 million** compared with the original value of **£10.12 million** for the new car parking. This will have a significantly negative impact on the viability of the Covent Garden scheme.

BNP's revised viability position:

BNP's revised development viability position is set out in Table 1 below:

Table 1: BNP's Revised Findings

	Riverside House	Covent Garden
Residual Land Value (JLL assumptions)	£7 million	-£3.67 million
Site Value Benchmark	£3.44 million	£1.45 million
Surplus/Deficit	**£3.56 million**	**-£5.12 million**

Source: BNP's Response on Development Viability of 7 December 2017

Therefore, whilst the figures for the Riverside House site have remained the same, the Residual Land Value (RLV) for the Covent Garden site has reduced according to BNP's assessment, when JLL's figures are adopted. The key change is the difference in the value of the completed new car parking which has significantly reduced, given JLL Car Parking Consultant's comments regarding the likely values of the car parking element of the scheme.

We have accepted the Applicant's proposed Site Value benchmark of **£3.44 million** for Riverside House, based upon our review of Colliers CRE's valuation. Therefore, there is a surplus of £3.65 million at Riverside House which could either contribute to the delivery of affordable housing (or meet a deficit at Covent Garden, if WDC cannot enhance the lease that they take of the Offices at Covent Garden site (and perhaps pay for their own fit out costs of approximately £1.8 million) in order to improve project viability.

Therefore, the approach to the delivery of the Covent Garden development, and in particular, the agreement between the Applicant and WDC, is critical to the assessment of the development viability of this site (as indicated in our Second Draft report). We have therefore considered this later in this note.

Nature of the Transaction Between the District and the Applicant

The Applicant and their advisors, BNP, have now provided additional information on the nature of the transaction between the WDC and the Applicant, to guide the development viability testing.

They state that:

- No rent will be payable from the Council to the applicant.
- The Council will retain the freehold ownership of the Covent Garden site.

Therefore, WDC is essentially receiving the new office accommodation in its built form as the Site Value benchmark for both the Covent Garden site and the Riverside House sites.

The Applicant has now confirmed via email that WDC will retain the ownership of the new car parking in the Covent Garden element of the scheme (other than approximately 40 spaces which will be given to service the 44 residential apartments).

The RICS Guidance requires an objective assessment of development viability to be undertaken. In particular, **Box 10: 'Industry benchmarks'** states that the nature of the applicant should normally be disregarded, as should any benefits or dis-benefits that are unique to the applicant.

However, in this case, the delivery of the offices at the Covent Garden site to the Council is a fundamental element of the transaction, as highlighted in our second draft report. In addition, the precise terms that WDC have agreed will have a significant impact on the development viability of the Covent Garden project (and hence the potential need for the Covent Garden site to be 'cross-funded' by the Riverside House project, and hence the ability of this site to deliver affordable housing).

We have therefore updated our development viability analysis which assesses the two approaches as follows:

1. **An Objective Assessment Approach** – this approach is as previously tested by both BNP and JLL, and seeks to reflect, as far as possible, the RICS Guidance's requirement of undertaking an objective viability assessment (i.e. disregards the particular circumstances of the Applicant).

   In essence, this approach would assume that WDC would enter a 'pre-let' agreement with the Applicant for the new office and car parking space, that reflects terms that would typically be agreed with a tenant the market. This would also assume that the Applicant receives a 'capital sums' for the Site Value benchmark (which we have now broadly agreed with BNP as being **£5.89 million**.

2. **An Assessment of the Actual Transaction** – this approach reflects, as far as we are able to ascertain, the nature of the agreement between the Applicant and WDC, which we understand to be as follows:

   - WDC will not receive a Site Value benchmark for either the Riverside House or the Covent Garden sites (i.e. is foregoing **£5.89 million**).

   - WDC will, however, receive the freehold of a newly constructed office building at nil cost, and ownership of the new car park comprising approximately 570 spaces (670 less 40 spaces for the residential apartments).

