

BUSHFIELD CAMP, WINCHESTER

EVALUATION OF “KNOWLEDGE PARK” PROPOSAL – SECOND REPORT

PREPARED ON BEHALF OF WINCHESTER CITY COUNCIL
IN RESPONSE TO FURTHER REPRESENTATIONS SUBMITTED BY
THE CHURCH COMMISSIONERS

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1.0 INTRODUCTION

1.1 Vail Williams LLP has been instructed by Winchester City Council to update its property market research and advice on the viability of a proposal by the Church Commissioners to develop land at Bushfield Camp, Winchester as a “Knowledge Park”.

1.2 Our first report, prepared in Autumn 2009, reflected the representations made to us at the time regarding the landowner’s aspirations and assumptions. To help test this information, our work included interviews with local academic institutions about their attitude to the site and the extent to which they would commit to acquiring space. We were also asked to prepare development appraisals to test the viability of Bushfield Camp from a financial perspective, subject to assumptions regarding site constraints and development costs.

1.3 In response to our report, the Church Commissioners’ consultants provided further information and Winchester City Council requested that we update our report in the light of the new information. We have attended meetings with the consultants and the council to discuss this information and to receive new briefing papers regarding the proposed development.

1.4 In summary, our brief (attached as Appendix 1) is as follows:

Reassess and report on the viability of the proposal taking account of:

- a. The nature and scale of development proposed by the Church Commissioners*
- b. The nature of the proposed future occupiers of the site*
- c. The Commissioners’ aspirations for land value and yield*
- d. The Commissioners’ proposed programme for the development of the site*

1.5 The timescale for the project stated in Appendix 1 was extended to allow additional time for the Church Commissioners’ consultants to submit their revised information and assumptions.

2.0 NATURE AND SCALE OF DEVELOPMENT

- 2.1 In our last report we explained that the broad concept of a “Knowledge Park” was mooted in the “Winchester District Economic and Employment Land Study” (SQW Consulting) as a way for the city of Winchester to achieve higher value employment linked to knowledge based sectors and creative industries. We also explained that the term “Knowledge Park” is not specifically recognised in the Land Use Classes Order but is likely to encompass mainly B1(a) and B1(b) type uses (i.e. office and R&D type uses).
- 2.2 The concept could be seen as an extension of the more familiar concept of a Science Park or Business Park. To maximise demand it may be necessary to have a blend of uses, including units for advanced manufacturing or enterprise workshops.
- 2.3 Since our last report we have attended three meetings with the Church Commissioners’ consultants to be briefed on the development that is now proposed. We have also been provided with a report prepared by Roger Tym & Partners with Drivers Jonas entitled, “Delivering the Vision: Winchester Knowledge Park” (referred to below as the vision report).
- 2.4 The vision report acknowledges (para 3.2) that the term “knowledge park” has no formal definition and describes it as “a hybrid between a science park and a business park”. It is suggested that it be promoted on the strength of knowledge, innovation, creativity and high quality accommodation. Paragraph 3.8 says the development is intended “to break into what is an entirely new market for the city and surrounding area”. It should be noted that Winchester is within easy access of Southampton Science Park at the foot of the M3 and Solent Business Park at junction 9 of the M27 and they represent competition of this kind. There are also standard offices available in Winchester which are capable of refurbishment or redevelopment according to demand. The vision anticipates that Bushfield Camp would exploit a very distinctive niche if it is to have the market to itself.
- 2.5 We understand that an architectural competition/tender has taken place for Bushfield Camp and the Church Commissioners’ team is interested in creating

high quality “trophy buildings”. We are advised that the development would be similar in some respects to a business park and may have the following features:

- A “hub and spoke” design with shared meeting space, café, ancillary retail, videoconferencing and other business support facilities at the centre.
- The central hub building would be physically linked to a series of outlying business units which would be let, either singly or in multiple occupation. The connectivity between units, via the hub, is intended to encourage networking between companies and their staff.
- Whilst the hub building may be highly specified, the letting units would be built to a lower cost, “shell and core” standard for fitting out by tenants. It was suggested that allowing the occupiers to fit-out the space in their own way would help reduce the cost of construction and aid viability. (We observe that, in practice, the final cost of occupation may not be lower depending on the tenant’s fit-out.)
- The marketing proposition would be based not so much on the appearance of the space as “how it works” - i.e. using the central hub facility to encourage interaction between companies. (The value of this proposition depends on finding sufficient tenants that would appreciate this feature.)
- A hotel may also be provided.

