

# Station Approach

Winchester Strategic Placemaking Consultant

COMMERCIAL IN CONFIDENCE



## Proposed Disposal Methodology August 2019



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## 1.1 Introduction

This report is set in the following context:

- A sale of a long leasehold interest with outline planning consent best meets the Council's considerations in respect of risk, reward, resourcing, and timescales. This option also enables the Council, as freehold land-owner, to exercise rights which help secure delivery of the scheme
- There is significant market interest surrounding the Station Approach opportunity and that now is an appropriate time to bring the opportunity to the market
- Given recent changes to the scheme, including for example a reduction in car parking and the resultant opportunity for cost saving and improved scheme cash flow, that viability has improved
- That a disposal process which seeks to drive competitive tension is anticipated to result in a high quality and deliverable scheme coming forward
- A significant amount of work has been undertaken by both Vail Williams and JLL to understand the viability position of the site. We do not recommend a formal valuation of the site is undertaken prior to the commencement of the marketing process as the best way to establish the site's value is to test this in the open market

The following sections define our recommended disposal methodology.

Please note that this is written from a commercial perspective only and will need to be further informed/verified by Winchester City Council's (WCC) legal advisors to ensure a compliant methodology. This is particularly relevant in regard to OJEU procurement legislation.

Based on our discussions with the Council, the objective of the disposal process is twofold:

- To proactively market the opportunity to maximise appetite and interest and therefore optimise competitive tension
- To identify a purchaser best placed to deliver the Council's key scheme objectives. To date we would summarise these as the delivery of a scheme which:
  - Demonstrates best practice in sustainable development
  - Is high quality in terms of design and build
  - Delivers a financial return
  - Can be delivered efficiently (for example to support spend of the LEP grant before the end of March 2021)

## 1.2 Methodology

Based on the above, we set out below a summary of our recommended disposal methodology. Please note that this is a summary-level methodology which will require further detailed discussion and refinement with the Council prior to launch.

The below is based on resolution from 28 August 2019 Winchester City Council Cabinet to dispose of the Carfax site by a long leasehold subject to terms and conditions.

### **Step 1 – Evaluation Methodology (August 2019 to September 2019)**

Working with its advisors, the Council will need to agree how to evaluate each bid by assessing responses to the topics raised which both give transparency to the market and allow the Council to select a purchaser who best meets the selection criteria.

We do not anticipate giving the purchasers' specific weightings as we want to be able to judge each bid in its totality.

Based on discussions to date, we advise that the purchaser should be tested on the following areas:

#### Quality Criteria

- Track record (of schemes of comparable scale and use by way of relevant examples in the last 5 years. These examples should highlight the sustainability, quality and regeneration credentials of track record provided)
- Team and expertise (details of the specific team to include CVs and team structure as well as details regarding professional advisors)
- Sustainable travel (to cover car parking and sustainable measures of travel to/from the development)
- Quality (knowledge and commitment to implementing a high-quality design and build, including by reference to track record)
- Development delivery (evidence of high-quality scheme delivery with particular emphasis on integration in a historic city)
- Planning approach (delivery in accordance with the Outline Application/Consent, or a supporting rationale of benefits underpinning an alternative approach. If an alternative approach is proposed this needs to be supported by a detailed assessment of timescales proposed)
- Risks (a commentary on key risks in schemes of this type and how they will be addressed)
- Speculative development (confirmation of position in relation to speculative versus pre-let development including the relationship with the scheme's project programme provided)

In addition, the Council will seek to establish the prospective purchaser':

- Funding approach and solution (details of how the scheme will be funded)
- Utilisation of LEP Grant funding (details of their approach to use of the available LEP grant funding for the site preparation works, including archaeology, decontamination, utility provision, demolition/clearance and other site prep works, required to be undertaken by 31 March 2021)
- Programme (with anticipated key milestones and supporting rationale/evidence, including the recommended phasing of both buildings and reference to LEP grant funding and its associated timescale)
- Sustainability/low carbon (knowledge and demonstrable commitment to implementing an exemplar solution, including by reference to examples. Demonstrable understanding and

track record of meeting occupiers' requirements in relation to best practise sustainability and employee wellbeing).