   - WDC will not be required to contribute towards the construction cost of the new office (approximately **£5.07 million** before fees), new car parking (approximately **£7.7 million** before fees etc.), or their Category B fit out (tenant's fit out) costs of a further **£1.8 million**.

   - As WDC will own the freehold of the new offices and the car park, they will not be required to pay a rent (as anticipated in **Approach 1** above). The rent could be significant (for example, at £21 per sq ft, the rent would be £508,830 per annum.

Our findings of our revised development viability appraisals for each approach are set out below, along with our analysis.

JLL Findings

Approach 1 - The Objective Assessment Approach

Our updated findings when adopting the 'objective assessment' approach (i.e. updating **Table 6.1** of JLL's Second Draft viability assessment) are as follows:

Table 2: JLL Revised Development Viability Findings (Updated Table 6.1)

	Riverside House	**Covent Garden**
Residual Land Value	£7 million (no change)	-£3.31 million (with revised car parking figures based upon revised BNP assumptions)
Site Value Benchmark	£3.44 million (no change – findings of Colliers CRE valuation accepted by JLL)	£1.45 million (whilst JLL still have queries as to how BNP have arrived at their reduced assessment of car parking value, we are now more comfortable with this figure as an assumption, as it equates to typical town centre development land values in Leamington, which provides a useful 'sense check').
Surplus/Deficit	£3.56 million (Surplus)	- £4.76 million (Deficit)

Table 2 shows that, if the pre-let to WDC was agreed at £21 per sq ft, and WDC also have their fit out paid for by the developer, the project gap required would be approximately **£4.76 million** in order to ensure that the proposed site was viable and the revised Site Value benchmark of £1.45 million was generated to the land owner (the Applicant/WDC). It should be noted that this is in excess of the surplus of generated by the Riverside House site when affordable housing is not included by approximately **£1.2 million**.

The Riverside House project would therefore need to contribute the surplus of £3.56 million to the Covent Garden site, to improve viability (although there would still be a gap of £1.2 million). Based upon the assumptions adopted, there would be no surplus to contribute to affordable housing or other planning contributions. However, this position could still change it the Council could take a long lease at a higher rent to improve project viability. In addition, if WDC could fund their office 'fit out' cost of £1.8 million (as is standard practice in the market), the project viability would improve significantly which is likely to mean that a position could be achieved where the project does not require cross subsidy from Riverside House (meaning that in turn, affordable housing could be provided at the site).

Approach 2 – Assessment of the Actual Transaction

As an alternative approach to viability testing, we have also considered the nature of the proposed transaction between the Applicant and WDC, to assess the impact on development viability.

We anticipate that this will be important for planning committee members, as they will need to balance:

- the benefits of the transaction that the Applicant has agreed with WDC (i.e. the delivery of the replacement offices and car parking at nil rent and nil cost, (including the provision of WDC's 'fit out' of the offices at 'nil cost'), with:

- the impact that this may have on the delivery of affordable housing at the Riverside House site.

In order to undertake this viability assessment, we have undertaken a further development viability appraisal of the Covent Garden site, which assumes that the office and car parking elements will be delivered to WDC at a nominal value of £1.00 each. The cost of the office and car parking are still included, as the Applicant will still be expected to construct these elements and deliver them to WDC when completed.

Table 3 sets out our findings:-

Table 3 – Findings of Bespoke Transaction Approach

	Riverside House	Covent Garden	Total
Residual Land Value	£7 million	-£13.46 million	-£6.46 million
Site Value Benchmark	£3.44 million	£1.45 million	£4.89 million (Total Site Value benchmark to owner Applicant/WDC? – Rob – do WDC still own or have the sites been transferred to the JV?)
Surplus/Deficit	£3.56 million (no change)	- £14.91 million	

Table 3 shows that, as the Applicant will be required under the terms of the transaction (as the Applicant has explained it), to deliver the offices and car park to WDC at nil cost (in exchange for WDC's Site Value benchmark of £4.89 million), the scheme would not be viable and would require cross-subsidy from the **£7 million** residual land value produced for the Riverside House (where no affordable housing is provided), in order to improve the viability of the scheme. However, we would estimate that there would still be a project gap of approximately £6.46 million.

