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By E-mail only

Dear Mrs MacLennan

**Planning Application 16/00252/FUL
Queensgate Shopping Centre, Westgate, Peterborough - Viability**

I write on behalf of Hawksworth Securities plc ('Hawksworth') with regard to the above referenced planning application concerning Queensgate Shopping Centre (QSC).

You will recall that Craig O'Brien wrote a letter of objection to Peterborough City Council ('the City Council') in relation to the QSC application on 1 April 2016, which indicated that further submissions would follow in relation to the issue of viability.

This letter focuses on the content of the Comparative Viability Study (CBRE, January 2016) which was based around a comparative financial assessment of the proposed schemes at QSC and North Westgate (NWG), Peterborough. CBRE came to the conclusion within its report that the QSC proposals were profitable and deliverable and the NWG scheme was unviable and had no reasonable prospect of being delivered.

There are three important introductory points that we would wish to emphasise before responding in more detail to the CBRE document.

1. It is clear that the CBRE assessment cannot properly be regarded as either rigorous and robust, nor fair and balanced. Any such assessment of the potential viability of a proposed development, would naturally seek to discuss the issue with those most closely connected with the development in order to check assumptions, gather relevant information and discuss any issues arising. The report would then take account of that input. That has not happened. The failure to take those steps has resulted in an assessment that is based on a number of important false assumptions and is unsound and unreliable as a result. If the City Council did wish to adopt the approach urged upon it by the Planning Statement submitted in support of the QSC application, and conclude that the NWG scheme is not viable and will not come forward whatever decision is made on the QSC scheme, it would first need to undertake its own independent and impartial assessment of viability, informed by discussions with Hawksworth and its advisers. Any such assessment should consider the viability of both schemes, and also the effect on the viability of the NWG scheme (and any other realistic alternative) of a grant of planning permission for the QSC scheme. Hawksworth would be content to co-operate in such an exercise, provided that appropriate safeguards were put in place to ensure commercially sensitive information was not placed in the public domain, and it was given a fair opportunity to comment on and respond to the assessment undertaken on behalf of the City Council.

2. As the City Council is well aware, Hawksworth has spent a great deal of time, effort and money in promoting its proposed redevelopment of the NWG site, and seeking to bring it to fruition. This has included not only the successful application for planning permission, and subsequent land assembly, but also embarking upon judicial review proceedings and detailed discussions with the City Council on the possibility of a Joint Venture to implement the scheme. It has only done so because - as an experienced developer - it regards the NWG scheme as a viable and attractive commercial proposition (provided there is no cinema in the QSC). Commonsense suggests that it would not be acting in this way if the scheme would produce a negative return in the order of £41,000,000 as the CBRE report implausibly asserts. This only serves to underline the significance of the fact that CBRE has produced its report, and reached its conclusions, without any input from those who are in the best position to understand the NWG scheme's viability.
3. The CBRE document provides no substantive evidence whatsoever for the assertion made in the QSC Planning Statement that the QSC development will improve the prospects of the NWG site coming forward in the future (see paragraph 6.20). No alternative future scheme has been identified, let alone assessed, in order to reach this conclusion. There is no suggestion as to what alternative use might successfully anchor such an alternative future scheme, let alone how the conclusion is reached that such a scheme - without a cinema - would be able to make a positive return in circumstances where it is claimed that the current scheme - with a cinema - would produce a negative return of £41,000,000. In short, the case presented by QSC in its planning statement is not just entirely unsupported by the CBRE assessment, it is impossible to square with its central conclusion about the viability of the current NWG scheme. At least one of the Planning Statement's conclusions must be wrong. In fact, both are.

Having set out those important introductory points, there are a number of more detailed reasons why CBRE's conclusion relating to the viability of NWG is unsound:

1. In the context of relevant S.106 negotiations during the course of its planning application (ref. 15/01041/OUT), Hawksworth submitted a viability appraisal to the City Council, which was determined in September 2015. This information was provided to the City Council willingly and on an open book basis. The most recent viability appraisal is submitted by Hawksworth in August 2015 which concluded the scheme was viable and deliverable. It was incumbent upon the City Council to critically assess Hawksworth's appraisal and viability. At no stage during these discussions, did the City Council challenge the viability information nor did it raise any significant concerns. The City Council endorsed this position through the grant of outline planning permission. It should be noted that since the time of the last appraisal, market conditions have improved both as regards values and demand. That viability appraisal demonstrated a range of scenarios all showing the scheme with a net surplus.
2. In addition to the viability information provided by Hawksworth, there is the delivery aspect to consider, namely the ongoing discussions that are taking place with developers, occupiers and investors relating to the implementation of the scheme on the back of the planning consent. The City Council is aware of a number of these discussions. This is relevant given that viability does not relate solely to the outputs of a financial appraisal but also the 'lettability' of the scheme itself and attractiveness to end occupiers and investors. The quality of the occupiers will also directly impact its value (yield). The CBRE report fails to consider this issue adequately or at all. Again, this underlines the significance of the fact that it has been compiled without any input from those in the best position to provide the information needed to undertake a realistic, robust and reliable assessment of commercial viability.
3. We consider the scheme is of the correct critical mass and has the right balance of leisure, retail, office and residential to be attractive to the market. As we stated above, Hawksworth is continually refining the scheme with the support of its agency advisors to reflect changing market conditions and occupier interest. Such refinement is within the parameters of the planning permission. Relevant to this is Hawksworth's opinion that the City Centre can sustain either the NWG scheme or the QSC scheme and not both; hence the objection to this planning application on the impact if permission were granted for QSC, upon the delivery of NWG. This is from not only a planning perspective but also that of occupier

demand. There are a number of assumptions within the CBRE Report that we feel are inaccurate and, thus, impact on its findings. These can be summarised as follows:

