Bridlington Town Centre AAP:
The Approach to the Development Appraisals of Burlington Parade

RTP 4.7.11

1. Introduction

1.1 This note sets out the approach taken by the Council's consultancy team – Drivers Jonas Deloitte, Roger Tym & Partners and KM Consulting – to the development appraisals of the Burlington Parade scheme, together with the headlines where these are not commercially sensitive. The purpose of the note is to reassure the Inspector who is examining the soundness of the AAP that the detailed work necessary to demonstrate the deliverability of Burlington Parade is robust and up to date.[1] The focus therefore is on the appraisal methodology.

1.2 The detailed results of the development appraisals are commercially sensitive, exempt from publication and are not set out here. They are exempt so as to ensure the Council is not compromised in fulfilling its duties to achieve best value in the public interest, both in acquiring land by negotiation within Burlington Parade and in concluding negotiations with the principal partners to Burlington Parade's delivery.

1.3 The most recent Council resolution setting out its commitment to funding the AAP was on 21 September 2010. The minute of that meeting is provided as CD22. Briefly, the Cabinet resolved (amongst other things):

'(a) that the Council has sufficient existing resources, taking into account the likely costs and potential for income to be generated, to enable delivery of the Bridlington Area Action Plan and continuing studies for the Marina for a staged approach to the delivery of the Area Action Plan;

(b) that the sites shown in the Plan at Appendix 1 [the Council's existing land assets in Burlington Parade, including the Coach Park and Palace Car Park sites] be committed to the delivery of the Area Action Plan to be declared surplus at the appropriate time to facilitate development;

(c) that any income generated from the sale of assets and/or development agreements within the Area Action Plan be retained for reinvestment into the Bridlington Regeneration Reserve.

1.4 This note supplements the considerable information already provided in the Publication AAP on the delivery strategy for Burlington Parade as follows:

- pages 107-111, which explain that the proposals for Burlington Parade have been prepared with full account taken of the factors that bear on their deliverability:
    - the likely demand for the types and scale of development promoted by BridTC3, including:

[1] The appraisals and market work were largely complete as of August 2010.

    - comparison and convenience retail floorspace, drawing on the specialist 'retail capacity studies' undertaken by England & Lyle for the Council for East Riding as a whole and by Roger Tym & Partners, both of which were updated in 2010. The AAP summarises this evidence in Appendix 1, paras 48-71;

    - leisure floorspace, drawing on the specialist retail and leisure study undertaken by Roger Tym & Partners in 2006. The AAP summarises this evidence in Appendix 1, paras 72-76, and explains that although the leisure expenditure calculations were not updated in 2010, national trends show that the sector has held up well and its performance tends to relate closely to retail performance;

    - the tourism sector, including a specialist study for Bridlington undertaken in 2004 and a Council-wide study undertaken in 2010 by Scot Wilson (AAP, Appendix 1, paras 40-47);

    - housing market assessments, drawing both on the assessment for the East Riding as a whole by Atkins in 2007 and on the local market assessments by Drivers Jonas Deloitte which have been kept up to date (the AAP summarises the housing evidence in Appendix 1 at paras 84-95; and

    - the hotel market study commissioned by the Council in 2006 (AAP, Appendix 1, paras 77-82).

  - siting the developments within Burlington Parade so that they maximise the prospects for commercial success and generate the highest achievable values (the AAP explains the evidenced rationale at paras 5.9-5.10); and

  - the Council's commitment to the Burlington Parade and the Marina. This commitment is evidenced most recently by the 21 September 2010 minute of the Council's Cabinet (CD22). The Council's Response to the Inspector's Issues for the Exploratory Meeting explains that the ring-fenced fund for the AAP area stands at about £12.5m, but there is in addition a substantial land asset for the project made up both of the land the Council already owns within Burlington Parade and the land it has acquired by negotiation within Burlington Parade. The Council is also committed to adding £1.5m annually to this fund.

- Para 5.27 lists the Council's powers to implement Burlington Parade; and explains at paras 5.28-5.43 how the AAP contributes to the justifications required for the confirmation of the CPO and Transport & Works Act orders that the implementation of Burlington Parade will require.

- Paras 5.44-5.45 explains the value of the concession government grants local authorities to dispose of land at less than best consideration (highest achievable price on the open market) if it thinks that doing so will achieve objectives for social, economic or environmental wellbeing. The Council can exercise this concession in respect of its substantial land holdings within Burlington Parade if it has sound reasons to believe that beneficial development would not otherwise be viable.

