The West Way Shopping Centre

Prepared on behalf of

The Vale of White Horse

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Contents

1 Introduction

The West Way project has now reached a pivotal point with the site A contract having exchanged and the site B contract agreed subject to Member sign off.

Following intensive work over the last few months a deal has been agreed with Doric that relates to the sale by the Council of the remainder of the freehold interest in the West Way shopping Centre to enable a redevelopment of the area.

To help the Council consider the deal that has been negotiated and the wider way forward this note will provide a summary of the commercial terms, DTZ's view of them and the issues that the Council must satisfy themselves on prior to entering into the contract.

2 Doric's proposal

Following Doric's selection as preferred bidder for site A by the consortium in January 2011, it became apparent that the original foodstore scheme was not deliverable in planning terms and that to gain planning consent only a comprehensive development, taking in the Westway Shopping Centre would be acceptable in planning terms. As a result Doric then amended their scheme and started to develop their ideas as to how a deal could be structured with the Council to deliver this wider development.

The Council have now been engaging with Doric regarding a wider scheme for a number of months with a deal agreed and the legal documents drafted up. Below is a summary of the key elements of the agreed commercial deal.

SUBJECT TO CONTRACT

1. **Contracting parties**

    a. Initially Doric but with the funder/contract guarantor/developer ultimately being A N Other. Doric will go to the market jointly with the Council to find and secure a deal with this third party. It is important to note that A N Other will not only just guarantee delivery of scheme but will also take on the full development risk therefore becoming the developer. Doric may choose to maintain a development management role or may sell their full interest in the scheme and have no further involvement with it possible for them to want to go to the market at any point from exchange.

2. **Scheme – below sets out the minimum requirements as set out in the contract:**

    i. Foodstore of between 70,000 – 110,000 sq ft

    ii. 19 residential units

    iii. Student accommodation (up to 600 units)

    iv. Between 10,000 and 40,000 sq ft GIA of A1 retail

    v. A3 restaurants of between 15,000 and 30,000 sq ft if there is a cinema or 5,000 to 20,000 if there is not a cinema in the scheme

    vi. Car park

    vii. Replacement accommodation for Seacourt Hall – to be agreed between the developer and the North Hinksey Parish Council

    viii. Replacement accommodation for the Botley Baptist Church save where the Church elects to relocate off the development site

    ix. A library where the developer has been able to secure an agreement to take such space from Oxfordshire County Council at an open market rent

    x. A health facility where the Developer has been able to secure an agreement to take such space from a health care provider and/or general practitioners

The current appraisal shows a cinema but this is not a required requirement of the scheme

3. **Land**

   a. Site A land – Doric have a three month window from signing the contract for site A in which to sign the Site B deal. Site A would only go unconditional in conjunction with Site B therefore consideration would not be paid until unconditionality on both deals which is likely to be at least 2-2.5 years from exchange based on their current programme.

   b. West Way shopping centre - Site B deal obviously relates to the sale of the freehold of this land.

   c. Third party land acquisition – to deliver the current scheme Doric would need to acquire a number of key third party interests which would be a condition of the Site B deal. Doric would look to the Council to use CP powers to support these acquisitions where they cannot be agreed by way of private treaty.

4. **Planning**

   a. It is unclear at present whether a hybrid or detailed planning application would be submitted. We are currently awaiting an updated programme from Doric which should provide greater clarity on this point.

5. **Deal structure**

   a. The Site A deal is on the same terms that was previously agreed

   b. The purchaser pays [redacted] for the freehold interest in the West Way shopping centre to be paid on unconditionality if/when unconditionality of the site B contract occurs.

   c. Interim income: Doric will pay the council [redacted] one year after exchange with a further [redacted] to be paid on the date the Council makes a CPO.

   d. Overage: Over and above a priority profit of 20% Profit on Cost the land owner will pay the Council [redacted] of any overage up to a cap of [redacted]. This will be calculated a year after practical completion of the scheme on an open book basis.

6. **Conditionality**

   a. Acquiring all necessary land

   b. Vacant Possession of all necessary land

   c. Securing detailed planning consent for the overall area

   d. Pre-letting the foodstore and the student accommodation

   e. Securing a third party funder in accordance with the funding strategy

   f. The scheme needs to be achieving 15% Profit on Cost to meet the viability condition. Doric have the ability to waive this condition

   g. Securing a building contract

7. Programme

We are currently awaiting a headline programme from Doric but the contract has a long stop date of 4 years after the date of exchange by which time all the conditions need to be met otherwise the Council have the right to terminate the agreement.

