

**Review of the Disposal of Sites 1  
and 2 for the Westway Place  
development, Botley**

Prepared for

**Vale of White Horse District  
Council**

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**BUSINESS SENSITIVE &  
CONFIDENTIAL**

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## 1.0 Introduction

1.1 This paper has been produced by Cushman & Wakefield (C&W), using information provided by the Vale of White Horse District Council (the Council) and Botley Development Company Ltd (BDC). BDC are the proposed Developer of the Westway Place development. The information supplied which this Report is based on is:

As provided by [REDACTED] on 6<sup>th</sup> July 2017:

- The Westway Oxford Appraisal
- The [REDACTED] Offer Letter for ground rent (dated 28/06/2017)
- [REDACTED] Appraisal Summary (dated 23/02/2016)
- Vacant Possession Schedule and Plan
- [REDACTED] Heads of Terms (dated 22/06/2017)
- Westway Original Tenancy Schedule
- Westway Viability Comparison
- Westway Funders Presentation (dated 29/06/201)
- Westway Shopping Centre Redevelopment Update and Land Purchase Proposal from The Botley Development Company (dated 06/07/2017)

As provided by [REDACTED] (Arcadis (UK) Limited) on 12<sup>th</sup> July 2017:

- Westway tenancy schedule
- Checklist of Matters Associated with Redevelopment of Westway Shopping Centre (dated 26/06/2017).

And as discussed in a meeting between BDC and the Council on 3<sup>rd</sup> July 2017.

1.2 The Council is currently in negotiations with BDC, alongside the other landowners, to dispose of the Council's land interests within the site as part of the proposals for the Botley Westway Place redevelopment. The existing development site consists of a culmination of sites with a total area of approximately 2.1 hectares (5.2 acres). Planning permission was granted in September 2016 to replace the existing 1960s shopping precinct, and other buildings with a new mixed use scheme to include:

- 140 Residential units
- 261 Student Accommodation units
- 123 bedroom Hotel
- 22 (A1 –A5) Retail units (c.52,000sqft)
- 1 Community Centre (11,450 sqft GIA)
  - Inc. Library (3,700 sqft GIA)
  - Inc. Offices (3,700 sqft GIA)
- 1 Baptist Church (8,700 sqft GIA)

1.3 Planning permission was granted in September 2016. We have been asked to review the development appraisal provided by BDC used to arrive at their proposed overall land price. Given the stage that the negotiations have reached and the will of all Parties to progress to completion of contracts as soon as possible, we have not been instructed to renegotiate the key elements to the transaction and we have adopted this approach throughout our reporting and advice to the Council.

1.4 Within the above context we were been asked specifically to comment on the following:

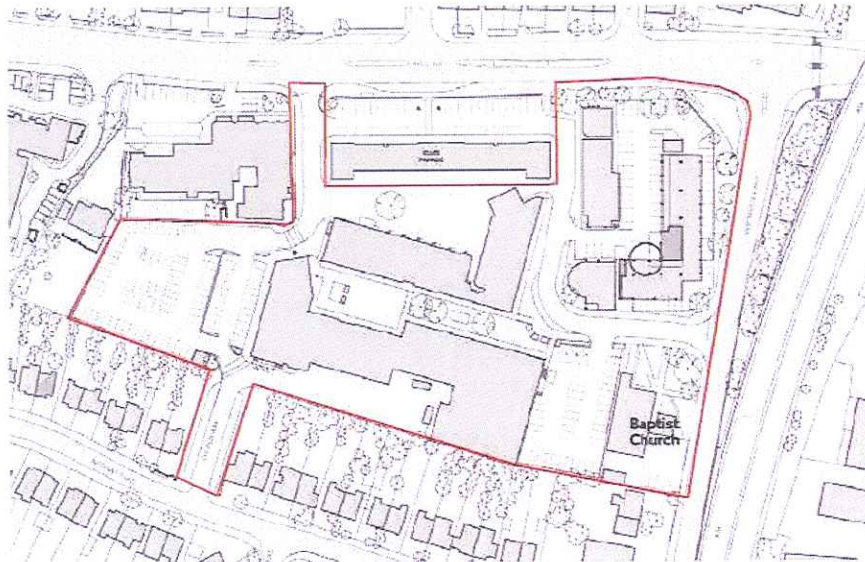
- Whether Best Consideration as set out in S123 of the Local Government Act 1972 has reasonably been achieved in respect of the proposed disposal of the Council's interest.
- The progress made by BDC on the development to date, and their future programme. This should specifically include an update on land assembly and leasing.

