

Public Local Inquiry  
Ref: APP/PCU/CPO/U4610/3299063



Proof of Evidence  
**Robert Fourt**  
**BSc (Hons) MSc FRICS**

**On behalf of The Royal London Mutual Insurance Society Limited (“Royal London”)**

**In respect of:**

**Land within Coventry City Centre**

December 2022

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## **Robert W Fourn will say:**

### **1 Name and Qualifications**

- 1.1 My name is Robert Fourn. I hold a Bachelor of Science Degree in Land Administration and a Master of Science in Property Investment with distinction. I am also a Fellow of the Royal Institution of Chartered Surveyors and a RICS Registered Valuer. I am an Honorary Visiting Fellow in the Faculty of Finance, Bayes Business School University of London. I am also an Advisory Board Member of the MSc in Sustainable Urban Development of Oxford University.
- 1.2 I am a Partner in the firm of Gerald Eve, Chartered Surveyors and Property Consultants, of One Fitzroy, 6 Mortimer Street, London W1, having other offices in Birmingham, Cardiff, City of London, Glasgow, Leeds, Manchester and Milton Keynes.
- 1.3 I have over 35 years of experience in advising on planning and development consultancy, valuation and finance. I have advised on major acquisitions and disposals of property with potential for either commercial or residential development.
- 1.4 I am a member of the Planning and Development Department of Gerald Eve. I have advised landowners, corporate occupiers, developers, institutions and public authorities on the formulation and implementation of disposal strategies. As a consequence of this, I am fully familiar with the factors that determine the development value of property. I was responsible, until the end of 2018, for the publication of Gerald Eve's Investment Brief.
- 1.5 I regularly undertake valuations and viability appraisals for various purposes and a variety of different property types. I have significant experience in undertaking valuations and viability appraisals in connection with residential and commercial development opportunities and open market land transactions.
- 1.6 I sit on the RICS Working Party that produced guidance on Financial Viability in Planning. I was technical author of the RICS Professional Statement on "Financial Viability in Planning: conduct and reporting", which was issued in May 2019 and became effective in September 2019.

I was appointed by the RICS to chair the committee to review VIP12, “Valuation of Development Land” which led to the RICS professional standards and guidance “Valuation of development property” which was published in October 2019 and became effective on 1<sup>st</sup> February 2020.

- 1.7 I am an experienced expert witness, having provided evidence on valuation, financial viability, and development matters at various public inquiries, arbitrations, Upper Tribunal (Lands Chamber) hearings and in the High Court. My CV is attached as **Appendix 1**.
- 1.8 I am experienced in undertaking and advising upon compulsory purchase and compensation negotiations on behalf of both claimants and acquiring authorities in London. My experience includes advising upon the land acquired as part of ‘Thameslink 2000’ at London Bridge, Crossrail 1 at Bond Street, the London Olympic Games in Stratford and Wards Corner, Seven Sisters Road. I also advised Croydon Council on the viability of major shopping centre proposals in central Croydon, including appearing at Inquiries.
- 1.9 I am familiar with the locality generally surrounding the land within Coventry City Centre. I have inspected the area on 30<sup>th</sup> November 2022, since my firm’s initial instruction.
- 1.10 My current instructions are set out in Section 2 of this report

## 2 Instructions

- 2.1 I am acting on behalf of The Royal London Mutual Insurance Society Limited ("**Royal London**").
- 2.2 I am instructed to prepare a report as supporting evidence for the public local inquiry regarding 'The City of Coventry (City Centre South) Compulsory Purchase Order 2022, ("**the Order**") as made by the Council of the City of Coventry, ("**the Council**"). The Order was submitted to the Secretary of State by the Council for consideration on 13 May 2022.
- 2.3 The Order relates to the redevelopment of land within Coventry City Centre ("**the Order Land**").
- 2.4 Shearer Property Regen Ltd ("**the Applicant or SPRL**") submitted a planning application for a scheme of redevelopment of the Order Land (REF OUT/2020/2876) ("**the Planning Application**") to the Council on 23 November 2020. The scheme of redevelopment which was the subject of the Planning Application ("**the Order Scheme**") was granted planning permission on the 27<sup>th</sup> January 2022.
- 2.5 The Order Scheme comprises the following:
- 'Hybrid planning application for: Full application: A. Full Application for removal of bridge link between Coventry Market roof top car park and roof top parking over existing retail units on Market Way and associated reinstatement works to roof top car park surface and balustrade, removal of existing Coventry Market basement ramp from Rover Road and associated infilling and reinstatement works, works to retaining wall to north-east of Coventry Market, removal of existing pedestrian ramp into Coventry Market off Rover Road, creation of new Coventry Market basement ramp from Queen Victoria Road and associated works to Coventry Market basement, and removal and relocation of William Mitchell mural from front elevation of the former Three Tuns Public House building in Bull Yard; Outline application: B. For part of the site (Parameters Plans Document March 2021 Revision B) for the demolition of all existing buildings and redevelopment of the land for mixed uses, including details of the layout and scale of new development, with details of access, appearance and landscaping reserved; and C. For part of the site for the demolition of all existing*

*buildings and the redevelopment of the land for mixed use, with details of access, layout, scale, appearance and landscaping reserved. The scheme comprises a mixed use redevelopment of up to 1,300 residential units (Class C3), up to 150 hotel rooms (Class C1), up to 37,500 sqm of mixed-use non-residential floorspace including Class E Commercial, Business and Service uses, Class F.1 Learning and Non-Residential Institutions, and Sui Generis Pub or Drinking Establishment / Hot Food Takeaway / Cinema uses, hard and soft landscaping and new public open spaces including sustainable urban drainage systems, car parking provision and formation of new pedestrian and vehicular access and stopping up of existing highway’.*

- 2.6 Full acquisition of the Order Land is required to carry out and complete the Order Scheme.
- 2.7 My instruction is to set out my professional opinion in respect of the viability and deliverability of the Order Scheme. This report and supporting development appraisals directly address the viability of the Order Scheme.
- 2.8 I have also assessed the viability and deliverability of an alternative scheme which is the application submitted under section 73, Town and Country Planning Act 1990 (“**the S73 Application**”) (REF S73/2022/3160) (“**the Alternative Scheme**”), which was submitted to the Council on 7<sup>th</sup> November 2022 by SPRL. The Alternative Scheme proposes the following:

*Variation of conditions 1, 2, 46, 50, and 51: imposed on planning permission OUT/2020/2876 granted on 27/01/22 (and as amended by non-material amendment NMA/2022/2523 granted 11/10/22) for: Hybrid planning application for: Full application: A. Full Application for removal of bridge link between Coventry Market roof top car park and roof top parking over existing retail units on Market Way and associated reinstatement works to roof top car park surface and balustrade, removal of existing Coventry Market basement ramp from Rover Road and associated infilling and reinstatement works, works to retaining wall to north-east of Coventry Market, removal of existing pedestrian ramp into Coventry Market off Rover Road, creation of new Coventry Market basement ramp from Queen Victoria Road and associated works to Coventry Market basement, and removal and relocation of William*

*Mitchell mural from front elevation of the former Three Tuns Public House building in Bull Yard; Outline application: B. For part of the site for the demolition of existing buildings and redevelopment of the land for mixed uses, including details of the layout of new development, with details of scale, access, appearance and landscaping reserved; and C. For part of the site for the demolition of existing buildings and the redevelopment of the land for mixed use, with details of access, layout, scale, appearance and landscaping reserved. The scheme comprises a mixed use redevelopment for residential units (Class C3), a hotel (Class C1), mixed-use non-residential floorspace including Class E Commercial, Business and Service uses, Class F.1 Learning and Non-Residential Institutions, and Sui Generis Pub or Drinking Establishment / Hot Food Takeaway / Cinema uses, hard and soft landscaping and new public open spaces including sustainable urban drainage systems, car parking provision and formation of new pedestrian and vehicular access and stopping up of existing highway.*

- 2.9 Notwithstanding the above description of development including hotel use, I understand from a letter from the Council dated 8<sup>th</sup> December 2022 (see **Appendix 2**) that a hotel has not been included in the assessment of viability by either the Council or its Development Partner. It is unclear whether or not the hotel use has been included in the Financial Viability Assessment that accompanies the S73 Application. I note that the Council states in its letter of the 8<sup>th</sup> December that a potential hotel use continues to be included in the Alternative Scheme parameters in order that this use could come forward, presumably subject to viability.

### 3 Scope of Report

- 3.1 My report is prepared for the purposes of providing evidence to the public local inquiry regarding the Order. It will focus upon the viability of both the Order Scheme and the Alternative Scheme and whether they are capable of being delivered.
- 3.2 I have prepared development appraisals which inform my opinion of the deliverability and viability of the Order Scheme and the Alternative Scheme. My appraisals rely upon information I have obtained from the Council as set out in my evidence.
- 3.3 The scope of my report therefore encompasses:
- i a viability assessment comprising a development appraisal of the Order Scheme based upon current day costs and values; and
  - ii a viability assessment of the Alternative Scheme based again upon current day costs and values.
- 3.4 I am aware of, and refer to where necessary, Expert's Reports and Witness Statements prepared by:
- Mr Keith Hardman, International Partner, Head of Development & Strategic Advisory (UK) – Cushman & Wakefield;
  - Mr Keith Murray – Keith Murray Consultants Ltd advising on the justification for the use of CPO powers; and
  - Mr Alec Philpott of Mayer Brown advising on servicing matters.
- 3.5 My report is set out under the following sections;
- 4. Relevant Background
  - 5. Statutory Framework for Land Value and Policy Context for Viability and Deliverability
  - 6. Viability Method and Approach
  - 7. Information Provided
  - 8. Order Scheme – Planning Permission



9. Alternative Scheme – S73 Application
  10. Summary Viability Results and Sensitivity Analysis
  11. Viability and Deliverability of the Order and Alternative Schemes
  12. Summary and Conclusions
  13. Statement of Truth and Declarations
- 3.6 The appendices are introduced in the text within the various sections of my report as outlined above.

