Appendix 2

Oxford – Community Infrastructure Levy Assessment

Westgate Oxford Alliance Viability Analysis – Representor 20

1 Introduction

1.1 The purpose of this Report is to provide WOA's observations on the Updated Viability Evidence Report dated January 2013 (CD 1.11).

1.2 As developers of the Westgate Shopping Centre and adjacent land, WOA and its team of advisors have undertaken a significant amount of analysis on the viability of city centre retail development during an extensive feasibility study over the last two years. Although the proposed development is for a mix of uses – retail, restaurants/cafés and leisure - the focus of this analysis is on the dominant retail use.

1.3 Work instructed by the WOA and completed by CACI has identified the spending power of Oxford's shopper catchment. Further intelligence on retailer turnovers together with market knowledge has allowed the determination of an estimated affordable rental level for each every unit in the Westgate concept scheme.

1.4 CBRE and DTZ have advised WOA on an Estimated Rental Value (ERV) for the proposed scheme. They have considered the ERV from an overall retailer affordability perspective as well as carrying out an analysis of other new scheme retail evidence in similar benchmark cities to Oxford. Lastly they have considered the existing comparable evidence within Oxford through the Zone A rates.

1.5 The JLL Viability Evidence Report highlights that the only significant known retail city centre development, which is expected to provide significant new floorspace is the redevelopment of Westgate. The proposals would increase the current floorspace by 50,000 sq m (GIA) – with the majority of the total space being new lettings. Additionally, it is anticipated that he majority of the existing retail floorspace within a refurbished Westgate Centre will be re-let. The nature and scale of these proposals obviously raises some difficulties when comparing key appraisal variables to the example in the JLL viability report which is based on a single shop unit. We would strongly support the statement in the report in section 3.2 that specific inputs can vary substantially on a site by site basis.

2 Viability Evidence

The viability evidence is considered below:-

2.1 Retail Market

2.1.1 Whilst we note that the Viability Evidence Report (section 1.1) acknowledges the market is in a period of decline, the retail market is also facing a structural shift due to the increase in omni-channel retailing. The Centre for Retail Research commissioned by Kelkoo showed online sales in the UK were £50.34 billion or 12.0% of UK retail trade in 2011/12. In 2008-2009, online was equivalent to only 8.6% of retail sales. This trend may ultimately lead to demand for alternative retail concepts from retailers if it continues over time. We would therefore encourage a regular review of retail CIL rates (which would also of course pick up changes in the economy generally).

2.2 Headline Rental Figure

2.2.1 JLL have quoted and applied a rental figure of £250 per sq ft in the appraisal for the City Centre (4.2). We have sought clarification from JLL and have been informed that this is in fact a Zone A figure.

2.2.2 We assume the Zone A figure of £250 psf has been determined by reference to the comparable evidence presented in Appendix one of the JLL Report. This figure seems to relate to the limited prime evidence found in transactions on Cornmarket, but does not appear to relate to the far lower Zone As found in other retail pitches. This analysis would suggest that a lower rate of Zone A would be more appropriate.

2.2.3 Our observations on the recorded deals presented in the JLL report together with further evidence supplied by CBRE are as follows:-

- All of the few transactions with Zone As at the highest rate of c£285 psf are confined to Cornmarket – this reflects the compact nature of the retail core in the City Centre and the fact that it is the only major pedestrianized shopping street. Cornmarket has been traditionally where prime pitch is located. The retail core extends further to High Street, Queen Street, The Clarendon and Westgate Centres, George Street and St Aldate's where there is further evidence to suggest a far lower tone.

- All of the Zone A rates at £285 psf are rent reviews (possibly subject to upwards only rent review mechanisms), and which are generally accepted as being less reliable than open market letting evidence.

- Three occupiers of the higher ranges are users who traditionally pay higher rents operating from smaller units due to the high value/low bulk goods they sell - an optician and two phone shops.

- The compact nature of the retail core means that Zone A rates decrease very quickly as you move away from the small and confined area of prime pitch on Cornmarket.

- The highest Zone A achieved on High Street of £220 psf (no. 125) was in an exceptionally well configured modernised unit located at the Carfax end of High Street (nearest Cornmarket). As you move away eastwards the zone A rates decrease to a tone of about £135 Zone A but are still occupied by main stream multi-national retailers. See table below.

- Queen Street has more of a fashion emphasis than Cornmarket. Topshop, Miss Selfridge, French Connection, Monsoon, Levis and M&S are located here. There is limited transactional evidence for Queen Street. Paperchase took a new lease in June 2010 at a Zone A of £196psf (gross) and 9 months rent free according to CBRE (NB this conflicts with PROMIS data of report). Other evidence from Queen Street is shown in the table below.

- There are few well configured retail units in the retail core due to the historic nature of the buildings and lack of redevelopment. This constrains supply even further.

