REPORT ON DEVELOPMENT FUNDING

AT

LAND AT NORTH ROAD WEST & GROVEFIELD WAY (CORINTHIAN PARK) CHELTENHAM

Prepared by

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INTRODUCTION

This report is prepared by Franck-Steier Price Ltd (FSP). FSP is a leading commercial investment and development funding real estate consultancy practice based in Birmingham.

To date FSP has advised on over £3 billion of transactions across all sectors in 500 deals (the company has completed 64 transactions to date in 2018 totalling £391m). FSP's clients include mainstream institutions, nationwide developers, property companies along with UK and overseas private investors.

FSP has over 40 years of combined experience in the property investment market and prides itself on its personal and hands on approach.

In 2019 FSP was awarded top investment agent by volume for the Midlands region in the Co-Star Property Awards.

In terms of development funding experience over the last 24 months FSP has advised on the following transactions:

- Speculative industrial funding of 29 acres of industrial land at Leighton Buzzard - £17.7 million land value with a gross development value of £60 million
- Speculative industrial funding of a 260,000 sq.ft distribution unit in Normanton, Wakefield - £4 million land value with a gross development value of £31 million
- Speculative industrial funding of 38 acres of industrial land in Witney – £22.8 million land value with a gross development value of £56 million
- Speculative industrial funding of a 400,000 sq.ft distribution unit at Fradley Park, Burton on Trent - £9.9 million land value with a gross development value of £40 million
- Development funding of a Jaguar Land Rover Dealership, Huddersfield - £13 million
- Development funding of a Land Rover Dealership, Stoke - £8.6 million
- Development funding of a 78 bed Travelodge hotel and drive thru Costa coffee unit in Workington, Cumbria - £6.7 million
- Development funding of a 65,000 sq.ft office pre-let to Tata Technologies in Leamington Spa - £19.25 million

APPEAL DECISION NOTICE

This report and evidence is prepared as a response to the appeal decision of 27 February 2019 and the ongoing appeal (Appeal A) in relation to the development at Corinthian Park, Grovefield Way, Cheltenham. The appeal decision notice provided a number of conditions in respect of the planning consent. More specifically our evidence relates to the condition detailing the phasing of the site, which stated:

- Page 17, Condition 24; ***The A1 food retail unit shall not be occupied until B1 office units labelled 'office 1' and 'office 2' and 'office 5' have been constructed and are capable of occupation.***

The consented floor areas for Office 1,2 & 5 are as follows:

- Office 1 – 2,279 sq.m (24,531 sq.ft) gross internal area / 1,866 sq.m (20,090 sq.ft) net lettable
- Office 2 – 2,755 sq.m (29,655 sq.ft) gross internal area / 2,311 sq.m (24,881 sq.ft) net lettable
- Office 5 – 880 sq.m (9,472 sq.ft) gross internal area / 753 sq.m (8,110 sq.ft) net lettable

Our opinion as experienced commercial property advisors is that this condition is too onerous on the Appellant and ultimately has a significant negative impact on the deliverability of the overall scheme. The two elements of retail and office accommodation are fundamentally different in terms of market dynamics and to link these elements together would jeopardise the viability of the scheme and its longer-term success for all stakeholders.

We have broken down the constituent parts of the development and the funding structure required in order to deliver the scheme and have provided the requisite evidence as to why the condition, in its current state, is frustrating the development from being delivered.

RETAIL ELEMENT

We have in the past received strong interest in the development funding of the pre-let retail element of the scheme from institutional investors, particularly where Costa Coffee formed part of the scheme. Yet the appeal decision has raised significant concerns to those interested parties as the completion of the retail element and the occupation of the scheme is intrinsically linked to the completion of Offices 1, 2 and 5.

The institutional investors that have expressed an interest in the development funding of the pre-let retail element have confirmed they would be not be able to consider a funding of the wider scheme. Their investment requirements are focused on long let investments, often with a minimum lease term and speculative offices therefore fall outside their requirements and they are prohibited from pursuing on this criteria alone.

The very nature of these long let institutional investors is risk averse investing and the deliverability of the retail element being contingent on the delivery of the office element exposes them to a risk profile and number of scenarios they cannot quantify, and that ultimately makes this unviable for them as an investment opportunity.

Whilst there is strong appetite for the development funding of the retail element on a pre-let basis (again, this would be further strengthened with the inclusion of Costa Coffee) there are a number of fundamental differences between the elements as to why the delivery cannot be linked:

- Investment Structure

A pre-let retail element provides security of committed income to investors. Many investors are naturally risk averse and thus the opportunity to secure a long-term income stream is very attractive. The opposite applies to the office element. A speculative development provides no guarantee as to when the income stream may be secured whilst the investor would be liable for not only the development costs but any void holding costs.

- Office Element Dynamics

We consider that a development funding of the two elements in isolation is also not viable. Whilst having separate funding partners removes the mixed nature of the investment that may prohibit a number of investors from funding the scheme, the appetite for funding a speculative office development within the market is not there. We have discussed further the reasons for this lack of appetite below.

OFFICE ELEMENT

There are a number of specific reasons as to why a speculative development funding of the office element is unviable. We believe these to be:

- Bespoke nature of occupier requirements
- General level of activity in the M5 corridor

The bespoke nature of office requirements is such that each and every occupier will be different, their internal drivers, size of requirement and staffing density will all be unique to that occupier. As such, speculatively developing a HQ style office building as per the requirements for office 1,2 and 5 would significantly reduce the marketability of the buildings to occupiers.