1.5 In the context of Best Consideration, Local Authorities were given power under the Local Government Act 1972 Section 123 (supplemented by the Local Government Act 2000) to dispose of land in any manner they wished, the only constraint being that, except in the case of leases for less than 7 years, the sale had to be for the best consideration reasonably obtainable unless the Secretary of State consents to the disposal. The general approval process is as follows, either:

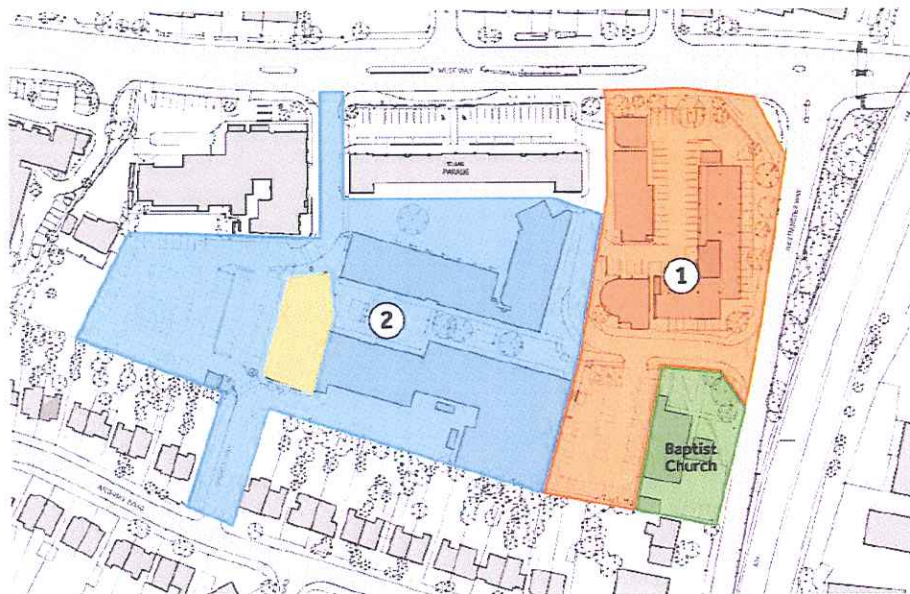
- Best Consideration for the purposes of Circular 06/2003 is achieved
- Where the consideration achieved is at an undervalue of less than £2 million below best consideration for the purposes of Circular 06/2003, the Council may subject to the prevailing rules, utilise the "well-being" consent. The Circular sets out that Local Authorities may use their "well-being" powers when:
  - They consider that the land disposal 'will help it to secure the promotion or improvement of the economic, social or environmental well-being of its area. Where applicable, authorities should also have regard to their community strategy.' (Circular 06/03)
  - Best consideration not achieved where the undervalue is more than £2 million under best consideration – the Council would be required to seek Secretary of State consent for the disposal. This paper will therefore consider whether in our opinion best consideration has reasonably been achieved.

## 2.0 Land Ownership & Land Assembly

2.1 The entire site is shown outlined below:



2.2 The total site is subdivided into two smaller (but still significant) sites labelled Site 1 and Site 2 as shown below. Site 1 (shown in red) is owned by a Consortium including the Council alongside [REDACTED]. Site 2 (in blue) is owned by the Vale of White Horse District Council. There is a long-lesahold interest owned by [REDACTED] and the [REDACTED] which will be reprovided elsewhere.



2.3 BDC have made significant progress in the land assembly of the site and in securing vacant possession of the existing properties. Transactions have been agreed with all but four tenants on site 2 and we understand that the intention is to relocate these remaining tenants into the new scheme.



## 4.0 Purchase Price

- 4.1 BDC had proposed a reduction in the land purchase price by [REDACTED] to reflect
- the additional planning costs
  - the additional site assembly costs
  - purchasing Site 2 12 months earlier than the previously agreed position

They state that the proposed reduced purchase price would increase the development return to approximately [REDACTED] (Profit on Cost); a profit far lower than would normally be acceptable to a Developer, but one which BDC and their proposed debt funder [REDACTED] would accept due to the advanced stage of the Project. Of key importance to the Council (but not the other landowners) is that this proposal would also mean BDC would acquire both sites 1 and 2 together (with no deferred payment of 12 months for the site 2 payment). Site 2 is owned by the Council alone.

We have been provided with a number of appraisals from BDC, including a 'Westway Viability Comparison' which indicates a profit on cost of [REDACTED] for the 'Pre-Planning [Residential] Scheme' compared to a profit on cost of [REDACTED] for the 'Current Scheme'.

In order to arrive at a view on the calculations above, a review of the appraisal inputs and the calculation of residual land value has been carried out and summarised below.

### 4.2 Residential Sales Values

The appraisal assumes [REDACTED] which does not include an allowance for affordable housing. The assumed sales rate within the appraisal is [REDACTED].

We have produced the following table of several examples of comparable evidence in the area, which indicate a wider range average sales rate per sq ft from [REDACTED].

