41-67 High Street Yiewsley Ref: 2370/APP/2023/1727 GLA/2023/0438/S1/01

Andrew Rennie <AndrewRennie@citygrove.com>
Fri 2/23/2024 11:31 AM
To:Christopher Brady <CBrady@Hillingdon.Gov.UK>
Cc:Paul Aldridge <aldridgep@rpsgroup.com>;Nasrin Sayyed <Nasrin.Sayyed@rpsgroup.com>;Haycox, Matthew <Matthew.Haycox@jll.com>;nicholas.pell@realestate.bnpparibas <nicholas.pell@realestate.bnpparibas>; Jonathan.Aubrey@london.gov.uk <Jonathan.Aubrey@london.gov.uk>;Jane Seymour <Jane.Seymour@london.gov.uk>; Katherine Wood <Katherine.Wood@london.gov.uk>;Thomas Fuller <TomFuller@citygrove.com>

1 attachments (2 MB)
Appendix 3 retail commentary.pdf;

Hi Chris

I refer to the response from the GLA Viability Team dated 12th February 2024.

The table below is a comparison of the three reports that have been prepared:

Comparison of Viability Appraisals High Street Yiewsley	JLL 7th November 2013	GLA 12th February 2024	BNP Paribas July 2023 (recd December 2023)
Food Store Rent £	20 sq ft	25 sq ft	25 sq ft
Food Store Yield	6.25%	5.50%	5.50%
EUV £	6,700,000	2,985,000	5,384,945
Construction Cost £	40,972,000	39,186,000	39,186,000
Third Party Costs £	300,000	-	-
Interest Costs £	6,474,524	3,500,341	5,446,730

I would comment as follows:

<u>BLV</u>

The following commentary was provided in the JLL 7th November response to support the refurbishment cost:

Prior to the cessation of the current Lease and Morrison's decant in August 2021, Morrison's stripped out the store back to a shell condition which left behind damaged and affected floors and ceilings as a consequence of the removal of refrigerators, plant and machinery as well as certain fixtures and *fittings. This also applied to the first floor office area. In order to bring the unit back to a lettable standard compliant with a current specification adopted by the various supermarket chains, the following works would need to be undertaken;*

- *Strip out existing floor finishes and repair/ replace screeds as appropriate*
- *Alter and adapt the existing trenches for the supply routes to refrigerated units.*
- *Remove existing ceilings, and make good underlying structure*
- *Strip out remainder of services distribution from meters.*
- *Overhaul existing shopfront and repair/ replace broken elements as necessary*
- *Overhaul/ replace roller shutters as necessary*
- *Replace existing lifts and dock levellers/ platform lift*
- *Possible sprinklers installation to the car park/ store with tanks*
- *General clean throughout*

Deacon & Jones confirmed they would expect the above to cost to be circa £30-£35 per sq ft which, based on the existing GIA would be £960,000 to £1,120,000 plus VAT

We have therefore maintained the cost of £1 million to bring up to a lettable standard.

Within Appendix 3 of the JLL response dated 7th November, a four page assessment was provided to justify both the EUV and proposed values, copy attached.

Build Costs and professional fees

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Subsequent to the preparation of the BNPP report (but prior to its receipt by the applicant on 8th December 2023) Deacon & Jones issued a supplemental cost report which was attached to the JLL response dated 7th November. The build costs are shown as £40,972,000.

The inclusion of a contingency was explained as follows:

The 2.25% contingency contained in the Cost Plan is a Contractor's Contingency. The project is being tendered on a Design and Build basis and at this stage Deacon and Jones LLP have produced an estimated cost based on measured quantities from Planning drawings. The detail design through to construction level information, which will not occur until planning has been approved and a Contractor is procured, will include a significantly greater level of detail showing how the building is to be constructed and will inevitably include construction details which cannot be foreseen or detailed at this time. As such, the Contractor, in order to get to a fixed price Contract, will need to allow a contingency or risk cost associated with these potential additional costs. The contingency contained in the Cost Plan covers that risk.

