Document Reference 2.5

Town and Country Planning Act 1990

Acquisition of Land Act 1981

Local Government (Miscellaneous Provisions) Act 1976

Inquiry into:

THE COUNCIL OF THE CITY OF COVENTRY (CITY CENTRE SOUTH) COMPULSORY PURCHASE ORDER 2022

and

Town and Country Planning Act

Stopping-up of public highway

Proof of Evidence

of

Alex Morton

Director at Deloitte

On behalf of the Council of the City of Coventry

29 December 2022

1. INTRODUCTION

Qualifications and Experience

1.1 I, Alexander James Morton, am a Director at Deloitte LLP working in its real estate advisory business. My role in Deloitte is as a practitioner in the fields of real estate development appraisal; the appointment of development partners on behalf of public authorities; and development feasibility advice in respect of primarily residential and mixed-use projects.

1.2 I am a Member of the Royal Institution of Chartered Surveyors (RICS), having been admitted in 2007. I am a RICS Registered Valuer. I hold a Bachelor of Arts degree in Geography from the University of Sheffield and a Masters of Science degree in Real Estate from the University of Reading.

1.3 Following completion of my Masters degree, I joined Drivers Jonas (which merged with Deloitte LLP in 2010) in 2005. Since that time I have advised numerous public authorities in respect of development and regeneration matters.

1.4 My work has regularly involved advising on mixed-use development schemes, typically compromising residential, retail and commercial components. Examples of large scale development schemes I have been involved with include South Oxhey (Hertfordshire), which is a mixed-use regeneration of a post war district centre for a scheme of over 650 new homes and approximately 55,000 sq ft of retail space; South Kilburn, which is a multi-phase regeneration programme, where over 1,000 new homes have been delivered to date; and Queen Elizabeth Olympic Park, where I am currently advising the London Legacy Development Corporation on selecting a Joint Venture partner to deliver a mixed-use scheme of c.950 new homes and c.300,000 sq ft of retail and employment space.

Involvement with the Scheme

1.5 I have been advising Coventry City Council ("the **Council**") in its capacity as the acquiring authority on the proposed redevelopment of land known as 'city centre south' (**"**the **Scheme**") since 2014. My role has been to support the Council in the procurement of a development partner and subsequent development agreement negotiations.

1.6 My firm's current instructions, in a development advisory capacity, have involved working with the Council (as acquiring authority) and its wider professional teams to:

(a) Review the development appraisal prepared by the Council's development partner in respect of the Scheme and updated on a periodic basis;

(b) Provide real estate support in respect of discussions regarding the Development Agreement ("**DA**");

(c) Prepare an updated Full Business Case and Change Order on behalf of the Council (as acquiring authority), for the purposes of maintaining the grant funding awarded by the West Midlands Combined Authority ("**WMCA**") towards the delivery of the Scheme; and

(d) To review the Council's development partner's proposed funding arrangements, in the context of satisfying the Approved Funder provisions under the DA.

1.7 In addition, my firm is instructed in a compulsory purchase and land assembly capacity, as explained within the proof of evidence of Graeme Lawes (DR.2.8).

2. SCOPE OF EVIDENCE

2.1 My evidence primarily relates to the basis upon which the Developer was appointed and the basis upon which the Council (as acquiring authority) is satisfied that there is a reasonable prospect of the Scheme being delivered from a funding and viability perspective.

2.2 In carrying out my instructions I have been assisted by officers of the Council and its professional advisors, as well as the Developer and its professional advisors, some of whom will also provide evidence to the inquiry.

2.3 My evidence covers:

(a) a summary of the background to the Scheme, setting out the Council's regeneration objectives and how these informed the developer procurement process;

(b) consideration of the justification for the use of compulsory purchase powers, with particular reference to "Guidance on Compulsory purchase process and the Crichel Down Rules" issued by DLUHC in July 2019[1];

(c) a summary of the elements of the DA pertinent to the matters of funding and financial viability;

(d) a summary of the development proposals, setting out the use mix composition, anticipated economic outputs, and programme for delivery;

(e) consideration of the Developer's financial appraisal and funding position;

(f) a summary of the status of the WMCA funding towards the Scheme;

[1] https://www.gov.uk/government/publications/compulsory-purchase-process-and-the-crichel-down-rules-guidance

(g) a summary of the Council's funding and delivery commitments towards the Scheme; and

(h) my conclusions as to why I consider that the DLUHC Guidance on Compulsory Purchase Process and the Crichel Down Rules (the "**CPO Guidance**"). in relation to potential financial viability and funding is satisfied.

3. BACKGROUND TO THE SCHEME

Council's Objectives

3.1 The Council has longstanding ambitions to bring forward a mixed-use development project within Coventry City Centre, known as City Centre South ("**CCS**").

Procurement Process

3.2 On 8 September 2015, full Council endorsed Cabinet's recommendation to proceed with a procurement for CCS, and resolved to[2]:

1 | Authorise officers to undertake a further OJEU compliant developer procurement exercise for a transformational scheme and to test level of financial support required.

2 | Authorise a statement for inclusion in the City Centre South developer tender documents confirming that the Council will consider funding land acquisition for the scheme where it is not viable for the developer to do so, subject to finding a suitable development partner and future Cabinet and Council approvals once tenders have been received.

3 | Authorise officers to develop a financial strategy based on identifying and prioritising capital receipts to fund any future Council financial support.

4 | Request officers to bring a report to Cabinet and Council at the end of the procurement process to consider scheme proposals and any financial contribution required.

3.3 The Council, in its capacity as landowner, commenced the procurement process on 6 November 2015. A Memorandum of Information was issued to interested parties, which set out background details to the project and the Council's objectives, which included the following vision statement:

"The Council considers that CCS will be more than just a retail scheme. The vision for CCS is instead for it to be a vibrant and successful mixed-use environment. The scheme will respect

[2] https://edemocracy.coventry.gov.uk/documents/g10697/Printed%20minutes%2008th-Sep-2015%2014.00%20Council.pdf?T=1

and where necessary, reinstate the historic street pattern of Coventry. It will not just be a place to shop, visit for leisure or live in but will instead be an environment where a range of activities come together and respond to increased demand for flexible lifestyles[3]."

3.4 The process was managed by the Council's procurement team, with Deloitte providing real estate advisory support. Working closely with our lead engagement partner, Simon Bedford, I was responsible for running competitive dialogue meetings and reviewing commercial elements of the bidders' proposals.

