Appendix 3: Feedback from Soft Market Testing

Summary Feedback from Soft Market Testing

Feedback from multiple interested site purchasers
– anonymised where necessary to protect confidentiality

Carfax Development Opportunity, Station Approach Winchester

Please identify whether you would consider undertaking a development based around:

1. **A leasehold disposal**
   - Yes – subject to the terms of the gearing and covenants of the lease / consents required for lettings, alterations etc.
   - Obviously the more onerous the lease the lower the site value or possible non viability.
   - Probably more applicable to occupiers who would wish to prelease one of the two office buildings proposed from the developer.
   - A Leasehold disposal would require a minimum of 125 years, with a small Ground Rent, and preferably not geared.
   - A long leasehold, at least 125 years, yes.
   - Yes, based on a 250 year lease.
   - A leasehold disposal would ultimately have a small impact on value. More of an issue is that it narrows the market for buyers as some international investors will not purchase leaseholds. The respondent would consider the site on this basis.
   - A long leasehold interest (250 years plus) at a peppercorn would be the preferred structure which would enable the Council to retain some control over the eventual estate and that this route would enable WCC to achieve the right design outcome. From experience with funders rent sharing leases are the least favourable interest and will significantly reduce investor interest and values. As an example, on a previous respondent scheme with a Council landowner an original rent sharing structure converted to a peppercorn with the Council receiving 100% rent from a defined unit within the scheme in lieu of a land payment which suited the Council and culminated in strong investor interest and led ultimately to a successful transaction.
The respondent would seek a long-leasehold interest from WCC. This would be for a 250 year term. A geared interest on Building 1 would be possible, with WCC receiving 5-10% of rents received.

The respondent will consider this on say a 250 year lease at a peppercorn.

Yes but the term would need to be sufficient for funding at a peppercorn e.g. 150 years minimum.

Possibly but values will be impacted and the interest from investors will be limited.

Based on the outline planning permission in place to date. We would offer a receipt of c.£** and head rent payable to the council of c.£** per annum on a subject to planning basis for the long leasehold interest over a 250 year period. The parameters of the revised planning permission would need to be defined to determine the exact consideration and head rent.

Yes, the respondent would consider a leasehold development as long as this was a long leasehold ideally in excess of 150 years and preferably 250 years. We would two options. Either a fixed annual ground rent at a sensible and sustainable level, which can be index linked or with fixed annual uplifts. Alternatively the respondent could do a percentage of the rent receivable each year capped at c10%. The higher the ground rent or annual rent the lower the initial capital receipt would be. These are not so much the respondent’s development rules, as the underlying investment market.

2. A freehold disposal

Yes – Preferred option.

A developer might well want to buy the site outright and perhaps amend the planning – it is unusual for a developer to be the outright purchaser of such a prominent site.

A Freehold disposal is not a pre requisite for our involvement.

Inevitably this would ensure the best financial value for the site. The respondent would prefer to work on this basis.

This would be the most marketable title from a developers/funders perspective but appreciate would not afford any income to WCC unless it wished to forward purchase elements, although the Council would lose control of future long term use and control of the of the site.

No

Always desired but if not possible perfectly willing to progress on 1.

This would be preferred compared to a long leasehold.

As above but the freehold may increase the interest from funds.
- Based on the outline planning permission to date. The respondent would offer a capital receipt of c.£** on a subject to planning basis for the freehold interest. Should we increase the gross development area (GIA) through a revised planning application we would offer a planning overage of c.£** psf.

- Yes, the respondent would be very interested in a freehold disposal and this in many ways would be the simplest and most attractive route. Although we recognise this is probably least compatible with Winchester’s requirement to create an income stream.

3. A disposal via an Income Strip approach

- This would be considered but given the respondent’s reasoned approach to developments this is possibly not the most equitable option for the Council.

- Unlikely that a developer is going to commit to building either of the two office buildings speculatively without one of the office buildings being pre-let as per 1 above.

- An Income Strip approach has the ability to generate the Council a very large capital receipt and/or significant profit rent. It could also make the likelihood of the scheme progressing much more likely.