## 4 Relevant Background

- 4.1 The relevant background to the Order is set out in Mr Keith Murray's evidence, together with a timeline of events leading up to the Inquiry.
- 4.2 In matters such as providing evidence on viability, I normally consider the parties involved: i.e. the Council; SPRL; and Hill Residential Limited ("HRL"). This would be in the context of development agreement(s) between each. These are important for understanding such matters as acceptable returns, funding and the respective responsibilities of each party. To date I have not seen any such document(s) and assume these will be provided as part of the Council's evidence.
- 4.3 I note the information set out in the Council's Statement of Case dated 19<sup>th</sup> December 2022 and in particular paragraphs 8.1 to 8.9 in respect of "Means of Delivery, Viability and Funding". From this I note the following:
- i. The Council has entered into a grant funding agreement with West Midlands Combined Authority ("WMCA") for £98.8m in order to support the Order Scheme. I note that c. £15m has been spent to date by the public sector;
  - ii. There is a Development Agreement between the parties identified in paragraph 4.2 above;
  - iii. Under the Development Agreement there are various funding obligations in respect of each of the parties identified in paragraph 4.2 above;
  - iv. There are other non-financial obligations relating to the parties, including pre-conditions, in the Development Agreements;
  - v. The Development Agreement will likely require modification to reflect specific financing arrangements; and
  - vi. The Council and WMCA are unlikely to require a Council-led delivery approach.
- 4.4 Whilst the brief synopsis set out in the Council's Statement of Case sheds a little more light on the workings of the Development Agreement, it is clearly difficult to comment without having seen the document. It is

however noted that the Development Agreement is likely to be modified going forward.

- 4.5 I have requested information from the Council on two occasions. For viability purposes, I requested all the necessary information required to undertake a viability assessment of both the Order Scheme and the Alternative Scheme, see **Appendix 3**. This includes both information about the scheme(s) and revenue and cost inputs into the Council's viability appraisals.
- 4.6 Most of this information requested remains outstanding. I expected that, at this stage of proceedings, such information would have been available to inform the viability and deliverability of the Order Scheme and Alternative Scheme. As stated above, I assume that this will be provided as part of the Council's evidence.

## 5 Statutory Framework for Land Value and Policy Context for Viability and Deliverability

### Statutory Framework for compensation for Land Value

- 5.1 In this section I summarise the statutory framework for assessing the value of land and interests required for both the Order Scheme and the Alternative Scheme. This will include compensation to be paid to the claimants as a result of the Order. This is necessary as the ultimate costs associated with the compulsory acquisition of land and interests in the Order have to be estimated in advance, in order to understand the viability and deliverability of the Order Scheme or the Alternative Scheme.

### Value of the land taken

- 5.2 The basis for the assessment of compensation for compulsory purchase is set out in Section 5 of the Land Compensation Act 1961 ("**LCA 1961**"), which provides that:

*"Compensation in respect of any compulsory acquisition shall be assessed in accordance with the following rules:*

*(1) No allowance shall be made on account of the acquisition being compulsory;*

*(2) The value of land shall, subject as hereinafter provided, be taken to be the **amount which the land if sold in the open market by a willing seller might be expected to realise**; (my emphasis).*

Sub-sections (3) to (5) of Section 5 also contain provisions for assessment of compensation for the value of the land but they are not of particular relevance in this case and I therefore do not set them out in this report.

- 5.3 For the purposes of Section 5(2) of LCA 1961 (referred to generally, and in this report, as "**rule (2)**"), compensation for the land acquired is therefore determined on the basis of the **market value** of the land.

- 5.4 Section 6A of LCA 1961 sets out the provisions whereby any impact on value due to the scheme for which the land is acquired is to be

disregarded. This is referred to in LCA 1961 as the “No-scheme principle”. Section 6A states the following:

- “(1) The no-scheme principle is to be applied when assessing the value of land in order to work out how much compensation should be paid by the acquiring authority for the compulsory acquisition of the land (see rule 2A in section 5).*
- (2) The no-scheme principle is the principle that—*
  - (a) any increase in the value of land caused by the scheme for which the authority acquires the land, or by the prospect of that scheme, is to be disregarded, and*
  - (b) any decrease in the value of land caused by that scheme or the prospect of that scheme is to be disregarded.*
- (3) In applying the no-scheme principle the following rules in particular (the “no-scheme rules”) are to be observed.*
- (4) Rule 1: it is to be assumed that the scheme was cancelled on the relevant valuation date.*
- (5) Rule 2: it is to be assumed that no action has been taken (including acquisition of any land, and any development or works) by the acquiring authority wholly or mainly for the purposes of the scheme.*
- (6) Rule 3: it is to be assumed that there is no prospect of the same scheme, or any other project to meet the same or substantially the same need, being carried out in the exercise of a statutory function or by the exercise of compulsory purchase powers.*
- (7) Rule 4: it is to be assumed that no other projects would have been carried out in the exercise of a statutory function or by the exercise of compulsory purchase powers if the scheme had been cancelled on the relevant valuation date.*
- (8) Rule 5: if there was a reduction in the value of land as a result of—*
  - (a) the prospect of the scheme (including before the scheme or the compulsory acquisition in question was authorised), or*
  - (b) the fact that the land was blighted land as a result of the scheme,**that reduction is to be disregarded.*

(9) *In this section—*

- *“blighted land” means land of a description listed in Schedule 13 to the Town and Country Planning Act 1990;*
- *“relevant valuation date” has the meaning given by section 5A.*

(10) *See also section 14 for assumptions to be made in respect of planning permission.”*

5.5 Section 6D(1) of LCA 1961 provides that:

*“For the purposes of sections 6A, 6B and 6C, the “scheme” in relation to a compulsory acquisition means the scheme of development underlying the acquisition (subject to subsections (2) to (5)).”*

For the purposes of this expert report I have taken the “scheme” in this context to be either the Order Scheme or the Alternative Scheme.

5.6 Sections 6B and 6C of LCA 1961 relate to reduced or increased compensation where other land owned by a land owner from whom land is acquired increases or reduces in value as a result of the acquisition or the scheme. Whilst I have no information on any other such land ownerships to which these provisions might apply, I do not consider that any such reductions or increases in the compensation are likely to have a material impact on the viability of the Order Scheme or the Alternative Scheme.

5.7 Sections 14 to 17 of LCA 1961 make provision for an assumption, in the valuation of land acquired, of the benefit of planning permission for any development for which permission could reasonably have been expected to be granted (in summary):

- on the relevant valuation date, or;
- at a later time if it is certain that it would have been granted at that time; and
- assuming the scheme underlying the acquisition was cancelled on the date of first notice of the making of the CPO.

5.8 Where I consider it appropriate to do so I have reflected in my viability assessments any such assumptions which I consider should be made.

### Relevant Valuation Date

5.9 Section 5A of LCA 1961 provides that the relevant valuation date for land acquired is as follows:

- (3) Where the land is subject of a notice to treat, the earlier of —
  - (a) the date when the acquiring authority enters on and takes possession of the land, and
  - (b) the date when the assessment is made.
- (4) If the land is the subject of a general vesting declaration, the earlier of —
  - (a) the vesting date, and
  - (b) the date when the assessment is made.

5.10 In respect of the application of land value and interests within my appraisals, please see paragraphs 8.42 and 9.29.

### Additional compensation and statutory payments

5.11 The relevant legislation makes provision for compensation and other payments in addition to the value of the land acquired. I have summarised these, so far as I consider them to be relevant to my assessments, in the following paragraphs.

#### Disturbance and other losses and costs

5.12 Section 5(6) (“**rule 6**”) of LCA 1961 provides as follows:

*“The provisions of rule (2) shall not affect the assessment of compensation for disturbance or any other matter not directly based on the value of land”*

This is a ‘saving provision’ which entitles those from whom land is taken to claim compensation for additional losses in addition to the value of the land. Heads of claim commonly include, for businesses displaced from their premises, the costs and losses incurred in relocating the business to alternative premises and, where necessary, the costs of specialist adaptations to those premises. In cases where a business is unable to relocate, the compensation may include the value of the business.

- 5.13 Compensation under rule (6) also includes surveyors' and other fees incurred in obtaining advice in connection with the making, negotiation and settlement – or determination by the Upper Tribunal (Lands Chamber) in the absence of settlement – of compensation claims. In addition, section 23 of the Compulsory Purchase Act 1965 provides for reimbursement by the acquiring authority of the costs of conveying the land acquired, including deducing title and other related work.
- 5.14 Section 10A of LCA 1961 provides that, where an owner not in occupation purchases, within one year of the date on which the acquiring authority takes possession, an interest in other land in the UK, the “*incidental charges or expenses*” incurred in connection with that purchase can form part of the claim for compensation. Such incidental costs of purchasing another property are frequently claimed and usually comprise primarily Stamp Duty Land Tax and solicitor's and surveyor's fees.