2.6 The consultants offered two examples of other developments to help illustrate aspects of their proposed concept:

“Hub Islington”

2.7 “Hub Islington”, is located at 5 Torrens Street, London EC1V 1NQ, near Angel Tube Station (<http://islington.the-hub.net/public/index.html>). It operates like a serviced office with the option of renting small units of space or a desk by the hour. Broadband connections are provided. The property is a converted warehouse; the interior (<http://www.trekwireless.co.uk/the-hub/>) and manner of working is relatively informal.

2.8 The operators of Hub Islington organise events for networking and business support. Their website describes the centre as having:

- “A variety of spaces for working and connecting with others

- A flexible space for your meetings and events
- A global yet intimate network of people striving for social action
- An inspiring monthly events programme and business support offerings
- A series of informal social activities each week
- A series of member benefits such as insurance cover, free access to most Hub events and discounted support advice”

2.9 The Hub is operated by Hub World Ltd and their website indicates that they have similar operations in 24 major cities around the world. Their tenants are described as “members” and space is offered on a “pay-as-you-go tariff”. This concept is new in as much as it makes the serviced office concept available to people that are prepared to share open plan space. However, in our view, this represents a very small proportion of the market.

2.10 Furthermore the Islington example illustrates what can be achieved with a refurbished Victorian warehouse within a densely populated urban area, rather than with land on the scale of a business park on the rural edge of Winchester. Whilst we acknowledge that the Hub concept might be attractive in city centres and could be a useful inspiration for the operation of a facilities building within a knowledge park, viability still depends upon the relationship between construction cost, rents and yields to which we refer later.

2.11 The second example of a development that the Church Commissioners’ consultants said may be an inspiration for Bushfield Camp is “Googleplex”.

The Googleplex

2.12 “Googleplex” is the name of the corporate headquarters of Google in Mountain View, Santa Clara County, California, USA. Further information can be seen at http://www.time.com/time/photoessays/2006/inside_google/1.html and also at <http://en.wikipedia.org/wiki/Googleplex> .

2.13 Reportedly the facilities, comprising four core buildings of about 47,000 sq m in total, were originally built for Silicon Graphics but are now occupied by Google.

2.14 Statements regarding the corporate culture of Google are reflected in the nature of the property (<http://www.google.com/corporate/culture.html>). For example, “Our

commitment to innovation depends on everyone being comfortable sharing ideas and opinions... As we continue to grow, we are always looking for those who share a commitment to creating search perfection and having a great time doing it". Hence, given the company's reliance upon the interaction and creativity of its staff, the working environment includes generous break-out areas, outdoor open space and subsidised facilities such as a cafeteria and sports/play areas.

2.15 These two examples have things in common as well as important differences. Both play to the idea that property can be more than just four walls and a roof. The "Hub" makes a virtue of its open plan configuration where individuals can rent a desk by the hour, attend events and feel part of a like minded community. Similarly the Googleplex has space for interaction between staff to aid creativity, innovation and staff retention. However, the Hub is an extension of the serviced office model and focuses on small companies/sole traders, whereas the Googleplex exists to meet the needs of a single, large company.