- The Income strip approach could be modelled to provide a number of differing scenarios based on the Councils appetite for a capital receipt or a profit rent. Furthermore, the Income Strip could be modelled to take the development ‘off balance sheet’, if required and subject to confirmation from the Council’s own auditors. The respondent would be delighted to discuss this approach in more detail should the Council wish to.

- No

- Yes

- If the council are offering to effectively underwrite the development with an income strip arrangement (and declare the long-term liabilities on the council’s balance sheet) would it not be more beneficial for the council to undertake risk controlled direct development on the basis of secured pre-lets prior to committing to the construction phase of any development. This is an approach/strategy that xxx is running with a number of councils to achieve retained long term income for councils.

- The respondent is currently working with another council on this basis and would be happy to explore this further with the council.

- The respondent have been in discussions with a number of local authorities who have been considering the adoption of an income strip approach where viability/deliverability is preventing the private sector from coming forward with
schemes via normal funding structures. As the income stream is effectively Government backed the larger Institutional funders have a strong appetite for these type of leases and the corresponding yields have a major impact of the fundability of a scheme. In this case in particular the speculative nature and size of the office building will be scrutinized to gauge the prospect of early pre-lets. The respondent assumes there is some tangible interest in the space already? As long as the Council are happy with the gap between the ERV and the pay away element then this option is definitely worthy of serious consideration if the Council are committed to the existing scheme. This structure will however place the burden and risk of letting the building on the Council.

- Yes or a Joint venture combination approach
- The respondent would seek a lease from WCC for Building 2. As part of the transaction the respondent would bring forward a tenant that would sign a 25 year lease with RPI increases. This underlease would be for the benefit of WCC.
- As a caveat, this lease would be to a hotel operator. The design principles of B2 would not change from a bulk or massing perspective; neither would the fenestration or articulation of the façade. However, a change of use to part C3 would be required under the Reserved Matters.
- This would not interest the respondent.
- An income strip would be the ideal scenario as it would make the scheme fundable at the outset, without the need for pre-lets on the majority of the space proposed. The scheme could go ahead without delay. Combining this with pre-lets would minimise the risk.
- The respondent would consider this option.
- This option would mean a nil capital receipt and income of c.£** per annum net of finance costs in perpetuity. As an indication long-term finance can be in place at c.2% per annum for a 30-year period. Under this scenario the developer would retain the freehold interest over a 250-year period. The parameters of the revised planning permission would need to be defined to determine the exact consideration and head rent. This option is an indication of the income the proposed scheme could generate, given the pre-lets appetite as noted to us, the developer, by the council. This option would constitute a full Joint Venture between the Developer and Council. It should be noted that the respondent is happy to negotiate a happy medium in terms of the offer; we are flexible and can works towards tailored financial approach to suit the councils demands.
- Yes we would consider an income strip model, but for this to work most cost effectively this would require Winchester to take an overriding lease on the
development. The rent would be below market rent and normally index linked, which reduces the Council’s exposure, but the annual rental obligations would still sit on the Council’s balance sheet until the space is sub-let. The respondent would be very happy to work through this model with the Council.

Please identify your views on the:

4. Parking provision

- Ideally the respondent would like more parking given the current demand for parking within Winchester. We are aware that the Council team are working on solutions for park & ride plus town centre parking additions to existing provision. The respondent would seek to optimise the parking provision with the environmental foot print fully considered.

- 1: 4,000 possibly 5,000 sqft. This is such an aspirational scheme to ensure that the orientation and travel to and from (and within) the centre of Winchester becomes fundamentally changed, transitioning as it inevitably will, to an Electric vehicle and bike led, and pedestrian community.

- On the face of the outline design and application proposal, the car parking does seem light. However, given the County and Council’s plans for additional and support of the existing park and ride provision, the level of car parking could be acceptable. The respondent understands that the Council have had dialogue with potential end occupiers and also taken advice from JLL as consultants in this regard. At this point in time, they are therefore best placed to advise on the level of parking provision.