- Key stakeholder engagement (demonstrating an understanding of who the key stakeholders are and how they will be engaged; overall approach to consultation)
- Occupiers (details of known pre-let interest and approach to securing high quality tenants)

The key priority in relation to the 'Quality Criteria' section is to identify the purchaser with the best approach to delivery of the scheme, but not so as to specify the scheme under the terms of the land disposal (recognising that as a land disposal not subject to OJEU, that is not possible). The criteria, outlined above, will provide assurance that the purchaser selected is aligned with the Council's objectives.

### Financial Criteria

- Financial appraisal (submission of full appraisal to enable the Council to both understand assumptions used and assess the robustness of the approach, to including the funding of the proposed scheme)
- Non-returnable deposit on exchange (to be put forward by purchasers under competitive tension)
- Lease gearing (commitment to a fixed level of gearing to provide an on-going rental income to the Council. The Council would also welcome any alternative proposals to provide the Council with a long-term income stream).
- Capital premium (to be put forward by purchasers under competitive tension, and taking account of the requirement for a fixed level of gearing and a non-returnable deposit)
- Overage (to be put forward by purchasers under competitive tension, reflecting the above)

The underlying thinking in relation to consideration (price) is to identify financial offers which both seek to provide an income, recognising the loss of car park income, and a capital sum, given the investment made by the Council to date and the need to satisfy Best Consideration for the Council.

### Commercial Aspects

- A response to and any comments on the issued suite of legal documentation

We will also reserve the right to meet with all or some purchasers to clarify any relevant matters, both during the 12-week bid period and after submission.

### **Step 2 – Documentation (August 2019 to end October 2019)**

There is a significant amount of information/documentation to be prepared before the disposal process commences. This is summarised below. It is important to ensure that this information is robust as it underpins the sale process:

- Establish a data room to include a full suite of property and supporting information; the Council already has a good level of property data given its work on the site to date.
- Preparation of a very high-quality sales brochure defining the opportunity and sale process (including the approach to evaluation set out below).

- Enable the data room to be used for the purpose of responding to any clarification questions raised.
- A full package of legal documentation which, among other things, defines the contractual basis of a long leasehold sale subject to planning (ancillary documents to include e.g. parent company guarantee, collateral warranties).

### **Step 3 – Proactive Marketing (launch in Autumn 2019 – after the planning application decision)**

As above, the intention is to maximise appetite and interest and therefore optimise competitive tension by prospective purchasers.

We will work with the Council to refine a marketing process and timetable to achieve this. One possible refinement, for example, could be issuing a request for best and final offers.

To ensure maximum exposure of the opportunity, we anticipate that this will include:

- Preparation of a very high-quality sales brochure and data room
- Widespread advertising of the opportunity via recognised property channels e.g. Estates Gazette, Commercial Property Register Magazine, Estate Agents Clearing House mailer etc.
- Direct occupier marketing through occupier mailing
- Inclusion of the opportunity on JLL's website
- LinkedIn advert
- Hampshire Business Magazine advert / article
- Participation and exposure at events such as the South Coast Commercial Property Show (31<sup>st</sup> October 2019)
- Discussion of an appropriate launch event
  - For purchasers
  - For occupiers
- Ongoing market engagement during the sales process period

We will monitor, with the Council, the economic climate associated with plans to leave the EU and reserve the right to, if circumstances dictate, reassess the optimal time to launch the marketing process.

### **Step 4 – Evaluation (February 2020)**

We anticipate that the marketing process will commence in late Autumn 2019. We then recommend giving prospective purchasers circa 12 weeks with bids due back at the end of January 2020.

The first three weeks of February will be used to assess bids received. This period will also be used to interview a number of the best bids received (for example up to four).

This process will allow us to select our preferred purchaser by the end of February 2020.

### **Step 5 – Contract (April 2020)**

We have set aside up to two months for all legal documentation to be agreed, and for a conditional sale contract to be exchanged.

The overall timescale is very tight and may be subject to slippage.

### **Other Matters**

Please note that the Council can reserve a right to terminate the disposal process at any stage. Therefore, it is not obliged to select a purchaser and sell the site if at the end of the marketing process it should decide not to.

From a delivery perspective, we note that an OJEU process is likely to involve more stages and would therefore likely take longer than a single stage sale disposal process. For example, an OJEU Competitive Dialogue process could take up to six months longer. LEP grant funding was a consideration when assessing the disposal programme as clear timescales are in place which require LEP funded site preparation works to be undertaken by 31 March 2021.

From a market perspective, our experience is that developers and investors would respond more positively to a non-OJEU process due to the perceived additional time and resource commitments that an OJEU process would command.



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