REPORT

SPRINGFIELDS SPALDING

VIABILITY APPRAISAL REPORT

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1.0 INTRODUCTION

RLB have been appointed by SLR Commercial to prepare a financial viability appraisal (FVA) report to establish the viability of the proposed scheme in meeting the proposed S106 contributions proposed.

The development proposed is an extension of the existing retail outlet centre to provide the following described development on land currently occupied and in use as offices by the National Farmers Union:

"Proposed Extension of Springfields Outlet Shopping and Leisure, to comprise demolition of the existing NFU Mutual offices and provision of comparison retail floorspace (Class A1), flexible retail and/or coffee shops/restaurants floorspace (Class A1/A3), access, revised car parking, landscaping and associated works."

The proposal would include provision of 15 new comparison retail units (A1) and 3 retail/ ancillary food and drink units (A1/A3), providing 4,276m² gross of retail floorspace plus a new shopping walkway which would connect the extension with the existing outlet. The proposal would not exceed the stated retail limit in Policy 27 of the adopted local plan of 3,700m² net comparison goods floorspace.

The S106 contributions proposed are to meet specific objectives relating to the allocation of additional retail space at Springfields set out in Policy 27 of the adopted Local Plan. The policy states that any application to meet the allocation will be required to support measures to enhance the sites connections to Spalding Town Centre and promote the attractiveness of the town centre as a place to visit.

One of the measures set out in the draft S106 HOT's to meet the requirements of Policy 27, includes a contribution of £200,000 towards Spalding town centre enhancement works to help towards the Council meeting the aspirations of the recent Holbeach and Spalding Town Improvement Works initiative. Appendix 3 of the document approved by Cabinet identified a series of initiatives the Council want to promote, and it is anticipated the contribution would go towards funding some of those measures. The proposed £200,000 on its own would deliver a number of the improvement works identified in Appendix 3 of the Initiative document.

Accordingly, this contribution has been incorporated in this FVA report which has been prepared in accordance with latest published guidance including the recently published RICS professional statement '*Financial viability in planning: conduct and reporting*' 1st *Edition May 2019* and would confirm the following statements accordingly:

John Barber FRICS of RLB has prepared this report and confirm he is a suitably qualified person as required by the RICS professional statement being experienced in the following:

- undertaking valuations of development land and advising on financial viability of development
- the application of inputs to viability appraisal models from other professional disciplines
- appropriate and up to date knowledge of the planning system

We confirm in carrying out this Financial Viability Appraisal (FVA) we have acted:

- With objectivity
- Impartially
- Without interference
- With reference to all appropriate available sources of information

We confirm that in preparing this report no performance-related or contingent fees have been agreed

We also confirm that no conflict of interest arises in carrying out this viability appraisal and report.