3.5 Final Tenders were received on 29 July 2016. Following a period of evaluation and clarification, Shearer Property Group ("**SPG**") was confirmed as the Council's preferred bidder in January 2017.

Post Procurement Period

3.6 SPG and the Council entered into detailed Heads of Terms in June 2017. These Heads of Terms provided SPG with an initial 12 month period to secure an anchor store tenant (assumed at Final Tender to be one of House of Fraser or Fenwick), with a further 6 month period to then enter into a funding agreement. Subject to both a department store and a funder being secured, the intention was for the parties to enter into a development agreement, with obligations upon the Council to secure vacant possession and for SPG to advance a new planning application.

3.7 During autumn 2017 it became increasingly evident that there was a struggle to secure anchor store interest; with SPG advising at the time that House of Fraser was experiencing financial difficulties and Fenwick was undergoing internal restructure.

3.8 Through subsequent discissions between the Council and SPG it was agreed that an updated approach to the anchor store requirement would be pursued. The revised approach envisaged a prominent 'pavilion' building, comprising flexible space which could accommodate a diverse range of occupier types and essentially evolve the model that a traditional department store could have offered. This concept remains an important component of the Scheme, though adjusted to now form two smaller pavilion buildings, as expanded upon within the evidence of Mr Markwell (DR2.3).

3.9 SPG further developed its scheme proposals, incorporating the pavilion concept. These outline proposals, along with the detailed Heads of Terms referred to above, informed the DA which was entered into on 21st March 2019, with the parties being:

- The Council;

[3] Extract from the '*Coventry City Centre South Memorandum of Information*' dated 6 November 2015

- Shearer Property Regen Limited ("**SPRL**") (as 'Developer')
- Shearer Property Group Limited (as 'Guarantor').

Selection of an Approved Funder

3.10 The DA places an obligation upon the Developer to take responsibility for securing a private sector funding and delivery partner ('Funder'). The expectation being that the Funder will provide the necessary capital to meet the Developer's obligations up to the unconditional date within the DA – the point at which all condition precedents have been satisfied and the Scheme is capable of being delivered. Costs to be funded during this period include preparing detailed scheme design plans; engaging with potential occupiers and end investors; and, developing phasing and logistic plans. All of these developer responsibilities are to be funded at risk.

3.11 The Funder is also required to provide a commitment in principle to fund the construction and delivery of the Scheme, subject to all pre-conditions having been met.

3.12 As explained in the proof of evidence of Mr Markwell (DR2.3), SPG, through its agents Montagu Evans, commenced a marketing process to select a Funder on 24 June 2021. I understand that this process included a press-release and the emailing of a development prospectus to approximately 50 parties.

3.13 Although, as a private entity, SPG is not subject to public procurement regulations, it agreed with the Council to undertake a structured selection process, designed to test prospective Funders' capabilities against a number of criteria discussed with the Council. This included testing each party's design and planning approach; its track record and delivery capabilities; its ability to provide development funding; and its initial assessment of financial viability.

3.14 In summary, 10 expressions of interest were received, with 4 parties shortlisted by SPG to enter into a competitive bidding process. Following SPG and its advisors' evaluation of final submissions, SPG advised the Council of its intention to select the Hill Residential as its joint venture partner to take forward the Scheme.

3.15 SPG subsequently wrote to the Council on 22nd February 2022, seeking the Council's approval to Hill Holdings Limited becoming the Approved Funder under the terms of the DA. The Council provided its written confirmation to this on 3rd March 2022. In the remainder of this Proof, Hill Holdings Limited will be referred to as the "**Approved Funder**".

3.16 Hill Residential has to date acquired a 33.3% shareholding in SPRL, which as noted above is the joint venture entity tasked with delivering the Scheme. The Share Sale and Purchase Agreement provides Hill Residential with the ultimate controlling decision, to enable it to invest in the project subject to achieving the agreed milestones. Further details on the arrangements between Hill Residential and SPG are provided within the proof of evidence of Tony Parker (DR2.10).

4. CONSIDERATION OF THE JUSTIFICATION FOR THE USE OF COMPULSORY PURCHASE POWERS

4.1 Under the terms of the DA, responsibility for securing vacant possession of the land required for the Scheme resides with the Council. The Council has been making efforts to acquire the required interests by agreement and made the Council of the City of Coventry (City Centre South) Compulsory Purchase Order 2022 (the "**CPO**") to facilitate the delivery of the Scheme.

4.2 In making the CPO, the Council has had regard to the CPO Guidance.

4.3 This guidance, at paragraph 106, includes reference to the matter of financial viability, as follows:

The factors which the Secretary of State can be expected to consider include:

….

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.

4.4 In preparing this proof of evidence, I have had regard to the financial and funding proposals for the Scheme and considered the extent to which they can offer confidence that there is a reasonable prospect that the Scheme will proceed in the context of the CPO Guidance.

5. SUMMARY OF THE DEVELOPMENT AGREEMENT ARRANGEMENTS

5.1 The DA is a conditional contract, which provides for the grant of a long lease of 250 years to the Developer, subject to the following pre-conditions being satisfied:

- **Ground survey condition** - the obtaining of a geotechnical and/or environmental reports which contain no matters which in the reasonable opinion of the Developer would result in a material variation in the costs the Developer has assumed within its appraisal.

- **Planning condition** - the grant of a 'satisfactory' outline planning permission, which is free from challenge, and Initial Reserved Matters having been approved by the Local Planning Authority (being the Council).

- **Highways condition** - the confirmation of a relevant Highways Order to help facilitate the Scheme.

- **Site assembly condition** – for the Council to have entered into agreements to acquire the necessary third-party rights and interests required to deliver the Scheme, and/or for the Council to have obtained a confirmed Compulsory Purchase Order.

- **Funding condition -** The exchange of a funding agreement between the Developer and the Approved Funder, providing for full and sufficient financing for the Developer's Financial Obligations under the DA.

- **Funding security condition** – the requirement for the Approved Funder to enter into a deed with the Council to observe and perform the obligations of the Developer under the DA, and to indemnify the Council for all costs required to achieve site assembly, to the extent such costs exceed a 'site assembly cap' of £27,968,789 (which includes costs in relation to CPO compensation, the consideration payable under private treaty acquisitions, surrenders, releases (including in relation to the rights of light) and/or extinguishment all as approved in accordance with the terms of this Agreement under the DA.