- a. Floorspace – CBRE has assumed areas that are inaccurate and do not reflect Hawksworth’s current scheme iteration. For example the residential sales areas have been underestimated.
 - b. GDV – the fact that the incorrect residential areas have been applied and a pessimistic view on values that do not reflect recent sales in Peterborough has resulted in the GDV of this element being underestimated by over £12m. In fact, CBRE have assumed that the NWG scheme only has a GDV of £90m. Our assessment is that this will be in excess of £120m.
 - c. Construction Costs – the construction costs applied by CBRE to the NWG scheme are not consistent with the cost advice provided by Gardiner and Theobald to Hawksworth. This has resulted in the CBRE assumptions being over estimated by £10m.
 - d. Pessimistic rents and yields – we have concluded that a number of the assumptions relating to rents and yields are pessimistic. The retail rents in particular are not consistent with the advice that Hawksworth has received from its agent, Lunson Mitchenall, of £40-45 per square foot and the ongoing discussions with occupiers. Some of these assumptions are material. On yield CBRE have assumed yields for the retail and leisure based around what they describe as “weaker covenants” based on “weak demand” for this location. What this analysis fails to address is the NWG scheme aims to establish a new high quality leisure and retail attraction for the City centre. Given this, we are of the view that yields would be better than the “good secondary” yield of 6.50% quoted in the CBRE report. This relates to our view that the City Centre can sustain either the NWG scheme or the QSC scheme and not both.
 - e. Based on the above, the CBRE report highlighting a negative return of £41,000,000 is inaccurate. The development appraisal provided to the Council in August 2015 as well as our assessment through the critique of the CBRE report shows the scheme makes a profit.
 - f. It is unclear, within the CBRE Report, whether the rents and yields applied with the NWG appraisal have been applied on the assumption that the QSC scheme receives consent and is implemented ahead of NWG. In other words, whether it assumes NWG is implemented instead of or in addition to QSC. This is relevant to the point made in 3) above.
4. It is not the purpose of this letter to carry out a full critique of CBRE’s appraisal assumptions for QSC. However, it is noted that the £4.2m profit of the QSC scheme is based around an assumption that there is a £10m Scheme Value Uplift for the whole of the shopping centre on the back of this being delivered.

We have not sought to provide a fully updated viability appraisal of the NWG scheme at this stage. Such an exercise would take several months, and as a matter of practicality could not therefore be completed in time to meet the deadlines for determination of the QSC application. In any event, for the reasons summarised above, it is not necessary in order to show that the CBRE report is neither robust nor reliable. As we have said, the most appropriate course of action would be for the City Council to commission its own independent and impartial appraisal, which should consider the viability of both schemes, and also the effect on the viability of the NWG scheme (and realistic alternatives) of a grant of planning permission for the QSC scheme. Hawksworth would be content to co-operate in that exercise, subject to agreeing suitable safeguards to protect commercially sensitive information.

In conclusion, we strongly disagree with CBRE’s conclusion that the NWG scheme is unviable and that there is no prospect of the scheme being delivered. Hawksworth has openly engaged with the Council on viability throughout the process and this position has not been challenged. We believe the CBRE Report has been produced with the intention of focusing on pessimistic assumptions in order for the viability of the NWG scheme to be discredited. It is neither fair nor balanced, and the conclusions it reaches are not robust or reliable.

The ongoing dialogue taking place between Hawksworth and a number of key occupiers, developers and investors supports the viability position tabled as part of its planning application and confirms the strong interest that exists in the NWG scheme as whole. Also, Hawksworth has conducted discussions with all the principal cinema operators which have all expressed strong views that a multiplex in the NWG scheme is preferable to a rooftop location above Queensgate.

Hawksworth is, therefore, keen to continue its dialogue with the Council on the implementation of its planning permission and the City Council's overall policy objective for Peterborough. Aside from the above, the Council has also offered a Joint Venture to develop NWG, including preferable rates of finance, which it has access to via Government, and assistance with infrastructure / public realm costs. It has referred to a JV model similar to that at Fletton Quays. Clearly these measures are designed to ensure the delivery of the scheme which, in turn, will assist with the commercial viability of the scheme which is not taken into account in the CBRE analysis. The site is also the subject of a commitment, stated in its adopted policy, that the Council is willing to CPO the site in order to deliver its regeneration.

As the City Council is aware, NWG is a strategic regeneration site in the heart of Peterborough's City Centre. It has long been allocated for redevelopment but has suffered a series of 'false starts' over the past few decades. We had understood that the City Council is committed to seeing the site brought forward for redevelopment, and to using its powers and influence to achieve this. The City Council has a strong track record of supporting development and investment in the City. Paragraph 6.44 of the Planning Statement in support of the QSC scheme effectively invites the City Council to abandon that commitment and to adopt a significantly more pessimistic approach to the prospects of ever achieving the development plan's objectives for this crucially important city centre site. To accept that invitation would not only result in another 'false start' for the regeneration of the NWG site, it would also send out a very negative and discouraging message to all those wanting to invest in Peterborough and hoping for the active support of the City Council in achieving the regeneration of the City Centre in accordance with the development plan's key objectives. Indeed, the Council has quoted the site as a sequentially preferable in the context of other out-of-centre planning applications which, by definition, means that it considers NWG to be viable.

I trust this letter is helpful in your consideration of the QSC application. Should you have any queries please direct these initially through Craig O'Brien and Chloë Clark who are the Savills lead points of contact.

Yours sincerely



Jonathan Lambert MRTPI MRICS
Director - Development

cc Peter Breach, Hawksworth Securities
Craig O'Brien, Savills
Chloë Clark, Savills