- Para 5.82 explains that the Council will act as lead developer, and undertake a phased approach to its delivery, and will in advance or alongside developers implement directly the infrastructure (including public parking) and public realm , needed to enable development to proceed in line with the AAP proposals. Para 5.82 explains that the Council will recover contributions to its costs both through the S106 mechanism in BridTC20 and through the enhanced value of serviced sites disposed on the open market.

- Appendix 5 lists the estimated costs of the Strategic Public Realm, a large share of which is within Burlington Parade.

2. The Approach to the Appraisals

2.1 The appraisals were out by the consultancy team in 2007 (when the market was still reasonably buoyant), 2008 (at the bottom of the market), 2009 (still at the bottom of the market, though we tested a 'return to reasonable market conditions'), and late summer 2010. The latest appraisals were reported to the Council early in 2011, refined further in May 2011, and form part of the up to date, but exempt, delivery report.

2.2 The purpose of the appraisal updates is to ensure, as markets change and the project's details are refined, that the Council will still have the resources necessary to cover any gap between the costs of assembling and servicing the site and the value of the receipts from the disposal of the development opportunities. The Council has set a ceiling for this cost of this gap. The appraisals, using robust assumptions, show that the project can be delivered within this ceiling.

2.3 The expectation, however, is that the scheme will break even (receipts will balance the Council's costs). The scope for manoeuvre lies in the absence of the acquisition costs for the Council's already extensive land holdings within the site (the land committed to site's development) and the treatment as 'sunk' the Council's investment in site acquisition at the point when each appraisal has been done.

2.4 At various points since 2007, the appraisals have shown a negative residual land value on some parcels (principally because of slumps in the value of flatted housing particularly). In practice, however, developers will not build schemes that are very likely to lose money. Instead, developers will adjust their approach (development mix, phasing etc) to ensure that their developments will achieve returns that are as close as possible to the developers' requirements.

2.5 Since 2007, when the advance acquisitions began in earnest, acquisition values have fallen on the site; there have also been marginal falls in construction costs.

2.6 The approach to the most recent appraisals was as follows:

- A residual appraisal of each development parcel was calculated, with costs limited to the developer's on-site costs only; the developer's required rate of return was treated as a cost in calculating the residual. The working assumption was (and remains) that the scheme-wide infrastructure and public realm, as well as site assembly, will be financed by the Council. The residual the appraisals produce is the sum that a developer can 'afford' to pay for the parcel; and this residual was treated as a receipt to the Council. No allowances were made for developer contributions to affordable housing or the AAP's S106 scheme. In practice, however:

  - The Council will release land within the site, subject to need and viability, to social housing providers as the principal means of ensuring that Burlington Parade contributes reasonably to the area's affordable housing needs. The AAP (para 5.60) explains that the details of Bridlington's requirement as a whole will be set by the Core Strategy, but that it was 56 affordable units per year between 2007-2011 (AAP Appendix 1, para 97).
  - The S106 charge is capped at c 3% of developer costs, and therefore permits a developer to make adjustments (outwith the price a developer is willing to pay for a site) so as to be able to make a contribution in line with the Schedule in Appendix 5 of the AAP.

- Appraisals of the income-generating public multi-storey car parks, adopting two options, a prudential borrowing approach and a commercial disposal of the assets once constructed and operational.[2] The Council has made no decision as yet as to how it wishes to proceed.

2.7 A 'cash flow' summary of the cost and income implications for the Council of the Burlington Parade scheme as a whole. The cash flow sets out the annual effect on the comprehensive development's balance sheet, showing the balance between income from receipts for land disposals and the costs to the Council of the scheme-wide infrastructure. The cash flow covers 12 years (two years preparation and ten years' delivery), beginning with the disposal of the Coach Park site to Tesco and the acquisition by the Council of Tesco's existing site. The phasing is aimed at releasing the highest value parcels early in the programme (the supermarket, unit shop scheme and, subject to powers, the Harbour Top), and leaving the internal parcels – the more difficult and less commercial – to later phases when the market is certain the retail and Harbour Top schemes are certain and will achieve the high quality sought. Infrastructure that is strategic in its significance and drives values up comes early in the programme, and less consequential infrastructure later. Acquisitions are timed to coincide with the timing of disposals. While the Council will have the option of leaving the actual acquisitions to the selected developer, the transfer of these costs will be reflected in the value of the disposal receipt the Council is able to achieve.[3]

2.8 The appraisals assume that receipts for the disposal of development platforms are achieved at the start of each development phase. The costs of the infrastructure are today's costs, adapted by the Council from the work done by Faithful & Gould on the project in 2007 and 2008. The costs have been adjusted, on the Council's advice, to reflect the likely year of spend over the development programme. The F&G costs include a 5%