- **Viability condition** – for the Developer to prepare an updated appraisal once all the other conditions have been satisfied. If the resultant appraisal shows a profit in accordance with a pre-stipulated target return, the Developer is to proceed. The Developer may opt to proceed with a lower level of project profit at its discretion.

5.2 The funding security condition and the funding condition are due to be satisfied shortly, with a funding agreement between SPRL and the Approved Funder having been prepared.

5.3 Good progress is being made in respect of the planning condition, as detailed in the proofs of evidence of Andy Fancy (DR2.4) and Liam D'Onofrio (DR2.6). Satisfaction of the highways condition and the site assembly condition will be largely dependent upon the outcome of this inquiry. The Developer also intends to supplement its desk top surveys with intrusive investigations required to satisfy the ground survey condition.

5.4 Subject to the satisfaction of these matters, the viability condition will be the final pre-condition to either satisfy or for the Developer to waive. I provide further commentary on this matter later on within this proof of evidence.

6. SUMMARY OF THE SCHEME PROPOSALS

Context

6.1 The retail market has continued to experience significant structural change, with the COVID-19 pandemic exacerbating the shift from physical retail to online platforms. Whilst this shift has affected most UK high streets, Coventry has felt the impact greater than many, as captured in recent statistics that found it experienced the 6th highest number of insolvencies of any UK city during the pandemic[4].

6.2 A significant factor in this poor performance can be attributed to the high proportion of dated and less attractive retail units within the primary shopping area, which has suffered from increasing vacancy rates and falling rents. This is particularly evident in West Orchards Shopping Centre, the second largest shopping centre in the city, which prior to COVID-19 held a vacancy rate of 1.6%. As of June 2022, the vacancy rate has dramatically increased to 53.1%. Between November 2016 and July 2022, overall vacancy rates within the city centre core increased from 2.1% to 6.9%, heavily driven by the closure of Debenhams in Spring 2021. Market rents and rental growth are currently at their lowest levels since early 2012[5].

6.3 The decline of high street retail has caused a revision in policy and government direction to maximising the use of brownfield land to deliver housing and encouraging city centre living. The High Streets Task Force recommend that housing combined with a wider range of uses and activities is the key to ensuring town centres and high streets survive and thrive. In response to this shift, DLUHC announced in July 2022 a further £180 million of funding to support to release brownfield land for housing via the Brownfield Land Release Fund 2 (BLRF2), following a £75 million allocation in November 2021 under the initial BLRF.

6.4 At present, there is a limited housing offer within Coventry city centre, with just one private new build scheme delivered in the last 5 years. Coventry's residential market is predominantly focused on the suburbs and is characterised by terraced and semi-detached homes. Residential construction at present is largely being carried out by housebuilders on the outskirts of the city and towards the metropolitan boundary. However, research published by Rightmove in May 2021[6] suggests that the easing of COVID-19 restrictions helped increased the appeal of living in city centres, leading to some major UK cities seeing a significant uptick in buyer demand, including York (76%), Sheffield (57%) and Birmingham (39%). So much so, the growth in buyer demand for urban locations is now outperforming the growth in rural areas for the first time since before the pandemic started.

6.5 A supply of new homes to either purchase or rent within the city centre would serve this latent demand and encourage an increasingly diverse demographic, particularly younger people,

[4] https://www.retailgazette.co.uk/blog/2022/01/data-the-10-cities-that-suffered-the-most-retail-insolvencies-since-covid-19/
[5] Data obtained from CoStar
[6] https://hub.rightmove.co.uk/first-time-buyer-demand-and-stalled-price-growth-help-city-centres-bounce-back/

which would increase footfall and create a more vibrant centre during both the daytime and evening. Importantly, the Scheme's transformational benefits also have potential to encourage graduate retention. Data published by the Council indicates that only an estimated 15% of students moving to Coventry to study stay to work in the city, meaning that graduate retention is low compared to other cities[7].

Current Scheme Proposals

6.6 Given the above and in consultation with the Council, SPRL has therefore sought to maintain the mixed-use requirements originally stipulated by the Council when the opportunity was originally advertised and to update the use mix composition such that there is a higher proportion of housing and a reduction in the quantum of retail and leisure space.

6.7 These changes in the mix of uses have primarily been applied to the upper floors of the Scheme; for example where first floor retail has been replaced with residential space. The ambitions of delivering a vibrant retail and leisure ground floor environment have been maintained within the Scheme, with active ground floor frontages to all of the principal public thoroughfares within the Scheme. Independent retail reports provided by the Developer have set out the basis of the revised retail and leisure configuration which also offers improved leasing prospects, as expanded upon in the evidence from Adam Markwell (DR2.3).

6.8 The upper floors are proposed to be predominantly Class C3 residential dwellings. The Developer's funding and delivery strategy envisages these dwellings being marketed under four principal tenure types: market sale; private rental; affordable shared ownership; and affordable rent. The intention is to both support the Council's ambition for a diverse city centre residential population[8] and to also improve the delivery prospects by avoiding saturating the market with a single product type. The affordable units and private rental units are expected to be 'forward funded' by a Registered Provider and Build to Rent investor respectively, which will help to de-risk a significant component of the Scheme from a sales perspective.

6.9 For the purposes of commenting upon funding and viability prospects, I have been provided with an indicative set of Scheme proposals, the particulars of which are summarised as follows:

- 1,500 residential units, of which 711 are for market sale, 489 for build to rent, and 300 for affordable housing; and
- approximately 11,600 sqm (GIA) of Class E commercial space[9].

[7] https://www.coventry.gov.uk/performance-1/one-coventry-plan-annual-performance-report-2019-2020/10
[8] Policy H4 'Securing a Mix of Housing' https://www.coventry.gov.uk/downloads/file/25899/final-local-plan-december-2017
[9] The SPRL appraisal excludes the former Empire Cinema, which forms part of the planning proposals but which will continue to be held and managed by the Council.

6.10 As explained in the evidence provided by Richard Brown (DR2.1) and Andy Fancy (DR2.4), the parameter based planning approach for the Scheme retains a degree of flexibility, to enable the Scheme composition to be refined over time. This is as I would expect for a large scale and long term mixed-use development of this type, where specific occupier requirements are likely to evolve over time.