#### Statutory loss payments

- 5.15 The Land Compensation Act 1973 (“**LCA 1973**”) makes provision for the payment, in qualifying cases, of “loss payments” in addition to compensation. Those which I consider to be of relevance to my assessments are as follows:
- 5.16 Section 33A of LCA1973 provides for a “Basic loss payment” to be made to a freeholder or tenant where the interest has subsisted for not less than a year on the earliest of four stated dates – the earliest in practice usually being the date on which the acquiring authority takes possession under notice to treat and notice of entry or the date on which title vests in the acquiring authority. The amount of the payment is 7.5% of the value of the interest subject to a maximum of £75,000.
- 5.17 Section 33C of LCA 1973 provides for an “Occupier's loss payment” to be made to anyone holding an interest which qualifies under section 33A and who has also been in occupation of the property for the same qualifying period. The amount of the payment is the greatest of:
- 2.5% of the value of the interest
  - £2,500 or £2.50 per sq m of the land area (whichever is the greater)



- £25 per sq m of gross external floorspace of any buildings on the land

subject to a maximum of £25,000.

**Department for Levelling Up, Housing & Communities – Guidance on Compulsory purchase process and The Crichel Down Rules (“the Guidance”)**

- 5.18 The Guidance sets out, inter alia, the factors that a confirming minister should consider when deciding whether or not to confirm a compulsory purchase order.

- 5.19 Paragraph 13 of the Guidance states that:

*“If an acquiring authority does not:*

- *have a clear idea of how it intends to use the land which it is proposing to acquire; and*
- ***cannot show that all the necessary resources are likely to be available to achieve that end within a reasonable time-scale*** (my emphasis)

*it will be difficult to show conclusively that the compulsory acquisition of the land included in the order is justified in the public interest, at any rate at the time of its making.”*

“Resources” in this context is to be taken to include the necessary financial resources.

- 5.20 Paragraph 14 of the Guidance states that, in preparing their justification for the use of compulsory purchase powers, the acquiring authority “should provide substantive information as to the sources of funding available for both acquiring the land and implementing the scheme for which the land is required.” (My emphasis). In addition this paragraph requires that: “*Evidence should also be provided to show that sufficient funding could be made available immediately to cope with any acquisition resulting from a blight notice.*” If valid blight notices are served the consequence could be that compensation will become payable in respect of the interests concerned before a compulsory purchase order is

confirmed, and the potential funding implications of that need to be considered.

- 5.21 Paragraph 106 of the Guidance sets out the factors to be considered by the Secretary of State in deciding whether to confirm an order under section 226(1)(a) Town and Country Planning Act 1990.
- 5.22 Within this Paragraph, the fourth bullet point states that the Secretary of State should consider the following:

*‘the potential financial viability of the scheme for which the land is being acquired. A general indication of funding intentions, and of any commitment from third parties, will usually suffice to reassure the Secretary of State that there is a reasonable prospect that the scheme will proceed. The greater the uncertainty about the financial viability of the scheme, however, the more compelling the other grounds for undertaking the compulsory purchase will need to be. The timing of any available funding may also be important. For example, a strict time limit on the availability of the necessary funding may be an argument put forward by the acquiring authority to justify proceeding with the order before finalising the details of the replacement scheme and/or the statutory planning position’.*

**The London Borough of Barking and Dagenham Council (Vicarage Field and surrounding land) CPO 2021**

- 5.23 Case reference: APP/PCU/CPOP/Z5060/3278231. The decision reached in this case provides a recent example of how the DLUHC guidance is applied.
- 5.24 The inspector’s decision letter dated 4<sup>th</sup> October 2022 at Paragraphs 132 and 133 states:

*132. For a CPO to be confirmed, I must consider the potential financial viability of the scheme for which the land is being acquired. Whilst a general indication of funding intentions will usually suffice to support a reasonable prospect that a scheme will proceed, the viability appraisal review for the outline planning application found the scheme to be “substantially unviable”. The outline planning application was determined in*

*full knowledge of this, and the AA and developer were fully aware of these conclusions, although the evidence was only added to the inquiry documents at the request of an objector.*

*133. Because of this, I consider it unusual that an updated viability appraisal was not presented. This is principally because if a scheme is unviable, it is highly unlikely to proceed for obvious reasons.*

5.25 The decision letter at Paragraphs 177 and 178 states:

*177. Thus, when considering the potential financial viability of the scheme for which the land is being acquired, there is simply insufficient substantive information presented to convince or reassure me that the scheme is financially viable.*

*178. Consequently, I cannot be certain that the necessary resources are likely to be available within a reasonable time-scale and I am unable to conclude that there is a reasonable prospect that the scheme will proceed and would be delivered.*

5.26 I have regard in Section 10 of my evidence to the viability and funding of the Order Scheme and the Alternative Scheme in concluding whether either is deliverable in the context of both the Guidance and the above recent example in Barking and Dagenham.

## 6 Viability Method and Approach

- 6.1 This section of my report provides an overview of the viability methodology which I have adopted in assessing the viability of the Order Scheme and the Alternative Scheme.

### Viability Methodology

- 6.2 Good practice for RICS members in the valuation of development property is set out in the RICS Professional standards and guidance: *Valuation of development property 1<sup>st</sup> Edition, October 2019* (see paragraph 1.6 above and **Appendix 4**) This explains that valuations of development property are normally undertaken in two ways: the market comparison approach and the residual method.

#### *Valuation: the market approach*

- 6.3 Valuation using the market approach based on comparables is normally the preferred method of estimating market value. But the RICS guidance note *Comparable evidence in property valuation 1<sup>st</sup> edition, October 2019* identifies development property as a property type for which direct comparison on a price per unit basis is rarely valid and where often a more detailed analysis will be needed.

- 6.4 The guidance note recommends that reliance on one method applied to the valuation of development property is not advisable and that the valuation should be an iterative process, with checks where possible using other methods. This is due to the individuality of many development properties and the potential difficulties in finding good quality comparable transactions where all of the details of the transaction are known.

#### *Valuation: the residual method*

- 6.5 The residual method is based on the concept that the value of a property with development potential is derived from the value of the property after development minus the cost of undertaking that development, including a profit for the developer, as follows:

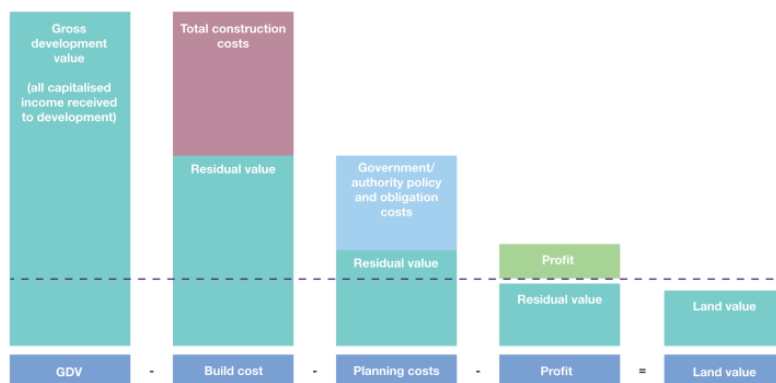
Gross development value (GDV) – total development cost (including profit) = residual land value

- 6.6 The residual method can be used to determine other outcomes, such as the surplus available for the developer's profit if the price of the land has already been fixed (see paragraphs 6.9 to 6.14 below).
- 6.7 The residual valuation method is complicated by the fact that development takes time, while the valuation is at a single time point. Because of this, two different applications of the method have been developed: discounted cash flow and a more basic application of the residual method (see Figure 1 below).
- 6.8 The market comparison approach will play an important part in determination of many of the inputs into the residual method. No one solution may be relevant for all circumstances, so it is for the valuer to determine how they deal with the detailed inputs into the residual valuation model.

#### **Profit Benchmark (Target Rate of Return)**

- 6.9 The residual method can be used to determine the profitability of proposed development projects for the subject property where land price or value has already been determined.
- 6.10 In a basic residual, if land price or value is known, the land price becomes a cost to the development. Usually, the assumed land sale takes place at the beginning of the development. All other costs and values are assumed at the end of the development period – costs are assumed to accrue at the borrowing rate and both development costs and interest are paid off at the end of the development.
- 6.11 In order to estimate the profit at the end of the development, the land value (which is a present-day net present value ('NPV') figure) also has to be taken to the end of the development period. This is accomplished by adding interest over the whole of the development period to the land value. The costs including land are then deducted from the net development value to leave the residual profit timed at the end of the development period. This is illustrated in the diagram below:

**Figure 1: The basic residual valuation model**

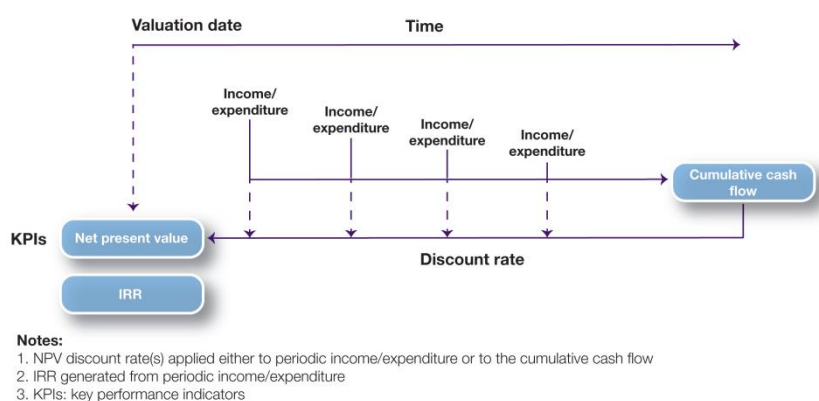


Source: RICS Valuation of development property (1<sup>st</sup> Edition, October 2019)

6.12 In a discounted cash flow (“**DCF**”), all inflows and outflows are discounted back to the start of the cash flow. If land cost is a known input, it can be inserted at the beginning of the cash flow (or wherever it occurs) and the internal rate of return (‘IRR’) of the cash flow becomes an estimate of the developer’s return. It should be noted that the IRR is a project return, i.e. before finance.