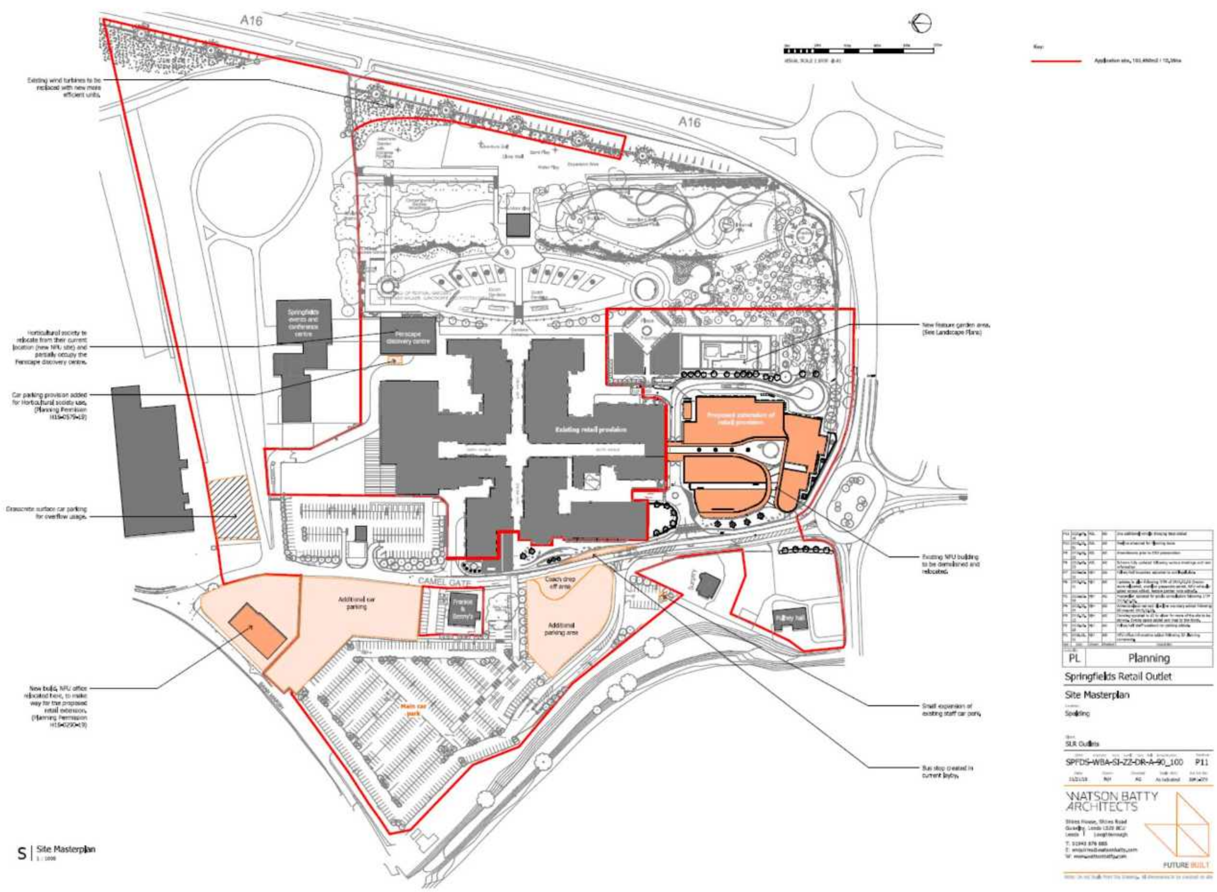
The primary objective of the assessment is to highlight the viability issues associated with the scheme in providing the proposed Planning contributions.

2.0 PROPERTY OVERVIEW AND BACKGROUND

Springfields Retail Outlet Centre comprises over 50 individual high-quality retail outlets coupled with over 25 acres of gardens and associated leisure activities. It has been operational for over 15 years and consistently delivers the highest footfall amongst all other similar retail outlet centres across the UK.

This proposal is looking to build on the success of the centre and expand the retail offering with additional high-quality occupiers.

A site plan of the proposed development is shown below:



3.0 METHODOLOGY AND APPRAISAL COMMENTARY

RLB have prepared this report for the sole use of SLR Commercial in accordance with the instructions under which our services are performed. No other warranty, expressed or implied, is made as to the professional advice included in this report or any other services provided by us. This report may not be relied upon by any other party without the prior and express written agreement of RLB.

No part of this report constitutes a valuation and the report should not be relied on in that regard.

Certain statements made in the report may constitute estimates, projections or other forward-looking statements and even though they are based on reasonable assumptions as of the date of the report, such forward looking statements by their nature involve risks and uncertainties that could cause actual results to differ materially from the results predicted. RLB specifically does not guarantee or warrant any estimate or projections contained in this report.

The appraisal methodology and approach follow the guidelines laid down in the RICS Professional Guidance - Viability in Planning published in 2012.

Following this in 2014 the emergence of the National Planning Practice Guidance (PPG) provided more detail about the application of the NPPF and in July 2018 a revised NPPF and PPG were issued. The NPPF was fiurther updated in February 2019 and the PPG updated in May 2019. This followed the earlier decision in *Parkhurst Road Ltd v Secretary of State for Communities and Local Government.*

The RICS has subsequently issued updated guidance related to Financial Viability in Planning by way of a Professional Statement, *Financial Viability in Planning : conduct and reporting 1st Edition May 2019.* This sets out mandatory requirements and good practice guidance for RICS members of what must be included in reports and how the process must be conducted to achieve a reasonable, objective and impartial outcome and so support the Planning process.

We confirm that RLB comply in all respects with the above guidance and RICS professional conduct requirements in undertaking this Financial Viability Appraisal.