2.16 The Church Commissioners' team then set out some of their other working assumptions. It is envisaged by them that:

- The development will extend to 500,000 sq ft (46,450 sq m) of built space. (This falls between our earlier instruction to appraise a scheme of 400,000 sq ft and the vision report (para 6.38) which proposes development of "up to 800,000 sq ft")
- The development programme will last 10 to 15 years (or 10 to 20 years is suggested in the vision report).
- It will be a 24 hour facility.
- The density of occupation may be higher than normal.
- The landscaping work and ongoing maintenance regime may be more natural than with other business parks (e.g. less formal estate roads with fewer hard surfaces/kerbs and the landscaped areas could be grazed by sheep).
- The image of Winchester will help to add value.
- The relatively easy access to London will be a selling point.
- The hub model, with a high proportion of shared space for the "fluid exchange of ideas and random conversations", will be a revolutionary concept that creates a premium product in the market.

- 2.17 We await further details regarding the specification of the proposed concept. Whilst we recognise the appeal of creating a “premium product”, we are also conscious that its realisation is likely to depend upon above average costs and exploitation of a niche market.

3.0 POTENTIAL OCCUPIERS AND DEMAND

- 3.1 We are told that the Church Commissioners' admissions policy for Bushfield Camp may focus on "knowledge based" businesses. Examples given include "clean industry", high-tech manufacturing, IT and appropriate professional service firms (e.g. Intellectual Property lawyers). Businesses perceived to be offering lower value employment may not be admitted - call centres and credit card processing offices were mentioned in this context.
- 3.2 Although the vision report (para 3.15) refers to the "desirability of cluster development" it also acknowledges that the SQW report has difficulty in quantifying the firms that might make up an appropriate cluster in Winchester. Although the vision report says that Porter's research into clusters refers to "interconnected companies and institutions", it does so in regard to those "in a particular field". In the absence of known demand, providing space to accommodate a cluster is therefore a highly speculative process.
- 3.3 We have asked the Church Commissioners' team if they have any particular occupiers in mind for Bushfield Camp. They are not able to be specific at this stage. Although some names have been used as examples, we have also been told that they have no evidence of specific demand from these organisations at present. It has been suggested in the past that a major public sector organisation may have an interest in relocating here, but we consider this unlikely in the current environment. To attract a major private sector employer to the area may be positive for the local economy but we caution that to relocate one from the centre of Winchester may be harmful.
- 3.4 We have been told that a development of say 500,000 sq ft (46,450 sq m) would give Bushfield Camp "critical mass". Whilst this quantum of development may help create a viable enterprise there is no specific evidence of demand at this level at present and it was acknowledged by the Church Commissioners' consultants that achievement of this figure "requires a leap of faith" with "no definitive answer until it's built". In the absence of a pre-let or forward sale, this indicates that the project is reliant upon significant up-front investment and development on a speculative basis with phasing according to demand.

- 3.5 We agree that an initial phase of development, starting with the hub building, may help to stimulate interest in the property. This would be a significant commercial risk in the absence of an occupier.
- 3.6 Roger Tym & Partners has indicated in its vision report (para 5.25) that take-up of space might be phased over 10 or 20 years. The report acknowledges that reliable information is limited and notes that it would take Bushfield Camp up to 20 years (at a take-up rate of circa 30,000 sq ft per annum) to dispose of its space. This requires a take-up rate higher than average for the Science Parks identified in the vision report. Paragraph 5.26 states that “considerable care therefore needs to be taken in the initial designation of the knowledge park”.
- 3.7 Section 5 of the vision report refers to delivery of the knowledge park. It acknowledges the difficult balance to be struck between restricting entry to knowledge based companies and thereby limiting demand. Paragraph 5.27 warns that take-up could be limited if there is a “gateway” policy focused on R&D firms. Hence we note that in practice a wider range of land uses than hitherto suggested may be required to make development viable. The City Council should bear in mind the pressure there might be to become flexible about the nature of the businesses within the park.
- 3.8 Comparisons are made with the science parks at Oxford and Cambridge. These are far better known locations for university research and knowledge based companies than Winchester. This may help to explain why the Church Commissioners’ report states that they “do not have any preconceptions about the types of property product to be created on the site. Much depends on how demand is manifested.”
- 3.9 It is suggested that Bushfield Camp could cater for a range of small to large companies with central facilities provided on a sliding scale. It is important to note that the development of other schemes used as examples, such as Langstone Technology Park and Portsmouth Technopole, relied on external subsidy. The former was developed by IBM for their own use and subsequently adapted for multiple occupation; the latter was subsidised by the South East England Development Agency (SEEDA).