Without the opportunity to deliver a tailored solution for an occupier one is solely reliant on an occupier requirement that fits the delivered buildings. These requirements are more sporadic in occurrence and therefore it is very difficult for an investor to quantify timescales for when they would begin to receive an income stream and indeed the covenant strength of that income stream. This unquantifiable nature is why speculative development is too prohibitive to the UK institutional investment market.

In the industrial market speculative development has been taking place but this should not be compared as occupier requirements are far more flexible and demand is much higher. Therefore, the risk of delivering a building that is compromised against tenant needs is very low.

Across the wider South Midlands and M5 Corridor markets, down to Bristol there have been very few examples of speculative funding of offices in the previous 36 months. The examples of speculative funding of smaller scale or business park offices that have occurred have been funded by the landowner themselves and are private limited companies as opposed to institutional investors. Examples include:

- IM Properties at Blythe Valley Park – Speculatively developing 15,500 sq ft. For context Blythe Valley is over 2million sq ft of space. The size of the speculative element against their wider holding puts into context the risks surrounding it, particularly when their portfolio is valued at over £900m.
- Honeybourne Place, Cheltenham – Formal Investments as landowner are developing 65,000 sq ft in the centre of Cheltenham. This building will be multi-let with floor plates of c.11,000 sq ft

Beyond these two examples there are only two other speculative office developments currently in the same region. Both are being conducted by institutional investors in central Bristol.

- Royal London are funding The Distillery totalling 90,000 sq ft
- AXA Investment Management are funding The Assembly totalling 200,000 sq ft

Whilst these two examples do provide evidence that institutional investors will speculatively develop office schemes, we should not compare the central Bristol office market with that of Cheltenham nor compare the type of product being delivered.

Bristol is an office market of significant size in comparison. 931,000 sq ft of space was let during 2018 in comparison to only 220,000 sq ft across the Gloucestershire sub-market which includes both Cheltenham and Gloucester. Tenant demand and number of occupier requirements in Bristol far out way those targeting Cheltenham and so confidence is far stronger from an investor point of view.

When that confidence is combined with delivering larger multi-let buildings where occupiers are often blue chip covenants taking smaller satellite office suites rather than HQ style buildings, thus providing diversification of income and spreading the risk to the investor it can be considered this is a much more attractive opportunity to the UK institutional investment market.

Further evidence in terms of viability and the risk in speculatively developing smaller offices can be seen in the wider market with the number of schemes available on a build to suit basis only.

- 42,336 sq ft of space has consent to be delivered at Worcester 6 by Stoford. This can be delivered between one to three buildings on a build to suit basis only. This provides flexibility for a range of occupier requirements.
- Arlington have 19 acres of consented land remaining for office or industrial development at Gloucester Business Park. They have delivered over 110,000 sq ft of offices since 2016 all on a build to suit basis to occupiers such as Ecclesiastical Insurance, TBS Engineering and Horizon Nuclear. They have no current plans to speculatively develop and offices on the park
- 84,841 sq ft of space has consent to be delivered at Harlequin Office Park, Emersons Green, Bristol by Shepherd Developments on a build to suit basis. They have no current plans to speculative develop those units.
- Abstract securities delivered 85,000 sq ft on a pre-let basis for Babcock Engineering at Aztec West, Bristol. A further 70,000 sq ft phase to has consent on build to suit options.

The above shows that whilst speculatively developing offices is a possibility, the market consensus is that occupier requirements are often too bespoke and the risk in delivering smaller business park type buildings is too great to be accepted with many developers / investors reluctant to jeopardise the marketability and potentially miss out on tenants by delivering a building that isn't quite suited to their needs.

As a result, linking the deliverability of the retail element to the office element jeopardises the deliverability of both elements.

DEVELOPMENT FINANCE

The Appellant has considered other routes to delivering the office and retail element without an institutional funding partner.

A potential route would be to seek development finance to fund the build out. This would allow the retail element to be sold be way of a forward commitment and ensure the speculative delivery of the office element simultaneous with the completion of the retail.

The debt finance required was based on the total costs for developing the whole scheme (Aldi, Happy Days Nursery, Office 1, Office 2 and Office 5) which were in the region of £25.8 million which included the following:

- Land cost
- Construction costs
- Planning costs
- Legal and Agents Fees
- Design Fees
- Tenant Incentives

We have explored the potential of this with finance broker, Brotherton Real Estate, who identified a number of debt funds that would be willing to consider development financing the scheme.

The conditions of this funding however would need to see at least either office 1 and office 2 pre-sold/pre-let prior to the development finance agreement completing. The terms provided are particularly onerous to any developer, also requiring personal guarantees, but reference the risk averse nature of debt funds post the financial crisis of the late 2000's. This outlook is not likely to change in the short to medium term and so this type of funding mechanism does not provide a realistic option in delivering a combined scheme.

SPECULATIVE DEVELOPMENT OF THE OFFICE ELEMENT – SCHEME VIABILITY

As set out above institutional funding or the ability to raise debt finance for the speculative development of the office element of the scheme is not present in the current market. Even if funding was available due to potential void holdings costs the scheme would not be viable in any event.