This approach means that there is no scope for the Riverside House site to provide affordable housing what with the planning contributions (provided that WDC's new offices and car parking is to be delivered at nil cost in exchange for the not receiving the Site Value benchmark for the site).

However, several things should be noted:

- Our analysis suggests that the impact on the delivery of affordable housing could be mitigated by WDC taking a different approach to delivery (i.e. Approach 1), where WDC take the new office and car park on leasehold terms. If the terms of this transaction is structured correctly, the investment value of this lease would be very well received in the market and would generate a significant capital receipt as an investment to the Applicant).

  This in turn would significantly enhance the residual land value of the site and reduce the impact on affordable housing at the Riverside House. However, this approach would mean that WDC have a significant rental obligation (which is likely to be in excess of £500,000 per annum. WDC would, however, receive the capital receipts for the site (the Site Value benchmarks) of both sites of approximately £4.89 million if this approach was taken.

- Under the current terms of the transaction (Approach 2), WDC are effectively receiving an 'enhanced' Site Value benchmark position, as if the construction cost of the new offices and car parking of approximately £12.76 million (which excludes the additional cost of WDC's office fit out at £1.8 million) which significantly exceeds the Site Value benchmark anticipated for the existing assets of £4.89 million.

- WDC's investment value of the completed offices and car park would also be much higher than £4.89 million. For example, if WDC were to enter into a 'sale and leaseback' arrangement of the car park at a later date.

Notwithstanding the above, the sensitivity test of the approach which best reflects the terms between the parties (as we understand them based on information provided by the Applicant and their advisors) is that if WDC is to be provided with new, replacement offices and car parking at nil cost, there is no scope for affordable housing to be provided at either the Covent Garden or Riverside House sites.

Nigel Simkin
Director
Jones Lang LaSalle Limited

14 December 2017

Appendix 6 – JLL Updated Development Appraisals of Covent Garden Scheme

Covent Garden
Final Base Appraisal

Development Appraisal
JLL
04 January 2018

Covent Garden
Final Base Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**	
Apartments	44	29,570	411.06	276,251	12,155,044	
Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Offices	1	24,230	21.00	508,830	508,830	508,830
Apartment Ground Rent	44			300	13,200	13,200
Carparking	617			374	230,758	230,758
Totals	**662**	**24,230**			**752,788**	**752,788**

Investment Valuation					
Offices					
Market Rent	508,830	YP @	5.0000%	20.0000	
(2yrs Rent Free)		PV 2yrs @	5.0000%	0.9070	9,230,476
Apartment Ground Rent					
Current Rent	13,200	YP @	5.0000%	20.0000	264,000
Carparking					
Current Rent	230,758	YP @	5.0000%	20.0000	4,615,160
					14,109,636

GROSS DEVELOPMENT VALUE				**26,264,680**
Purchaser's Costs		6.60%	(931,236)	
				(931,236)
NET DEVELOPMENT VALUE				**25,333,444**
NET REALISATION				**25,333,444**

OUTLAY

ACQUISITION COSTS				
Residualised Price (Negative land)			(3,550,979)	
				(3,550,979)
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Carparking	617 un	12,471	7,694,328	
	ft²	**Rate ft²**	**Cost**	
Offices	31,173 ft²	162.50 pf²	5,065,613	
Apartments	34,788 ft²	155.15 pf²	5,397,395	
Totals	**65,961 ft²**		**10,463,007**	**18,157,335**
Contingency		3.00%	544,720	
Office Fit Out			1,816,557	
Demo and Enabling			900,000	
Section 106 and CIL			1	
				3,261,278
PROFESSIONAL FEES				
Other Professionals		10.00%	1,815,734	
				1,815,734
MARKETING & LETTING				
Letting Agent Fee		10.00%	50,883	
Letting Legal Fee		5.00%	25,442	
				76,325
DISPOSAL FEES				
Sales Agent Fee		1.00%	253,334	
Marketing on Resi		1.00%	121,550	
Marketing on Offices			1	
Sales Legal Fee		0.50%	126,667	
				501,553
FINANCE				
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land			(327,658)	