8. Funding

a. Doric have stated that they may fund initial risk capital to secure hybrid planning consent and key occupier pre lets [redacted]
However, DTZ believe this to be unlikely as we believe Doric are more likely to may want to go to the market to obtain a funder at an earlier point than this. There is nothing to stop them from doing this apart from requiring agreement from the Council under the funding strategy.

b. The agreed contract contains a funding strategy which sets out the principles of the approach to obtaining the new funder/developer/guarantor. Due to Doric acting as facilitator to obtaining this new third party the funding strategy document needs to provide as much control for the Council as possible. It therefore sets out that the process will be a jointly run process with the Council having to agree the approach, the identity and the terms of any deal.

c. This new party (could be parties) will be the party that pays the Council their base consideration of [redacted] for Site B , not Doric, assuming the Party agrees to the amount that has been agreed and the terms of the deal. They will also be responsible for delivery of the project and the full development risk, not Doric. Doric may have a development management role; they may, though as stated, have no role and simply 'sell out' of the Agreement before it goes unconditional. This is the most likely scenario, in our opinion.

d. The developer/funder, to be identified, will also be responsible for paying the consideration for Site A to both the Council and the other Site A landowners, again, assuming they agree to that figure.

e. Linked to the above points, there is a risk that the combined base purchase price will not be acceptable to developer/funders, and that Doric will want/need to renegotiate this.

9. Doric's professional team

a. Doric have stated that they are looking to appoint a number of further key consultants which would be supplementary to the existing team. Details of them are below:

Planning Consultants

- Julian Philcox
- Nathaniel Litchfield

Architects

- Andrew Rockett
- Mountford Pigott

Highway Consultants

- RPS

Communications

- PPS Group

Lawyers

- Reed Smith

3 DTZ's view on the deal

Scheme deliverability

Assembling land

Due to the change in the redline area Doric's proposed scheme has become a much larger, more comprehensive retail-led mixed use scheme and one that is very different to the original proposed foodstore on the consortium's land. Although the overall development value increases, the complexity and risk also does with Doric now planning to acquire a number of third party pieces of land as well as procure vacant possession of the whole site. This therefore becomes an increasingly complex scheme to deliver. A key element to overcoming this is the support of the Council with CP powers required meaning that a joint approach with the Council is an imperative.

Market Demand

From a high level perspective demand still exists from the key occupier markets including foodstores and cinemas although the foodstore operators are scaling back the size of stores they are currently looking to take, making a move away from the extra large store format. The student accommodation market has been strengthening and performing well over the last few years. This market is however very specific to the city the scheme is located in, the nature of demand from the Universities located there. Oxford Brookes is the University which his most likely to be interested in taking on new space in Botley due to the Westway site being located close to Oxford Brookes' Harcourt Hill campus.

Doric state that they have had initial discussions with Oxford Brookes who say that they would be in interested in principle in taking units however no further conversations will take place until the contract with the Council is signed. Due to the foodstore and the student accommodation making up the majority of the income the demand for these uses is critical along with the nature and structure of the deal that is agreed with the leaseholder as well as the covenant strength. Securing pre-lets with all the key occupiers is vital to enable delivery of the scheme and is likely to be a fundamental requirement of a funder.

Planning risk

Although the scheme has become much larger, driven by the requirements of planning policy there is also a balance relating to the scale of it. The risk of it being too large or elements of it being too large, (especially the foodstore) may contradict existing planning policy which states that a scheme has to be 'in keeping with the scale and character of the centre'. It is understood that in a meeting in April 2012 David Rothery expressed general support for the type of uses proposed however an updated view on the scale is required.

Overall, a scheme of this nature will have more hurdles to delivery than the original proposed foodstore which would therefore also require a different approach to delivery with the Council playing a key role in achieving this.

Conditionality

The contract has a number of conditions related to it and as stated above, many more than in the existing deal for site A creating a number of key hurdles that need to be overcome to reach unconditionality. Although creating hurdles, the conditions also provide assurance to the Council that key elements that create a deliverable scheme are being considered. It does however reduce the certainty of the Council receiving their consideration along with increasing the risk level that they are exposed to in the intervening period.

A number of the conditions are likely to require the input and support of the Council which will be done at risk to the Council. These include obtaining vacant possession of the site and therefore emphasises the partnership approach that it is required to enable delivery of a scheme of this nature. DTZ believe that the conditions set out are usual conditions that one would expect to see in a conditional Development Agreement with most of the fundamental elements of creating a deliverable scheme being covered by them.

Funding

The most important point that the Council have to satisfy themselves on is the issue of the funder/overall developer/guarantor with the identity of them currently unknown and the extent of their ultimate role in the project also unknown. Doric are essentially creating a contractual position on the development with them then going to obtain a party who will be the funder/guarantor and take on all the development risk; Doric are effectively acting as a facilitator to the ultimate deal. Funding will be a key condition and one that the principle of which the Council should satisfy themselves on prior to entering into the contract. As set out above Doric have said that they will go to the market to obtain a third party funder however, it is not clear at exactly what point they will wish to do so. There are a number of scenarios relating to the way that Doric may choose to progress this but any route will result in the Council being contractually involved with a different developer and funder as the party will take on all the development risk. The only possible involvement that Doric may have is a management role if they choose to stay on as Development Manager.