As evidenced in the attached Corinthian Park Appraisal Appeal B – Speculative Development if the scheme was to be speculatively developed and let in accordance with current rental values for the region and taking into account current market void periods and incentives the gross development value for the scheme is in the region of £17,578,318. This analysis is based on the following assumptions:

- Estimated rental value £25 per sq.ft
- Letting terms of 10 years
- Exit capitalisation rate of 6.00% net of standard market purchaser's costs of 6.80% (this is based on the comparable evidence as set out below).
- Void periods of 18 months
- Void rates holding costs
- Rent free incentives of 9 months per 5 years
- Sales fees of 1.50% based on agent's fees of 0.75% plus VAT and legal fees of 0.5% plus VAT.

The total costs for the scheme, as evidenced in the attached appraisal, are £18,185,703. This includes:

- Site price plus associated costs
- Construction costs
- S106 costs
- Historic costs for planning, surveys, architect's fees etc
- Professional fees
- Development Management fee
- Contingency
- Letting and legal fees
- Interest on the sums expended to develop the scheme at the net capitalisation rate of 6.00% up until the scheme is sold.

Taking the gross development value and total development costs the speculative development of the scheme would lead to a loss of £607,385 on the development and a profit on cost of -3%.

Conversely as you will see from the attached Corinthian Park Appraisal Appeal B – Pre-Let which is based on the same assumptions (except the scheme is not subject to any holding costs as it is developed when the scheme has been pre-let) the profit is £1,668,699 for the development which is a profit on cost of 10%.

Should Appeal A be permitted but with a similar condition to Condition 24, the same result will occur. This is the case even with the loss of Office 5, which will be replaced by Costa Coffee.

You will note from Corinthian Park Appraisal Appeal A – Speculative Development attached that the anticipated void and holding costs would create a loss of £490,723 and a profit on cost of -3%. This compares to the attached Corinthian Park Appraisal Appeal A - Pre-Let which, using the same set of assumptions provide for a profit of £1,432,395 which is a profit on cost of 10%.

We set out below a comparable schedule of modern out town business park office investments that have been sold recently which we have considered in respect of the capitalisation yield to adopt in our appraisal.

Property	Tenant	Area sq ft	Unepxired Lease Term yrs	Date	Price £ (NIY%)	Comments
Plot 4C, Grove Park, Leicester	My Home Move	20,829	9.4	Under Offer	£5.68m (6.00%)	RPI reviews 4 yearly collar and cap of 1-2.5%.
Rayns Way, Watermead Business Park, Leicester	Flogas Office	19,728	10	Under Offer	£4.72m (6.25%)	OMV reviews.
430, Bristol Business Park, Bristol	Leonardo	22,523	6.75	Dec18	£6.42m (5.96%)	Purchased by Mendip District Council.
2500 The Crescent, Birmingham Business Park	SSP	27,172	8.0	Jul18	£8.15m (6.03%)	Modern building. RPI review c/c 1.5-5% 2021. Purchased by CRT.
Tournament Fields, Warwick	Leadec	12,475	9.0	Jun18	£3.20m (6.44%)	Modern office building. Purchased by Wesleyan Assurance.
Remus 1, Solihull Business Park	IBG & Ridge & Partners	8,603	7.4	Jun18	£1.90m (6.57%)	Semi detached modern office. Purchased by a private investor.
Wolverhampton Business Park	Charter Court Financial Services	22,819	10.0	Feb18	£4.565m (6.45%)	2005 built office. Purchased by Landmark Investments.
1 Frances Way, Grove Park	My Home Move	21,393	11.5	Mar17	£5.00m (5.90%)	Under-rented at £14.87 psf. OMV reviews. Purchased by a South African investor.

CONCLUSIONS

As highlighted above whilst there is investor demand for development funding the pre-let retail element of the scheme the requirement of the appeal decision to speculatively fund the office element in conjunction with the retail development has resulted in those interested parties withdrawing their interest. There is no investor demand for speculatively funding the office element alongside the retail and the fact that these two elements are intrinsically linked with the retail tenants unable to occupy their premises until the offices are completed means the investors have no control over when the retail element would be income producing.

Looking at the funding of the offices in isolation, as set out above, there is no appetite from the investment market for speculatively funding this element. The general risk and costs of void periods post practical completion and building a product that does not suit the requirements of the occupational market together with the sporadic nature of occupier requirements has meant that regionally, and particularly along the M5 corridor, the speculative funding of out of town office investments has been non existent over the last five years.

We have also explored the development finance route and whilst there are number of debt funds that would consider lending on the scheme a prerequisite of the finance terms was that either office 1 and office 2 pre-sold/pre-let prior to the development finance agreement completing.

Finally, we analysed the viability of speculatively financing the office element if finance could be obtained and assuming current market void periods that would be expected the holding costs attributable to these would result in the development producing a loss. Conversely a pre-let / pre-sale approach to the development of the office element, taking into account the same current market rental values and incentives as the speculative scheme, would result in a viable scheme being developed.

Therefore, to ensure a successful development of Corinthian Park the retail and office element of the scheme should not be linked in our opinion. The retail element should be separately funded and developed with the office element being built out and funded on a pre-let / pre-sale basis when occupier requirements can be identified and secured.

Should Appeal A be successful with no phasing condition applied, the inclusion of the Costa Coffee will be viewed positively by institutional investors and occupiers alike, providing a key amenity provision on the park. This can only have a positive impact upon a timely delivery of the proposed high quality office space at Corinthian Park.