TABLE 1: RESIDENTIAL SALES COMPARABLES

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Based in part on the above, and part on our general view of the residential market in the area and the proposed scheme, it is our opinion that the residential values within the BDC appraisal are realistic – perhaps a little conservative, but this would be prudent for the Projects scale in current and foreseeable market conditions.

#### 4.3 Student Accommodation

The student accommodation comprises a total of 261 units ranging from studios to flats across 3 blocks. The rent (pcm) applied is [REDACTED], with [REDACTED] for storage and an exit yield at which the rent is capitalised of [REDACTED]. Having liased with the C&W Student Accommodation team we consider these rental values to be reasonable and in line with market conditions. The exit yield of [REDACTED] is however considered somewhat optimistic, we would expect the yield to be at [REDACTED].

#### 4.4 Retail & Office

The estimated rental values for the retail units within the scheme have been assumed to be between [REDACTED] and [REDACTED] depending on the size and location of the unit. PROMIS estimates prime retail rents in Oxford to be [REDACTED] Zone A (the most valuable trading space in a retail unit) [REDACTED] Top rents achieved in stores at the nearby [REDACTED] stand at [REDACTED] per sq ft based on a letting with [REDACTED] in [REDACTED].

Comparables from the scheme itself show Estimated Rental Values (ERVs) to be [REDACTED] for the food store and [REDACTED] for the remaining retail. A number of retail deals are in negotiations, reflecting rents of [REDACTED] and thus offering comfort in these rental levels and providing direct comparables within the scheme. BDC estimate that the retail element will be [REDACTED] pre-let if all ongoing discussions are concluded.

The ERV for the flexible office space is [REDACTED] which we consider reasonable to optimistic for small town centre office space in Botley.

For all commercial space where applicable, a rent free period of 3 months has been allowed for against all units, which we consider to be light. A more reasonable rent free period would be 12 months.

The income is capitalised adopting the following assumption on yields, which the C&W investment team are supportive of:

- Foodstore (Block B): [REDACTED]
- Retail (Blocks A, C, D and E): [REDACTED]
- Offices: [REDACTED]

\*The office yield appears optimistic however due to the size relative to the overall scheme and the fact that it is unlikely to be sold in isolation we are comfortable on the capital value on a square foot basis.

#### 4.5 Hotel

The hotel accommodation comprises a 123 room, 3\* hotel

BDC have exchanged with [REDACTED] on a [REDACTED] lease at an annual rent of [REDACTED] The lease is guaranteed by [REDACTED] and we are therefore comfortable that this rental value will be achieved.

The rent is being capitalised at an exit yield of [REDACTED] This is in line with our expectations given the security of income and length of tenure. [REDACTED]



#### 4.6 Library & Shared Space

Within the community space in Block F, value is only being attributed to the flexible office accommodation (mentioned above) and the library. The appraisal assumes a rent of [REDACTED] for the library with [REDACTED] and capitalised at an exit [REDACTED]

We believe that this is reasonable depending on the lease terms agreed.

#### 4.7 Ground Rents

The projected annual net ground rent is [REDACTED]  
[REDACTED]

It is worth noting that there is some disparity between the figure stated in the [REDACTED] [REDACTED] which specifies the freehold sale as [REDACTED]. This needs clarification with BDC.

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]

[REDACTED]  
[REDACTED]

#### 4.8 Car Parking

There is significant car parking provision proposed, with parking across the site totalling 324 spaces according to the 'Westway Funders Presentation'.

The spaces will not be allocated to a specific use. There will be permits for at least 80% of the residential units. All remaining parking is assumed to be free for 2 hours with a penalty fine if this time is exceeded. There is therefore no value to the parking assumed in the appraisal other than that which is captured within the residential sales values.

#### 4.9 Construction Costs

The construction costs have been prepared by [REDACTED], which C&W have, as agreed, taken to be factually correct. We have not seen any cost report evidencing the detail behind this figure. Should the Council wish C&W to analyse construction costs then this can be undertaken.

The key construction cost increases, compared to the [REDACTED] appraisal, are:

- Main contract construction costs have increased by [REDACTED]
- Section 106 has increased by [REDACTED]
- Pre development costs have increased by [REDACTED]

Although these are large increases in costs, they have been evidenced and part of the problem is likely to be due to under-budgeting previously. For example, a budget of [REDACTED] for section 106 is significantly below what we would expect for a scheme of this size.

As stated, we have not been instructed to undertake an exercise with a cost consultant to analyse the figures in relation to this specific scheme and the individual works required, albeit we have sense checked these costs against other information that has been provided to us. [REDACTED]

#### 4.10 Fees

The marketing, letting and disposal fees all seem reasonable in terms of related percentages.