4.0 ANTICIPATED LAND VALUE AND DEVELOPMENT PROGRAMME

- 4.1 The Church Commissioners' consultants explained that they regard the existing use value of Bushfield Camp as nominal and in some ways the property is "a liability" at present. This means that their expectations as to land value are lower than those assumed in our initial report.
- 4.2 It is helpful to a financial development appraisal if a low or nil land value can be attributed to the site. Nonetheless, the other costs of development need to be met and any well advised developer would expect to make a return on that investment.
- 4.3 The vision report rightly refers to the ebb and flow of investment yields. For this reason we have shown the sensitivity of the site's potential land value to a range of yields. We await information from the Church Commissioners' consultants on the likely constraints of the site and the costs of development as these are also critical factors in determining viability.
- 4.4 Section 5.0 below examines yields and viability in more detail. Appendix 4 contains a matrix showing the sensitivity of land value to different rents and yields.

Programme for development

- 4.5 At the time of our last meeting, we were informed that the Church Commissioners hope to submit a planning application for development at Bushfield Camp by the end of 2010. However, their consultants have said that the actual development will be a "long term" proposition with four stages:
- Concept stage
 - Planning stage (not expecting a short term "exit" by the landowner at this point)
 - Delivery
 - Management (a long term investment with a "hold and work strategy")

- 4.6 Paragraph 5.23 of the vision report states that the build-out rate will be slow with a limited first phase to gauge demand. The scheme is intended to be innovative and this means that it will to some extent be experimental. The development period is very uncertain and the vision report suggests that it could take 10 or 20 years.
- 4.7 The Church Commissioners' consultants have said that a long term development programme could be advantageous because financing costs could be spread over a longer period. However, much depends upon the up front costs required to commence development (on and off-site works) and the specification of the first phase of development.

5.0 VIABILITY OF THE PROPOSAL

5.1 Following our first report on the viability of Bushfield Camp we have met the Church Commissioners' consultants several times to discuss their progress with the development plans. They have emphasised that their proposal:

- Is a long term project that needs time to be developed
- Relies on added value associated with a knowledge park
- Is based on creating a strong, market-leading concept
- Will have controls over its use to protect its value/image
- Is proposed in the expectation of an improving market
- Has strong commitment from the landowner and a long term planning approach
- May attract public subsidy

5.2 Our initial report indicated the difficulty of generating a meaningful land value without a significant reduction in costs or uplift in values. We have since been informed that the Church Commissioners' expectation of land value is nominal. Clearly if the site were available at nil cost, then this would represent a significant saving compared to our understanding of the Church Commissioners' expectations at the time of our last report.

5.3 We note from section 5 of the vision report that the development may include incubator/innovation units, pre-lets to larger occupiers and speculatively built units (depending on investors' views of the market). In practice we believe that for the development of Bushfield Camp to be brought forward it depends on clear evidence that there is sufficient demand (and/or cross subsidy) to overcome the cost of development. At present, this evidence is very limited and our subsequent briefings from the Church Commissioners' consultants have not been able to add significant detail. This emphasises the "step change" nature of the proposal; it would need to create a demand for business of this type to locate in this area.

5.4 We are informed that further evidence is being prepared, dealing with matters such as landscape, biodiversity, transport, development concept, viability issues and so on (see also Appendix 2). This additional information can be factored into our assessment of viability when it is available.