GLOSSARY OF TERMS

Institutional Investor	An institutional investor is an organisation that pools money to purchase / fund commercial real estate investments. Examples of institutional investors are Legal & General, M&G, Aviva, Aberdeen Standard and Royal London.
Funding Partners	These are investors that would consider providing development funding to finance the construction of the property/properties with a view to owning them when completed.
Debt Funds	These are funds or banks that provide money to pay for the construction of the property/properties but this money will be required to be paid back on completion of the property/properties.
Development Finance	This is money provided by debt funds/banks to provide finance to development out the property/properties.
Debt Finance	This is the same as Development Finance.
Speculative Funding	This is the funding of a development without the building/buildings being leased but with the funder owning them on completion.

Forward Funding	This is a funding method in which the funder acquires the site from the Developer and provides full funding for all the Developer's costs of construction of the properties.
Forward Commitment	This is a purchase method in which the investor commits to purchasing the property prior to or during the construction of the property. In this method the investor will either acquire the site and pay a balancing payment on completion of the development or pay a deposit which commits the purchaser to buying the property on completion of the development.

Gross Development Value	This is the value of the property/properties once constructed and let.
Pre-let	This is when the property or properties are leased to a tenant/tenants prior to commencement of construction of the property/properties.
Pre-sale	This is when the property or properties are sold to an occupier/occupiers prior to commencement of construction of the property/properties.
Investment Comparables	This is market evidence of investment properties that have transacted in the market that are similar to the subject property/properties.
Capitalisation Rate	This is the rate of return an investor will want to achieve on an asset of this type. Comparable evidence is used to determine what capitalisation rate to assume as it is drawn from transactional evidence in the market.
Purchaser's Costs	These are the typical costs of purchase the an investor will take into account when buying an investment. These include agent fees, legal fees and stamp duty land tax. The assumed purchaser's costs in the appraisal at 6.80% are based on the following market standard assumptions: • Agent fees – 1% of the purchase price plus VAT • Legal fees – 0.5% of the purchase price plus VAT • Stamp duty land tax – 5% of the purchase price

Project Name	Corinthian Park Appraisal Appeal A - Pre- Let
Start Month	04/10/2019

Project Timeline	Start	End	Start Mo	End Mo	Duration		
Land Takedown	Oct-19	Nov-19	0	1	1		
Construction Phase 1	Jan-20	Jan-21	3	15	12	PC	15
Leasing/Stabilisation Phase 1	Jan-21	Jan-21	15	15	0		

Budget			Total Amt	Start Mo	Duration	End Mo
Acquisition Costs	Site Value		£1,228,250	0	1	1
	SDLT	0.0%	£0	0	1	1
	Agent	1.0%	£12,283	0	1	1
	Legal	0.5%	£6,141	0	1	1
Construction	Construction		£10,024,410	3	12	15
	Historic Costs		£175,000	15	1	16
	s106 & Infrastructure Costs		£400,000	3	1	4
	Professional Fees	8.5%	£900,950	3	12	15
Other Costs	DM Fee	3.0%	£317,982	1	14	15
	Contingency	3.0%	£317,982	3	12	15
Marketing & Letting	Marketing		£50,000	6	9	15
	Letting Agent	15.0%	£168,641			
	Letting Legal	5.0%	£56,214			
Interest	Notional Interest	6.0%	£504,827	0	15	15
				Profit	PoC	YoC
Total Development Cost		£315	£14,162,680	£1,432,600	10%	7.94%

Units	NIA	Void (mths)	RFP (mths)	Term (mths)	Cost PSF	Rent PSF	Total Net Rent	Exit Yield	Exit Value	Exit CV	Rent Start	Occ Start	RF Left at Exit	RF Top-up
Office 1	20,090	0	18	120	£0.00	£25.00	£502,250	6.00%	£7,837,859	£390.14	33	15	18	£753,375
Office 2	24,881	0	18	120	£0.00	£25.00	£622,025	6.00%	£9,707,007	£390.14	33	15	18	£933,038
Total	44,971	0	18	10.0	£0.00	£25.00	£1,124,275	6.00%	£17,544,866	£390				
Less Sales Costs								1.50%	£263,173					
Less Rent Free Top Up									£1,686,413					
Net Exit Value									£15,595,280	£347				

General		
Purchaser's Costs	6.80%	
Phase 1 Exit Mo	15	Jan-21
Sales Cost	1.50%	

Project Name	Corinthian Park Appraisal Appeal A - Speculative Development	
Start Month	04/10/2019	

Project Timeline	Start	End	Start Mo	End Mo	Duration			
Land Takedown	Oct-19	Nov-19	0	1	1			
Construction Phase 1	Jan-20	Jan-21	3	15	12	PC	15	
Leasing/Stabilisation Phase 1	Jan-21	Jan-23	15	39	24			