6.13 The DCF structure is set out below:

**Figure 2: Discounted cash flow valuation model**



Source: RICS Valuation of development property (1<sup>st</sup> Edition, October 2019)

6.14 It is possible within the cash flow format to develop applications that take account of the level of borrowing and various costs of borrowing on

different forms of debt. When developing these models, the role and purpose of the assessment should be fully recognised. Market valuations and viability assessments require market-based inputs and assumptions. Specific funding arrangements and rates of return required by individual developers are not necessarily based on market indicators.

- 6.15 The residual method as outlined above in both its basic and DCF form can be used to determine the profitability of proposed development projects and therefore their viability and deliverability. Sensitivity and risk analysis should also be undertaken so to take account of the variance of inputs into the residual model and therefore variances on profitability.

## 7 Information Provided

- 7.1 I set out in Section 4 of my evidence relevant background information I was aware of in producing my report. In this section of my report I provide an overview of the information that has been received to date to inform my appraisal of the Order Scheme and Alternative Scheme.
- 7.2 Following the requests for viability information, I have been provided with the following documents:
- Viability Summary within letter dated 1<sup>st</sup> April 2021 from SPRL;
  - Letter from the Council dated 1<sup>st</sup> December; and
  - Letter from the Council dated 8<sup>th</sup> December.

*Viability Summary within letter dated 1<sup>st</sup> April 2021 from SPRL*

- 7.3 I have been provided with a Financial Viability Assessment (“**FVA**”) Executive Summary dated March 2021 prepared by Montagu Evans for the purpose of the Planning Application for the Order Scheme (see **Appendix 5**). It should be noted that such assessments are specifically for the purposes of assessing planning obligations and do not necessarily reflect all matters that would be taken into consideration for the purposes of viability and deliverability in a CPO context, particularly in respect of funding. The Executive Summary of the FVA prepared as part of the Planning Application is shown below.



**Figure 3: Order Scheme – FVA Summary Prepared by Montagu Evans (March 2021)**

Proposed Scheme - Appraisal Inputs & Outputs	
<b>Income</b>	
Built to Rent, Commercial & Car Parking <b>Net Development Value</b>	£280,000,000
<b>External Funding</b> from Public Bodies	£17,500,000
<b>Total Income</b>	<b>£297,500,000</b>
<b>Costs</b>	
<b>Development Costs</b> (including construction costs, contingency, professional fees, letting & disposal fees and finance costs)	£375,000,000
Estimated <b>S.106 Contributions</b>	£15,000,000
<b>Total Costs</b>	<b>£390,000,000</b>
<b>Estimated Viability Deficit</b>	<b>(£92,500,000)</b>

- 7.4 The FVA summary is therefore showing a significant deficit position, with Montagu Evans concluding that on this basis the development is technically unviable and there is no surplus to support affordable housing and/ or other off-site financial obligations (to be secured through a Section 106 agreement).
- 7.5 Furthermore, Montagu Evans, for viability testing purposes, assumed a Benchmark Land Value (“BLV”) of £0. This is because they have been advised by the Applicant that the acquisition (and associated costs) of the existing Council and third party owned land within the site boundary will be funded by WMCA. I would add that this calculation of the BLV would appear to be at odds with national planning practice guidance (paragraph 13) and the RICS guidance note for assessing viability in planning.
- 7.6 Montagu Evans state that WMCA funding will allow for vacant possession of the Site. I understand the premise is that if the viability were tested against a BLV (above £0), effectively the equivalent funding amount would need to be included in the Scheme viability appraisal, therefore cancelling each other out.
- 7.7 The FVA summary states that the submitted FVA has been reviewed by Lambert Smith Hampton (LSH), on behalf of the Local Planning Authority.

LSH concurred that the proposed scheme is technically unable to viably support any affordable housing or off-site financial obligations.

- 7.8 Finally, the FVA summary states that the Applicant is proposing a review mechanism to be incorporated into the S106 agreement so that the Applicant and Local Planning Authority can reassess the viability for the purposes of potentially increased affordable housing provision.

Letter dated 1<sup>st</sup> December

- 7.9 This letter (see **Appendix 6**) is in response to the request for information on the viability inputs to the Council's appraisals of both the Order Scheme and the Alternative Scheme. The letter states that the requests include a number of matters which are dealt with, in the normal course of events, in the proofs of evidence to be exchanged in advance of the Inquiry or are commercially confidential.
- 7.10 The information request has not been fully responded to within this letter, nor is a copy of the appraisals provided. The majority of this response letter refers to information that will be forthcoming within the Council's proofs of evidence.
- 7.11 In respect of inputs from this letter adopted within my viability appraisal, these are limited to the development programme, which I outline in the following two sections of this report.

Letter dated 8<sup>th</sup> December

- 7.12 I have been provided with a letter dated 8<sup>th</sup> December 2022 from the Council which sets out Supplementary Viability Information regarding the Council's appraisal of the Alternative Scheme only, see **Appendix 2**.
- 7.13 This letter provides a little more information in respect of viability appraisal inputs. It should, however, be noted that a full viability appraisal itself is not provided for the Alternative Scheme and only a very basic summary is included at Appendix 1 of the letter.
- 7.14 The inputs provided in the letter are in summary as follows:

- A residential unit mix which includes a proposed tenure of units between private sale, Build to Rent (“**BTR**”) and affordable, as well as the proposed mix between studio – 3-bed units;
- Private residential sales values setting out a range from £135,000 through to £395,000 per unit, with an average sales value of £270,000 (£368 psf);
- BTR rental values within a range of £825 - £1,450 pcm, with an average capital value of £345 psf;
- Affordable sales values ranging between £250 - £300 psf;
- Commercial rental values and yields for new build accommodation reflecting an average net rent of £25.0 psf and an average net yield of 8.5%, or 4.5% for the health centre. For existing commercial floorspace, an average net rent of £15.0 psf and a yield of 12%;
- Confirmation that a hotel has not been included within the Alternative Scheme appraisal;
- Details of grant/ external funding including WMCA funding support of £39,067,591 as part of the £98.8m funding package towards the scheme, as well as Coventry City Council Funding support of £32,750,000;
- A gross build cost (inclusive of allowances for relevant fees) of approximately £408.3m;
- Commercial agency fees of 2%;
- Private sales agency and legal fees of 1.25% and £600 per unit respectively;
- Confirmation that allowances for Party Wall agreements, monitoring fees have been included within the viability assessment, however, amounts not included;
- Finance costs of £3.8m;

- Confirmation that costs associated with land assembly and rights of light are excluded, on the basis of the terms upon which the Council intends to transfer the land to SPRL.

7.15 The appraisal summary states that the appraisal output is as follows:

- Profit on Net Development Costs – 12.3%;
- Profit on Gross Development Value – 10.9%.

7.16 Without the benefit of having considered the appraisals it is impossible to test the above and various other assumptions, not outlined above, that must have been taken into account. Equally no sensitivity analysis has been provided to illustrate the impact of variances of inputs to changes in the market.

## 8 Order Scheme – Planning Permission

- 8.1 I have undertaken a viability appraisal of the Order Scheme to determine its viability and deliverability.
- 8.2 The Order Scheme was granted outline planning permission on 27<sup>th</sup> January 2022. A Financial Viability Assessment (FVA) was undertaken by Montagu Evans as part of the Planning Application and is summarised in Section 7 above.

### Order Scheme Proposals

- 8.3 The Order Scheme has the benefit of only an outline planning permission and therefore limited detail is available in the public domain regarding the quantum, mix of uses and floor areas. I sent a request to the Council through my instructing legal team on 17<sup>th</sup> November 22 and 13<sup>th</sup> December 22, but this information has not been forthcoming:

*“Floor areas & plans for proposed scheme and any variations (e.g. if other scenarios are proposed in the form of a detailed area schedule (in excel format)”*

- 8.4 The Planning Statement prepared by CBRE (November 2020) submitted as part of the Planning Application states that the Order Scheme proposes the following maximum site-wide quantum of development:
- Up to 1,300 residential dwellings (Class C3);
  - Hotel with up to 150 keys (Class C1);
  - Mixed non-residential uses totalling up to 37,500 sqm Gross Internal Area ('GIA'), including retail, food and beverage, leisure, office and community uses (Class E), learning and non-residential institutions (Class F.1) and pub/drinking establishment, hot food and takeaway and cinema uses (Sui Generis); and,
  - Between 90 and 300 car parking spaces.

## Appraised Scheme

### Residential proposals

- 8.5 A proposed unit mix and total floorspace (Gross Internal Areas) was provided by the Council on 8 December in respect of the *Alternative Scheme* only.

**Figure 4: Unit Mix: Alternative Scheme as provided in letter dated 8<sup>th</sup> December**

Tenure	Studio	1	2	3	Total	Total GIA	GIA per unit
Private	1	310	310	90	711	710,066	999
Build to Rent	107	148	202	32	489	440,437	901
Social Rent	0	90	61	29	180	297,645	992
Shared Ownership	0	45	59	16	120		

- 8.6 Figure 4 above indicates that approximately 33% of the units are to be delivered as Build to Rent units, with the remainder to be delivered as private, social rent and shared ownership.
- 8.7 I understand from reviewing the Order Scheme Section 106 agreement that no on-site affordable housing is to be provided. As such, in determining a unit mix for the Order Scheme, I have assumed that 33% of the units are to be delivered as Build to Rent (in line with the mix outlined in Figure 4) and the remainder are to be delivered as private. I have also assumed the same unit mix and average GIA per unit.
- 8.8 This produces the below unit mix.