[2] The Council has made no decision as yet as to how it wishes to proceed.
[3] The Council is obliged to continue with the efforts to acquire by negotiation in advance of the CPO where agreement can be reached on reasonable terms. Once the CPO is confirmed, the Council has three years to notify the affected landowners that it intends to purchase the property and a further three years before the transactions must be complete. Decisions as to how best to proceed in respect of the properties to be acquired compulsorily will be made when the work for CPO is formally being done.

contingency, and will be refined at the more detailed feasibility work is done. The costs in the appraisals exclude the costs of the works to the Harbour Top to rearrange the land uses to accommodate the Burlington Parade development platform and ensure the Commissioners have adequate replacement facilities and sufficient operating land for the efficient and viable function of the port.[4]

2.9 The development parcels relate to those in the AAP. In practice, the Council will have the option of disposing still smaller parcels, subject to market considerations. The intention is to minimise public sector procurement constraints on disposals. The preference is to tender the development opportunities on the open market, in line with the market's recovery and preferences over time, and ask for planning compliant bids, with the criteria clearly stated to be price plus planning compliance.

3. The Principal Assumptions Adopted in the Appraisals

3.1 The appraisals are 'strategic', meaning that the purpose is order of magnitude results, with wide parameters around their certainty. There can be no certainty over the details of costs and values in a ten year delivery programme. The Council – as would any 'lead developer' will continually appraise the scheme, making the adjustments that are necessary over time to control costs and balance these with the returns achievable.

3.2 The appraisals do not constitute a Red Book valuation. They were carried out in the course of the consultancy advice on the project's delivery only.

Use Mix and Quanta

3.3 The appraisals in 2007, 2008 and 2009 considered the maximum quanta achievable in each parcel, consistent with the design guidance in the SPD, up to the totals provided for in the AAP.

3.4 For the appraisals summarised here, we took a more conservative tack. We modified the development mix in each parcel to reflect the continued difficulties in the flatted housing market; and therefore removed from the appraisal any optimism bias associated with retaining the number of flats that had been accounted in the previous years' appraisals. The near term market evidence is that it will continue to be difficult for developers to get funding for apartment schemes, save for specialist developments (e.g., the retirement market) and for the very best sites (e.g., overlooking the Harbour). We reduced the number of apartments overall for the purposes of this appraisal to just 219 (down from c 500 in previous appraisals),[5] and increased the number of townhouses to 51.

3.5 We nonetheless consider it very unlikely that the apartment market will remain in the present doldrums for the whole of the ten year delivery programme for Burlington Parade; and stress that it is important that the AAP's provisions for Burlington Parade retain the option of achieving the development densities which informed the masterplan it puts in place.

[4] The Council has an informed view of these costs, but Faithful & Gould have not provided the cost estimates for Harbour Top beyond the costs of the Burlington Parade development platform.
[5] Assuming that the major share of the 219 will be in the block over the Harbour and in the proposed retirement village in the interior of the site. The others border the Gypsey Race Park.

3.6 The working assumptions for each parcel were as follows:

- Parcel 1A - Replacement supermarket and associated parking to meet the need for additional comparison retailing in the town centre (excluded from the appraisals except for the assumed value of the disposal receipt).

- Parcel 1C – Unit shop scheme with small office-type workspace and a 350 space multi-storey public car park to satisfy demand for modern larger floor plate retail units in the centre.

- Parcel 2A – A mix of apartments and townhouses to provide opportunities for town centre living and enliven the Gypsey Race Park.

- Parcel 2B – A mix of apartments and townhouses providing high quality town centre housing as well as public car parking to meet demands.

- Parcel 3A – Own front door offices.

- Parcel 3B – The development by the Lord Feoffees of a multi-storey car park and wrapping development to enliven the Gypsey Race frontage (excluded from the appraisals).

- Parcel 4 – A mixed use scheme on the Harbour Top comprising a high quality hotel, apartments overlooking the proposed marina, retail and leisure and replacement operational facilities buildings for the harbour, together with a 247 space car park.

The Assumptions

3.7 The principal assumptions and caveats to the appraisals were as follows:

- The quanta assigned to each parcel was based on simple sketch schemes supplied by West 8.[6]

- The use mix reflects our best understanding of the market's likely appetite *in the near term* to deliver the types and scale of development assumed in each parcel.

- We based the construction costs on the cost estimates provided by Faithful & Gould in 2008 and updated in 2009.