3.1 APPROACH AND DEFINITION OF VIABILITY

There are two basic criteria that need to be satisfied for a development to be considered viable:

1. The residual value of the land calculated by reference to the total value created by the development (also referred to as the Gross Development Value, GDV) when set against the total estimated costs of development ie construction costs, fees, finance and profit should generate a residual land value that is positive and exceeds the existing use value in the land prior to the granting of Planning for redevelopment.
2. The development appraisal (ie considering the GDV set against the cost of development) in addition to demonstrating a positive residual value for the land described in 1 above also needs to cover a reasonable return for the Developer of the land generally accepted to be between 15 and 20% of GDV.

These two basic criteria of viability are referred to in various guidance documents as follows:

RICS Professional Guidance: Financial Viability in Planning 2012.

Paragraph 2.1.3 states that a proper understanding of financial viability is essential in ensuring that:

- land is willingly released for development by landowners.
- developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development.

Viability is also referred to in the National Planning Policy Framework.

NPPF Paragraph 173 defines financial viability for planning purposes as:

- "An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project."

3.2 THE VIABILITY APPRAISAL METHOD

The RICS Professional Guidance Paragraph 2.2.2 states:

- "The residual appraisal method can be used in two basic ways; first, to assess the level of return generated from the proposed project where site cost is an input into the appraisal, and second, to establish a residual Site Value by inputting a predetermined level of return."

In consideration of the various values, costs and allowances our detailed assessment and review of these may be summarised as follows.

3.3 APPRAISAL COMMENTARY

3.3.1 DEVELOPMENT VALUE

In calculating development value, we have utilised the advice given by Space Retail Property Consultants in respect of anticipated rents and have included their advice in this respect in Appendix A. They have also advised on what incentives are required to secure occupiers for the new shopping units in line with the current market and expectations. In respect of appropriate yield in calculating the GDV we have applied what we feel is a reasonably optimistic yield when compared to various reports and evidence in the current market.

The Gross Development Value generated by the above is £14,928,377.

Notwithstanding the above we would highlight that in light of the uncertain financial impact of COVID – 19 our values are based on advice received before the emergence of the current situation and there may be a negative impact on values and rents once the COVID restrictions are lifted and the economy begins to recover which could take some time. In this context we have utilised values based on a 'business as normal' approach which we feel based on the long term investment being made is appropriate but would highlight that in 'fixing' a viability at this time to establish what can be reasonably committed to by way of Planning obligations carries more risk than it would in more normal circumstances.

3.3.2 DEVELOPMENT COSTS

3.3.2.1 Land Costs

Part of the land upon which the new development is proposed is currently owned by the NFU who occupy an office building of approx. 8000 sq ft. (Net). In order to facilitate development and encourage them to make their land available for development they require replacement like for like offices. Having regard to latest planning guidance in establishing a benchmark land value (BLV) for appraisal purposes the existing use value (EUV) should reflect an appropriate market value for the existing offices to be replaced.

The other parcel of land required is owned by SHS and requires relocation of a tractor store and acquisition of 1 acre of show gardens.

3.3.2.2 Construction Costs

A detailed cost estimate has been prepared by BWF who are the appointed Quantity Surveyors for the scheme and we have summarised their costs highlighting base costs to build the retail units together with the external works and abnormal costs associated with the site and servicing.

A summary breakdown of their costs is given below.

BWA Cost Plan				
Summary				
Retail Units	Base build costs		£ 4,483,104	
	Abnormals and External Works	Demolition and site preparation	£ 208,279	
		Drainage and attenuation	£ 424,038	
		External Works	£ 932,275	
		Incoming Services	£ 190,000	£6,237,696
Car Park Works	Car Park Finishes		£ 489,523	
	Abnormals	Demolition and site preparation	£ 235,250	
		Drainage and attenuation	£ 291,460	
		Bus Stop Works	£ 50,000	
		S278 Works	£ 30,000	£1,096,233
Preliminaries			£ 880,071	
OH and profit			£ 410,700	
Inflation			£ 231,142	
Design Contingency			£ 431,235	£1,953,148
Total Estimated Cost				£9,287,077

3.3.2.3 Planning and Design Costs

We have included these to reflect actual fees and costs and current market allowances where these are yet to be agreed for a scheme of this type and scale together with additional costs arising from the Planning Application, Building Regs etc.

In summary the Planning cost allowances are £1,098,804

3.3.2.4 Marketing and Disposal Costs

These are allowances and costs for marketing and letting of the units and reflect current industry allowances 15% Letting Agents fee, together with costs for Legal Fees of 1% and 2.5% for marketing.