**Table 1: Adopted Order Scheme Unit Mix**

Tenure	Units	GIA Per Unit (Sq ft)	Total GIA (Sq Ft)
BTR	424	901	381,892
Private	876	999	874,848
<b>Total</b>	<b>1,300</b>		<b>1,256,740</b>

- 8.9 No information has been provided regarding the use (Build to Rent or for private sale) and quantum of units in each block. I have reviewed the plans within the Design and Access Statement and made assumptions regarding quantum of units within each block.

- 8.10 In order to enhance the viability of the Order Scheme, I have assumed that the Build to Rent units will be delivered in the first two blocks (Blocks A1 and A2), generating two singular sales proceeds on practical completion, which can be used to enhance the Net Cash Flow position at the early stages of the development, ultimately reducing finance payments.
- 8.11 No information has been provided regarding the efficiency (Net Sales Area:Gross Internal Area) for any of the residential tenures. I have therefore adopted an indicative efficiency of 75%.
- 8.12 The private residential and build to rent units by block, Gross Internal Area and Net Sales Area are outlined in Table 2 below.

**Table 2: Private Residential and Build to Rent Units by Block**

Block	Tenure	Units	GIA (Sq Ft)	NSA (Sq Ft)
A1	BTR	212	190,947	143,210
A2	BTR	212	190,945	143,209
B	Private	455	454,401	340,801
C	Private	161	160,788	120,591
D	Private	260	259,659	194,744
Total		<b>1,300</b>	<b>1,256,740</b>	<b>942,555</b>

Commercial Proposals

- 8.13 With regard to the commercial proposals in the Order Scheme, I have limited information on the following:
- a) The allocation of total floorspace between each block;
  - b) The allocation of sub-uses (retail, food & beverage etc) within each block; and
  - c) The total quantum of lettable commercial floorspace to be delivered.
- 8.14 To calculate a), as for the residential use, I have produced an indicative estimate of the proportion of the total floorspace between each block. My estimate was generated taking into consideration a combination of the footprint and massing (storeys) of each block.

8.15 My estimated allocation of commercial floorspace on a percentage basis is set out below. I have then applied the percentage allocations assuming that the Order Scheme delivers the maximum quantum of commercial floorspace as defined in the Planning Application, being 37,500 sq m / 403,646 sq ft.

8.16 My calculations are set out below:

**Table 3: Order Scheme – Commercial Floorspace Allocation**

Block	Percentage Estimate of Commercial Floorspace	Floorspace	
		Sq m	Sq ft
A1	7.50%	2,812	30,272
A2	7.50%	2,812	30,272
B	30.00%	11,251	121,100
C	15.00%	5,625	60,546
D	35.00%	13,125	141,276
Pavilion	5.00%	1,875	20,184
<b>Total</b>	<b>100%</b>	<b>37,500</b>	<b>403,650</b>

8.17 In order to calculate b) (the allocating of sub-uses within each block) I have reviewed the Design & Access Statement for the Order Scheme and have made the following assumptions. In determining this mix, I have also considered the viability of each sub-use. For each use, the assumed floor area (GIA) has been applied accordingly.

**Table 4: Order Scheme – Commercial Floorspace Sub-Use Allocation**

Block	Retail	Food & Beverage	Office	Medical	Leisure
A1	50%	50%	0%	0%	0%
A2	50%	50%	0%	0%	0%
B	50%	25%	25%	0%	0%
C	100%	0%	0%	0%	0%
D	100%	0%	0%	0%	0%
Pavilion	50%	50%	0%	0%	0%



8.18 For the purpose of calculating c), I have assumed a net:gross efficiency of 95% for all commercial floor space to determine the total quantum of lettable commercial floorspace.

8.19 The resultant breakdown of commercial floorspace by block and sub-use is outlined in Table 5 below.

**Table 5: Order Scheme: Commercial floorspace by block and sub-use**

Block	Sub-use	GIA	NIA
A1	Retail	15,136	14,379
A1	F+B	15,136	14,379
A2	Retail	15,136	14,379
A2	F+B	15,136	14,379
B	Retail	30,275	28,761
B	Office	30,275	28,761
B	F+B	30,275	28,761
B	Leisure	30,275	28,761
C	Retail	60,546	57,519
Pavilion	Retail	10,092	9,587
Pavilion	F+B	10,092	9,587
D	Retail	141,276	134,212
<b>Total</b>		<b>403,650</b>	<b>383,465</b>

### Viability Methodology

8.20 As stated in Section 6, I have had regard to *RICS Valuation of development property (1<sup>st</sup> Edition, October 2019)*. I have produced a residual appraisal of the Order Scheme.

8.21 As I have been provided with limited information, this appraisal is based on the assumptions as set out in this report. Adjustment to these assumptions will likely be required if further information is provided from the Acquiring Authority.

### Revenue

8.22 Based on the assumed allocation of uses as set out in paragraphs 8.4 – 8.19 above, I have reviewed available evidence to determine appropriate revenue assumptions. These are indicative, based on the assumed

scheme and the information provided to date, and are likely subject to adjustment if further scheme information is provided.

### Private Residential

8.23 In order to form an opinion on appropriate private residential values, I have undertaken a comprehensive review of the Coventry new build residential market.

8.24 There is a scarcity of new build residential evidence in the City Centre, which is indicative of the viability challenges faced by developers in the city. Nonetheless, I am aware of transactions within the last 24 months at the following schemes:

- Kings Chamber, CV1
- Elm Bank, CV2;
- The Spires, CV3;
- Mistle Court, CV4; and
- Paragon Park, CV6.

8.25 Average achieved sales values by bedroom numbers from the two years preceding the date of this report are provided below.

**Table 6: Residential Comparables: Average Capital Values by Scheme and Bedrooms**

Development	Developer	Average Price			
		1	2	3	Blended
Kings Chambers	TEJ Properties	£138,931	£143,333	£174,885	£151,593
Elm Bank	P&K Estates	£182,625	£277,400	N/A	£235,278
The Spires	Morris Homes	N/A	£192,139	N/A	£192,139
Mistle Court	BDW	N/A	£187,795	N/A	£187,795
Paragon Park	Persimmon	N/A	£130,769	N/A	£130,235

8.26 Ceiling values (the highest achieved capital value) by bedroom number from the two years preceding the date of this report are also provided below.

**Table 7: Residential Comparables: Ceiling Values by Scheme and Bedrooms**

Development	Developer	Ceiling Value		
		1	2	3
Kings Chambers	TEJ Properties	£160,000	£160,000	£187,000
Elm Bank	P&K Estates	£217,500	£337,000	N/A
The Spires	Morris Homes	N/A	£234,750	N/A
Mistle Court	BDW	N/A	£196,995	N/A
Paragon Park	Persimmon	N/A	£135,000	N/A

8.27 I have therefore adopted the following capital values for the purpose of my assessment derived from our analysis of the above comparables:

- Studio: £130,000;
- 1-bedroom: £190,000;
- 2-bedroom: £250,000; and
- 3-bedroom: £300,000.

8.28 In the absence of a unit mix information in respect of the Order Scheme, I have adopted the unit mix for the Alternative Scheme as outlined by the Council in its letter dated 8 December 2022 (see Figure 4). Applying the above values to this unit mix produces a blended average capital value of **£230,000 per unit**, which I have adopted in my appraisal for the Order Scheme as well as the Alternative Scheme. My calculations are set out below.

**Table 8: Residential Unit Pricing**

Bedrooms	Unit mix	Price	Blended Capital Value Per Unit
Studio	0.14%	£130,000	£183
1-bedroom	43.60%	£190,000	£82,841
2-bedroom	43.60%	£250,000	£109,001
3-bedroom	12.66%	£300,000	£37,975
	100.00%		£230,000

### BTR

8.29 I have adopted the following gross rents by room type for the BTR accommodation:

- Studio: £1,000 per calendar month ('PCM');
- 1-bedrom: £1,200 PCM;
- 2-bedroom: £1,500 PCM; and
- 3-bedroom: £1,700 PCM.

8.30 As with the private residential accommodation, I applied the rents to the unit mix as set out within the Council's letter dated 8 December 2022, I have subsequently applied the capital value per unit to the unit numbers for the Order Scheme, being 424 units, as set out in Table 1.

8.31 Applying the above rents to the unit mix as set out by the Council produces a blended average gross rent of £15,755. My calculations are set out below.

**Table 9: BTR Gross Rent Calculation (Per Unit)**

Type	Units	Mix	Rent PCM	Blended Rent PCM	Blended Rent Per Annum
Studio	107	22%	£1,000	£218.81	£2,626
1-bed	148	30%	£1,200	£363.19	£4,358
2-bed	202	41%	£1,500	£619.63	£7,436
3-bed	33	7%	£1,700	£111.25	£1,335
					£15,755

8.32 I have subsequently made an allowance of 25.00% for operational expenditure and structural vacancy to derive a blended net rent of £11,816 per unit per annum.

8.33 I have capitalised the net rent using an All Risks Yield of 4.75%, producing a net capital value of **£232,000 per unit** once allowing for purchasers' costs. I have adopted this capital value and my calculations are set out below.

**Table 10: BTR Capital Value Per Unit Calculations**

Blended Gross Rent Per Unit	£15,755
<i>Less Opex @ 25.00%</i>	
Blended Net Rent Per Unit	£11,816
<i>Capitalised @ 4.75%</i>	
Gross Value Per Unit	£248,757
<i>Less Purchaser's Costs @ 6.80%</i>	
Net Value Per Unit	£231,841
Say	<b><u>£232,000</u></b>

### Commercial

- 8.34 I have adopted the following revenue assumptions for the commercial elements of the Order Scheme.

