Document Reference 2.10

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

Tony Parker

of Hill Residential Limited

on behalf of the Council of the City of Coventry

29th December 2022

INTRODUCTION

1.1 I, Tony Parker, am the Finance Director at Hill Residential Limited ("**HRL**"), a subsidiary company of the Hill Group. I have overall responsibility for the funding of the project known as Coventry City Centre South (CCS) (the "**Scheme"**). It is my role to ensure that there is sufficient funding made available to deliver the Scheme. These responsibilities include ensuring that the scheme becomes a "Charged Property" under the terms of our Revolving Credit Facility ("**RCF**").

1.2 I joined the Hill Group in April 2009 as Group Financial Controller and was promoted to my current role in September 2011. I report to our Group Chief Executive with a secondary line of reporting to our Group Finance Director. Prior to this, I was Divisional Finance Director for Kier Residential (then part of Kier Group plc from 2006 to 2008) and employed by KPMG from graduation in 1993 to 2006 where I was a Senior Manager in its Real Estate and Construction Audit, Advisory and Transaction Services practices.

1.3 I hold a Bachelor of Science Degree from The University of Warwick and am a Fellow of The Institute of Chartered Accountants in England and Wales, having achieved Chartered status in 1996.

1.4 Alongside my responsibilities in relation to the Scheme, I am responsible for all corporate funding decisions for the Hill Group. This involves refinancing our RCF, which was last refinanced in December 2021 for a period of five years at £220m.

FUNDING OF THE SCHEME

2.1 The Hill Group is a financially robust and well capitalised group, with access to banking facilities from several high street lenders. The Hill Group is privately owned with no external shareholders or private equity investors, meaning it is in control of accounting and cash management policies. The Group's financial strength is founded upon the principle of reinvesting the significant majority of annual profits back into the business.

2.2 Over the past 22 years, this principle has grown the balance sheet of the Group more than £300 million. Key to the strength of the balance sheet is a strong net cash position of £100m which is utilised towards future projects.

2.3 Unlike a number of competitors, the Hill Group did not need to negotiate any relaxation of banking covenants with existing lenders during the recent period of uncertainty connected with Covid-19, remaining compliant with covenants throughout. The Hill Group did not take advantage of the UK Government's backed loans available to support businesses during this period.

2.4 Alongside utilising retained profits and working capital generated by contracting operations, the Hill Group utilises a RCF. The RCF is a facility agreement made between Hill Holdings Limited ("**HHL**"), National Westminster Bank, HSBC UK Bank Plc, Lloyds Bank Plc and Santander UK Plc and others with an overall available commitment of £220 million. In addition to the RCF, Hill has secured project-specific funding for 16 JVs, raising funds of nearing £230m through its extensive network of trusted funding partners built up over the past 12 years.

2.5 The Hill Group has always operated with a five-year business plan, to give clear direction and focus to the business. The most recent business plan runs through to 2025. Working alongside a long-term business plan has, without doubt, been key in taking the business to the second largest family-owned housebuilder in the UK in just 22 years. Our latest business plan shows revenue broadly doubling within our current five-year business plan, to around £1.2 billion.

2.6 In relation to Coventry City Centre South, the Scheme will be funded by the following sources:

2.6.1 Funding from the Hill Group;

2.6.2 Pre-sale agreements for Affordable Housing and Build to Rent operators;

2.6.3 Funding from West Midlands Combined Authority ("**WMCA**") and Coventry City Council ("**Council**"); and

2.6.4 Revenue generated from sales and lettings of residential and commercial units.

2.7 Funding from the Hill Group has been formalised by way of a loan agreement from Hill Holdings Limited, the Approved Funder as defined by the Development Agreement ("**DA**"), and Shearer Property Regen Limited ("**SPRL**"). Notional equity comprises 40% of the total funding requirement of the scheme with notional debt the remaining 60%. This 40:60 split reflects the terms of the RCF and other residential development finance arrangements with most clearing banks.

2.8 The Hill Group is permitted to draw down funds from the RCF based upon the aggregate work in progress of a basket of Charged Properties from across the group. The Scheme will become a Charged Property of the RCF, with a first charge being made available to the lenders over the head leases granted to SPRL from Coventry City Council. There is more than sufficient headroom in the RCF for funding to be drawn down for the Scheme.

2.9 Throughout the life of the Scheme, we estimate the margin payable in respect of the RCF will be at 2.75%. The 7% financing costs modelled in the Scheme's financial appraisal reflects this assumed 2.75% margin and a best estimate of future SONIA interest rates.