- Sufficient for the scale of development and having in mind location adjoining the train station, the station’s own provision and that of the surrounding area. It must be considered also that car usage will be changing dramatically during the lifetime of the asset and that future trends must be considered. Electric/driverless scenarios.

- Parking at a ratio of 1:1,000 sq ft would be competitive with other South Coast city centre office schemes

- No real views, parking becoming less important to occupiers

- Current provision is light in terms of ideal numbers for letting – but understand the need for quantity to be balanced against general parking provision/access within the city centre. Proximity to the rail station is a significant benefit

- The respondent has worked on buildings in urban environments with little to no car parking and whilst not ideal, solutions have been found off site to accommodate spaces that are required. The council’s response at the
developer day was perfect and we would work with all incoming tenants and 
the council to secure a holistic approach to their parking needs. The fact there 
are park and ride solutions and extra spaces coming ensures a tailored 
approach would work. The respondent as developers would be promoting 
occupiers take less spaces and rely more on the excellent transport 
connections. There is the chance for Winchester to be a true exemplar of car 
parking.

- We note that the car parking provision for the office element is provided in a 
unified basement. From a cost and phasing perspective we would instinctively 
seek to look at whether there are more cost effective solutions. Car parking 
provision is of course a balance between policy, political and market 
expectations but we note that delivering a carbon neutral scheme might be 
important so this will need further investigation. This would look to better 
understand longer term car demand and how evolving changes to the Cities 
road network could impact upon this location whilst seeking to make use of 
both public transport and the existing Park & Ride infrastructure. This would 
need to be balanced against Occupier demands to ensure the Building is Let 
to its full potential.

- Some occupiers, particularly those used to taking space on high quality 
business parks, will look for a parking ratio of 1:250 sq ft of lettable floor 
space. Therefore although Station Approach benefits from an excellent public 
transport infrastructure, the proposed parking standard may marginally reduce 
the appeal of the location.

- If part of the scheme was to be for hotel use, the full extent of parking would 
not be required. An allocation would still be needed but a design review with 
LDS and the transport consultant would be sought.

- In another UK location where we are on site, we have 1:1,000 sq ft. We need 
to attract as wide a demand as we can and it would not be in anyone’s 
interest that a letting is precluded due to inadequate parking. In the real world 
the respondent finds that a good part of the parking allocation is not actually 
taken up but this is a large scheme so we need to offer the widest possible 
berth. We are known for being up front and not telling owners what they might 
want to hear just to secure the scheme. Thus, the respondent would make 
provision for 135 spaces as per your outline application but we would be very 
surprised if they were fully utilised. We would expect to have a number of 
electric charge points to cater for what will be the increasing use of electric 
cars.

- The current parking provision under the planning permission is satisfactory for 
the proposed scheme i.e. just above the ideal ratio of 1:1000 sq ft

- More parking is attractive to tenants but it comes at a cost. The respondent 
would want to undertake further analysis.
- Given that plans are proposed by the City Council to provide park and ride schemes the respondent would look to reduce the amount of parking on site from 135 to 25. In lieu of the parking spaces we would opt for a leisure facility which the scheme is currently lacking.

- This is relatively high at the moment for a location adjacent to the station, but we recognise that a holistic view needs to be taken with what is happening with car parking across the whole of Winchester so there is still sufficient parking to support the local economy and tourism. If looking at the scheme in isolation as town centre office block by the station the respondent would significantly reduce the amount of parking.

5. Phasing/Timeline for Letting and Development

- Phasing would be considered and is quite feasible but given the occupier interest and grant timelines the respondent would seek to commence the development as a whole subject to any major economic shock. Lettings – Pre letting is difficult before the commencement of the development but once construction has started the respondent would generate more interest from a strong marketing campaign in conjunction with the council team building on their work to date.

- From detailed planning one would budget for circa 2 (years?)

- This would need to be considered during and in conjunction with the Council and their advisors (JLL), during the dialogue stage of any procurement/disposal.