- 5.5 In the meantime, we are instructed to assume that the scheme would be roughly 500,000 sq ft (46,450 sq m) in size and it was agreed with the Church Commissioners' consultants that our suggested build cost of £125 per sq ft would be appropriate. As instructed, it is on this basis that we have updated the appraisal in our original report and have considered whether there are circumstances in which the development could be viable.
- 5.6 A key determining factor of viability is the rent that can be achieved. In our discussions with the Church Commissioners' consultants it was asserted that the scheme "will have no competition and will command a higher rent". These are bold assertions predicated on the "step change" referred to earlier. At present it is not possible to be sure that the scheme will have no competition or that it will attract demand at an ambitiously high rent. However, there are positive "selling points" that we agree could reasonably be put forward if marketing the development. These include:
- The appeal of Winchester as an attractive place due to its natural environment and historic buildings.
 - Ease of access to the M3 and the new "Park & Ride" facility.
 - The availability of Winchester's train service.
 - The highly educated workforce that may choose to work locally rather than commute.
 - The business profile of the University of Southampton and the University of Winchester.
- 5.7 To consider the question of what circumstances need to be in place for the development to be viable it is first necessary to consider viability today and we attach our updated appraisal as Appendix 3. This reflects the increased floor area that is proposed, as well as a potential improvement in yields. The assumed rent has remained unchanged at £20 per sq ft pa. The outcome is a nil site value and a profit on cost of circa 4%; at this rate the proposed development could not be considered viable because of the risks and uncertainties entailed compared to the market's expectations of a target return.
- 5.8 There are a number of factors that would determine whether a viable rate of return could be achieved. Based on current assumptions, Appendix 4 shows the

effect of yield and rental movement on land value, assuming a 20% development profit which we consider is the minimum that a developer of commercial property would require. In order to move from today's position to that of viability (i.e. a positive land value and a sufficient development profit) there needs to be significant yield compression (towards the left of the matrix) or rental growth (towards the bottom of the matrix) or a combination of the two to create an uplift in value.

- 5.9 Another factor that could improve viability is a significant reduction in development costs. However, we see little prospect of costs reducing as the appraisal makes very general assumptions in terms of infrastructure costs and works required in terms of site preparation. It has also been assumed that there are no abnormal ground conditions or contamination that would increase costs; this may of course not be correct. Furthermore our appraisal makes general assumptions as to the cost of off-site highway contributions and reflects no S106 contributions that may be required as part of a planning consent. (The landlord's liability for Business Rates is an additional cost that is reflected in Appendix 3 but not within every scenario in Appendix 4 – see footnote.)
- 5.10 Since our earlier report we have been advised that the Church Commissioners' expectation of land value is nominal. Even allowing for this, considerable improvements will be required in respect of value to deliver development.
- 5.11 The underlying weakness in the property market at present continues to be reflected in the aversion of developers to any form of speculative development. This is also reflected in the attitude of the banks to finance for speculative development of this kind which ranges from thin to non-existent. If market factors improve to the point of technical viability there remains the requirement for a significant pre-letting to kick start the first phase of any development. Finding an anchor tenant with a strong covenant is critical and our appraisal is built on this assumption in any event. However we believe that a developer and their financial backers would only commit initially to that first pre-let phase, awaiting either a fundamental uplift in the economy or further pre-lettings to justify subsequent phases.
- 5.12 Whether working alone or with development partners/investors a key question is whether the Church Commissioners would underwrite the investment by

guaranteeing the rental income proposed. In our view it would be unusual for a landowner or developer to take this risk, especially if other opportunities presented themselves.