2.10 **Key Point Summary**

- The Hill Group is a financially robust and well capitalised group, now the second largest family-owned housebuilder in the UK, achieved in just 22 years.
- The Group's balance sheet sits at over £300 million with a net cash position of £100m.
- The financial strength is founded upon the principle of reinvesting the significant majority of annual profits back into the business.
- The Group did not need to negotiate any relaxation of banking covenants with existing lenders during the Covid-19 pandemic. None of the UK Government's backed loans available to support businesses during that period were utilised.
- The Group utilises a RCF which has been established since 2015. The RCF has an overall available commitment of £220 million.
- A clear funding strategy is in place for the Scheme, with HHL being the Approved Funder as defined by the DA.
- A prudent approach has been taken to our assumed interest rates within the Scheme's financial appraisal.

3. SPRL

3.1 Following a competitive, open marketing process, HRL was selected as development partner with HHL to act as the Funder as described in the DA.

3.2 SPG subsequently wrote to the Council on 22nd February 2022, seeking the Council's approval to HHL becoming the Approved Funder under the terms of the DA. The Council provided its written approval on 3rd March 2022.

3.3 HRL acquired a 33.3% shareholding from SPG in SPRL, the special purpose vehicle company set up to deliver the Scheme. This followed entering into a Share Sale and Purchase Agreement on 18th March 2022 between HRL and the three directors of SPRL, those being

Guy Shearer, Stewart Underwood, and Adam Markwell. The Share Sale and Purchase Agreement provides HRL with the ultimate controlling decision and ability to invest in the project. This shareholding will incrementally increase HRL's share of SPRL to 80% once the conditions precedent in the DA have been satisfied.

3.4 A Business Plan was concluded on 18th March 2022 which sets out SPRL's principal objectives and how the shareholders (HRL and Messrs Shearer, Markwell, and Underwood) will work together to achieve these objectives to deliver the Scheme. Further detail is provided in Andy Fancy's evidence.

3.5 Since HRL were selected as SPG's preferred funding and delivery partner, HRL has invested £4 million into the Scheme to date.

3.6 **Key Point Summary**

- HRL were selected as preferred funding and delivery partner for the Scheme by Shearer Property Group in February 2022, following a competitive open marketing process.

- Subsequently, HRL acquired a 33.3% shareholding from SPG in SPRL, a special purpose vehicle company set up to deliver the Scheme. HRL will have a controlling interest in SPRL over time, with HRL having the ultimate controlling decisions.

- To date, HRL has invested £4 million into the Scheme, with further committed expenditure.

4. FUNDING AGREEMENT

4.1 On 14th June 2022, the Council approved the Heads of Terms (HOTs) for the funding agreement in accordance with clause 7.1 of the DA.

4.2 HHL will provide all funding necessary for the development of Coventry City Centre South. Notional equity will be utilised for 40% of the capital required. The balance of 60% will be funded through notional external debt by drawing down on the HHL (RCF). The percentage can be refined as the project requires however this is the typical funding strategy which has been tried and tested successfully.

4.3 The development will also benefit through funding created by the pre-selling of certain tenures to other operators and investors. This will include Build to Rent Investors and Registered Providers.

4.4 The combination of equity, debt, presales receipts from private for sale units and pre-sold income streams from affordable, Build to Rent and commercial unit tenures will ensure that capital requirements of CCS are funded throughout the delivery of the Scheme.

4.5 **Key Point Summary**

- HHL will provide all funding required for the Scheme and has the capacity to do so.

- The Council has approved the Heads of Terms for the funding agreement in accordance with the executed DA.

5. WEST MIDLANDS COMBINED AUTHORITY GRANT FUNDING

5.1 As set out in Alex Morton's proof of evidence, a Grant Agreement was entered into on 8th February 2018 between the Council and the WMCA for up to £98.8 million of WMCA Grant funding towards the delivery of the Scheme.

5.2 Following approval of a Change Request made by the Council at the WMCA's Investment Committee in October 2022 and Investment Board in November 2022, those changes are being documented alongside the DA variation.

5.3 SPRL has supported both the Council and WMCA in this process.

5.4 The WMCA Grant therefore remains available as a funding source toward the delivery of the Scheme.

5.5 **Key Point Summary**

- The WMCA remain committed to supporting the delivery of the Scheme, with £98.8 million in Grant funding available.

6. COVENTRY CITY COUNCIL FINANCIAL CONTRIBUTION

6.1 The DA provides that following the grant of outline planning permission the Developer can provide to the Acquiring Authority its calculation of any "Viability Gap". The Developer can request a financial contribution from the Acquiring Authority for the appraisal to reflect a base profit on cost position.

6.2 The Scheme has the benefit of an existing outline planning permission for up to 1300 homes in the form of the Consented Scheme. The S106 agreement for the Consented Scheme has no affordable housing. Since then, the WMCA and the Council has advised that the Scheme should deliver up to 20% of the total homes as affordable.