Budget				Total Amt	Start Mo	Duration	End Mo
Acquisition Costs		Site Value		£1,228,250	0	1	1
		SDLT	5.0%	£73,695	0	1	1
		Agent	1.0%	£12,283	0	1	1
		Legal	0.5%	£6,141	0	1	1
Construction		Construction		£10,024,410	3	12	15
		Historic Costs		£175,000	15	1	16
		s106 & Infrastructure Costs		£400,000	3	1	4
		Professional Fees	8.5%	£900,950	3	30	33
Other Costs		DM Fee	3.0%	£317,982	1	32	33
		Contingency	3.0%	£317,982	3	30	33
Marketing & Letting		Marketing		£50,000	6	27	33
		Letting Agent	15.0%	£168,641			
		Letting Legal	5.0%	£56,214			
Interest		Notional Interest	6.0%	£1,651,566	0	33	33
					Profit	PoC	YoC
Total Development Cost			£342	£15,383,114	-£490,506	-3%	7.31%

Units	NIA	Void (mths)	RFP (mths)	Term (mths)	Cost PSF	Rent PSF	Total Net Rent	Exit Yield	Exit Value	Exit CV	Rent Start	Occ Start	RF Left at Exit	RF Top-up	Void Rates Costs
Office 1	20,090	18	18	120	£0.00	£25.00	£502,250	6.00%	£7,837,859	£390.14	51	33	18	£753,375	£313,906.3
Office 2	24,881	18	18	120	£0.00	£25.00	£622,025	6.00%	£9,707,007	£390.14	51	33	18	£933,038	£388,765.6
Total	44,971	18	18	10.0	£0.00	£25.00	£1,124,275	6.00%	£17,544,866	£390					
Less Sales Costs								1.50%	£263,173						
Less Rent Free Top Up									£1,686,413						
Void Rates Costs									£702,672						
Net Exit Value									£14,892,608	£331					

General		
Purchaser's Costs	6.80%	
Phase 1 Exit Mo	33	Jan-23
Sales Cost	1.50%	

Project Name	Corinthian Park Appraisal Appeal B - Pre-Let
Start Month	04/10/2019

Project Timeline	Start	End	Start Mo	End Mo	Duration		
Land Takedown	Oct-19	Nov-19	0	1	1		
Construction Phase 1	Jan-20	Jan-21	3	15	12	PC	15
Leasing/Stabilisation Phase 1	Jan-21	Jan-21	15	15	0		

Budget			Total Amt	Start Mo	Duration	End Mo
Acquisition Costs	Site Value		£1,506,250	0	1	1
	SDLT	0.0%	£0	0	1	1
	Agent	1.0%	£15,063	0	1	1
	Legal	0.5%	£7,531	0	1	1
Construction	Construction		£11,776,730	3	12	15
	Historic Costs		£207,609	15	1	16
	s106 & Infrastructure costs		£500,000	3	1	4
	Professional Fees	8.5%	£1,061,169	3	12	15
Other Costs	DM Fee	3.0%	£374,530	1	14	15
	Contingency	3.0%	£374,530	3	12	15
Marketing & Letting	Marketing		£50,000	6	9	15
	Letting Agent	15.0%	£199,054			
	Letting Legal	5.0%	£66,351			
Interest	Notional Interest	6.0%	£599,942	0	15	15
				Profit	PoC	YoC
Total Development Cost		£315	£16,738,759	£1,668,950	10%	7.93%

Units	NIA	Void (mths)	RFP (mths)	Term (mths)	Cost PSF	Rent PSF	Total Net Rent	Exit Yield	Exit Value	Exit CV	Rent Start	Occ Start	RF Left at Exit	RF Top-up
Office 1	20,090	0	18	120	£0.00	£25.00	£502,250	6.00%	£7,837,859	£390.14	33	15	18	£753,375
Office 2	24,881	0	18	120	£0.00	£25.00	£622,025	6.00%	£9,707,007	£390.14	33	15	18	£933,038
Office 5	8,110	0	18	180	£0.00	£25.00	£202,750	6.00%	£3,164,014	£390.14	33	15	18	£304,125
Total	53,081	0	18	10.8	£0.00	£25.00	£1,327,025	6.00%	£20,708,880	£390				
Less Sales Costs								1.50%	£310,633					
Less Rent Free Top Up									£1,990,538					
Net Exit Value									£18,407,709	£347				

General		
Purchaser's Costs	6.80%	
Phase 1 Exit Mo	15	Jan-21
Sales Cost	1.50%	

Project Name	Corinthian Park Appraisal Appeal B - Speculative Development
Start Month	04/10/2019

Project Timeline	Start	End	Start Mo	End Mo	Duration		
Land Takedown	Oct-19	Nov-19	0	1	1		
Construction Phase 1	Jan-20	Jan-21	3	15	12	PC	15
Leasing/Stabilisation Phase 1	Jan-21	Jan-23	15	39	24		

Budget			Total Amt	Start Mo	Duration	End Mo
Acquisition Costs	Site Value		£1,506,250	0	1	1
	SDLT	5.0%	£90,375	0	1	1
	Agent	1.0%	£15,063	0	1	1
	Legal	0.5%	£7,531	0	1	1
Construction	Construction		£11,776,730	3	12	15
	Historic Costs		£207,609	15	1	16
	s106 & Infrastructure Costs		£500,000	3	1	4
	Professional Fees	8.5%	£1,061,169	3	30	33
Other Costs	DM Fee	3.0%	£374,530	1	32	33
	Contingency	3.0%	£374,530	3	30	33
Marketing & Letting	Marketing		£50,000	6	27	33
	Letting Agent	15.0%	£199,054			
	Letting Legal	5.0%	£66,351			
Interest	Notional Interest	6.0%	£1,956,245	0	33	33
				Profit	PoC	YoC
Total Development Cost		£343	£18,185,437	-£607,118	-3%	7.30%