Due to the number of different scenarios that could occur and there being a number of unknowns the funding strategy that has been agreed as part of the contract is the most importance element of the deal for the Council. The process of obtaining a funder and possibly new development partner needs to be a jointly run one with the Council needing to be in agreement with when and how Doric approaches the market, the terms of any deal that is done and the identity of the party who they are contracting with. This new funder will be the party who pays the Council's consideration, funds the development of the scheme and who could also act as developer. Any terms of the existing deal will have to be satisfactory to the funder with it not unlikely for them to look to renegotiate elements of the existing deal that they are not comfortable with.

Structure of deal

The proposed deal is a conditional deal with the Council only able to receive their consideration once all the conditions are met. As stated above Doric have offered an element of income protection throughout the conditional period but are not covering the existing level of income therefore leaving the Council exposed somewhat in income generation over this period. Over this period it is likely that the value of the shopping centre will be negatively impacted due to the course of bringing the development forward with Doric looking to the Council for their support during this period to help delivery. If the contract were not to go unconditional the Council could be left with a blighted asset and no protection were that situation to arise.

Financial deal

Doric provided DTZ with an electronic version of their appraisal which we have considered and interrogated. Due to the scheme still being very high level and the appraisal therefore being based on quite a number of assumptions it is not possible to provide a definitive view on the viability of the scheme but we have however developed a view of the range for what we believe to be the development value of the land (testing Doric's offer of [redacted] for sites A and B). Due to the student accommodation and the supermarket capital value making up the majority of the income for the scheme these inputs are the most sensitive part of the appraisal. We are able to ascertain a good idea of the rental level and capitalisation yield that will be achieved for the supermarket in the current market although without offers from operators it is impossible to be exact. Our view is that the supermarket yield they have adopted is at the right level however is the best yield that could be achieved and assumes a long well structured lease. We believe that the rent assumed is full however with us assuming a slightly lower level in our appraisals. It is however much harder to formulate a precise view of these for the student accommodation. The yield that an investor will pay for a student accommodation investment varies enormously depending on a number of factors that include the length of the lease agreed (ideally c.25 plus years income is optimum), the covenant strength of the leaseholder (Universities will strong covenant strengths are ideal) and the structure of the deal. The difference in these factors can have a large effect on the yield achieved and therefore the ultimate capital value.

We have undertaken our own version of Doric's appraisal changing assumptions where required to ensure that we believe that they reflect market levels. The appraisal is for the whole scheme that includes site A and site B which we believe is the correct approach. Doric are agreeing to pay the Council and the rest of the Consortium [redacted] in total for both sites so to enable us to test this offer for the land we also ran appraisals which residualised our appraisals to land value. To account for the possible variations in the values that could be achieved due to the difference in yield that can be applied to the student accommodation and the supermarket rent that can be achieved we assumed a base case and an upside scenario. The upside case land value was £12 million, dropping to £4.29 million in the base case scenario. The range is large but shows the large impact on values that differences in the yields and rents achieved for the supermarket and the student accommodation can have. What our analysis does show however is that the offer of [redacted] is likely to be a good offer with even our best case scenario not producing this land value. It should be noted however that the third party funder has to satisfy themselves that they are happy to pay this amount with them likely to want to renegotiate if they do not believe it is a fair value.

To contextualise the numbers we looked at how the appraisal could achieve their offer of [redacted]. There are obviously a number of ways that the appraisal could change but as stated the student accommodation and the supermarket values are the elements that are most likely to vary. If the supermarket rent increases to [redacted] and the yield on the student accommodation drops to 4.0% the land value produced is [redacted]. This shows again the large impact that these two elements have. DTZ do not believe that these shifts are achievable in the current market but exemplify what would be required to reach their land value of [redacted].

Please see appendix 1 for more detailed analysis of their appraisal.

Once further engagement has been had with supermarket operators and student accommodation providers and solid offers are produced much more clarity on the appraisal can be gained.

Doric are looking to take a priority profit return of 20% Profit on Cost which DTZ believe to be an acceptable return for the nature of the scheme. Due to the nature of the development having changed a party who is well rehearsed in delivering a shopping centre refurbishment and possible extension will consider margins that relate to Development Yields and IRR as a focus with Profit on Cost still having a place but not the main measure. This would therefore affect the deal that was done due to a different approach being taken if with another party.

Who is the Council contracting with?

The Council have to carefully consider this question because as stated above Doric are looking to bring a funder/developer/guarantor on board at a later stage with a possibility that they will also completely sell their interest in the project. In either scenario the party that the Council are actually contractually involved with will change emphasising the importance of the funding strategy and the large role and approval rights the Council have in the process of agreeing who this party is and the terms of the deal with them.