- Additional relevant transactions are in the table below as supplied by CBRE who are very active in the Oxford market :-

Date	Use	Address	Occupier	£ZA psf	Terms
Sep 11	Retail	6-7 High Street	Jack Wills	£220	Lease Renewal
Feb 11	Retail	125 High Street	Aubin & Wills	£135	Lease Renewal
Oct 10	Retail	9 Queen Street	Flight Centre	£190	New 10 year lease
Jun 10	Retail	36-37 Queen Street	Paperchase	£196 (gross)	9mths rent free
Nov 09	Retail	135 High Street	Reiss	£162	Re-gear
Aug 09	Retail	9 High Street	Whistles	£176.50	Lease Renewal
Aug 08	Retail	10 High Street	LK Bennet	£202	New 15 year lease
Jul 09	A3	127 High Street	Starbucks	£135	Rent Review
Jun 08	Retail	8 High Street	Reeds Employment Agency	£155.50	Lease Renewal

- The evidence would seem to suggest an overall tone across the wider retail core of around £180-190 ZA, i.e. including Queen Street, High Street, George Street, Clarendon Centre, Westgate, St Aldate's.

2.2.4 Most importantly however the comparable evidence presented in the report reflects the current day supply and demand dynamics. The Zone As of the recorded transactions in JLL's report are only supported in the context of the existing lack of supply and pent up demand.

2.2.5 The historic nature of the buildings in the retail core, together with the fragmented ownership mean there has been little significant retail development over the last few decades limiting supply.

2.2.6 Oxford is ranked number1 by PROMIS, which records retailer requirements of floorspace.

2.2.7 The redevelopment of Westgate will result in a significant increase in supply of floorspace to Oxford at one point in time. We anticipate that in order to attract the required number of occupiers to the scheme (approximately 100), the rental levels across the whole scheme will need to be lower than the prime rents achievable in the City today.

2.2.8 We would anticipate a very small proportion of shops within the new development to be let at the scheme's prime Zone A rate and there are areas of the proposals where Zone As as low as around £150 psf are anticipated. Typically the A3 and A5 units will not command as high a rental level as the A1 units. Given the latest trends in dining out, it is likely that the Westgate development will have a high content of A3, A5 around 20% of floorspace.

2.3 Development Appraisal – Key Assumptions and Exceptional Items

2.3.1 The scale and nature of the Westgate redevelopment means that there are many exceptional cost items included in the development appraisal. The inputs to the appraisal referred to below have been verified by the City Council's advisors during the Development Agreement negotiations. Specifically the rental levels used in the appraisal are agreed as realistic rental levels between WOA and the City Council.

2.3.2 These exceptional items have been identified through a comparison of the assumptions in the JLL residual appraisal and the WOA appraisal and are outlined below. For information the construction cost items outlined below add an additional c£20m to Total Development Costs :- :-

- Rental Levels – a rental affordability analysis has led to a large range of Zone A rates within the proposed development to ensure all units are lettable. A development of Westgate's scale cannot assume to be 100% prime. Some areas of the proposed scheme will be able to command better rents than others due to location within the scheme and any constraints on size and configuration. Rents have therefore been set accordingly. Development Value has been derived from rental levels set on a unit by unit basis. The scale of this additional supply renders the comparable evidence of recorded transactions much less relevant given today's supply and demand dynamics. Zone As have been verified by the City Council's advisors CBRE.

- Ground rent – the City Council is the freeholder of the development and will receive a ground rent – this reduces the overall rent received and capitalised. The JLL residual was based on a freehold ownership with no ground rent.

- Demolition Costs – the proposals will include the demolition of the existing city owned 1100 space multi-storey car park and part of the existing Westgate Centre. These costs will be incurred prior to construction.

- Basement Dig – the new car park will be located in the basement and will therefore incur costs of excavation and transportation of material and additional payments of Landfill Tax.

- Utilities – As expected a proposal that covers such a large area of a City Centre and includes the diversion of Highways will incur significant works on utilities, e.g. their diversion and provision/relocation of electricity sub-stations.

- Flood Attenuation Provisions – due to the location of part of the development site within the flood zone the development will need to provide sufficient attenuation measures. Developments not on the floodplain will not incur any associated costs.

- Capital Contributions – the high number of new lettings and the state of the market during the pre-letting period means that capital contributions of around 18 months will be required and have been allowed for in the development appraisal. This assumption is based on recent experience at developments of similar scale. The residual appraisal based on one store only allows for 12 months rent free. Therefore Westgate is forecasted to incur an additional cost equivalent to 6 months of rent due to its scale.

- Anchor Store Agreement – In order to achieve the significant shift in quality of retail offer and to attract the required number of new retailers the Westgate development will need an anchor store in the form of a department store operator. These agreements will normally be set at a low rent (typically around or below £10psf) and will therefore have a negative impact on the viability of the project where average rents are anticipated to be around £30 - £35 psf. Given the size of Oxford's shopping catchment, once Westgate is developed there is not likely to be demand for a further a department store so it is unlikely that future developments will carry such a cost. Westgate has an anchor store of around 14,000 sqm.