- Current proposed timeline is very tight (recommendable at the start of a project to keep project team focus) however, there are areas of concern. Not enough time has been left between selection of Development Partner and start on site of main works if a reasonable amount of time is being left to secure a significant prelet (6/9 months) prior to start of construction. Many developers will not be able to secure finance to start construction if a pre let is not signed and in place. It may be that the Council will have to progress a prelet significantly during 2019/early 20 on behalf of the DP to keep to such a timeframe. This in turn may concern some development partners.

- Subject to the outcome of market testing.

- Opportunity to phase will be beneficial

- Would be led by the political will to progress the scheme and the approach to be adopted

- The scale of development here is significant and the respondent believes the entire site could be developed out in one phase. It is for the respondent to
better understand the market and the latent demand before committing to that. Certainly phase 1 would include the retail/café/amenity and the first office building. It may also include the second office building depending on occupier demand which would be understood well in advance of starting on site. From experience offices of this scale take circa 12 months to lease and the respondent would suggest on site development is circa 2 years.

- The respondent appreciates having looked briefly at the planning application that there has been a significant body of work behind the submission so their comments are just an initial snapshot but, to re-iterate the comments in point 4. Above, the respondent’s view is that the scheme is prescriptive and the phasing is largely dictated by the construction process. It appears therefore that other than the restaurant it seems that the buildings can only be delivered realistically in one phase. If a pre-let can be secured for a whole or significant parts of the offices then that would work but knowing how the market changes the respondent feels that the scheme might need to have some further flexibility built in. If there is limited scope to achieve this then I think the developer would need time to market test and put in place pre-lets before commencement to secure funding. The income strip approach would however deal with the funding if the Council decided they were confident about the letting risk so this could be a solution to expedite the development.

- The respondent believes the development would be best undertaken in one phase, which would take about 24 months and it is anticipated that subject to WCC approvals, the pre-construction period would be between 12-15 months.

- Under the lease from WCC, the first phase would be commenced once design had been progressed to completion of Stage 3+. This first phase would be the full “Basement box” and B2. B1 would then be progressed once a pre-let had been achieved for at least 40% of the floorspace.

- The respondent sees no reason for delay so happy to get on with it.

- Both dependent on whether an income strip forms part of the proposal. Without this option, commencement of the development will be subject to securing pre-lets for the vast majority of the whole building, which could be difficult to achieve given the size of the building and the number of potential tenants involved. Without converting the number of pre-lets to agreements for lease, the building/development may not be fundable.

- The respondent would be led by the market demand.

- Given that the current application is outline only, the respondent would look to take design to stage 4 within the 6 months of agreeing the development contract, planning would then take a 3-5 months including a JR period. In this planning period, the respondent would look to engage with trades under a Construction Management role. Once planning is secured, conditions are discharged, we have vacant possession and mobilisation is complete the
respondent would look to complete the works in 18-24 months. This is summarised as follows:


- The respondent believes there is significant demand from office tenants in Winchester and have a number of pre-lets already interested in the site. So ideally the respondent would deliver the scheme in one phase, but would want the ability to deliver in two phases if there was a market slow down or benefits in timing the delivery of space for a specific tenant.

6. **Whether a Carbon Neutral development could be achieved**

- Yes it is possible subject to off-site purchases.
- Mandatory –again aspirational to achieve BREAM excellent if not outstanding
- This would need to be considered in the round during the dialogue stage and have consideration to the method of procurement / disposal by the Council and its preferred development partner.
- This should be a serious consideration for the development team but commercial viability must be sustainable and key objective so that the buildings are delivered as requested by the Council.
- Cannot comment at this stage
- Difficult

- A Carbon Neutral scheme could be developed but the additional development costs would have to be reflected in the rental/return levels which could then potentially restrict the lettability as rates per sqft would need to increase to compensate – unless a significant anchor tenant could be secured that was looking to make a “green credentials” statement and to pay for it. Possibly adopt a different approach on each of the two buildings?