The Development Manager (DM) fees are significantly higher than usually applied. A normal, assumed rate would be [REDACTED]. In the current Westway appraisal a DM fee rate of [REDACTED] has been applied, increased from the [REDACTED] in the 'pre-planning' appraisal. If the Council have previously agreed a fee of [REDACTED], then the current appraisal should reflect this level, however, if no DM fee has been explicitly agreed then it should be [REDACTED] of construction cost. [REDACTED]

#### 4.11 Finance and Funding

The finance rate has increased to [REDACTED], which has resulted in an increased cost by [REDACTED]. Due to the risk profile of this scheme and the low profit margin, it is not surprising that BDC state in their letter dated [REDACTED] that [REDACTED] require a profit on cost of [REDACTED] in order to fund the scheme (hence the request by BDC for a reduction in price on the land value).

There are two aspects to the funding. Firstly, the [REDACTED] loan and [REDACTED]

##### 4.11.1 Longbow Loan:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]



Comparing these timescales to those reflected in the appraisals, there are a few discrepancies. For example Demolition (P1) has an invalid timescale of [REDACTED] to [REDACTED]. We are unable to see the formulas in the appraisal and it is therefore hard to comment exactly how this is impacting the cash flow, however, it is clearly incorrect and needs to be clarified and amended.

## 5.0 Appraisal

5.1 We have produced a residual valuation to consider the value of the site to a developer for scenario viability analysis. Targeting a market standard base profit on cost of [REDACTED] produces an overall residualised price for the entire site of approximately [REDACTED], considerably below the BDC offer.

[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

5.2 The C&W appraisal model closely follows the [REDACTED] appraisal as we have assumed that an alternate developer would undertake the same works as currently proposed. A list of key assumptions that we have adopted are listed below:

- Values are in line with those assumed in the [REDACTED] appraisal other than:
  - Ground rents have been removed
    1. Govt consultation on resi ground rents
    2. Not standard practice to reflect on other commercial elements – albeit the capital value will be retained as F/H interest)
  - Purchaser's costs have been normalised to [REDACTED] across all non-residential elements
  - Student residential yield increased to [REDACTED] based on C&W in-house team
  - Rent free on retail, flexible office and library has been moved to [REDACTED]
- Costs are in line with those assumed in the [REDACTED] appraisal other than:
  - All pre-acquisition costs incurred already by BDC have been removed
  - DM fee of [REDACTED] (down from [REDACTED] appraisal)
  - Developer's contingency has been set to [REDACTED] of construction costs
- Finance assumptions have changed to a more traditional approach. Such that the [REDACTED] loan is removed and we assume [REDACTED] debt funding at a debit rate of [REDACTED], structured finance could be explored.

## 6.0 Conclusions & Recommendations

- 6.1 In our opinion, the historic contractual purchase price agreed for the entire site of [REDACTED] is significantly in excess of C&W's current view of the overall residual site value, for the scheme proposed by BDC.

We understand the current contractual price for the Council's overall property interests totals [REDACTED]. This comprises [REDACTED] from Site 1 and [REDACTED] from Site 2.

- 6.2 Following protracted negotiations between the Council, the other Site 1 landowners and BDC and [REDACTED], BDC and [REDACTED] have agreed to a price reduction of [REDACTED] rather than the [REDACTED] proposed, reducing the purchase price for the entire site to [REDACTED].
- 6.3 It is our opinion that the amended purchase price is still in excess of the current residual site value and still reflects a positive outcome for the Council, and indeed the other Site 1 landowners (although C&W are clearly not advising them). The other Site 1 landowners share this view, as they have supported the price reduction. We believe that the property market would be less favourable to the vendors today and that the price achieved in the open market for the development site, if marketed at this point, would be lower than the adjusted purchase price of [REDACTED].
- 6.4 In order to calculate how this price deduction is shared amongst the stakeholders in the scheme it is our opinion that there are two reasonable options. The first of these, and the one that has been agreed with the other Site 1 landowners, is to calculate the percentage element of the existing transaction that each party is receiving and pro-rata the re-negotiated price such that all parties receive the same proportion as they currently are. The second option would be to disregard the existing transaction and to re-negotiate the proportion that each Party receives. This option would delay the development further and thus risk the deliverability of the scheme, and is not an option that the Council, or any of the other Site 1 landowners wishes to pursue.
- 6.5 C&W believe that this pro-rata approach is the most logical and transparent approach to apportioning the land price deduction, given the existing transaction that is in place, and all Parties desire not to revisit this. The other Site 1 landowners have been proposing several alternatives, but all are less advantageous to the Council than this prorata approach (and as such, we consider would also have opened up the existing transaction), and they have just reluctantly accepted this prorata approach. We would therefore recommend that this be the approach that the Council adopts in order to apportion the suggested price deduction between the Parties.
- 6.6 C&W also consider that the above approach, linked to the specific schemes current viability, means that the transaction proposed will continue to represent the best terms reasonably obtainable by the Council for its property interests within the sites.



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