**Table 11: Commercial revenue assumptions**

	Retail	Food and Beverage	Office	Leisure
Rent (Per Sq Ft)	£25	£30	£30	£20
Rent free period (Months)	18	18	18	18
Letting void (Months)	6	6	6	6
Yield	8.75%	8.50%	8.00%	8.25%
Capital Value Per Sq Ft (Gross)	£242	£300	£322	£207
Capital Value Per Sq Ft (Net)	£226	£280	£300	£193

### **Costs**

#### Construction Costs

- 8.35 I have relied upon Building Cost Information Service ('BCIS') costs for each use type. I have rebased the BCIS data to Q4 2022 and West Midlands. I have adopted the 'Upper Quartile' figure where available in order to account for the significant inflationary pressures currently being observed within the construction sector. Where an Upper Quartile figure is not available, I have adopted the mean figure. The adopted BCIS data is shown in Table 12 below.

**Table 12: BCIS Construction Costs (Exclusive of external allowance)**

Order Scheme Use	BCIS Category	Figure adopted	Rate per sq ft (Exclusive of external allowance)
Residential and BTR	New build flats 6-storey or above	Upper Quartile	£192
Retail	New build shops generally	Upper Quartile	£199
Office	New build office air conditioned 1-2 storeys	Upper Quartile	£203
F+B	New build cafes and snack bars	Mean	£279
Leisure	New build restaurants	Mean	£315
Hotel	New build hotels	Upper Quartile	£268

#### Externals allowance

- 8.36 The rate per sq ft figures outlined in Table 12 above are exclusive of external costs; these include items such as landscaping, hard surfacing etc. I have therefore included a 10% allowance for external costs, applied to gross construction cost.

#### Contingency

- 8.37 I have included an 'all in' developers and construction contingency allowance of 7.50% of total build cost.

#### **Construction Timeframe**

- 8.38 I have adopted the construction timeframe as outlined in ES Addendum supplied by the Council on 2 December 2022 following my initial request for information. The timeframe relevant to the Order Scheme is the original dates in red text. The timeframe is outlined below.

**Figure 5: Construction Timeframe**

CONTENT	START DATE	FINISH DATE	DURATION
Site establishment	September 2023 <del>June 2022</del>	December 2023 <del>2022</del>	4 <del>6</del> months
Demolition and site clearance	September 2023 <del>2022</del>	November 2024 <del>September 2023</del>	14 <del>12</del> months
<b>Phase 1 – Construction (including landscaping and public realm)</b>			
Block A1	January <del>March</del> 2024	June <del>September</del> 2025	18 <del>19</del> months
Block A2	June 2024 <del>September 2023</del>	February 2026 <del>May 2025</del>	21 <del>20</del> months
Block B	May 2024	April 2029 <del>February</del> <del>2026</del>	60 <del>22</del> months
Block C ( <del>Hotel/com</del> )	February 2027 <del>September 2023</del>	July 2030 <del>April 2025</del>	41 <del>20</del> months
Block C ( <del>Resi/com</del> )	November 2023	July 2025	21 months
Block E (The Pavilion)	May 2028 <del>September 2023</del>	March 2029 <del>September 2024</del>	11 <del>12</del> months
<b>Phase 2 - Construction</b>			
Block D	July 2027 <del>March</del> <del>2024</del>	July 2033 <del>February</del> <del>2026</del>	72 months <del>23</del> <del>months</del>
Total			9 years 11 months <del>3 years 8 months</del>

### Residential Sales Timeframe

- 8.39 As can be seen from Figure 5 above, the Order Scheme construction timeframe shows Blocks B, C and D completing between July 2025 and February 2026. Using my unit mix assumptions, this would result in the completion of 876 units in a 7-month period. I have significant concerns regarding the resultant absorption rate should such a large quantum be delivered within such a short timescale. As a result, I have adopted a notional sales velocity of 6 units/month per block. This produces the following sales periods.

**Table 13: Order Scheme Sales Period by Block**

Block	Units	Sales Period (months)
B	455	76
C	161	40
D	260	65

### **Professional Fees**

8.40 I have adopted a professional fee allowance of 12.00%.

### **Marketing, Letting and Sales Fees**

8.41 I have included the following allowances for marketing, letting and sales fees:

- Marketing: 1.00% of Build to Rent and Private Residential GDV;
- Letting agent fee: 10.00% of commercial annual rent passing;
- Letting legal fee: 5.00% of commercial annual rent passing;
- Sales agent fee: 1.00% of GDV for all uses; and
- Sales legal fee: 1.00% of GDV for all uses.

### **Land Value**

8.42 As my report is prepared prior to the confirmation of the Order and future acquisition date and I have not been provided with any detail on land and interests to be acquired I have, for the purposes of my appraisals, assumed a notional £1. Once the Council's evidence becomes available, I reserve the right to include an appropriate land and interest value.

8.43 In order to test the Order Scheme's viability, I have adopted a land value of £1.

### **Land Acquisition Costs**

8.44 No additional sums have been included in my appraisal, although I would expect there would be costs once all land interests have been acquired.

### **Historic Scheme Costs**



- 8.45 I have included historic scheme costs of £15,000,000, as set out in the Council's Statement of Case.

### **Section 106 Costs**

- 8.46 I have included the following Section 106 costs:

- NHS University Hospital contribution: £2,110,699;
- Off Site Primary Medical Care contribution: £862,778;
- Education Improvements contribution: £11,661,598; and
- Travel monitoring contribution: £5,000.

### **Servicing Costs**

- 8.47 I have included an allowance of £2,000,000 to reflect servicing costs relating to proposed servicing provisions for existing and new tenants. This is to include costs related to the creation and implementation of a delivery booking system.

### **Finance**

- 8.48 I have included a finance cost at 8.5%, please see **Appendix 7** for justification on this rate.

## 9 Alternative Scheme – S73 Application

- 9.1 This section provides an assessment of the Alternative Scheme as set out in Section 2 of my report.

### Alternative Scheme

- 9.2 I have undertaken a viability appraisal of the Alternative Scheme to determine its viability and deliverability.

### Alternative Scheme Proposals

- 9.3 The Planning Statement prepared by CBRE (November 2022) submitted as part of the Planning Application for the Alternative Scheme proposes the following maximum site-wide quantum of development:

- Up to 1,500 residential dwellings (Class C3);
- Hotel with up to 150 keys (Class C1);
- Class E (Commercial, Business and Service), Class F.1 (Learning and Non-Residential Institutions) and Sui Generis (Pub or Drinking Establishment/ Hot Food and Takeaway/ Cinema) (Total GIA, 20,000 sq m);
- Between 90 – 300 car parking spaces.

- 9.4 The planning statement submitted with the S73 Application references that the FVA prepared by Montagu Evans includes 20% affordable housing.

- 9.5 As stated in Section 2, the indicative scheme which is being assessed by the Council does not include a hotel within the floorspace mix. However, this will be kept under review as the scheme phases are delivered. A potential hotel uses continues to be included in the Section 73 Scheme parameters to cater for this use should it come forward.

- 9.6 As set out in Section 7 of my evidence, I have been provided with a letter from the AA dated 1<sup>st</sup> December 2022 and a further letter dated 8 December 2022, which sets out assumptions adopted by the AA within the viability appraisal for the Alternative Scheme.

- 9.7 This information has been adopted where possible in my viability appraisal of the Alternative Scheme; however, it is limited and does not provide the full appraisal model to allow for a comprehensive review.

## Appraised Scheme

### Residential Proposals

- 9.8 The letter dated the 8<sup>th</sup> December from the AA sets out that the following residential unit mix has been adopted:

**Figure 6: Alternative Scheme residential tenure mix as provided**

Type	Number	GIA (Sq ft)
Private Sale Units	711	710,066
BTR Units	489	440,437
Affordable Units	300	297,645
<b>Total</b>	<b>1,500</b>	<b>1,448,148</b>

- 9.9 I have therefore adopted this mix of residential tenures within the appraisal. The letter from the AA also states that the proposed homes will be designed to satisfy Nationally Described Space Standards. The indicative scheme mix provided to me comprises:

**Figure 7: Alternative Scheme residential unit mix as provided**

TENURE	STUDIO	1 BED	2 BED	3 BED	TOTAL
PRIVATE	1	310	310	90	711
BUILD TO RENT	107	148	202	33	489
SOCIAL RENT	0	90	61	29	180
SHARED OWNERSHIP	0	45	59	16	120

- 9.10 No information has been provided regarding the efficiency (Net Sales Area:Gross Internal Area) for any of the residential tenures. I have therefore adopted an indicative efficiency of 75.00%.
- 9.11 The private residential and build to rent units by block, Gross Internal Area and Net Sales Area are outlined in Table 14 below.

**Table 14: Residential and Build to Rent Units by Block**

Block	Tenure	Units	GIA (Sq Ft)	NSA (Sq Ft)
A1	BTR	245	220,669	165,502
A2	BTR	244	219,768	164,826
B	Private	369	368,515	276,386
B	Affordable	156	154,775	116,081
C	Private	131	130,828	98,121
C	Affordable	55	54,568	40,926
D	Private	211	210,723	158,042
D	Affordable	89	88,301	66,226
<b>Total</b>		<b>1,500</b>	<b>1,448,147</b>	<b>1,086,110</b>

### Commercial Proposals

- 9.12 The letter dated 8<sup>th</sup> December states that a hotel has not been included within the viability appraisal for the Alternative Scheme. I have followed this approach.
- 9.13 For the remaining commercial uses, I have adopted a pro-rata of the areas as outlined in paragraph 8.19 above (the Order Scheme commercial floor areas). This is to reflect the reduction in commercial floorspace from 37,500 sq m to 20,000 sq m. The adjusted commercial floor areas by block and sub-use are set out in Table 15 below.