Units	NIA	Void (mths)	RFP (mths)	Term (mths)	Cost PSF	Rent PSF	Total Net Rent	Exit Yield	Exit Value	Exit CV	Rent Start	Occ Start	RF Left at Exit	RF Top-up	Void Rates Costs
Office 1	20,090	18	18	120	£0.00	£25.00	£502,250	6.00%	£7,837,859	£390.14	51	33	18	£753,375	£313,906.3
Office 2	24,881	18	18	120	£0.00	£25.00	£622,025	6.00%	£9,707,007	£390.14	51	33	18	£933,038	£388,765.6
Office 5	8,110	18	18	120	£0.00	£25.00	£202,750	6.00%	£3,164,014	£390.14	51	33	18	£304,125	£126,718.8
Total	53,081	18	18	10.0	£0.00	£25.00	£1,327,025	6.00%	£20,708,880	£390					
Less Sales Costs								1.50%	£310,633						
Less Rent Free Top Up									£1,990,538						
Void Rates Costs									£829,391						
Net Exit Value									£17,578,318	£331					

General		
Purchaser's Costs	6.80%	
Phase 1 Exit Mo	33	Jan-23
Sales Cost	1.50%	

APPELLANT STATEMENT

by

James Hinton, BSc (Hons) MRICS
Managing Director, Hinton Group Ltd

October 2019

1. My names is James Hinton and I am the Managing Director of Hinton Group and have held this position for 10 years. Hinton Group is a privately-owned company specialising in land acquisition, development, architectural design and construction.

2. I am a member of the Royal Institute of Chartered Surveyors and hold a BSc (Hons) degree in Land Management from Reading University. Prior to becoming the Managing Director at Hinton Group, I worked for Drivers Jonas and Knight Frank as a surveyor.

3. Hinton Group's principal activities are the identification, financing and acquisition of sites and delivering commercial development projects. To date, Hinton Group have developed over 1.5 million sq ft of commercial office, retail, and leisure space. We work closely with our in-house architectural and construction teams and our experience ranges from local neighbourhood centres to bespoke employment development to multi-million-pound urban regeneration projects.

4. Hinton Group have been involved in the appeal site for the last 4 years. We have been working with the landowner to try and bring an employment led development forward. By way of background, we have worked with the same landowner on other sites they own and our interest in the subject site was because of the existing outline office permission. Our initial, and indeed, continued intention is to deliver a B1a Office led business park on the site. A new prime business park for Cheltenham.

5. At the outset we engaged with a local commercial agent, John Ryde Commercial and subsequently with national agent, Colliers International, to determine what B1a requirements were in the marketplace. Over a 2-year period we held meetings with prospective office tenants, yet struggled to attract firm interest

due to the specific requirements of the said occupiers, the viability of the scheme and market conditions.

6. In the intervening period, we have received interest for a host of other non-B1 uses, from fast food, pub / restaurant, car dealership and hotel occupiers. In every instance, we decided not to pursue these uses because it reduced the quantum of offices that could subsequently be delivered on the remainder of the site and would jeopardise the quality of the environment we wanted to deliver. Our vision for the site has always been, and continues to be, that of delivering a prime business park for Cheltenham. However, this needs to be attractive to the current office market and composed such that the development can be funded to ensure timely delivery.

7. We initially promoted the appeal site for an exclusive B1a use, but it was clear that the site was not deliverable in its original exclusive B1a led form. The key reason for this was owing to it not being attractive to end office users due to the lack of ancillary services and facilities. Consequently, we introduced a small quantum of complimentary uses into the masterplan to create a business park environment more befitting of that required by a modern-day office occupier.

8. Marketing continued during the appeal and since the permission was secured (Appeal B). We retained two national agents, site branding was immediately undertaken, and a website was launched. But despite this, we have been unable to secure occupiers for the office units. The feedback we have received reaffirms that office occupiers require new generation business parks, those which provide on-site services and facilities, and it is critical that these facilities are available from the date of occupation to cater for staff and visitors.

9. Since the grant of Appeal B in February we have sought to implement the consent but have come up against significant challenges in relation to the imposed phasing condition (condition 24).

10. Condition 24 imposed by the Inspector, states that:

    The A1 food retail unit shall not be occupied until B1 office units labelled 'office 1' and 'office 2' and 'office 5' have been constructed and are capable of occupation.

11. This condition was intended to ensure the prime purpose of the business park is achieved, but for financial and market reasons it is actually preventing delivery of the business park. In essence, it would mean three occupiers with the exact requirements of the space provided by units 1,2 and 5 would have to come forward at the same time to enable these units to be constructed on a non-speculative basis.

12. In the absence of occupiers not being secured (the interest from Ridge LLP and Bloor Homes no longer exists due to the length of time it has taken to obtain planning permission), condition 24 requires us to build out **<u>all</u>** office units granted full planning permission to occupational standards **<u>speculatively</u>** prior to the ancillary retail use being open and trading as office occupiers require.

13. This speculative development requires over £18 million in funding to be secured with no guarantee of when investors will receive a return whilst liable for the void holding costs. This is a financial risk no developer, lender or institutional investor is willing to take.