How proposal relates to Council's objectives and desired risk profile

Entering into a contract with Doric does present a number of risks to the Council with the ultimate funder/developer/guarantor currently unknown presenting the largest risk. However, as stated the involvement in the funding process will help to mitigate this risk with the Council having a joint role in this. The reduced income during the conditional period is also a key risk for the Council to consider along with the possibility of being left with a blighted asset if unconditionality is not met.

Overall Key risks to the Council

Interim position

- Possible drop in income and negative impact on value through the conditional period.
- If the contract does not go unconditional the Council could end up with an asset that has been negatively affected with no protection. The Council are effectively taking on a large element of risk with little protection for a significant period of time.

End party the Council are contracting with

- As stated above this is the biggest risk factor to the Council at present with the identity of the funder/developer/guarantor unknown and the ultimate role they will have in the project also unknown with the possibility existing that this party may want to renegotiate elements of the deal. To mitigate this the funding strategy ensures that the Council are jointly involved in the process of finding and contracting with this party to ensure that they maximise their position from it as well as ensuring that they are happy with the party and confidence that they will deliver.

Planning Risk

- At present an up to date view on the planning risk has not been obtained which is vital to understand the deliverability of the scheme especially due to the current scale of it.
- Due to the scheme evolving and changing rapidly the contract sets out the minimum requirements of the scheme to put parameters on the scheme.

Pre-lets

- For the scheme to be deliverable securing pre-lets with the key anchors, especially for the foodstore and the student accommodation is vital. Doric have stated that they have had approaches from a number of different supermarket operators which they believe exemplifies the strong demand. They have also had initial conversation with Oxfrod Brooked University with them showing initial interest however much more in-depth conversations are required. Pre-lets for both of these elements is vital to ensure the delivery of the scheme.

Procurement

- In doing an off-market deal with Doric for site B there is a risk that a challenge could be brought against the Council citing that the contract should have gone through an OJEU process. This is something to be even more aware of now that the project has evolved quite significantly to that which was originally marketed. A QC's opinion is being sought with this providing an opinion as to the level of risk of challenge. Doric have also agreed to cover the cost to Council of any challenge that the parties choose to defend.

Proposed financial terms

- Although the Council have rightly not yet requested a formal valuation which would ideally be undertaken as part of the subsequent funding strategy DTZ have analysed Doric's current appraisal and believe that an offer of [redacted] for site B is a good offer at this time and based on Doric's current scheme proposals and the existing West Way shopping centre asset. A formal valuation would have to be undertaken to formally sign off the proposed financial terms at a later date when all the key elements of the schemes content and delivery strategy are known. The Council intends that this formal approval will come within the terms of its approval of the Funding Strategy which we support. .

Council's actual return following development

- With Doric offering to buy the Council's freehold interest the Council have to be satisfied that they could successfully invest the money elsewhere to provide an income that is at least as good as what they are currently receiving.

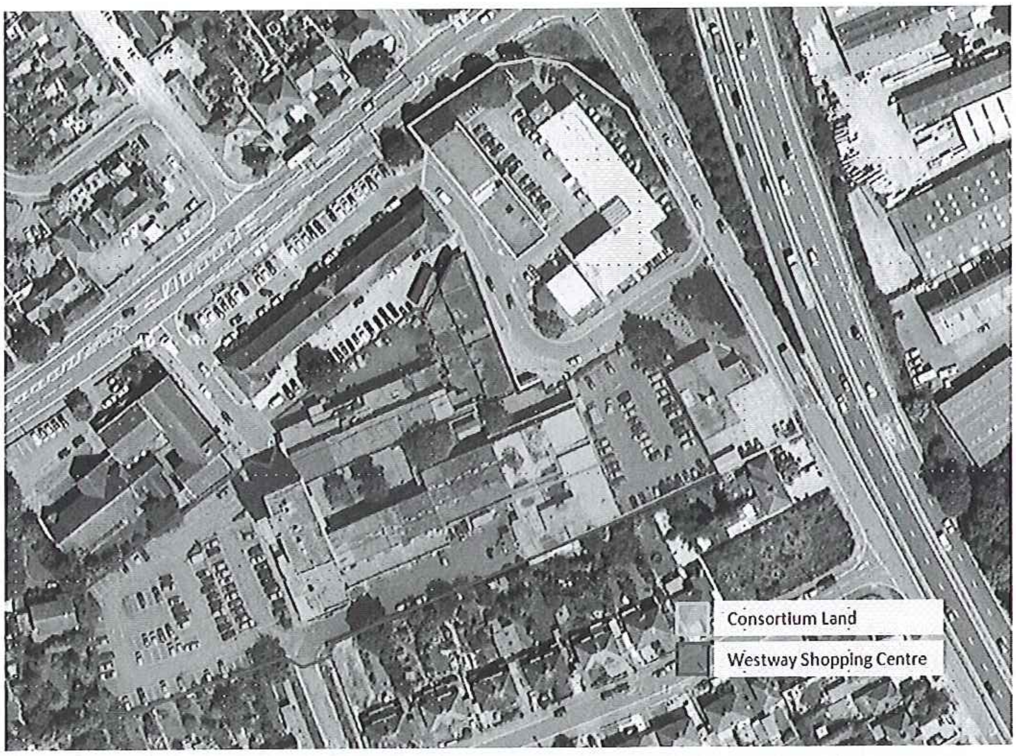
Political Risk

- The Council must be sure that they are happy to remove the existing local independent retailers to deliver such a development. Doric have said that they would let space in the new scheme to local retailers however DTZ would question the viability of doing this.