Programme for Delivery

6.11 In his proof of evidence (DR2.4), Andy Fancy details SPRL's proposed delivery arrangements in greater detail. For the purposes of the review I undertook, I have summarised my understanding of these arrangements as follows.

6.12 SPRL proposes to commence demolition of the site under licence during autumn 2023, assuming that vacant possession is achieved by September 2023. The final demolition arrangements remain to be confirmed. I am advised that SPRL intends to undertake demolition of the majority of the site under a single contract, and potentially the entire site subject to wider land acquisition considerations. I understand from SPRL that the rationale for a single demolition phase is driven by both logistical considerations and cost efficiency. Recognising the scale of demolition works proposed, the Council and SPRL have committed to agreeing a 'meanwhile use' strategy, to help maintain active uses on areas of land awaiting development.

6.13 Delivery of the Scheme is envisaged to comprise two principal phases. Phase 1 is set to commence with Block A1 in January 2024, which is on a parcel of land already cleared of buildings. Phase 1 will then progress with Blocks A2 (on Market Way), Block B (between Market Way and Hertford Street) and Blocks C and E around what is currently Bull Yard. Given the scale of Phase 1, it is likely to be split into two smaller sub-phases, which will be defined within the updated DA.

6.14 Phase 2 comprises Block D only and is due to commence in February 2029.

6.15 The Scheme is due to fully complete in September 2033.

7. WEST MIDLANDS COMBINED AUTHORITY FUNDING

7.1 In order to help facilitate the delivery of the Scheme, the Council advanced an application to the West Midlands Combined Authority ("**WMCA**") for grant funding. This application was supported by a Full Business Case and resulted in up to £98.8m of WMCA Grant being awarded to the Scheme. A Grant Agreement was entered into between the WMCA and the Council on 8 February 2018.

7.2 The WMCA grant is to be utilised against various enabling costs, including land assembly and demolition, as well as potentially supporting the delivery of the Scheme itself. To date, public sector spending on the Scheme has been around £15 million.

7.3 The WMCA grant is a very important component of the delivery strategy for the Scheme. Without it, I consider that the prospects for delivery would be considerably reduced, owing to the lack of currently identified sources of funding for costs such as land assembly and demolition.

7.4 The Council has maintained a close dialogue with the WMCA, both to keep it informed of expenditure of the Grant and also to update it on the progress being made in advancing the Scheme.

7.5 Following the preparation of updated scheme proposals as I have set out above, it was necessary for the Council to submit a 'Change Request' to the WMCA. This change request was in respect of updates to the use mix; in particular the increase in residential floorspace and reduction in non-residential floorspace, as well as proposed changes sought by SPRL as to the basis upon which the grant is to be drawn down.

7.6 As part of this change request process, an update to the original Full Business Case ('**FBC**') was prepared and the WMCA was briefed upon the Developer's viability assessment.

7.7 The WMCA considered the change request at its Investment Committee and Investment Board, over the course of September and October 2022 respectively. At its meeting held on 17 October 2022[10], the WMCA Investment Board resolved the following:

7.7.1 The introduction of a council funding contribution completes the funding package for the scheme and is subject to Cabinet and Full Council approval as well as Subsidy Control review be noted;

7.7.2 The Change Request for the Coventry City Centre South Scheme subject to Coventry City Council Cabinet and Full Council approval of the Local Authority Contribution and resolution of any associated Subsidy Control review matters be approved;

7.7.3 The commercial terms and grant structure be delegated to the S151 Officer, in consultation with the Investment and Commercial Activities Director, to undertake the necessary due diligence to approve the funding and enter into any associated legal agreements that are necessary to give effect to the recommendations contained in the report be approved;

[10] https://governance.wmca.org.uk/ieListDocuments.aspx?CId=135&MId=573&Ver=4

7.7.4 The principle that overall affordability of the Investment Programme (as evidenced by the financial model) should be no worse off as a result of any accelerated drawings which might be required as a result of the Change Request be approved.

7.8 Further to the WMCA Board approval, the Council has been engaging with Ian Martin, the Investment and Commercial Activities Director for WMCA, in order to agree the basis upon which the grant agreement is to be amended to reflect the change request approval. At the time of preparing my evidence, I am advised that discussions with Mr Martin are well advanced and I anticipate that the necessary amendments to the Grant Agreement will be documented shortly.

8. ASSESSMENT OF THE DEVELOPER'S FUNDING POSITION AND DEVELOPMENT APPRAISAL

Funding Position

8.1 Funding for SPRL will be provided by the Approved Funder. Tony Parker (DR2.10) explains the proposed funding arrangements within his proof of evidence, which I summarise as follows:

- The Approved Funder will act as the Lender to SPRL (the Borrower).
- The Lender will provide equity to fund at least 40% of working capital required for the CCS Scheme.
- Additional funds (as required) will be drawn from the Hill Revolving Credit Facility (RCF), which will cover up to 60% of the Working Capital requirements for the CCS Scheme (as detailed in Tony Parker's proof of evidence (DR2.10)).
- Equity will be charged at 5% and will be offered on an unsecured basis.
- The RCF debt will be charged at an interest rate which is reviewed every three months (interest periods) and I understand is charged at a margin of between 2.5% and 3.25% above the Bank of England base rate.
- The RCF security will be in the form of a first charge over each phase head lease, with Hill's RCF banks requiring step in rights to the Development Agreement.
- Typical conditions precedent apply to draw down of the debt including the requirement for equity to be drawn first.
- All funding provided in advance of the unconditional date will be equity.

8.2 In reviewing SPRL's funding arrangements, I drew upon the input from Chris Holmes, a partner at Deloitte and the head of the firm's debt advisory business.

8.3 The lending margin for the underlying RCF was viewed by Mr Holmes as being competitive, noting that it was arranged at a point in the market cycle which now makes this margin look favourable.

8.4 As I expand upon in my commentary upon the Developer's financial appraisal below, the phased nature of the development is likely to limit the maximum outlay and therefore debt required at any point in time will likely be significantly below the committed amounts under the RCF.

8.5 Given the above, Deloitte LLP reported to the Council that it was satisfied that the proposed funding arrangements reflect terms that are reasonably competitive in a market context and that the arrangements satisfied the requirements stipulated within the DA.

8.6 The Council has also undertaken a review of the Approved Funder's financial standing and has confirmed to me that it is satisfied that the entity is of sufficient financial strength to fulfil its obligations under the DA and the Funding Security Deed.