- The respondent is working on this on a project in central London and in short, the answer is yes. This is a cost analysis exercise and would be addressed alongside other building enhancement opportunities. Commonly this is a balance between what can be achieved on site and then counter balancing that with a level of offsetting

- The recent UK Green Building Council definition of Net Zero Carbon clarifies that both embodied carbon from materials, and operational carbon from building energy usage should be considered. For new developments, minimising both these areas could and should be an area of focus, especially in light of the recent government commitment to Zero Carbon by 2050 and the
Councils own accelerated target. Measures would include design solutions which seek to minimise concrete and cement usage, and energy efficiency measures coupled with electric low carbon technologies, plus on-site generation (i.e. PV panels) where possible. For dense urban sites it is envisaged that these measures alone will still lead to some net carbon emissions, and therefore some degree of carbon offsetting (for example via off-site renewables) would likely be required for this site to achieve Net Zero Carbon.

- The highest environmental standards as possible would be achieved. The respondent would aspire to achieve a carbon neutral development. However given the additional costs in ultimately achieving this it would be dependent on the land value required by WCC.

- The respondent has worked extensively with (a named consultancy) previously. The respondent has also acted on schemes that have targeted BREEAM Outstanding and renewable technology has been incorporated from the outset of the design process. With the proposed mix use approach, a more sustainable building is possible as the heat rejection from the office element can be used for the hotel. A “Sustainability Agenda” would be proposed from a re-mobilisation of the design team to prioritise this part of the brief.

- A Carbon Neutral building could be explored but construction methodologies and servicing strategies would need to be understood in greater detail.

- The respondent will need to take advice on this but will do whatever we can having regard to cost.

- Potentially, but cost, return and viability would need to be analysed first.

- Yes but dependent upon cost

- Given that this is a new build development on a large unconstrained site, the respondent is are confident we could provide a carbon neutral offering. Having liaised with their services consultant they are happy to provide initial comments if needs be.

- The respondent is a market leader in Europe in delivering carbon neutral buildings and have delivered a number in this capacity. The respondent is also the only developer and contractor in the UK who has committed to map their entire carbon footprint on all our schemes going forward. It is achievable to be carbon neutral, but there is a cost implication and this would either impact the land price or rental level. The respondent can explore the options with the Council in great detail as there is still the ability to deliver a very green building that keeps carbon very low and does not mitigate rent and returns.
7. **Other Environmental Best Practice for incorporation**

- Other forms of renewable energy could be incorporated into the scheme subject to viability / subsidy. Best building practice would be followed and this includes seeking the most environmentally efficient form of construction.

- The respondent is experienced in the delivery of BREEAM accreditation for developments and would also recommend that practical and tangible environmental technologies that have a positive effect for owners and end users are considered.

- BREEAM Excellent. Wellness Gold Certification

- Bream Excellent, EPC A, Well Enabled

- Assume the council would insists on a specific BREAMM rating as part of the planning approval – Good/Excellent/Outstanding. Again, each of these has financial impact on the development costs/viability

- The respondent’s business has been at the leading edge of sustainability for over 25 years. (redacted to maintain confidentiality – gives specifics of a scheme). We must strive to offer occupiers the best possible space for their people and their core social responsibilities.

- Alongside a challenging carbon reduction target, the project could consider adopting a “Design for Performance” approach, as advocated by the Better Building Partnership. This approach aims to more accurately estimate the in-use energy consumption of office projects, embedding an operational energy target into the procurement of the project. Other considerations would be setting a BREEAM 2018 target, such as Excellent or Outstanding, to drive holistic sustainability. User experience is key in the office market and WELL certification provides a framework to assess the Health and Wellbeing aspects of a building, and could be reviewed as an option.

- WELL certification ([www.wellcertified.com](http://www.wellcertified.com))

- This is the respondent’s policy which they intend to continue

- BREEAM and Wired Score accreditation

- The respondent is confident they can achieve BREEAM outstanding on this development for the same reasons as the above. There is room on site for grey water harvesting, green/brown roofs, photovoltaic panels etc for sustainability. In terms of materials we will ensure that recycling targets are met, carbon reduction targets are exceeded and waste is kept to a minimum. A+ rated Energy efficient machinery and appliances will be used as standard where possible, ground and air source heat pumps will be considered over CHP.