- 5.13 The vision report (para 5.20 to 5.21) suggests that the scheme will be funded by others through joint ventures that maximise value. Examples given of joint venture partners include Crest and Barratt. However the schemes mentioned (at Ashford, Lincoln and Ely) are, so far as we understand, mixed use developments with significant elements of housing without which it is unlikely that employment space would have been deliverable. So far as we are aware, the council is not considering a mixed use development on the site.
- 5.14 Paragraph 5.22 of the vision report mentions other joint ventures for the development of science parks. One of these (Granta Park) is a business park near Cambridge that shares some characteristics with a science park. It has on-site amenities including gym, nursery and café, as well as attractive landscaping including river meadows, woodland and a cricket pitch. It is likely that the development was conceived in the hope of overspill demand from Cambridge Science Park and a general uplift in the “knowledge economy” of the area. Although this situation might be compared with Southampton Science Park and Bushfield Camp as a justification for development, we note that buildings are available at Granta Park at rents of £18.50/sq ft which is below the level that we believe would now be required to offset construction costs.
- 5.15 Paragraph 6.6 of the vision report suggests that a “high-level but evidenced picture” is required to “assure an inspector that the development is deliverable and will happen in the expected timeframe, on the basis of reasonable assumptions about infrastructure requirements. What is not required is a detailed viability appraisal; given the assumptions used, it could be most misleading”. Whilst it may not be possible to define all aspects of the development at this stage, the detailed questions that we have asked are certainly relevant and would be informative for an inspector trying to weigh up whether a site is truly “deliverable”.
- 5.16 Paragraph 6.3 of the vision report suggests that new information about the scheme “throws new light on this issue” and then paragraph 6.10 onwards draws readers’ attention to “key facts” to support this. However, whilst we recognise that

these key facts are helpful selling points if marketing the scheme, they do not necessarily add useful information to substantiate the viability or deliverability of the project. We comment on each of the “key facts” as follows:

Key facts asserted	Comments
“Willing landowner”	Noted, but the landowner or its JV partners will require a commercial return on investment, even with a low land value.
“Strong local economy”	A successful knowledge park would entail a step change but could add economic strength.
“Potentially superb product which can be clearly distinguished in the marketplace”	The hilltop setting of the site helps make it distinctive, but much depends on the cost of creating a “superb product”.
“Attractive on a national and international scale”	The national and international competition is significant so inward investment is rare and the development concept is not yet defined or proven.
“Existing local rents are not a sensible comparator”	Both local and regional evidence will be considered by well advised tenants.
The Church Commissioners’ “ambitious vision for the site”	Further definition of concept and costs, as well as details of any pre-lets, are required.
“Needs a very imaginative, high quality response”	A high quality scheme may be attractive to the market if priced correctly in relation to any competition.
“Skills base of the local population”	The skills base is an asset. However it relates in part to the ability local people have to commute and to compete in a wider labour market.
“Superb environment for local and regional knowledge firms seeking to upgrade and grow”	Subject to cost, could be an attractive location for those businesses interested in an “out-of-town” location.
“Will be able to trade at a considerable premium to the existing local market”	This assertion is very bold. Further definition of concept and costs would be needed.

5.17 The vision report refers to the success of Langstone Technology Park in Havant at charging premium rents. Whilst we do not doubt that the landlord has added value to the property through providing a proactive and tenant friendly service, we believe that, a) their base rents are comparable to the market, b) that there are costs associated with the additional income streams that the landlord has been able to generate and, c) the original development was underpinned by IBM and the buildings have been progressively adapted for letting to others, rather than built on a speculative basis.

- 5.18 According to agents' property registers, offices are available at Langstone Technology Park at rents of £12.50 to £16/sq ft pa (Building 600/6000). The park's website (<http://www.langtp.com/>) states that the property offers "a totally managed property solution which boasts corporate-grade on-site facilities for the exclusive use of occupiers, including a restaurant, occupational health centre, convenience store and fitness centre". The website provides more detail on the "comprehensive set of common facilities" available.
- 5.19 When assessing the viability of Bushfield Camp it is important not to confuse the "premium rent" that may be achievable for added value services with the "base rent" for the floorspace that has to be provided. Our business space agency team working in the Portsmouth/Havant area is very familiar with Langstone Technology Park and reports that discounts to the base rent are available by negotiation, with significant concessions in the early years of a lease. Packages currently available for a five year lease include a rent free period of one year with half the rent payable in years two and three.
- 5.20 The vision report looks forward to more buoyant economic conditions when landlords may be able to charge fuller rents without rent free periods. However, the Church Commissioners envisage a long term development period which is likely to include both a rising and falling market. It would be dangerous to assume that the development will be immune to the market cycle or competition and always capable of charging "premium rents".
- 5.21 Paragraph 6.24 of the vision report states, *"Other science park and technology park operators we have interviewed suggest it is difficult to directly ascribe higher rents to the existence of hub facilities and tenant management policies."* This is a reminder that "premium rents" should be regarded as an income stream that only flows once a tenant community is in place. It is the base rent that should be used when assessing development viability.
- 5.22 Our appraisals already assume that a reasonable level of occupancy is maintained once the development is established.