8.7 I am therefore satisfied that the Developer's access to funding is not an impediment to the progress of the Scheme.

Scheme Viability Appraisal

8.8 The Developer has set out its assessment of the Scheme viability in an appraisal which was submitted to the Council on 26th October 2022.

8.9 The development appraisal has been prepared on a bespoke template, created in Excel, which was developed by the Hill Group internally.

8.10 The development appraisal adopts what is known as a residual approach, with anticipated development profit being the output. On the basis that the Council is tasked with assembling the land required for the Scheme and intends to ultimately transfer its land for a nil premium, the costs of land acquisition are excluded from the Developer's appraisal.

8.11 This approach can be summarised as follows:

GROSS DEVELOPMENT VALUE (GDV)
(The aggregate capitalised sales proceeds realised from the completed development)

Less

DEVELOPMENT COSTS
(Comprising estimates for construction costs, contingency, professional fees, sales, letting & marketing costs, finance costs and land)

Less

PUBLIC SECTOR FUNDING
(Comprising WMCA Grant Funding and a financial contribution from the Councill)

Equals

NET DEVELOPMENT COSTS (NDC)

Thus

(GDV – NDC)

Equals

DEVELOPER'S PROFIT
(The residual sum arising, which is also typically expressed as a return on Net Development Costs or return on Gross Development Value)

8.12 Following the format set out above, I summarise the viability position presented as follows:

Gross Development Value	
Private Residential Sale	£191.9m
Build to Rent Residential	£112.2m
Affordable Residential	£62.5m
Retail, Leisure and Medical uses	£31.3m
Total Revenue	**£397.9m**
LESS	
Total Development Costs	
Construction Costs	£408.3m
Planning / Design Fees	£6.0m
Sales and Marketing Costs	£8.0m
Finance Costs	£3.8m
Total Development Costs	**£426.2m**
LESS	
Public Sector Funding	
WMCA Grant	£39.1m
Council Contribution	£32.8m
Net Development Costs	**£354.4m**
Development Profit	**£43.5m**
Profit on Net Development Costs	**12.3%**

Viability Review

8.13 My employer, Deloitte LLP, was instructed by the Council to undertake a review of the developer's appraisal and to comment upon the veracity of the assumptions adopted within it. I was the lead Director responsible for undertaking the exercise, with oversight and final approval provided by one of the firm's partners, Richard Owen FRICS.

8.14 In order to review the workings of the Developer's appraisal, I replicated it within the *Argus Developer* software package, which is a development appraisal tool widely used by valuers and real estate practitioners. I provide a summary of my replica of the Developer's appraisal at **Appendix AM1**.

8.15 In undertaking this review, I drew upon the specialist input from WT, in its capacity as cost consultants for the Council. A summary of the WT advice is provided at **Appendix AM2**.

8.16 I also sought specialised retail agency advice from KLM Real Estate, in its capacity as sub-consultant to Deloitte LLP. A summary of KLM Real Estate's advice is provided at **Appendix AM3**.

8.17 I also drew upon the specialist input from my colleagues in Deloitte LLP's affordable housing team, in considering the assumptions the Developer has made for the various residential tenures assumed within the Scheme.

8.18 I used this specialist advice to supplement my own understanding of development appraisals of this type, which has been derived from both undertaking my own appraisals of the Scheme and similar developments, as well as from reviewing submissions received from developers as part of competitive tendering processes.

8.19 The conclusions of my viability analysis are as follows:

(a) The form of appraisal provided is reasonable and all cost and revenue streams can be readily explained and justified.

(b) The private residential values adopted by SPRL equate to an average of £386 psf, which reflects a premium of approximately 5% above the evidence I was able to establish. I concluded that that this was reasonable, given the 'regeneration premium' which I have noted being realised on other large scale transformative schemes.

(c) The assumptions made for the Build to Rent ('BTR'), equate to an average capital value of approximately £345 psf, which is at the lower end of the range I would have anticipated given the investigations I made. There is increased investor interest within BTR schemes in Coventry and this offers me confidence that this will be an element of the Scheme that has some growth potential.

(d) The affordable housing assumptions have been supported by proposals submitted to SPRL during summer 2022, by three Registered Providers who all have prior experience of operating within Coventry. This, combined with the analysis provided by Deloitte's affordable housing team, led me to conclude that the assumptions sit within an expected and reasonable range.

(e) The assumptions made for the retail rents appear to be reasonable and consistent with what KLM Real Estate has advised. The incentive allowances and investment yield adopted by SPRL are potentially optimistic given current economic uncertainty. However, given the relatively small contribution the retail elements make to overall GDV I did not consider this a significant concern.

(f) The construction cost rates have been considered by WT, who have advised that they consider them to be generally in line with expectations for a scheme of this scale and having regard to the design quality requirements sought by the Council.

(g) WT's review has also identified that the allowances SPRL has made for preliminaries are higher than expected. That, however, needs to be weighed against the lack of allowance for build cost inflation allowances within the SPRL appraisal and cost plan, which SPRL could have legitimately accounted for.

(h) The allowances SPRL has made for various costs associated with both designing and marketing the Scheme – including planning costs, sundries, and agency/legal fees - are in line with what I would consider to be market expectations, and in some cases are based on SPRL's own internal costs associated with delivering a development of this nature and are therefore considered reasonable.

(i) The proposed funding arrangements are considered to be reasonable and in line with a typical market approach for a project of this nature.

Viability Condition

8.20 As I note above and as is expanded upon within the proof of evidence of Tony Parker (DR2.10), the developer's assessment of anticipated profit is equivalent to 12.3% of net development costs.

8.21 The DA provides for a viability condition to either be satisfied or waived as the final condition precedent. This viability condition stipulates a target threshold of 16.5% of net development costs.

8.22 In order for the Council to satisfy itself that this viability condition does not present an impediment to progress of the Scheme, the Council sought additional details from the Developer as to how it intends to address this matter.

8.23 In summary and as expanded upon within the proofs of evidence of Tony Parker (DR2.10) and Andy Fancy (DR2.4), the current Scheme calculated profit is agreed to be 12.3%. SPRL intends to proceed on that basis but is seeking to improve the profit level up to 16.5%. The likely range is therefore between 12.3% and 16.5% and the Council anticipates that SPRL will proceed within that range.