6.3 SPRL has worked closely with the Council and its advisor Deloitte LLP to assess the Refined Scheme's viability with the provision of the inclusion of up to 20% affordable housing. In line with the DA, on 26th October 2022, SPRL formally requested £32,750,000 in Viability Gap funding to support the delivery of CCS.

6.4 Following a detailed review of the Supporting Information submitted by SPRL, Deloitte LLP provided a report to the Council as set out in Alex Morton's evidence. The Council approved the Viability Gap request at its Cabinet Meeting on 15th November 2022 and Full Council on 6th December 2022.

6.5 **Key Point Summary**

- In accordance with provisions within the DA, a financial contribution request was made to the Council by SPRL.

- This followed an assessment of the Refined Scheme's viability, with the provision of up to 20% affordable housing.

- SPRL formally requested £32,750,000 in Viability Gap funding from the Council pursuant to the DA to support the delivery of CCS.

- SPRL worked closely with the Council and its advisor Deloitte LLP to ensure the Viability Gap request was robust, with sufficient supporting information.

- The Council approved the Viability Gap request at its Cabinet Meeting on 15th November 2022 and Full Council on 6th December 2022.

7. SCHEME VIABILITY

7.1 The DA has included an assumed 16.5% profit return on cost target to satisfy the Viability Condition.

7.2 The current profit return within the appraisal for the Scheme (based on an indicative scheme within the Refined Scheme parameters) is currently reflecting an approximate 12.3% profit return on net development costs.

7.3 The appraisal referred to is based on an indicative scheme within the Refined Scheme parameters. The key points are summarised below and have been previously made available to objectors who have requested it:

RESIDENTIAL UNIT MIX

7.4 The indicative scheme adopts the following assumptions:

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

7.5 All of the proposed homes will be designed to satisfy Nationally Described Space Standards. The indicative scheme comprises a mix of studio, 1 bed 2 person, 2 bed 3 person, 2 bed 4 person, 3 bed 5 person and 3 bed six person homes, as detailed below:

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

PRIVATE RESIDENTIAL VALUES

7.6 SPRL has adopted private sales values which range from approximately £135,000 for a studio apartment, through to approximately £395,000 for the largest 3-bedroom homes. The average sales values are approximately £270,000, equivalent to approximately £368 psf.

7.7 In arriving at these sales value assumptions, SPRL has drawn upon the insight and experience of HRL which alongside Shearer Property Group owns the shares in SPRL as set out above. HRL has had regard to value enhancement it considers will be achievable from delivering a comprehensive regeneration scheme and also having regard to the design and specification assumptions which underpin its construction cost assessment.

7.8 The assumptions adopted for the Build to Rent units have been derived from SPRL's review of the local rental market and early engagement with potential Build to Rent investors, the details of which are commercially sensitive. However, the value assumptions adopted reflect assumed rental values within a range of approximately £825 to £1,450 pcm, with an average capital value of £345 psf adopted.

ANTICIPATED AFFORDABLE RESIDENTIAL SALES VALUES

7.9 SPRL's affordable value assumptions are informed by a competitive tendering process which commenced in April 2022 as highlighted in Andy Fancy's proof of evidence. Following the third stage tender, proposals were submitted by three Registered Providers and two have been shortlisted. All proposals are based upon a tenure mix of 60% social rent and 40% shared ownership.

7.10 The details of the bidders and specific assumptions adopted cannot be shared on the grounds of commercial sensitivity but can be noted as falling within a range of approximately £250 - £300psf with grant funding from Homes England

ANTICIPATED COMMERCIAL RENTAL VALUES AND YIELDS

7.11 Retail and commercial values have been informed by Shearer Property Group's ("**SPG**") expertise and understanding of the UK retail market, with Coventry insight derived from their ownership of the Cathedral Lanes centre and development management role in respect of the Upper Precinct.

7.12 SPRL has adopted an average net rent (after the deduction of tenant incentives) of £25.00psf and an average net initial yield of 8.5% for new build commercial floorspace and a net initial yield of 4.5% for the health centre.

7.13 An average net rent (after the deduction of tenant incentives) of £15.00psf has been applied at a yield of 12% for the existing commercial floorspace.

7.14 The retail and commercial space will be delivered by SPRL with funding from Hill Holdings Limited. The investment valuation assumptions adopted reflect an assumption that this space will be disposed of post practical completion.

HOTEL VALUATION

7.15 A commercially confidential potential hotel valuation has been undertaken as part of the formulation of an indicative scheme within the Refined Scheme parameters. At this stage, the indicative scheme which has been assessed as part of the viability information referred to above is not including a hotel within the floorspace mix, though this will be kept under review as the Scheme phases are delivered. A potential hotel use continues to be included in the Refined Scheme parameters to cater for this use should it come forward.