- MSUs – The JLL residual appraisal was set on a shop unit of 800 sq ft Zone A. A scheme of the scale of Westgate will require a variety of unit sizes including MSUs of over 10,000 sq ft in order to attract the range of different retailers required. Due to the size of MSU units retailers will typically pay a lower rent psf than smaller SUs. The Westgate proposals currently have c 10 MSUs attracting lower than average rents which has a negative impact on development returns.

- Professional Fees – whilst the JLL residual has an allowance of 12 % additional fees. Sites with more complex constraints will require more advice and raise the percentage. In the case of Westgate we will be engaging a conventional professional team with anticipated fees amounting to about 14.4% of construction costs. We will also require input from specialists in accessibility, flood attenuation, utilities and possibly CPO advice.

- Highways – the Westgate expansion proposals include significant highway diversions and junction improvements. These enable a pedestrianized journey for the customer from the existing retail core as required to support the anchor store letting and the levels of rent on the remaining centre.

- Consultation – a considerable exercise in pre-application and post-submission consultation will be undertaken by the WOA prior to the submission of the planning application and subsequent reserved matters application. Materials and the input from consultants will make up the substantial costs. Smaller schemes will not have to engage in such a high level of consultation.

- Views Analysis – Due to the size and location of the development there will be extensive analysis of the potential impact of the development on views. Not all developments will need to incur this cost.

- Centre Management set up costs – a shopping centre will require a centre management suite to accommodate the necessary staff and equipment. The cost of construction and equipping this facility is an additional development costs of around £1.5m but would not be required by a smaller scale of development of standalone retail.

- Development and Construction Period and inflation – a scheme as large as Westgate will take a considerable amount of time in the pre-construction phase and the estimated construction time is 34 months. Inflation to the mid-point of this period has been applied to the build costs in the WOA appraisal. It is noted that inflation to start on site has been included on the JLL residual valuation and the construction period is only 9 months.

2.3.3 In addition to the above items, the site specific costs are related to :-

- Interim Car Park Income and Ground Rent through construction - the commercial agreement with the City Council requires the WOA to provide the City with replacement income from the car park during the construction period. This together with ground rent through construction amounts to a c£7m cost to the appraisal.

- Trill Mill Culvert – the route of this culvert will need to be relocated in order to allow the basement car park within the development to be constructed.

- Further costs associated with dealing with third parties.

- Archaeology – Westgate site lies adjacent to the ancient City Wall and Greyfriars Friary. Costs associated with archaeological mitigation will depend upon the sensitivity of each site which could vary significantly in a historic city like Oxford.

- Library – the potential relocation of the County Library entrance will necessitate an agreement with the County Council. This will potentially include costs to reconfigure other parts of the library and external areas in order to reach agreement with the County Council. So far these costs are not known.

2.3.4 Also adding to the construction costs will be the creation of common areas. Due to the high number of new retail and leisure units the Westgate development will need significant common areas to allow the centre to function, which a standalone retail store or smaller developments would not require. These comprise:-

- Car Park
- Service Yard
- Streets and Squares
- Circulation Space
- Service Corridors
- New Highways

2.3.5 None of the above areas will be revenue generating with the exception of the car park. However as the car park is being built in the basement it is a significant construction cost and again the revenue will be subject to a deduction of ground rent. The car park will also serve the wider City centre as it provides c75% of the total city centre parking.

3 CIL Contribution

3.1 It is possible that a CIL contribution in the region of £5.5m could adversely impacts the viability of development at Westgate given the exceptional cost items that the appraisal already has to bear. The table below sets out how we have calculated this initial estimate:-

Land use	**Approximate CIL sum (£)**
A1-A5 retail including service yard and management suite	5,000,000
C3 residential	200,000
D2 leisure	100,000
Development falling outside Use Classes ie. public toilets, car parking	200,000
Total	5,500,000

3.2 The current verified development appraisal of the Westgate proposals, as supplied to the City Council for the purpose of the Development Agreement, indicates a return on cost of 15.2%. This is at the WOA's hurdle rate for a scheme of this nature and risk profile. An additional sum of £5.5m cashflowed in four equal sums reduces the profit on cost to 13.4%. This movement takes the profitability of the scheme to a figure below the lower range of what would be a conventional developer's required hurdle rate of a profit on cost in the region of 15-20%. Total Development Costs (excluding CIL) currently stand at £402m.

3.3 A CIL contribution of c£80K would retain hurdle rate of a profit on cost of 15%. There are however costs associated with infrastructure within the appraisal construction costs of c £6m and an allowance of c £4m for any further monetary s.106 contributions and s.278 works which are not yet fully identified.

4 Conclusion

4.1 The residual appraisal in the JLL Viability Report is based on a single shop development within prime retail core within the current supply and demand dynamics within Oxford City Centre.

4.2 For the purpose of setting a CIL rate, analysis suggests a general viability for retail would need to use a lower Zone A rate to reflect the retail core as a whole.

4.3 The scale of the Westgate project results in exceptional development costs. These costs will not be experienced by other retail developments which will be smaller in scale and less complex in nature.