8.24 Given this commitment and as the target profit threshold is capable of being waived by the Developer, a projected shortfall at this stage is not considered an undue cause for concern. In reaching this conclusion, I have also had regard to the financial commitments which continue to be made by SPRL also where there may be opportunities to further refine the Scheme, as I consider below.

8.25 On the matter of the level of SPRL commitment, both the Council and I have taken reassurance from the following:

a) A letter dated 11 November 2022 from Andy Hill, Group Chief Executive of the Hill Group Limited and a Director of SPRL, stating that whilst the appraisal submitted to the Council does not achieve its 'desired hurdle rate', that SPRL 'remain confident that [it] will be able to improve scheme viability' and to 'reiterate SPRL's continued commitment to the Coventry City Centre South Scheme';

b) A deed to be shortly executed by the Approved Funder in favour of the Council, for the Approved Funder to underwrite the costs of SPRL in respect of satisfying the Conditions Precedent which the Developer is responsible for under the terms of the DA; and

c) A deed to be shortly executed by the Approved Funder in favour of the Council, for the Approved Funder to observe and perform the obligations of the Developer under the terms of the DA and to indemnify the Council against all costs required to achieve site assembly, save for such costs which are to be funded through the WMCA grant agreement.

8.26 With regard to scope to further refine the Scheme, SPRL has identified areas where it considers that it can use its expertise to improve viability. One such area is in respect of improving the gross to net efficiency of the buildings – which relates to maximising the proportion of saleable space against non-revenue generating areas such as communal hallways, lift lobbies and so on.

8.27 SPRL's current proposals indicate a gross to net efficiency of approximately 73% for its residential buildings, whereas my understanding derived from both SPRL and other schemes that I have had exposure to, is that a gross to net efficiency of between 75% and 80% could be achievable through more detailed design. Through sensitivity analysis of the appraisal, I established that a gross to net efficiency of approximately 77% would be sufficient to generate a profit of over 16.5%, all other inputs remaining unchanged.

8.28 As Andy Fancy (DR2.4) sets out in his proof of evidence, it is the Developer's intention to seek improved building efficiencies through the next stages of design development. Given the experience of the Developer and its design team, I consider it reasonable to have confidence in their ability to enhance viability this way.

Summary

8.29 I consider that that in this case there are a number of grounds to have confidence that the Scheme is capable of delivery from a funding and viability perspective.

8.30 The funding commitments which are in place, both from the public sector partners and the Approved Funder are a particularly important consideration in my opinion. Not only do they evidence the importance of the Scheme to the WMCA and Council, but they also demonstrate that a private sector organisation is prepared to commit significant sums.

8.31 The Scheme itself also offers has a number of resilient attributes. From a phasing perspective, main construction is not anticipated to commence until spring 2024, with the preceding demolition works funded by the WMCA. This helps to protect the developer's cashflow through a period where the residential sales market could be challenging, having regard to recent interest rate increases and forecasts from a number of national residential agents, including JLL[11] and Savills[12].

8.32 The masterplan also has flexibility, with the ability for blocks to be configured for a range of tenures. This allows the Developer to avoid exposure to any one market segment. Similarly, the ground floor units have the ability to be configured in a number of different ways; an important consideration in my opinion given the dynamic nature of the retail market.

8.33 It is also important to note that the Scheme projected profit equates to an anticipated financial return of approximately £43.5 million to the Developer, which in itself is a significant sum. In addition, the Developer has the ability to realise additional financial returns both through its use of the contracting arm of Hill to undertake main construction works (which will allow it to realise an additional contractors' margin), and for the Developer to also realise an interest rate on the equity funding the Approved Funder is providing. Therefore taken in the round, the Developer and its wider group entities, have a significant commercial incentive to proceed with the Scheme.

9. THE ACQUIRING AUTHORITY'S POSITION

Funding Support

9.1 The Council – at its meetings of Cabinet and Full Council held on 15 November and 6 December 2022 respectively - has committed to provide up to £32.75m of funding towards the Scheme. This funding is to be utilised alongside the WMCA Grant referred to in Section 7.

[11] https://residential.jll.co.uk/insights/research/jll-uk-house-price-forecasts---housing-set-for-a-correction-not-a-crash
[12] https://www.savills.co.uk/research_articles/229130/334947-0

9.2 This funding commitment followed a formal request for a 'viability amount' by SPRL, under the terms of the DA. This request was accompanied by the appraisal summarised in Section 8, as well as various supporting documents, as required under the DA.

The Statutory Basis of Disposal

9.3 The powers for local authorities to dispose of land are contained within Section 123 of the Local Government Act 1972 and Section 233 of the Town and Country Planning Act 1990 (the "**1990 Act**").

9.4 Where a local authority is intending to dispose of land which has been acquired or appropriated for planning purposes, it is required to satisfy the provisions of Section 233 of the 1990 Act.

9.5 The purpose of Section 233 of the 1990 Act as highlighted in s.233(1) of the 1990 Act, is to ensure that where land has been acquired or appropriated for planning purposes it may be disposed of in a manner and subject to such conditions as appear to the Council to be expedient to secure the best use of that or other land and any buildings or works which have been, or are to be, erected, constructed or carried out on it (whether by the Council or by any other person) or to secure the erection, construction of carrying out on it of any buildings or works appearing to them to be needed for the proper planning of the area.

9.6 S.233 also provides that a local authority may dispose of land that has been acquired or appropriated for planning purposes, but applies qualifications which include a requirement in sub-section (3) for consent from the Secretary of State where:

"………… the disposal is to be for a consideration less than the best that can reasonably be obtained and is not—

(a) the grant of a term of seven years or less; or

(b) the assignment of a term of years of which seven years or less are unexpired at the date of the assignment."

9.7 The land to be transferred will comprise both interests the Council already owns and will have appropriated for planning purposes, as well as land acquired from third parties pursuant to the CPO.

9.8 The basis for determining best consideration will be made with reference to the obligations placed upon the Developer under the DA and with reference to the overage mechanism contained within the DA.

9.9 This overage mechanism provides for a 50:50 share of development profits above a pre-defined threshold, between the Council and the Developer.

9.10 Overage will be assessed at the end of each development phase (currently proposed by the Developer to be two phases). Any overage arising at the end of Phase 1 will be carried forward into the subsequent overage calculations, with distribution of overage only occurring at the final calculation date once all costs and revenues are known. This mechanism will ensure that the consideration realised is the best reasonably obtainable, having regard to the obligations under the DA.

