From: Andrew Burrows [mailto:burrowhutch@btinternet.com]
Sent: 14 September 2018 14:59
To: Matthew Diamond <Matthew.Diamond@exeter.gov.uk>
Cc: Andy Robbins <andy.robbins@exeter.gov.uk>
Subject: CONFIDENTIAL RE: Western Power Depot

Matt / Andy

I have now reviewed the Further Viability Report prepared by Richard Walker Developments ("RWD") – and thank you for forwarding the comments you received from Martin Ridgway's consulting engineer and QS too. Quite a lot hangs on that, as will be apparent from my further comments below.

I have broken those comments down into what I hope are convenient headings (see below). I have headed this email "Confidential", because there are some points that we ought to discuss before going back to the applicants.

Site Area and Alternative Forms of Development – all the applicants' viability appraisals are based on a net developable site area of 5.4 acres, and an assumption that the site will accommodate 24,000 sq ft of floor space per net acre, regardless of whether that is in the form of offices, industrial or storage and distribution uses.

The gross site area is said to be 3.62 hectares (nearly 9 acres) so the suggested net figure of 5.4 acres represents a net to gross ratio of just 60%. I checked this on Google Earth. The upper image on the attached PDF file shows that my rough estimate of the gross site area (3.59 hectares) broadly tallies with the applicants' figure, but that the net developable area might be closer to 6.5 acres. I would therefore question whether the applicants' appraisals of the alternative forms of development (which they say are all "not viable") are fairly based on the full development capacity of the site.

It also seems to me, given the applicants' assumption that the site will accommodate the same amount of floorspace regardless of Use Class, that no very serious attempt has been made to consider the true capacity of the site for those alternative forms of development.

Gross Development Value/Revenue – the assumed rental values and investment yields used in the applicants' appraisals, for all three alternative use types (offices, B2 manufacturing and B8 storage and distribution) are broadly in line with current market rates. Interestingly though, Alder King's Market Overview, which RDW have included at Appendix 8 to their July Addendum, suggests that a higher rent than RDW assumed in their March appraisal, could now be achievable for offices in this location. I also allude later in this note to the possibility that a more viable solution than those that RDW have examined, might be found in a development involving more light industrial units.

Normal/Standard Development Costs – there is little to disagree with in the construction cost rates applied in the applicants' appraisals, i.e. £1,400 per sqm for air-conditioned offices, £560 psm for B2 and £480 psm for B8. The cost allowance for "external site works" (parking provision, services to the building(s)/site and general landscaping) could be on the high side, but that is very much a preliminary view based on the limited information that I have at present.

On the issue of Finance Cost, I would question the applicants' assumption that all these alternative forms of development would take 2 years to build out; but I don't know what allowance has been made for decontamination/land remediation works within that overall period. That leads me on to the next point ("Abnormal Costs"), which is arguably the nub of the issue.

Abnormal Development Costs – there is very little information in the papers I have seen to explain the need for the substantial cost of **nearly £750k** associated with diverting high voltage electricity cables, apart from a plan/aerial site view and some brief comments in section 2.3 on page 12 of the

Design & Access Statement. Perhaps there was more in the first Viability Report (December 2014?), which I have not seen. I assume that the cables involved are all underground, as no overhead cables are immediately apparent when looking into the site from the surrounding area. I would want to have more information from the applicants and/or WPD about the location of the cables and the nature of the works that are said to be required, before giving a view on whether these costs are wholly necessary and reasonable.

The applicants say that they have an obligation to provide WPD with a new vehicle workshop (5,000 sq ft), which in the office appraisal in March 2018 was costed at £302,000. They then added another £300,000 to that figure to cover the cost of (a) acquiring a freehold site of 0.25 acres in the Sowton area, and (b) external works associated with the new workshop. Spending the equivalent of £1.2 million per acre for site acquisition and external works does not seem a very cost-efficient way of meeting WPD's requirement, and is probably an over-estimate anyway. Whilst one can see why WPD might need to be relocated as part of the proposal for a new Retail Park, it is less obvious why that would be necessary in the context of B2 or B8 uses, or even if the site were redeveloped with a combination of uses including B1(c) light industrial units. In the context of current market conditions and occupier demand, that might prove to be a more viable option than the others that RWD have considered so far. The cost of this "obligation" has been specifically omitted (I think rightly) from RWD's more recent appraisals of B2 and B8 options in July.

The correspondence from RVW Consulting and Warrington Martin is highly critical of (a) RWD's assumption that major land remediation works will be necessary, particularly for some alternative uses of the site; and (b) the cost rates that RWD have applied to the works. The conclusion is that, without further ground investigation and proof of need, RWD's estimated total cost of **£2.15 million** could be a serious over-estimate of <u>likely</u> abnormal costs.

The combination of RDW's estimated land remediation works, and WPD's quotation for diversion of electricity cables, adds up to a total cost of nearly £3 million for "abnormal" works. None of this has been properly justified in the paperwork that I have seen. Yet, if this cost is taken out of the latest appraisals, B2/B8 and potentially B1(c) options become more viable.

Preliminary Conclusion – the very high level of "abnormal" site costs, claimed by RWD, could well be a significant over-estimate on the basis of the information supplied/available to date. The approach taken in the submitted Viability Reports appears to be geared around using viability arguments to try and justify a departure from the Local Plan policies; without demonstrating that alternative forms of development on the site, for uses that would be policy compliant, have been carefully/properly considered. Such consideration should have included a more detailed/deliberate assessment of the site's capacity for alternative uses, once the parameters relating to land remediation and service diversion works have been more clearly defined; but this might only be necessary at this stage, of course, if a decision on this application hinges to a major extent on the issue of Viability.

I would be happy to talk this through with you in more detail, if needed, but attach a note of my costs for this initial advice, in the sum of £600 + VAT as agreed, for your kind attention please.

With best wishes

Andrew Burrows MA FRICS

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