4 Other options open to Council

The project has reached a critical point for all parties but especially for the Council due to the fundamental shift in the percentage of their land ownership in the overall site compared to the site that was originally marketed. As a result, it is important that the Council are happy with their current position, their objectives for the project and the best way forward to meet these objectives.

If we consider the current proposed redline and the land ownership split of it, it can be seen in the below plan that the Council are now the dominant/controlling land owners meaning no other party is able to take forward a comprehensive development without them.



As well as the size of the scheme, the nature of the development product has also changed. What was previously a smaller foodstore development, has become a much larger scheme, taking in the Westway shopping centre with a comprehensive mixed-use scheme proposed. As a result the balance of risk between the Council and the other Consortium partners has fundamentally changed along with their respective roles and responsibilities.

This fundamentally different project requires a different development partner and deal structure than the consortium were originally looking for. Any development partner is now looking for more of a partnership with the Council and the Council are looking for an investment partner to share the risk involved in such a comprehensive scheme. This therefore suggests that if the Council agree with this point they are likely to be of the view that Doric who is a trader developer are not best placed to deliver such a scheme and provide the protections the Council are looking for. This again raises the importance of the funding strategy and the involvement in the Council of going to market to find the funder.

If the Council were minded not to enter into the contract with Doric it is important to address the other options that are open to them therefore we have set them out below:

If we therefore consider the other options the main ones are as follows:

- Do not continue with Doric and market the site either:

    1. With the consortium

    2. Without the consortium

- Do nothing

If we first address the 'do nothing' option this is not a viable option due to the declining state of the Westway shopping Centre and the need for the investment in the near future. It is also not possible to remarket the site on the previous basis due to the planning position therefore this is not a consideration.

By remarketing the site the Council can go back to the market with a clear message of what they are requiring, the involvement they are willing to have in delivering the project and also the outline structure of the deal they are looking to do including the risk profile they require and the necessity to protect income, along with the type of development partner they are looking for.

The redline boundary is one of the first things to consider if the Council were to remarket the site. Due to the focus now becoming the Westway shopping centre it would seem sensible to begin from there. It should be considered what element, if any of the consortium land should be included. An assessment of the optimum land take would need to be undertaken. If elements or all of the consortium site were decided to be included the Council could go forward and market it in conjunction with the other land owners or could market it on their own with those parcels of land to be acquired by the development partner.

The different options are set out below with the pros and cons of each considered

Remarket the site in conjunction with the consortium

Pros

- By taking this approach any developer would have the basis of land deals to assemble these pieces of land if required
- The consortium owners will also not provide resistance to a development in this scenario although could frustrate the process simply through the necessity of having a number of different parties making decisions.

Cons

- The parties in the consortium will all want to maximise their land receipt which could impact on the Council's ability to maximise their land receipt.
- Dealing with such a number of parties is also likely to make the process more complicated.
- [redacted] is also still likely to want a role and it is unclear what his role is for the fee he is being paid in the existing site A deal
- A development party may not want to utilise all the consortium pieces of land

The Council remarket the site on their own

As mentioned previously there is a strong case in favour of the Council remarketing the site on their own due to them now owning the freehold in the majority of the current proposed site. In this scenario the Council could inform the market that there was an historic agreement with the other land owners in place which set out a land equalisation deal and is something that these land owners may still accept if a development partner wanted to pursue this.

Pros

- This puts the Council in a position of control when making decisions and enables them to be guided by their requirements, not having to consult a number of different parties.
- It would also make the process more streamlined enabling them to do all they can to maximise their return
- Any development party is likely to also want the comfort of knowing that they have the Council's support through such things as CPO.
- A developer is likely to prefer working with one party as opposed to a number of parties

Cons

- There is the political fallout of not continuing with the consortium and Doric but as stated the Council are not currently bound by any contractual relationship with either of them
- The development partner may have to assemble any required bits of third party land and if other land owners were not willing to engage a CPO process may be inevitable

If the Council were to remarket the site they could request bids on the following bases:

1. A partner buys out the Council upfront with overage also agreed which reduces the Council's risk but to ensure they share in the upside of the development. A party in this scenario would likely request a resolution to use CPO powers from the Council to provide them with the comfort they would need.
2. A partner buys 50% of the Council's interest up front to ensure that the partner is sharing the risk of the delivering the development with the Council
3. A party protects the Council's income through the conditional period which would become a development cost with either the freehold or a leasehold sold when unconditonality is reached.
4. A party underwrites some of the speculative costs and then brings another party on board at a later date. (DTZ assumes the Council would not consider this option as this is what Doric are currently offering.)