Alternative Means of Delivery

9.11 Given the good progress the Developer is making, particularly in the context of planning and funding, the Council considers that an alternative Council-led delivery approach is not likely to be required.

9.12 If unexpected circumstances arose where the Developer was unable to proceed with the Scheme and the DA was to terminate, the WMCA Grant Agreement includes provision for the grant funding to survive for a period of up to 5 years following such a termination event.

9.13 In such a scenario, the Council's fallback position would be to work with the WMCA and seek to take on a 'Master Developer' remit, with the Council taking responsibility (either independently or with a third party development manager) to enable the site. Such enabling activities would be anticipated to include the funding and facilitation of land assembly, as well as potentially undertaking demolition works. The Council would then seek to deliver enabled development phases, either directly or through disposals to private sector developers. This is a model not dissimilar to the one being currently implemented by Sheffield City Council, which is bringing forward a mixed-use regeneration scheme of comparable scale in its city centre.

10. CONCLUSIONS

10.1 My conclusions on the CPO are that:

(a) the Developer has a credible and demonstrable basis of funding the Scheme; and

(b) given the Developer's capability of delivering mixed use schemes of scale; having regard to the viability assessment presented; and in light of the opportunity for the Developer to enhance the currently indicated return that there is a reasonable prospect that the scheme will proceed.

11. STATEMENT OF TRUTH AND DECLARATION

Statement of Truth

11.1 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.

Declaration

11.2 In preparing this Proof of Evidence, I confirm that:

1. my Proof has drawn attention to all material facts which are relevant and have affected my professional opinion;
2. I understand and have complied my duty to the Inquiry as an Expert Witness overrides any duty to those instructing or paying me, that I have understood this duty and complied with it in preparing my evidence impartially and objectively, and I will continue to comply with that duty as required;
3. I am not instructed under any conditional or other success-based fee arrangement;
4. I have no conflicts of interest;
5. I am aware of and have complied with the requirements of the rules, protocols and directions of the Inquiry; and,
6. my Proof complies with the requirements of the Royal Institution of Chartered Surveyors Practice Statement and Guidance Notes set out in the publication “Surveyors acting as expert witnesses” (4th edition, amended August 2020).

Alex Morton
29 December 2022

Document Reference 2.5

Town and Country Planning Act 1990

Acquisition of Land Act 1981

Local Government (Miscellaneous Provisions) Act 1976

Inquiry into:

THE COUNCIL OF THE CITY OF COVENTRY (CITY CENTRE SOUTH) COMPULSORY PURCHASE ORDER 2022

and

Town and Country Planning Act

Stopping-up of public highway

Appendices

to the Proof of Evidence

of

Alexander Morton

Director at Deloitte

On behalf of the Council of the City of Coventry

29 December 2022

APPENDIX AM1

Coventry City Centre South
Argus Replica of SPRL Appraisal
1,500 Units - Base Position

Development Appraisal
Deloitte LLP
14 December 2022

Coventry City Centre South
Argus Replica of SPRL Appraisal
1,500 Units - Base Position

Appraisal Summary for Phase 1 CCS

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Affordable Residential	300	218,535	285.83	208,209	62,462,845
Private Residential (Build to Rent)	489	324,928	345.41	229,518	112,234,091
Private Residential (Market Sale)	711	521,341	368.00	269,836	191,853,354
Retail, Leisure and Medical Centre Uses	19	125,337	249.82	1,647,965	31,311,334
Totals	**1,519**	**1,190,141**			**397,861,624**

NET REALISATION				**397,861,624**
OUTLAY				
ACQUISITION COSTS				
Other Acquisition Costs				
Legal and Bank Costs			903,900	
				903,900
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Affordable Residential	297,645	259.48	77,232,925	
Private Residential (Build to Rent)	440,437	259.48	114,284,593	
Private Residential (Market Sale)	710,066	259.48	184,247,926	
Retail, Leisure and Medical Centre Uses	125,337	259.48	32,522,445	
Totals	**1,573,485 ft²**		**408,287,888**	**408,287,888**
PROFESSIONAL FEES				
Legal and Monitoring Costs			941,564	
Planning and Design Fees			4,180,952	
				5,122,516
MARKETING & LETTING				
Marketing Costs			1,122,341	
				1,122,341
DISPOSAL FEES				
Private Sales Agent Fee		1.25%	2,398,167	
Commercial Agent Fee		2.00%	626,227	
Other Sales Costs			3,468,023	
Sales Legal Fee	711 un	600.00 /un	426,600	
				6,919,017
Additional Costs				
Finance Costs			3,816,422	
				3,816,422
Grant - Demolition			(15,937,022)	
Grant - CCC Contribution			(32,750,000)	
Grant - WMCA Phase 1			(12,452,084)	
Grant - PCE Savings			(5,755,568)	
Grant - WMCA Phase 2			(4,922,917)	
				(71,817,591)
TOTAL COSTS				**354,354,492**
PROFIT				
Balancing Account			43,507,132	

Coventry City Centre South
Argus Replica of SPRL Appraisal
1,500 Units - Base Position

43,507,132

Performance Measures

Profit on Cost%	12.28%
Profit on GDV%	10.94%

After Tax Performance Measures

Project Geared IRR% (without Interest)	174.97%
Equity IRR% (without Interest)	N/A
Return on Equity%	N/A

WT

8th December 2022

Alex Morton
Deloitte LLP
Transacted electronically via email only

Dear Alex,

CITY CENTRE SOUTH

RE: SUMMARY ASSESSMENT OF THE HILL GROUP'S BUILD BUDGET

As you are aware, we are appointed by Coventry City Council (herein referred to as 'CCC') to provide ongoing consultancy in relation to forecast construction costs for the City Centre South scheme and under direct instruction from CCC have undertaken an assessment of The Hill Group's (herein referred to as 'THG') proposals.

We write in response to your request for a summary of our assessment of THG's build budget, dated 25th October 2022, totalling £408,297,837.05 in relation to the up to 1,500 unit residential and commercial scheme upon which their proposals are based.

1) Status of the build budget

This forms an important document in the wider context of THG's proposals. It does not constitute an 'offer' as it is not a tender price or quotation but that is to be expected at this stage. The THG build budget is a forecast cost for the project at this stage, subject to further development and refinement.

Furthermore, we also understand that design information has been developed up to RIBA stage 1 level information.