**Table 15: Alternative Scheme: Commercial floorspace by block and sub-use**

Block	Sub-use	GIA	NIA
A1	Retail	8,073	7,669
A1	F+B	8,073	7,669
A2	Retail	8,073	7,669
A2	F+B	8,073	7,669
B	Retail	16,146	15,339
B	Office	16,146	15,339
B	F+B	16,146	15,339
B	Leisure	16,146	15,339
C	Retail	32,292	30,677
Pavilion	Retail	5,382	5,113
Pavilion	F+B	5,382	5,113
D	Retail	75,347	71,580
<b>Total</b>		<b>215,279</b>	<b>204,515</b>

## Viability Methodology

- 9.14 As stated in Section 7 for the Order Scheme and as set out in Section 6, I have had regard to *RICS Valuation of development property (1<sup>st</sup> Edition, October 2019)*. I have produced a residual appraisal of the Alternative Scheme – S73 Application.
- 9.15 As I have been provided with limited information, this appraisal is based on the information that is available within the letter dated 8<sup>th</sup> December from the Council and the assumptions as set out in this report. Adjustment to these assumptions will likely be required if further information is provided by the Council.

## Revenue

### Private Residential

- 9.16 The letter dated 8<sup>th</sup> December states that SPRL have adopted private sales values which range from £135,000 for a studio apartment, through to approximately £395,000 for the largest 3-bedroom houses. The average sales values are approximately £270,000, equivalent to approximately £368 psf.
- 9.17 As stated at paragraph 8.28, in accordance with the research I have conducted for the Order Scheme appraisal, I have adopted a blended average sales value of **£230,000 per unit**, which I have adopted in my appraisal for the Order Scheme as well as the Alternative Scheme.

### BTR

- 9.18 SPRL have adopted rental values within a range of approximately £825 to £1,450 pcm, with an average capital value of £345 adopted.
- 9.19 In accordance with the valuation of the BTR units in the Order Scheme as set out in Sections 8.29 – 8.33, I have applied a capital value of **£232,000 per unit** to the BTR units in the Alternative Scheme.

### Affordable Residential

- 9.20 The letter dated 8<sup>th</sup> December states that SPRL's affordable value assumptions are informed by a competitive tendering process run during Q2 2022. Proposals were submitted by three registered providers and two have been shortlisted. All proposals are based on a tenure mix of 60% social rent and 40% shared ownership.
- 9.21 The value applied to the affordable units fall within a range of approximately £250 - £300 psf.
- 9.22 I have consulted with my colleagues in the Gerald Eve Affordable Housing Team regarding a valuation of the proposed affordable housing units. The affordable housing valuation that I have applied in the appraisal of the Alternative Scheme is as follows:

**Table 16: Affordable Residential Unit Pricing**

Tenure	£ / psf
Social Rent	£125
Shared Ownership	£235
<b>Total</b>	<b>£190</b>

9.23

### Commercial

- 9.24 I have adopted the commercial revenue assumptions as applied in the Order Scheme.

### **Costs**

#### Construction Costs

- 9.25 I have adopted construction costs in accordance with the Order Scheme, as set out at paragraph 8.35 above. I have included an allowance for externals as set out at paragraph 8.36.

#### **Construction Timeframe**

- 9.26 I have adopted the construction timeframe as outlined in the ES Addendum as supplied by the Council on 2 December 2022 following my

initial request for information, see Figure 5 within Section 8 of this report.  
The timeframe relevant to the Alternative Scheme is the dates in blue.

### **Professional Fees**

- 9.27 As for the Order Scheme, I have adopted a professional fee allowance of 12.00%.

### **Marketing, Letting and Sales Fees**

- 9.28 As for the Order Scheme, I have included the following allowances for marketing, letting and sales fees:
- Marketing: 1.00% of Build to Rent and Private Residential GDV;
  - Letting agent fee: 10.00% of commercial annual rent passing;
  - Letting legal fee: 5.00% of commercial annual rent passing;
  - Sales agent fee: 1.00% of GDV for all uses; and
  - Sales legal fee: 1.00% of GDV for all uses.

### **Land Value**

- 9.29 As for the Order Scheme as stated at paragraph 8.42, in order to test the Alternative Scheme's viability I have assumed a notional land value of £1.

### **Land Acquisition Costs**

- 9.30 As for the Order Scheme, no additional sums have been included in my appraisal, although I would expect there would be costs once all land interests have been acquired.

### **Historic Scheme Costs**

- 9.31 As for the Order Scheme, I have included historic scheme costs of £15,000,000, as set out in the Council's Statement of Case.

### **S106 Costs**

- 9.32 As I have no better information, I have included S106 costs as stated for the Order Scheme (see paragraph 8.46), with the exclusion of the education improvements contribution of £11,661,598. This is because the planning statement submitted with the S73 application states the following:

*“Policy IM1, which expects development to provide or contribute towards the provision of measures to directly mitigate its impact and make it acceptable in planning terms, including social infrastructure. Policy IM1 Part 5 requires proposals that are unable to comply with Development Plan policies to be accompanied by a details financial viability assessment, where site specific issues generate viability concerns. The Application’s (sic) financial viability assessment, details how the Proposed Development would not be able to support off-site financial contributions such as towards off-site education and healthcare provision. This position is consistent with Hybrid Consent and was previously accepted by the Council, subject to a phased viability review. The Hybrid Consent s106 requires phased viability review as development is brought forward, to determine whether there will be development surplus to support an off-site contribution towards identified requests for education and healthcare contributions”.*

### **Servicing Costs**

- 9.33 As for the Order Scheme stated in paragraph 8.47, I have included an allowance of £2,000,000 to reflect servicing costs.

### **Finance**

- 9.34 I have included a finance cost at 8.5%; see **Appendix 7** for justification of this rate.



## 10 Summary Viability Results and Sensitivity Analysis

- 10.1 I set out below the viability results of the Order Scheme and Alternative Scheme. My appraisals are included as **Appendices 8 and 9** to this report.
- 10.2 In accordance with guidance and normal practice, the output of the appraisals is shown in terms of the profit return. Given the scale and timeframe of both the Order Scheme and Alternative Scheme, I consider the internal rate of return (“**IRR**”) to be the most appropriate measure. This is often known as the Project IRR and should reflect the risk associated with the scheme as a benchmark target. I note that other measures such as profit on cost and profit on value are also useful (see also paragraphs 6.9 to 6.15 and paragraph 11.8).
- 10.3 Again, in accordance with guidance I have undertaken sensitivity analysis. My sensitivity analysis varies construction costs against capital value rates for the private residential sales values and BTR values to show the effect on the IRR. Residential development in its different forms accounts for over three quarters of the value of both the Order Scheme and Alternative Scheme.

### Order Scheme

- 10.4 The profit returns for the Order Scheme are as follows:

**Table 17: Order Scheme Appraisal Output**

Profit Return	Actual	Target
IRR	(6.02%)	14%
Profit on Cost	(48.88%)	25%
Profit on Value	(94.05%)	20%

Target rate of return – see paragraph 11.8

- 10.5 It follows that on each measure the Order Scheme is significantly unviable.
- 10.6 I show two sensitivity tables below as referred to in 10.3 above:

**Table 18: Present Day Order Scheme Sensitivity Analysis – Construction Cost and Private Residential Sales Values**

		Private residential sales values				
		-10%	-5%	0%	+5%	+10%
Constructi on Costs	-10%	(4.82%)	(3.93%)	(3.07%)	(2.24%)	(1.43%)
	-5%	(6.33%)	(5.46%)	(4.62%)	(3.81%)	(3.01%)
	0%	(7.69%)	(6.85%)	(6.02%)	(5.23%)	(4.45%)
	5%	(8.94%)	(8.11%)	(7.30%)	(6.52%)	(5.76%)
	10%	(10.07%)	(9.26%)	(8.47%)	(7.71%)	(6.96%)

**Table 19: Present Day Order Scheme Sensitivity Analysis – Construction Cost and BTR**

		BTR values				
		-10%	-5%	0%	+5%	+10%
Constructi on Costs	-10%	(3.78%)	(3.43%)	(3.07%)	(2.71%)	(2.33%)
	-5%	(5.27%)	(4.95%)	(4.62%)	(4.29%)	(3.95%)
	0%	(6.62%)	(6.32%)	(6.02%)	(5.72%)	(5.41%)
	5%	(7.85%)	(7.58%)	(7.30%)	(7.02%)	(6.73%)
	10%	(8.98%)	(8.73%)	(8.47%)	(8.21%)	(7.95%)

10.7 It is also clear from the above that even with the most optimistic assumptions as to cost savings and increases in values for the residential, that the Order Scheme does not become viable, against a project IRR of 14%.

#### Alternative Scheme

10.8 The profit returns for the Alternative Scheme are as follows:

**Table 20: Alternative Scheme Appraisal Output**

Profit Return	Actual	Target
IRR	(9.24%)	14%
Profit on Cost	(42.34%)	25%
Profit on Value	(72.74%)	20%

10.9 As with the Order Scheme, on each measure the Alternative Scheme is significantly unviable.

10.10 I have then tested the sensitivity of the Alternative Scheme in the following tables:

**Table 21: Present Day Alternative Scheme Sensitivity Analysis – Construction Cost and Private Residential Sales Values**

		Private residential sales values				
		-10%	-5%	0%	+5%	+10%
Constructi on Costs	-10%	(7.38%)	(6.26%)	(5.19%)	(4.16%)	(3.17%)
	-5%	(9.49%)	(8.38%)	(7.31%)	(6.29%)	(5.31%)
	0%	(11.39%)	(10.29%)	(9.24%)	(8.22%)	(7.25%)
	5%	(13.13%)	(12.04%)	(10.99%)	(9.99%)	(9.03%)
	10%	(14.73%)	(13.64%)	(12.61%)	(11.61%)	(10.66%)

**Table 22: Present Day Alternative Scheme Sensitivity Analysis – Construction Cost and BTR Values**

		BTR values				
		-10%	-5%	0%	+5%	+10%
Constructi on Costs	-10%	(6.20%)	(5.70%)	(5.19%)	(4.64%)	(4.07%)
	-5%	(8.19%)	(7.76%)	(7.31%)	(6.84%)	(6.35%)
	0%	(10.00%)	(9.63%)	(9.24%)	(8.83%)	(8.41%)
	5%	(11.67%)	(11.34%)	(10.99%)	(10.64%)	(10.27%)
	10%	(13.21%)	(12.91%)	(12.61%)	(12.29%)	(11.97%)

10.11 Again it is clear, as with the Order Scheme, that even on optimistic assumptions as to cost saving and increasing values, the Alternative Scheme does not become viable against a project IRR of 14%.