Covent Garden
Final Base Appraisal

Construction		1,099,562	
Letting Void		77,300	
Other		754	
Total Finance Cost			849,958
TOTAL COSTS			**21,111,203**
PROFIT			
			4,222,241
Performance Measures			
Profit on Cost%	20.00%		
Profit on GDV%	16.08%		
Profit on NDV%	16.67%		
Development Yield% (on Rent)	3.57%		
Equivalent Yield% (Nominal)	5.00%		
Equivalent Yield% (True)	5.16%		
IRR	44.19%		
Rent Cover	5 yrs 7 mths		
Profit Erosion (finance rate 6.500%)	2 yrs 10 mths		

Covent Garden
Updated Base Appraisal with office and car parking at £1

Development Appraisal
JLL
04 January 2018

Covent Garden
Updated Base Appraisal with office and car parking at £1

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Apartments	44	29,570	411.06	276,251	12,155,044

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Offices	1	24,230	0.00	1	1	1
Apartment Ground Rent	44			300	13,200	13,200
Carparking	617			0	1	1
Totals	**662**	**24,230**			**13,202**	**13,202**

Investment Valuation					
Offices					
Manual Value					1
Apartment Ground Rent					
Current Rent	13,200	YP @	5.0000%	20.0000	264,000
Carparking					
Current Rent	1	YP @	5.0000%	20.0000	20
					264,021
GROSS DEVELOPMENT VALUE				**12,419,065**	
Purchaser's Costs		2.82%	(7,445)		
				(7,445)	
NET DEVELOPMENT VALUE				**12,411,620**	
NET REALISATION				**12,411,620**	

OUTLAY

ACQUISITION COSTS				
Residualised Price (Negative land)			(13,460,587)	
				(13,460,587)
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Carparking	617 un	12,471	7,694,328	
	ft²	**Rate ft²**	**Cost**	
Offices	31,173 ft²	162.50 pf²	5,065,613	
Apartments	34,788 ft²	155.15 pf²	5,397,395	
Totals	**65,961 ft²**		**10,463,007**	**18,157,335**
Contingency		3.00%	544,720	
Office Fit Out			1,816,557	
Demo and Enabling			900,000	
Section 106 and CIL			1	
				3,261,278
PROFESSIONAL FEES				
Other Professionals		10.00%	1,815,734	
				1,815,734
MARKETING & LETTING				
Letting Agent Fee		10.00%	0	
Letting Legal Fee		5.00%	0	
				0
DISPOSAL FEES				
Sales Agent Fee		1.00%	124,116	
Marketing on Resi		1.00%	121,550	
Marketing on Offices			1	
Sales Legal Fee		0.50%	62,058	
				307,726
FINANCE				
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land			(885,467)	
Construction			1,099,562	

Covent Garden
Updated Base Appraisal with office and car parking at £1

Letting Void		20,907	
Other		26,528	
Total Finance Cost			261,530
TOTAL COSTS			**10,343,017**
PROFIT			
			2,068,603
Performance Measures			
Profit on Cost%	20.00%		
Profit on GDV%	16.66%		
Profit on NDV%	16.67%		
Development Yield% (on Rent)	0.13%		
Equivalent Yield% (Nominal)	5.00%		
Equivalent Yield% (True)	5.16%		
IRR	N/A		
Rent Cover	156 yrs 8 mths		
Profit Erosion (finance rate 6.500%)	2 yrs 10 mths		

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