14. With no prospect of funding the speculative office development, we have been unable to provide potential occupiers with clarity regarding the delivery of the scheme and, particularly, the delivery of the on-site retail facilities. A delay in

HINTON GROUP

delivery of on-site facilities causes concern for occupiers and in turn is delaying their commitment to the business park, especially with the likely disruption/poor image during construction phase of those facilities.

15. The decision issued in February 2019 dismissed Appeal A, this decision was quashed following a successful S.288 challenge. If Appeal A were to be allowed, it would further enhance the on-site facilities through the inclusion of Costa Coffee. It is my view that this food and beverage offer with its informal break out and meeting space, if delivered ahead of any offices, would provide a better and more attractive variety of facilities for staff and visitors than that currently permitted scheme. This view is confirmed in the letters provided by leading national office agents, included in the appeal documents.

16. Furthermore, it would assist our ability to fund to the development as a whole and be a welcomed step towards timely delivery of this much sought-after employment space.

17. It remains Hinton Group's firm commitment to deliver the development as a prime B1a office led business park for Cheltenham. We are pursuing this appeal solely to achieve this outcome. Indeed, Hinton Group would be happy to agree to any legal agreement that commits them to delivering the office led business park at this site. The pursuit of retail and ancillary facilities remains the mechanism to deliver that end goal.

In the High Court of Justice
Queen's Bench Division
Administrative Court

CO/1439/2019

HIGH COURT OF JUSTICE
11 JUN 2019
BIRMINGHAM
ADMINISTRATIVE COURT

IN AN APPLICATION FOR LEAVE UNDER S.288 OF THE TOWN AND COUNTRY PLANNING ACT 1990

The Queen on the application of HINTON PROPERITES (GROVEFIELD WAY) LIMITED

and

1) SECRETARY OF STATE FOR HOUSING COMMUNITIES AND LOCAL GOVERNMENT

2) CHELTENHAM BOROUGH COUNCIL

CONSENT ORDER

UPON the parties agreeing that the claim should be allowed for the reasons in the statement of reasons below and upon permission having been granted by order of His Honour Judge Worster on 22nd May 2019, it is ordered with the consent of the parties that:

1. The claim is allowed

2. The planning Inspector's decision (dated 27th February 2019) to refuse planning permission in respect to Appeal A (Appeal Reference APP/B1605/W/18/3200395) is quashed, and the appeal is remitted to the First Defendant for redetermination.

3. The First defendant to pay the Claimant's costs, to be subject to detailed assessment if not agreed.

Signed His Honour Judge Cooke

Dated this 5th day of June 2019

IN THE HIGH COURT OF JUSTICE Claim No. CO/1439/2019
QUEEN'S BENCH DIVISION
ADMINISTRATIVE COURT
PLANNING COURT

IN AN APPLICATION FOR LEAVE UNDER S.288 OF THE TOWN AND COUNTRY PLANNING ACT 1990

BETWEEN:

HINTON PROPERTIES (GROVEFIELD WAY) LIMITED

Claimant

and

(1) SECRETARY OF STATE FOR HOUSING, COMMUNITIES AND LOCAL GOVERNMENT
(2) CHELTENHAM BOROUGH COUNCIL

Defendants

CONSENT ORDER

UPON the parties agreeing that the claim should be allowed for the reasons in the statement of reasons below, it is ordered with the consent of the parties that:

1. Permission is granted and the claim is allowed.

2. The planning Inspector's decision (dated 27th February 2019) to refuse planning permission in respect to Appeal A (Appeal Reference APP/B1605/W/18/3200395) is quashed, and the appeal is remitted to the First Defendant for redetermination.

STATEMENT OF REASONS

1. These proceedings concern an application brought pursuant to section 288 of the Town and Country Planning Act 1990 against the decision (dated 27 February 2019) of an Inspector appointed by the First Defendant to determine a planning appeal.[1] The decision being challenged has appeal reference APP/B1605/W/18/3200395 and the application reference was 16/02208/FUL. The Inspector referred to the decision as 'Appeal A'.

2. Appeal A related to land at Grovefield Way, the Reddings, Cheltenham GL51 6RF ('the Site'). It was for a hybrid planning application seeking full and outline planning permission for the following description of development ('the Proposed Development'):

> *(A) 5,034 square metres (sqm) of commercial office space (Use Class B1), 502 sqm day nursery (Use Class D1), 1,742 sqm Aldi food retail unit (Class A1), a 204 sqm Costa Coffee retail unit and drive-thru (Use Classes A1 and A3), with associated parking, landscaping and infrastructure works. Outline planning permission sought for the erection of 8,034 sqm of commercial office space (Use Class B1), together with associated car parking, landscaping and infrastructure works, with all matters reserved (except access);*

3. Having carefully considered the challenge the Defendants agree that the Claimant's secondary case was a 'principal important controversial issue' (per *South Buckinghamshire DC v Porter (No.2)* [2004] 1 WLR 1953 at 53). The first defendant further agrees that the Inspector failed to provide adequate reasons for rejecting this secondary case, and that on that basis the decision in Appeal A should be quashed and remitted for re-determination.