5.23 The vision report notes that the local universities are not expected to rent significant space (contrary to our initial briefing) and this is consistent with our own research. In addition, it has now been made clear to us by the Church Commissioners' consultants that there are no particular occupiers that they can identify as "anchor tenants" for the development at this stage.

6.0 EXECUTIVE SUMMARY AND CONCLUSIONS

- 6.1 Vail Williams has been instructed by Winchester City Council to undertake property market research and development consultancy to test the viability and deliverability of “Bushfield Camp” as a possible “Knowledge Park”.
- 6.2 Our initial report found that the completed development could be distinctive and potentially attractive to occupiers but that it would be necessary to create a step change in demand and rental/capital value to consider the project financially viable.
- 6.3 We have since been asked by the Church Commissioners, via Winchester City Council, to reflect on new information contained in their vision report (“Delivering the Vision: Winchester Knowledge Park” prepared by Roger Tym & Partners with Drivers Jonas), to attend briefing meetings on the development concept and to update our report based on the information provided.
- 6.4 The vision report acknowledges that the initial report by Vail Williams was a reasonable response to the information available at the time. However, it also suggested that an assessment of financial viability was of lesser importance to the question of “deliverability” than a visionary approach. Whilst we agree that not every detail of the proposed development can be quantified at this stage, we do believe that the vision of the end development does need to be counterbalanced by an assessment of site constraints and the cost of achieving that vision.
- 6.5 It is also necessary to be accurate when assessing demand and supply. We question some of the assertions in the vision report, particularly assumptions that the development “will” achieve record rents and “will” command national or international interest. We have also outlined the difference between “premium rents” and “base rents” and have noted that competing space is available at lower rents than the vision report may imply.
- 6.6 The scale of development now being suggested is very significant, whether 500,000 sq ft (46,450 sq m) or up to 800,000 sq ft (74,320 sq m) as suggested in the vision report. This would represent a complete step change in the supply of floorspace and employment capacity.

- 6.7 The vision report prepared for the Church Commissioners by Roger Tym & Partners explains that the development is intended to break into “an entirely new market” and deliver a “premium product”. We agree that the proposed “hub” concept is inspirational and interesting. However, the existence of other examples (one an urban, serviced office concept and the other a headquarters operation for Google) does not of itself demonstrate that development at Bushfield Camp is “deliverable”.
- 6.8 The concept is still being developed and demand is unproven. Whilst it may be too early in the process to expect potential occupiers to be identified or secured it would assist in establishing credibility for those which might reasonably be considered suitable to be suggested.
- 6.9 We have been told that a development of say 500,000 sq ft (46,450 sq m) would give Bushfield Camp “critical mass”. This is a substantial footprint and it is not clear where demand on this scale (or higher) will come from. In the absence of a pre-let or forward sale, the project is vulnerable to significant up-front investment and considerable uncertainty that the costs will be adequately rewarded by demand.
- 6.10 We agree that if a low or nil land value can be attributed to the site it would help the viability of development. Nonetheless, the other costs of development need to be met and any well advised developer would expect to make a return on that investment. Further evidence is being prepared on the costs involved and this can be factored into our assessment of viability when it is available. We have increased the projected floorspace as requested but the outcome of our appraisals is a nil site value and a profit on cost of circa 4%. This would need to be improved upon considerably for the project to be commercially viable.
- 6.11 Critical factors to address to make the development potentially viable include:
- Confirmation of site constraints and all estimated development costs
 - Achievement of rents significantly above current levels.
 - Significant improvement in property investment yields.
 - Achievement of pre-lets/forward sales with a credible, ongoing phasing plan.