3.3.2.5 Finance Costs

We have inputted the appraised values and costs into our standard appraisal format based on the anticipated programme with an assumed duration of 15 months from start of construction to fully let.

In respect of debt finance, we have assumed a debit rate of 5.0% which reflects an anticipated rate in the current market.

3.3.2.6 Profit

In using the values and costs set out above this gives a residual profit of £1,770,130 which represents only 7.22% of Gross Development Value. This is below normal (‘business as usual’) risk return industry expectations and normal commercial funding requirements of between 15 to 20% of GDV.

4.0 VIABILITY APPRAISAL AND CONCLUSION

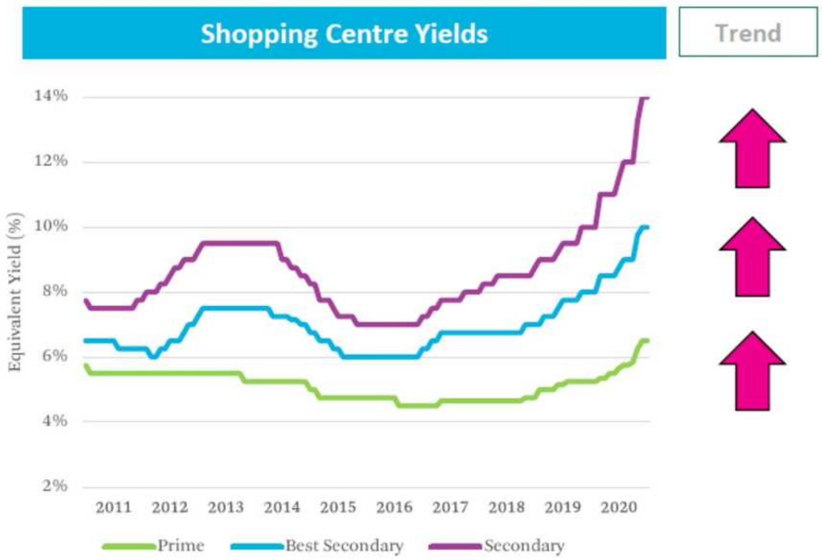
In preparing this FVA we believe we have used reasonable and industry standard cost allowances and values where appropriate to the current market and scheme proposed and set out a summary of our detailed appraisal below :-

Development Appraisal Summary

Springfields	**Site Area**			Start :	9	month	
Spalding	Acres			Year :	2020	year	
Residual Appraisal	Hectares			Period :	15	months	
DEVELOPMENT VALUE							
	Units	**No.**	**ft2**	**rent**	**ari**	**Yield**	**Value**
	Totals		46,700				£14,928,377
Gross Development Value							**£14,928,377**
DEVELOPMENT COST							
Land Costs	**Commercial in Confidence**						**£ Total**
Construction Costs					**Total ft2**		**£ Total**
	Total Construction						**£9,298,681**
Planning and Design Costs				**%**			**£ Total**
	CIL						£0
	S106						£200,000
	Total Design						**£1,098,804**
Marketing and Disposal				**%**	**Fixed Costs £**		**£ Total**
	Total Marketing and Disposal						**£841,189**
Finance							
	Total Finance						**£628,691**
Developers Profit				**%**			**£ Total**
	Developers Profit			0.0%			£0
Total Development Costs							**£13,851,247**
Residual Profit				**7.22%**			**£1,077,130**

The level of profit indicated in the appraisal summary we believe is on the optimistic side if anything (notwithstanding the impact of COVID – 19) and includes the £200,000 S106 contributions proposed.

With regard to the investment yield to set the GDV a recent report on the retail sector by CBRE (June 2020) stated that anticipated yields for shopping centre developments for this category of scheme (best secondary) from a base of approximately 7.5% in 2019 (representing a 'business as usual ' approach) could rise in the short term to 10% by the end of 2020 (see chart below).



Note we have used a yield of 7.50 % in our appraisal reflecting what we feel is an optimistic ‘business as usual‘ view, and it might take some time to recover to this level. Applying a yield of 10% as indicated above would clearly impact significantly on the overall value and viability of the scheme at this level.

Clearly the S106 contribution provided at £200,000 will represent a substantial investment in the centre of Spalding and we believe meets the overriding criteria for planning contributions being necessary, directly related to the development and fairly and reasonably related in scale and kind to the development.

We submit therefore that this FVA demonstrates there is no basis in viability for any increased contribution.