In principle interest for possible development parties/funds

When considering the wider development interest in the Westway site, it has many strong advantages that would be appealing to the development market. Being located in the South East, near Oxford with a good catchment, the Council owning a large percentage of the site and it being zoned for retail uses all create an appealing product for the market.

From speaking with our retail investment team they believe that there would be, in principle good demand for a development opportunity with it likely that a number of major parties would be interested in a retail led redevelopment. Larger REITs including British Land and Land Securities along with Property Companies that include Development Securities and Sovereign Land/Centros are all likely to be interested in principle.

5 Key Conclusions

1. **Context/'Building blocks' to DTZ advice**

   - Site A is a deal that has now been exchanged and DTZ were not involved in that transaction. The Council had other agents advising it (and the other Site A landowners) on the marketing of that site, and the selection of Doric.
   - The Council wish to continue with Doric, and extend the transaction to include Site B.
   - Doric, the Council (as landowner) and the other Site A landowners have had to consider the wider project to unlock Site A due to the planning position, which emerged after marketing of Site A, and Doric's selection, which now requires a comprehensive redevelopment solution covering both sites.

Within this context DTZ have been asked to advise on how best to structure a Site B transaction, and within that how best to manage risk on the Council.

2. **Key Risk Points for VWHDC (commercially; Pinsents advising on legal risks)**

   - The developer, and funder of the project is/are currently unknown.
     - This party (could be Parties) will be the party that pays the Council their base consideration of [redacted] for Site B, not Doric, assuming the Party agrees to it. They will also be responsible for delivery of the project, not Doric. Doric may have a development management role; they may, though, have no role and simply 'sell out' of the Agreement before it goes unconditional. This is the most likely scenario, in our opinion.
     - The developer/funder, to be identified, will also be responsible for paying the consideration for Site A to both the Council and the other Site A landowners, again, assuming they agree to that figure.
     - Linked to the above points, there is a risk that the combined base purchase price will not be acceptable to developer/funders, and that Doric will want/need to renegotiate this.
   - The Council is exposured to reduced income from Site B during the conditional period
     - Doric have gone some way to addressing this point with an offer of two payments. An element of which is conditional [redacted] and an element of which is not ([redacted], 1 year after exchange). However, compared to the circa £600,000 that we understand VWHDC currently receive annually, and a circa 3-4 year conditional period, this clearly means the Council will be far from fully protected during this conditional period – and if the project doesn't go unconditional, reductions in Council income would then potentially be 'permanent'.
   - If the contract does not go unconditional, the Council could be left with a blighted asset, and/or one reduced in value, potentially significantly reduced.
   - Confidence in delivery. A strong partnership is required to unlock the scheme, and with a Party with a proven track record. This will not be Doric, as they acknowledge their lack of track record in complex town centre schemes of this nature. It will be the as yet unidentified developer/funder.
   - The possible risk of third Party challenge. This will principally be covered in Pinsents advice however, it will be an off market transaction, and there will need to be as robust an argument/case in place as possible to defend this position. Certainly, this must include the fact that Site A is under contract to Doric before Site B is signed with them.
   - Is the Council content with the overall 'proposed scheme'? There is currently very little detail to this at present with us expecting to see more than this at this stage.
   - Land assembly: Site B will require a CPO which might not be confirmed and might be contentious which could be a risk point for the Council.

- There are currently no anchor occupiers in place which is obviously a key driver to the scheme. No scheme would go ahead without these being signed up.
- There are a range of conditions in the Site B transaction, that need to be met before it would go unconditional, many more than in Site A - which means increased time, complexity and risk. Site A was only conditional on highways, planning and title, but now site A is linked to Site B, so the Site A transaction is also conditional on all of the Site B conditions.
- There is the potential for Doric to 'sell' the development opportunity very early on, once a transaction is conditionally exchanged, and that as a consequence, the developer/funder Party requires most/all of the upside/value – hence lowering the Councils' return.
- There is a risk that Doric select an inappropriate developer/funder, and present the Council with a 'fait accompli', which the Council find hard to refuse (even if legally they may be able to – but equally, might not be able to)
- The significant conditional period to the contract means market circumstances could change substantively, potentially affecting the assumed schemes viability (either positively or negatively)

3. Presumed reasoning for why VWHDC wish to continue with Doric

- Time. Due to the marketing of Site A commencing some 2 years ago, VWHDC wish to build on negotiations/progress to date, rather than 'starting again'.
- Site A landowners. With a land agreement in place with the main landowners in Site A, which VWHDC does not wish to reopen this helps to capture these land interests and the Council wishes to build upon this.