- The respondent is market leaders in Europe in delivering carbon neutral buildings and have delivered a number in this capacity. The respondent is
also the only developer and contractor in the UK who has committed to map their entire carbon footprint on all our schemes going forward. It is achievable to be carbon neutral, but there is a cost implication and this would either impact the land price or rental level. We can explore the options with you in great detail as there is still the ability to deliver a very green building that keeps carbon very low and does not mitigate rent and returns.

8. Any other comments

- The respondent is a local development company (redacted as gives geographical information which would identify respondent). The respondent sponsor a number of local clubs and events and work hard to improve the vitality of the local environment.

- The respondent is excited about this opportunity and would be delighted to discuss this further with the Council prior to or during the procurement / disposal process.

- If a strategic partner for other potential developments is envisaged by the Council preference now for a ‘mixed use’ developer with office capability should be preferred over traditional office developers. If the latter is selected there will be no cross over benefit with residential/retail/leisure/hospitality or cultural uses in these future developments.

- Happy to arrange a meeting to discuss how a direct development approach could be structured and funding arrangements can be created to maximise returns to the council – The respondent works closely with (a named consultancy) on funding arrangements tailored to site specific development requirements

- The respondent addresses property in a very different way. This isn’t just an opportunity to create a fabulous new building with wonderful architecture as a new gateway to Winchester. The respondent would aim to deliver a new space for the community not only within the obviously public amenity space but ensuring Winchester residents are proud of what is created and have a level of access to it. Communal spaces aren’t just for the building residents they must do more than that and offer the public access too. Managed well this doesn’t create any friction, quite the opposite the building’s brand benefits from bringing in plethora of exciting/dynamic local business and cultural groups. As do the office occupiers who desire well managed space with a culture of enhancing their brand.

- This development would be a partnership for the respondent; however the deal is ultimately structured. The respondent would want to be fully immersed in Winchester and side by side ensuring we deliver for the residents; business and the cultural scene was invited to support us. The respondent would hope to be in a long term partnership with the council and have experience of
- Working with other councils such as (redacted as lists other councils which could identify respondent).

- In due course it would be useful to receive any information on potential pre-lets/agency reports if available.

- WCC has alluded to a number of potential pre-lettings. As you will appreciate securing pre-lettings will enhance funding terms and would set a benchmark for rent levels for future lettings. De-risking the development with pre-lets would lead to a larger potential surplus of money that could be allocated to either land or build costs. The respondent would be happy to provide CV’s of the principle participants in the respondent’s Capital partners who will, together with the respondent’s (redacted as identifies respondent), be putting forward proposals for the development of the site. We think the scheme has enormous potential, but does require a close working relationship with WCC to both maximise returns and ensure an exemplar scheme is delivered for the benefit of the City.

- The respondent would welcome the opportunity to discuss the deal structure in greater detail but looks forward to taking forward this exciting opportunity that will help redefine the gateway to the City.

- The respondent and (redacted as potentially identifies respondent) have previously worked with members of the current design team on (redacted as identifies specific scheme which would identify respondent) The design intent, philosophy and architectural expression is clear and will be sought to be protected throughout design development and build.

- The respondent is keen on Winchester as a city where we wish to further invest. We (redacted as potentially identifies respondent) and we have taken a strategic decision to increase our holdings in growth cities such as (redacted as identifies respondent) Winchester (redacted as identifies respondent) has a GDV of c£70m and we are on site.

- The overall design as one building should be considered against two self-contained buildings which could alter the dynamic of the questions/issues raised above and should be explored as a potentially more deliverable option.

- Would you consider delayed land payments? The respondent would build the development in phases.

- As a developer we thrive on working with big institutions and have recently concluded property deals with (redacted as identifies schemes which would identify respondent) to name a few. The respondent would relish the opportunity to work on the Carfax site and partner up with Winchester Council on further developments.

- The respondent are delighted that you are going to achieve outline planning before searching for a development partner and that you do not require an
OJEU process, which would exclude us from bidding. In addition we are keen that the marketing does not exclude developer contractors, as we are bound by our internal processes to use our construction arm and thus we would be keen that this is allowable under the terms of any potential process.