## **11 Viability and Deliverability of the Order Scheme and Alternative Schemes**

- 11.1 In this section I consider the results of my viability assessments and sensitivity testing, as set out in section 10, in terms of the likelihood of the Order Scheme or Alternative Scheme being viable, and therefore the likelihood of either being deliverable.
- 11.2 My viability assessments have been hindered by a lack of information forthcoming from the Council. It may be that, once the Council has presented its evidence, I will be able to amend my appraisals accordingly and undertake further assessments and sensitivity testing. My views below therefore are based on the current information I have been provided with and market research I have undertaken.
- 11.3 The Viability Summary (Appendix 1) of the Council's letter dated 8<sup>th</sup> December provides at least some headline overall values and costs which I can compare to my own analysis, albeit the Viability Summary only relates to the Alternative Scheme (S73) planning application. I therefore compare my Alternative Scheme appraisal with this Viability Summary which the Council has provided, as follows:

**Table 23: Council letter dated 8<sup>th</sup> December compared to Alternative Scheme Appraisal Inputs**

Input	Council	Fourt	Comment
<b>Revenue</b>			
Private Residential	£191.9m	£163.5m	
BTR	£112.2m	£113.4m	
Affordable	£62.5m	£42.4m	
Commercial	£31.3m	£52.2m	
<b>Net Realisation</b>	<b>£397.9m</b>	<b>£368.0m</b> (after purchasers costs)	Overall there is a difference of c. 7% in value
<b>Development Costs</b>			
Land Value and Interests	£1	£1	See paragraph 11.4 below
Construction Cost and Professional Fees	£408.3m	£425.2m	Overall there is a difference of c. 3.5% in construction costs
Planning/ Design Fees	£6.0m	N/A	This difference may be accounted for in construction costs
Sales & Marketing Costs	£8.0m	£8.3m	Non-material
Finance Costs	£3.8m	£184m	Significant difference
<b>Total</b>	<b>£426.2m</b>	<b>£617.5m</b>	
<b>Public Sector Funding</b>			
WMCA Grant	(£39.1m)	N/A	Awaiting Council's evidence
Council Contribution	(£32.8m)	N/A	Awaiting Council's evidence
Additional Costs	N/A	£17m	As taken from information provided by the Council
<b>Net Development Costs</b>	<b>£354.4m</b>	<b>£634.5m</b>	
Development Profit	£43.5m	-£270m	Significant difference
Profit on Cost	12.3%	(42.34%)	Significant difference
Profit on Value	10.9%	(72.74%)	Significant difference

11.4 From the above, I consider the following matters are a material consideration between my analysis and that of the Council in terms of viability and deliverability:

- i. At this stage, as set out in paragraph 8.42 I have not included acquisition costs for land and other interests as a cost. I am awaiting further information and reserve the right to amend accordingly;
- ii. There is a significant difference between the Council and myself in the finance costs for the Alternative Scheme;
- iii. Additional (historic scheme and servicing costs) have not been allowed for in the Council's appraisal;
- iv. I have not made allowance for public sector funding as I do not have visibility on the nature and conditionality of this at present; and
- v. The profit and returns are subject to timing and other adjustments which I have not been able to analyse from the Council's assessment to date.

11.5 In addition to the spot output figures the Council to date has now provided, no sensitivity analysis has been undertaken by the Council in order to demonstrate the robustness of the Alternative Scheme to changes in input variables. Good practice and professional guidance recommends the use of sensitivity analysis in considering the viability of a scheme.

11.6 So far as benchmark returns are concerned, I note those within the S106 Agreement for the Order Scheme dated 26<sup>th</sup> January 2022. Schedule 1 – Viability Reviews states that reviews will be conducted in accordance with the following target returns depending on use class:

- Residential BTR – 12.5% on GDV;
- Commercial – 15.0% on GDV;
- Hotel – 15.0% on GDV;
- Private Residential – 17.5% on GDV;
- Residential Affordable – 6.0% on GDV.

11.7 Whilst these are in the context of viability in planning rather than the “real world” approach required in this instance, they do indicate that the Council's current viability assessment would fall below the blended average of the above, by some margin.

11.8 I have set out in section 10 my opinions of the blended rates of return for the Order Scheme and Alternative Scheme. In **Appendix 10** I produce an extract from the Bayes Business School Commercial Real Estate Lending Report of mid year 2022. This shows a range of ranges of IRR for different types of development and represents a funders view of the target rate of return in respect of development. I also refer to **Appendix 7** in terms of the cost of senior development finance and expected target IRRs. From this I consider a Project IRR benchmark of 14% is appropriate having regard to the following:

- Current market volatile circumstances with regard to residential sales and renting;
- The poor retail letting market;
- Construction cost inflation
- The length of time to build out and complete the Alternative Scheme; and
- Difficulties in the current funding market in order to bring forward schemes of this nature outside of the major centres of London, Birmingham and Manchester.

11.9 I note in the Council's Statement of Case, paragraphs 8.1 to 8.9, repeated references to the finance and funding of the Order Scheme. In particular I note at paragraph 8.7 reference to modification of the Development Agreement to reflect specific financing arrangements. Taken as a whole against challenging financial and funding circumstances generally in the UK property sector, the volatility of finance and funding would need to be reflected in the risk associated with the viability and deliverability of the Alternative Scheme.

11.10 I note from the Vicarage Field decision, at paragraphs 176 to 178, the emphasis the Inspector places in that case upon the viability and deliverability of that scheme where the Inspector concluded that he could not be certain as to the necessary resources likely to be available and as a result the reasonable prospect of deliverability of the scheme.

11.11 I also note that in the Vicarage Field case the FVA submitted in support of the planning application showed that, at the time of the appraisal, the scheme was unviable (DL 135). This case has some similarities in that the FVA submitted in support of the Order Scheme planning application

showed the scheme to be unviable. As a result there is, in the absence of other evidence from the Council, uncertainty about the financial viability of the scheme.

- 11.12 I would conclude from the above, based upon the information obtained from the Council to date, my own market research, my viability assessment and sensitivity testing, that the Order scheme and Alternative Scheme are not viable and are therefore not capable of being delivered.



## 12 Summary and Conclusions

- 12.1 I have been instructed by Royal London to provide supporting evidence for my professional opinion in respect of the viability and deliverability of the Order Scheme. I have also assessed the viability and deliverability of an Alternative Scheme that is the subject of a Section 73 planning application.
- 12.2 I have prepared development appraisals and undertaken sensitivity analyses which have informed my opinion of the deliverability and viability of the Order Scheme and the Alternative Scheme.
- 12.3 I have requested, through my instructing legal team, information from the Council in order to undertake my appraisals, together with other background information to assist me in forming my opinion. Whilst some information has been provided, much remains outstanding, which in turn could alter the conclusions I have reached to date.
- 12.4 In my evidence I set out the statutory framework for land value and the policy context for viability and deliverability. I also refer to a recent decision on “The London Borough of Barking and Dagenham Council (Vicarage Field and surrounding) CPO 2021”.
- 12.5 My viability method and approach follow RICS professional guidance.
- 12.6 Where possible, I have referenced information in the public domain and other market evidence to inform my appraisals of the Order Scheme and Alternative Scheme.
- 12.7 My viability appraisals of both schemes demonstrate that they are significantly unviable. I have also undertaken sensitivity analysis in accordance with best practice and professional guidance in order to consider if there is a possibility that either could become viable. I conclude that neither would, having regard to variances in values and costs.
- 12.8 I have compared my results with a Viability Summary provided by the Council. I note there are some significant differences between my

appraisals and the Viability Summary. These include finance costs, historic costs, public sector funding and acceptable returns. Neither the Council nor I have included land acquisition costs within our calculations. These would need to be added and would result in a greater deficit.

- 12.9 I conclude that the two schemes I have tested are not viable and as a result are not capable of being delivered.

## 13 Statement of Truth and Declarations

### Statement of truth

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer. I understand that proceedings for contempt of Court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

### Declaration

1. I confirm that my report has drawn attention to all material facts which are relevant and have affected my professional opinion.
2. I confirm that I understand and have complied with my duty to the Inquiry as an expert witness which overrides any duty to those instructing or paying me, that I have given my evidence impartially and objectively, and that I will continue to comply with that duty as required.
3. I confirm that I am not instructed under any conditional or other success-based fee arrangement.
4. I confirm that I have no conflicts of interest of any kind other than those already disclosed in my Report.
5. I confirm that I am aware of and have complied with the requirements of the rules, protocols, and directions of the Inquiry.
6. I confirm that my Report complies with the requirements of the RICS – Royal Institution of Chartered Surveyors, as set down in the RICS Practice Statement Surveyors acting as expert witnesses.

Signature: 

Robert Fourt BSc (Hons) MSc FRICS

Date: 23<sup>rd</sup> December 2022