4. For the avoidance of doubt, the Inspector's decision letter is only quashed insofar as it relates to Appeal A. The Inspector's decision to grant planning permission in respect to Appeal B remains unaffected by this claim/Order and thus the permission related to Appeal B still stands/remains extant. Appeal B

[1] Pursuant to section 78 of the Town and Country Planning Act 1990

was made pursuant to Appeal Reference APP/B1605/W/18/3214761 and application reference 18/01004/FUL. It related to the following description of development:

> *(B) 5,914sqm of commercial office space (Use Class B1), 502 sqm day nursery (Use Class D1), 1,742 sqm Aldi food retail unit (Class A1), with associated parking, landscaping and infrastructure works. Outline planning permission sought for the erection of 8,034 sqm of commercial office space (Use Class B1), together with associated car parking, landscaping and infrastructure works, with all matters reserved (except access).*

5. For the avoidance of doubt, the Inspector's Costs Decision remains unaffected by this claim/Order. Thus, the Inspector's decision to award Costs to the Claimant remains enforceable as against the Second Defendant.

9 April 2018

Planning Policy Team
Cheltenham Borough Council
Municipal Offices Promenade
Cheltenham
Gloucestershire
GL50 9SA

Dear Sir

Cheltenham Plan - Pre-Submission consultation (Regulation 19)

We write in response to the public consultation of the Cheltenham Plan Pre-Submission Consultation. We have already sent you a response on the 12 February 2018 that raises our primary concerns and the issues raised in that response are not repeated here.

In summary the C&I Group of the LEP do not believe that the Local Plan has provided sufficient employment land within the Local Plan to support the Boroughs needs within the Plan Period. Whilst it is accepted that the Borough will provide two of the largest employment areas within the JCS area (West Cheltenham 45ha and North West Cheltenham 10ha), this needs to be looked at against the backdrop of the entire JCS are where it is proposed to provide ***a minimum of*** 192ha of new employment land up to 2031.

The new strategic employment sites will take some time to be developed and delivered and therefore it is considered that a pipeline of smaller, more deliverable sites needs to complement the strategic sites in order to ensure that there is a meaningful supply and choice of employment sites within the JCS area. It is quite apparent that new office development is needed ***now*** as there is currently no choice in the market place and an acute shortage. This has only led to a sharp increase in price per square foot for existing office space and making office accommodation unaffordable for many businesses within the town. Equally, there is also an acute shortage of other B Class land and this also needs to be rectified.

We are aware of many businesses that have left the town as they have been unable to secure suitable premises.

The adopted JCS advocates that the strategic allocations will provide a total of 112.2ha of new employment land. However, this should be discounted to 98.8ha as North West Cheltenham will only be providing 10ha. This leaves a residual of 93.2ha of new employment land to be found through the local plans.

The JCS expressed all figures as a minimum, as during the round table sessions it was agreed that if more new employment land could be found this would be welcomed because all existing supply had been exhausted and there had been considerable losses to other uses especially in Cheltenham where there has been a considerable loss of office buildings to residential through permitted development rights and there has been no new employment sites coming forward. It is quite apparent that the pressure for new housing has led to the loss of many key employment sites and buildings exacerbating the shortage of employment land in the Borough as a whole. The Cheltenham Plan should therefore seek to positively address this problem to ensure that the town has a robust economy over the entire Plan period.

The Cheltenham Plan advocates four new employment sites through Policy EM3. The combined area of these sites provides 8.28ha of employment land which is considered to be insufficient against an outstanding requirement of 93.2ha.

In addition, three of the sites that have been identified and allocated are all pre-existing employment sites (existed as an employment site before 2011) and accordingly should not be utilised to make up a supply of new sites for the Borough. These sites should be safeguarded under Policy EM1 of the Plan as ‘Key Existing Employment Land and Buildings’.

Land south of Jessop Avenue was a former employment site and is currently being redeveloped to provide a new office block. Land South of Hatherley Lane is also currently in employment use and part of a larger employment redevelopment proposal. Land North-West of Grovefield Way already benefits from a planning consent for employment use. Part of the site is now occupied by a car showroom (sui-generis use) leaving only 4.15ha in office use. Cheltenham Walk is currently being used as a car park.

The C&I Group of the LEP recommend that the Council allocate new employment land on suitable and accessible sites within the Borough or adjoining its immediate boundary in order to address the shortage of employment land and premises in the Borough and to assist in the overall supply of employment land set out in the JCS. It is accepted that such allocations may comprise of new greenfield allocations adjoining the main artery routes into the town. Such sites should be approximately 0.5-2ha and deliverable through the planning process and within the first part of the Plan period.

The JCS Inspector provided a broad indication of acceptable locations against the landscape constraints in the area and these should be re-investigated in order to assist in the provision of a meaningful supply of new employment sites to support the Borough.

The C&I Group of the LEP also recommend that the Council take a more practical and flexible approach to the development of new business parks recognising that it is commonplace for new business developments to provide complimentary and ancillary uses on site. Ancillary uses can comprise of hotels, cafes, pubs, restaurants, retail uses to name a few. The addition of these ancillary facilities and uses maintains the attractiveness of the park for end users and improves the viability and delivery of the B class employment. Such uses are also recognised as providing a significantly higher number of jobs than the equivalent floor area or site area of B class uses as well as providing much needed amenity.

It is considered that the Plan should make reference to ancillary uses being acceptable on employment parks provided they do not exceed 20% of the intended employment content.

We hope you find this information of assistance but please do not hesitate to contact me should you have any questions.

Yours faithfully

MA Curran.

Mike Curran
Strategic Business Manager
GFirst LEP

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