DETAILS OF GRANT / EXTERNAL FUNDING

7.16 The current assessment of viability put forward by SPRL assumes the following grant funding streams as indicated above:

- WMCA Funding Support: £39,067,591 as part of the £98.8m funding package towards the scheme.
- Coventry City Council Funding Support: £32,750,000 towards the scheme.

CONSTRUCTION COSTS

7.17 SPRL intends to contract with Hill Partnerships Limited ("**HPL**"), which has a long track record of delivering regeneration and construction projects and builds in the region of 2,000 homes a year.

7.18 In arriving at its cost estimate, Hill Partnerships have benchmarked rates against projects of a comparable scale and quality it either has or is in the process of delivering.

7.19 HPL and SPRL have also undertaken market engagement with a number of sub-contractors, to help ascertain and validate key construction cost assumptions.

7.20 SPRL considers it would be commercially prejudicial to disclose its full elemental breakdown of cost assumptions but can advised that the overall gross build cost (inclusive of allowances for relevant fees) equates to approximately £408.3m.

7.21 Attached to Alex Morton's proof of evidence is a summary note from WT Costs Consultants engaged by the Council to review the overall gross build costs. WT has confirmed that the basis of those costs is considered reasonable at this stage.

ABNORMAL COSTS

7.22 SPRL's assessment of viability includes allowances for marketing, letting and disposal of each use type, with assumptions falling within what it considers to be a market typical range:

- Commercial agency fees: of 2% to reflect commercial agency market rate
- Private sales agency fees: of 1.25% plus £600 per unit for legal fees

7.23 It has also made allowances for matters such as Party Wall agreements, monitoring fees and finance costs.

7.24 Costs associated with land assembly and rights of light are excluded, on the basis of the terms upon which Coventry City Council intends to transfer the land to SPRL.

VIABILITY SUMMARY

Revenue	
Private Residential Sale	£191.9m
Build to Rent	£112.2m
Affordable	£62.5m
Commercial	£31.3m
Net Realisation	**£397.9m**
Total Development Costs	
Construction Costs and Professional Fees	£408.3m
Planning / Design Fees	£6.0m
Sales and Marketing Costs	£8.0m
Finance Costs	£3.8m
Total Development Costs	**£426.2m**
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%**
Profit on Gross Development Value	**10.9%**

7.25 SPRL intends to proceed on this basis if required, with a 12.3% profit return still representing a very significant sum in the context of the Scheme. As outlined in the proof of evidence of Andy Fancy, the Scheme will take approximately nine and a half years to complete. SPRL is confident that Scheme viability can be further improved and is working on a variety of ways to enhance profitability further.

7.26 A Viability Condition is included within the DA which enables the Developer to prepare an updated appraisal once all the other DA Conditions Precedent have been satisfied. The Developer may opt to proceed with a lower level of profit than the target return specified in the DA and can also waive the Condition Precedent.

7.27 Between now and when the Viability Condition is to be satisfied or waived, SPRL are continuing to work to further improve Scheme viability. For example, an improvement to Scheme viability will be sought through further detailed design work as the Reserved Matters Applications for the Refined Scheme, once granted planning permission, are brought forward. This will include the refinement of net to gross areas to ensure scheme efficiency, increasing saleable floor areas. In addition, through our in-house planning and design teams, HRL will drive the planning process ensuring exemplar design quality is achieved. Standardised design ensures high quality homes across all tenures.

7.28 **Key Point Summary**

- The current profit return within the appraisal for the Scheme, based on the Refined Scheme, is reflecting an approximate 12.3% profit return on net development costs.
- The appraisal submitted alongside the Viability Gap funding request has been supported by both SPRL's in house expertise, alongside external consultant advice.
- The construction costs have prepared by HPL. Rates have been benchmarked against projects of a comparable scale and quality it either has or is in the process of delivering. An external consultant has validated the cost plan.
- A detailed three stage affordable tender was undertaken by SPRL. This has resulted in two Registered Providers being shortlisted.
- Two key grant funding streams are included within the appraisal required to support the delivery of CCS.
    - WMCA Funding: £39,067,591 as part of the £98.8m funding package towards the scheme.
    - Coventry City Council Funding: £32,750,000.
- Although the currently projected profit margin does not reflect the DA profit on cost target return, the 12.3% profit return still represents a very significant sum in the context of the Scheme, and a profit return which sits within the Hill Group's range of targets. SPRL intends to proceed on this basis if required but is working towards further enhancement of the profit margin nonetheless as indicated.

8. CONCLUSION

8.1 My proof of evidence clearly demonstrates that the Scheme is funded and considered viable with further viability enhancements being worked through.

8.2 It is therefore considered that there is clearly a reasonable prospect of the Scheme proceeding and the Hill Group and SPRL are committed to its delivery.

9. STATEMENT OF TRUTH

9.1 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.

Tony Parker

29th December 2022