The Developer's contingency covers eventualities on the entire project from increased fees to unforeseen delays to delayed start on site etc etc and not specifically the construction cost.

In addition, I provided the following comments in email to the Hillingdon Case Officer on 8th December 2023 (the day the BNP Paribas comments were received by the applicant):

CDM Project Services queried the 2.25% contractor's contingency, which had the effect of reducing the construction costs by £881,690. Commentary was also provided by JLL on this within the response to the GLA's review. We are constructing a Premier Inn in Lambeth at the moment and I have looked at the contractor's Contract Sum Analysis on that project, where we have used Stace as project manager, and a 2% contractor's risk was included by the contractor in the tender price. In our opinion Deacon & Jones are correct by including such an allowance on this project. Should Deacon & Jones speak directly to CDM Project Services on this and update them on the construction costs since the original FVA was prepared?

Additional costs

The JLL response dated 7th November confirmed that the allowance of £300,000 related to right to light and party wall costs – this seems entirely appropriate for a scheme of this nature.

Appraisal

The terms of the letting to Morrisons were requested, and JLL stated that the freehold of the property was acquired from Wm Morrison Supermarkets PLC on 1st February 2019, subject to a 250 year lease to Morrisons at a peppercorn rental. The applicant is to seek planning approval for the sites redevelopment. Thereafter, and once the applicant has constructed a new retail store for Morrisons in accordance with a Development Agreement of the same date, the applicant will grant Morrisons a 999 year lease of the new store at no premium and with a peppercorn rent. A copy of the agreement can be provided if required.

Little appreciation seems to have been given to this fact, rather an over optimist rent and yield have been applied to the proposed foodstore. No offers were received for the Morrisons foodstore in Brentford at or higher than the quoting price of 6%. Furthermore, the store is located in a stronger market and is let at less than £20 sq ft.

It would be helpful to receive BNPP's comments to the JLL response dated 7th November, and then perhaps an all-parties meeting can be held.

Thank you.

Regards

Andrew

Andrew Rennie
Managing Director

Citygrove Securities PLC
10 Albemarle Street, London, W1S 4HH

Phone: +44 (0) 20 7647 1700
Mobile: +44 (0) 7785 582 366

From: Jonathan Aubrey <Jonathan.Aubrey@london.gov.uk>
Sent: Monday, February 12, 2024 1:22 PM
To: Paul Aldridge <aldridgep@rpsgroup.com>
Cc: Jane Seymour <Jane.Seymour@london.gov.uk>; Katherine Wood <Katherine.Wood@london.gov.uk>
Subject: FW: Morrisons Viability Response [Filed 13 Feb 2024 10:13]
Importance: High

Hi Paul,

Please see below GLA Viability Team latest comments received from Jane .

Kind regards,

Jonathan

BLV
JLL have provided little additional information (ie there is no detailed cost plan) in respect of the refurbishment cost or any information at all to support the demand for this unit. I can therefore see no reason to increase the BLV above the £2.9m previously assessed.

Value of new supermarket
JLL have now moved their yield out to 6.25% without any explanation. The sale and leaseback marketing particulars for Morrison's store in Brentford show a yield of just under 6% but based on a purchase price of £11m – offers are sought in excess of this figure - any increase in the sale price will obviously push down the yield. The Sainsburys' particulars show a net initial yield of 5.25%. I have increased my yield to 5.5% on a without prejudice basis but can see no reason to go higher.

Build costs and professional fees
I have adopted BNPP's figures subject to any further discussions with the applicant on these inputs as they seem to have dealt with the issue around double counting of fees/contingency.

Additional costs
These are excluded as still not justified

Also attached is the GLA viability updated appraisal which shows the whole of Block A converted to affordable housing (c33% by habitable room) and Blocks B and C delivered as market housing. This shows a profit of c£9.7m which is significantly better than JLL's profit out-turn and seems likely to the higher than the profit assumed when the site was acquired by the applicant.