4. How best to deal with the key issues identified in 2 above (within the context of VWHDC's desire to progress as outlined in 1 above)

- VWHDC have a very robust Funding Strategy included within the development documentation with Doric, giving VWHDC, through DTZ, the ability to jointly agree, with Doric, the basis on how the funding Partner – and, in reality, the developer – is selected. To include joint decision making on all key aspects of the 'when; how, who, and on what terms'.
- The above is THE key element of any documentation between VWHDC and Doric. It should – must – be 'non negotiable' on the above key principles.
- A detailed land assembly strategy, and associated interim management strategy for Site B, should be agreed prior to exchange of Site B which is currently being developed.
- Pinsents proposed methodology to minimise the risk of procurement challenge should be adopted with a visit to see Nigel Giffin QC on 4th December providing comfort on this element.
- VWHDC should also be directly involved in all key anchor occupier negotiations
- The agreement sets out a number of long stop dates that provide comfort to the Council that Doric are making the desired progress with the development during the conditional period. They include:
    - Doric have to submit a planning application to the Local Planning Authority within 12 months from the date of the agreement. If they do not then the Council have the ability to terminate the agreement.
    - Prior to submitting the application to the Planning Authority Doric have to submit the application to the Landlord for their approval. Alongside this Doric have to also provide a summary report to the Council as land owner setting out an update on their wider progression of the development. This will cover such elements as signing up anchor tenants, site assembly and when they plan to approach the funding market.
    - To provide extra comfort in relation to progression Doric have also agreed to hold monthly meetings with officers and give quarterly presentation updates to Members to ensure that the Council have a clear understanding of the progress they are making.

- The agreement also sets out that Doric have to achieve a planning consent in 2 years from exchange otherwise the Council have the ability to terminate the agreement.
- There is also an overall long stop date of 4 years by which time all the conditions have to be met. If they are not the agreement terminates.

5. Recommendation

Based on the Councils' objectives as outlined within this report, and on the basis of the suggested recommendations to our report, we consider the Council has created a good conditional financial structure to the transaction with Doric, based on Doric's current scheme proposals, and the existing Westway shopping centre asset. The Council has rightly reserved its formal Best Consideration analysis, and sign off, for a later date, until all key elements of the schemes content and delivery strategy are known, as we have also advised. The Council intends that this formal approval will come within the terms of its approval of the Funding Strategy, which again, we support. For certainty, we consider that ideally this would be explicitly stated within that Funding Strategy, although the current draft confirms the Council has the right to approve the identity and terms related to the funding agreement.

Appendix 1 – Analysis of Doric's appraisal

1. Introduction

DTZ have been provided with a development appraisal by Doric, indicating the likely profit that the scheme will return based on a fixed land price of [redacted] (made up of [redacted] for the site 1 land (excluding the [redacted] for VP) and [redacted] to the Council for the Westway Centre – site 2). We have critically analysed the assumptions utilised in the appraisal produced by Doric, and have produced our own versions of it, using our own assumptions that we believe reflect market conditions, from both base and upside views. We have based these on discussions with our in house investment and agency teams and our own experience with similar types of development. We have run two different appraisals, one with the output of profit assuming the fixed land value of [redacted] which provides a comparison to Doric's appraisal and a second appraisal which residualises to land value which assumes Doric's required return of 20% Profit on Cost as the fixed input and land as the output. This enables us to test their offer of [redacted].

2. Key differences

There are several differences between our appraisal and that of Doric, some having a large impact (student accommodation yield and supermarket rent – further detail on these below) and others that have a smaller impact. We have set out our key assumptions and how they differ to Doric's below.

Variable	Doric assumptions	DTZ assumptions	Comment
Pre-construction	[redacted]	12 months	[redacted] to allow for site assembly
Supermarket rent	[redacted]	£22.50 per sq ft / £25 per sq ft	[redacted] based on supermarkets of a similar size we have been involved with
Student accommodation yield	[redacted]	6.00% / 5.00%	[redacted] in base case but [redacted] 5% in upside
Retail/Leisure rent	[redacted]	£25 per sq ft	[redacted]
Purchasers costs	[redacted]	5.80%	[redacted] to reflect industry standard assumption
Stamp duty on land	[redacted]	4%	4% is the highest bracket for non residential property
Supermarket build cost (includes supermarket and car parking)	[redacted]	£150 per sq ft	[redacted] based on similar schemes we are involved with
Retail/Leisure build cost	[redacted]	£75 per sq ft	[redacted] based on similar schemes we are involved with
Letting agent fees	[redacted]	10%	Industry standard assumption
Letting legal fees	[redacted]	5%	Industry standard assumption
Development management fee	[redacted]	1%	[redacted]
Sales agent fee	[redacted]	0.5%	[redacted] due to lot size of scheme
Sales legal fee	[redacted]	0.25%	[redacted] due to lot size of scheme

a. Foodstore

Doric has assumed an 84,000 sq ft Foodstore with a 40,000 sq ft mezzanine. The ground floor space has been rentalised at [redacted] and capitalised at a [redacted] yield. The build costs used are [redacted] on the main store and [redacted] for the mezzanine, which has not been rentalised or capitalised. This provides a capital value for the Foodstore of [redacted].