- Expansion of the economy and research that shows there is genuine demand for new premises on this scale in Winchester.
- Confirmation that the landowner/JV partner(s) is comfortable with the return and risks of development once these factors are clear.

6.12 The vision report refers to the track record of the Church Commissioners working with joint venture partners on other developments. We note that the examples used include mixed use development where housing is very likely to have played an important part in generating sufficient value for development to occur. This is a critical aspect of development as “delivery” depends upon there being a likelihood of an adequate return on cost.

APPENDIX 1

The brief for this report

(Agreed between the Church Commissioners and Winchester City Council)

Winchester City Council LDF Core Strategy
Bushfield Camp Economic Case

1. On behalf of Winchester City Council (WCC), Vail Williams has prepared a viability assessment of the proposed LDF Core Strategy allocation of land at Bushfield Camp for a Knowledge Based Business Park.
2. In undertaking this assessment, Vail Williams used the best information available to it at the time, but unfortunately was not given direct access to the owners of the site, The Church Commissioners for England. It is therefore possible that WCC does not yet have a robust analysis of the economic viability and deliverability of the Bushfield Camp site.
3. In recognition of this situation, WCC intends to instruct Vail Williams to prepare a second report to further inform its LDF Core Strategy. This report will reassess and report on the viability of the proposal taking account of:
 - a. The nature and scale of development proposed by the Church Commissioners
 - b. The nature of the proposed future occupiers of the site
 - c. The Commissioners' aspirations for land value and yield
 - d. The Commissioners' proposed programme for the development of the site
4. This second report will provide additional evidence for the Core Strategy.
5. The Church Commissioners will provide Vail Williams access to its consultant team and to relevant reports prepared by its own consultants, in particular the report prepared by Roger Tym and Partners and Drivers Jonas.
6. Vail Williams will complete the second report by the end of March 2010.

APPENDIX 2

Additional information requested that will influence the viability of development

Additional information requested that will influence the viability of development

This report is based on the briefings that we have received to date. As part of our work we have indicated that further information would be required to fully assess the viability of the proposed development – for example:

1. Form of development.
 - Total floor area and density
 - Phasing
 - Type of buildings to be constructed - specification etc.
 - Building uses
 - Details of the proposed hub building
 - Build period or build period per phase
 - Support facilities - what will these be?
 - Car parking assumptions - how many spaces, how is this to be dealt with, in what form?
2. Costs
 - Building costs
 - Abnormal on-site costs e.g. contamination, ground conditions, archaeology, special measures to safeguard ecology etc.
 - Costs associated with site remodelling/landscaping
 - Services
 - Availability of broadband
 - Off-site highway costs
 - Planning costs and consultants' fees
 - S106 costs
 - Demolition and grubbing out existing foundations etc.
 - Promotional costs before and throughout the development period
 - Landscaping
3. Values
 - Developer's rental value assumptions and justification for these
 - Rent free periods/incentives and post practical completion voids
 - Pre-letting assumptions or actual proposals
 - Yields – developer's evidence/assumptions

4. Other information

- When do you anticipate a start on site?
- What is the minimum site value that the Church Commissioners will find acceptable for their land?
- Profit assumptions
- What assumptions are you making in regard to grant subsidy, when and how much?
- Is it proposed to build on a speculative basis or await an initial significant pre-let to kick-start the scheme? If the latter what will you be looking for?
- Public transport/bus subsidy?
- If “knowledge” type users are not initially available will you start with normal B1 Business Park occupiers?
- How critical is the involvement of Southampton/Winchester University and what assumptions are you making regarding their taking space and if so how much and what type of space?

5. Existing or preliminary development appraisals

- Are there any alternative development appraisals for us to review?

APPENDIX 3

Illustrative financial viability appraisal
(updated August 2010)

APPENDIX 4

Matrix showing sensitivity of land values to rents and yields