The key point here is that the build budget necessarily represents a 'snapshot' in time and subject to variation as the design process develops. We have encouraged CCC to work with THG to ensure that a robust cost management process is in place in order that forecast costs continue to be reported proactively between the parties, whereby risk and opportunities are regularly reviewed and managed.

2) Approach taken by THG in compiling the build budget

THG have explained their approach in producing the build budget to WT, summarised as follows:

- In house benchmark data has been used from a precedent scheme and this is in turn the basis of the pounds per metre squared (£/m2) allowances made in the build budget for superstructure works. This has been presented to us in the form of a priced bill of quantities.
- A detailed preliminaries book has been provided by THG in recent iterations of the build budget.
- Quotations have been provided for demolition works.
- The balance of the Cost Plan constitutes measured and priced allowances made on a lump sum or percentage basis.

In our opinion, the approach taken by THG in compiling the build budget is well considered and structured in a manner which is easy to understand. The fact that they have conducted initial market testing is good and we have no reservations about their decision to utilise in house benchmark data given the nature of their business and their experience and expertise in this particular type of development.

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WT

3) **Analysis of the forecast costs**

Based upon our analysis of the build budget, we concluded that the headline costings provided by THG are within an acceptable tolerance of what we consider to be a market price for a project of this nature, i.e. a residential and commercial project in a regional city location consisting of residential blocks ranging in scale from the smaller blocks (circa 50 units) up to the larger blocks (circa 500 units), with commercial floorspace at ground level and as indicated.

Our analysis not only considered the headline numbers, but also the more detailed elemental rates that were derived based upon build ups provided by THG.

4) **Specification**

All stakeholders in the City Centre South scheme are ambitious to deliver on a quality development project in Coventry city centre. In recognition of this, THG have provided an outline of the specification of the residential components of the development by way of computer-generated images (CGIs) and details of the fitout specification. Based upon our discussions with CCC, these appear to be aligned with CCC's aspirations of a high quality 'placemaking' scheme.

5) **Risks and opportunities**

As is expected with projects of this type, there are a number of risks and opportunities at this stage in the City Centre South project and they have not yet been explored exhaustively at this stage but good progress has been made. In reviewing the build budget from THG, we did underline a number of key considerations for CCC, consisting of:

- The importance of ensuring efficiencies in the building design parameters are closely monitored throughout the design process;
- To ensure that quality aspirations remain clearly defined through the ongoing engagement of THG;
- To continue to review the programme duration in the context of not only the sales market, but the construction market to ensure maximum value for money at every stage in the project.

6) **Market**

We understand that the THG budget is broadly offered at current day market rates and this is the basis upon which it has been assessed by WT. Whilst, as with any project of this type, we recognise that there is an inherent risk that market forces continue to drive pressure on tender prices to increase, conversely deflationary forces may come into effect between now and the likely construction programme.

In issuing this letter, WT have not provided breakdown information which may be considered commercially sensitive.

We do hope that the above is useful.

Yours sincerely

Luke Barker BSc (Hons) FRICS

Director

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KLM
REAL ESTATE

OUR REF: JA/FP/221103

20th December 2022

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FAO: Alex Morton

Coventry City Centre South
Summary Review of Shearer Property Regen Ltd's (SPRL's) Retail and Leisure Assumptions

In accordance with KLM Real Estates instructions as sub-consultants to Deloitte LLP, you have asked us to undertake a review of the retail and leisure assumptions which have been put forward by SPRL in respect of its assessment of viability for the City Centre South ('CCS') development.

This letter provides a summary of our review.

1. Background Information

Thank you for providing the pack of information relating to the retail and leisure elements of SPRL's current proposals. .

For clarity, the information we have referred to is as follows:

- Drawing: CCCS-AAM-ZZ-00-D-A-01100, in respect of the ground floor of an indicative masterplan
- Drawing: CCCS-AAM-ZZ-00-D-A-01101, in respect of the first floor of an indicative masterplan
- Other plans in the series relate to the residential element of CCS
- A schedule of assumed rental values, yields and incentives, prepared by SPRL
- Supporting reports commissioned by SPRL from Cushman & Wakefield, Montagu Evans, P-Three and Savills

2. Floor Area Reconciliation

In undertaking our review, we have had regard to the floor areas which have been provided by SPRL on their plans, unit by unit. We understand that these areas are a GIA basis – with the exception of Block E1 and E2, which are stated as NIA to allow for shared WC's and back of house.

We have cross checked these areas with our own measurements derived from the plans provided and arrive at very similar areas to those set out by SPRL:

- SPRL area: 9,828 sqm / 105,787 sqft
- KLM area: 9,803 sqm / 105,519 sqft

3. Rental values & leasing assumptions

The SPRL information assumes a 'white box' finish to Blocks E1 and E2, with the remaining blocks offered to an 'enhanced' shell finish, incorporating glazed frontages, screed floors and DDA compliant WCs. SPRL have also proposed the equivalent of a 24 month incentive package (possibly a blend of rent free periods and capital) to all units outside of Blocks E1 and E2.

In practice, because leases have become much shorter (commonly incorporating break clauses at year 3 and 5 in a 10 year lease), the requirement to support extensive capital contributions to fund expensive fitouts has become more difficult to support. Landlords have now pivoted towards a white box handover specification to reduce this tension and make spaces accessible for independent brands without access to large capital budgets.

Our views on rental values are based on a national experience of retail trends and reflect what we believe are achievable rental values in a retail climate comparable to that existing at the date of this report. The last decade has seen a significant erosion of retail rental value – but there are signs of stabilisation at much lower rates, underpinned by a variety of tenant types (national multiples and independents) with a leaning towards shorter term deals and some based on turnovers.

KLM are in broad agreement on achievable rental level. KLM reaches a figure of £2,903,175 per annum compared to SPRL's figure of £3,051,985. The respective average rental levels are £28.30 pdf and £28.25 psf.

4. Yield

SPRL's assumed net yield of 8.5% looks a little optimistic in our opinion. It is our view that pricing for a leasehold would currently be in the range of circa 9-10%, assuming a completed investment and a 250 year leasehold interest. Therefore on balance, our view is that a yield of 9.5% for the completed investment would be more appropriate.

We make an exception of the healthcare element which is likely to be let on a stable long term lease incorporating cpi increases and would suggest a yield of 5.5% for this element.

KLM
REAL ESTATE

Please let us know if you require anything further.

Yours sincerely

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