Market sentiment for "hypermarket" type food stores at present is diminishing, after the aggressive expansion of most of the chains for the last few years, particularly Tesco. Having said this, competition for the right sites is still strong with high rents and low yields being paid for these opportunities. However, we question the level of rent Doric is assuming can be achieved on a store of this size. Looking at comparable evidence in the market, on Hypermarket sized stores such as this; a rent in the low to mid £20's seems far more achievable as a base position. To achieve a yield of [redacted] will depend entirely on lease conditions, with 25 years term certain a minimum requisite, along with guaranteed rental uplifts based on cap and collar RPI linked reviews. We have adopted a rent of £22.50 per sq ft on our base case rising to £25 per sq ft on the upside, but kept the yield of [redacted], assuming Doric will negotiate an institutionally acceptable lease with a Foodstore.

We have also increased the construction costs to £100 per sq ft on the main store, based on the construction rates we have seen adopted on other schemes we are advising on. However, Doric has yet to provide us with the cost plan for this scheme so we have not been able to run these costs past our cost consultancy team, so our view on cost may come down to be in line with the [redacted] adopted.

b. Student accommodation

Doric has assumed a development of 550 student units, rentalised at [redacted] and capitalised at a [redacted] yield.

The student accommodation market is a market that has been strengthening over recent years with investors willing to pay more for the right type of investment, however it is quite specific with long leases to Universities with good covenant strengths being vital. Any variations away from this start to impact the yield that is achievable and therefore the value.

We would say that the assumed rent, based on what is being achieved at other student accommodation developments in Oxford is low, assuming a minimum contract term of 42 weeks the current rent only equates to [redacted]. Depending on quality of product, this could conceivably be anywhere from the low £100's per week through to mid £100's, although as the development is out of central Oxford it will be unlikely to achieve the highest rents achieved in the city. However, Doric have made the assumption that the low rent incentivises the University to take a longer lease as they can likely make a margin by letting the units at a higher rent which we would agree with so we have kept the rent at [redacted].

In terms of the yield, this is totally dependent on the structure of the investment. "Direct let" product (where the owner of the scheme lets beds on yearly contracts direct to students) is of little interest to the annuity type funds that Doric claim are likely to be funding this scheme, due to the lack of security of income. On the other hand, low yields are being achieved on long term annuity style leases (25 years plus) that are direct to the University, with index linked guaranteed uplifts. Legal & General have recently completed an innovative "income strip" type transaction like this with the University of Southampton, where a 1,100 bed scheme was forward sold for £93.2m reflecting a 4.15% NIY. The entire block is pre-let to the University of Southampton, a member of the Russell Group of Universities, on a 38-year lease with annual RPI uplifts. This represents the best possible investment and therefore the best possible yield achievable in the market at present. It is probably unlikely a similar yield would be achieved at Westway, as the institutional grade covenant provided by Southampton University would be harder to come by in Oxford however a longer lease would help to attract a better yield. Due to the uncertainty about what will be achieved we have adopted a yield of 6% on the base appraisal improving it to 5% in the upside appraisal.

<u>The Base case v. The upside scenario</u>

As stated the only difference between DTZ's base case and upside case is the difference in the student accommodation yield and the supermarket rent achieved, the rest of the assumptions remain the same in both. These elements of the appraisal have a large impact on the output of the appraisal and because of the uncertainties of the ultimate deal structures and values that will be achieved we believe it is wise to look at two different scenarios.

Base Case:
Supermarket rent: £22.50 psf
Student Accommodation yield: 6%

Upside Case:
Supermarket rent: £25 psf
Student Accommodation yield: 5%

The results of the appraisals are set out below:

1. **Residualised to profit assuming a fixed land value of [redacted] as an input**

Output	Doric	DTZ Base	DTZ Upside
Profit (£)	[redacted]	[redacted]	[redacted]
Profit on Cost (%)	[redacted]	[redacted]	[redacted]
Development Yield (%)	[redacted]	[redacted]	[redacted]
IRR (%)	[redacted]	[redacted]	[redacted]

2. **Residualised to land value with profit fixed at 20% Profit on Cost to reflect Doric's priority return**

Output	DTZ Base Case	DTZ Upside
Land Price (£)	£4.29 m	£12.0 m
Profit (£) (reflecting 20% PoC)	£14.85m	£16.73m
Development Yield (%)	7.07%	6.53%
IRR (%)	18.56%	16.26%

3. **Conclusion**

Overall, our analysis shows that an offer of [redacted] is a good offer based on the current scheme. However, it must be remembered that the ultimate funder/developer/guarantor needs to be happy to agree to pay this amount for the land with them likely to renegotiate. In order to formally sign off Best Consideration a formal valuations would be required.