- We made no specific allowance for abnormal site conditions, contaminated ground or unexploded ordinance etc [there is no indication any of these exist].

- We assumed a commercially acceptable planning consent will be in place.

- We assumed that finance will be available to developers on reasonable terms.

- We assumed that the development parcels are assembled to enable development to proceed without pre-conditions which cause delay or incur penalty.

[6] The Council will be doing more detailed work for the outline planning application, ensuring that each parcel can physically accommodate the AAP's indicative use mix at a density that observes the urban design principles set out in the SPD.

- The costs of site assembly were excluded from the appraisal. The property cost estimates considered in the 'cash flow' were provided by the Council's Estates Department.

- We assumed vacant possession would be available when required.

- We assumed that services, infrastructure and public realm would be in place and provided or funded by the public sector.

- We excluded Parcel 3B, the site of the Lords Feoffees car park, from the appraisal on the assumption that they will fund the development, including provisions for animating development that will be provide 'safety by design' for the Gypsey Race avenue that the car park is to border. If they do not, these costs will have to fall to the Council (this alternative was not tested).

4. The Appraisals: Approach and Assumptions

4.1 Drivers Jonas Deloitte undertook the appraisals using Argus Circle software to calculate the following for each parcel and for the whole development (excluding parcel 1A which was treated simply as a receipt and parcel 3B with the Lords Feoffees car park):

- construction costs (including the cost of private car parking and parking privately developed as part of the unit shop scheme);

- developers' return at 20% of cost (7.5% of cost for the branded hotel);

- finance at 5% for debit (0% for credit);[7]

- 10% for professional fees (7% for the branded hotel), 4% for stamp duty, 1.5% for agent's and legal fees;

- 10% contingency added to all costs (5% on the Faithful & Gould costs, plus a further 5% on the cost line, excluding developer's return, in the appraisal); and

- the residual after all of the developer's costs and a return.

4.2 The branded hotel was assumed to have a lower target profit rate on the basis that it is normal practice to have an operator signed up to manage and run the hotel once the building is constructed. This reduces the risk for the developer and a lower profit and professional fees are therefore appropriate.

4.3 The developers' costs exclude the costs of the site's common infrastructure (highways, public parking, overall site services and renewable energy) and public realm. These are treated as costs to the Council, with their value recovered through disposals (the calculated residual after developers' costs and returns) that are paid for at the start of each phase.

4.4 The phasing plan assumes that the development will take place over a ten year period (including construction of convenience retail as a first phase). The phasing of the housing elements of the scheme are timed to ensure that the commercial elements are delivered

[7] Although a conservative assumption, it is reasonable given Bank of England interest rates.

alongside and allows sufficient time for stock to be absorbed into the market prior to commencing subsequent parcels. Sales rate are timed at four units per month.

4.5 All housing schemes assume an average per unit of 75 sq m of gross internal floor area for apartments and 140 sq m for townhouses, as advised by West 8 (the masterplanners). All townhouses are assumed to have an integral garage.

Cost Assumptions

4.6 Construction costs for the scheme were provided by Faithful and Gould for Quarter 2, 2008, who updated them to Quarter 1 2009 by applying a reduction of 3.75% as advised by Faithful and Gould. The Council itself then updated the costs to Quarter 2 2010 to bring them into line with standard industry contract indices at that date. Tables 1 and 2 summarise the constructions costs assumed for buildings and car parks respectively. The costs include a 5% contingency (to which the appraisal added a further 5%).

4.7 Infrastructure costs are in Table 3, but were treated as the Council's costs and considered only in terms of: the differential between overall costs of the Burlington Parade development versus the values to be realised in the form of disposal receipts; and the cash flow consequences for the Council.

4.8 All remaining acquisition costs were estimated by the Council's estates team based on the outturn of its acquisitions to date, and all include estimates for compensation in line with CPO legislation. The information is commercially sensitive, even in aggregate and is not therefore set out here.

Table 1: Construction Costs of Buildings

Use	£ per sq m (Q2 2010)	£ per sq ft (Q2 2010)
Own front door offices	£788	£73.20
All retail / leisure	£732	£68.00
Apartments / retirement village	£1,361	£126
Townhouses	£1,070	£99

Table 2: Car Park Infrastructure (*public infrastructure and private*)

Use	£ per space (Q2 2010)
Car Parking - Multi-storey	£ 9,400
Car Parking – Underground	£15,600
Car Parking – Underground with buildings above	£16,500
Car Parking – Surface	£ 1,500
Branded Hotel	£40,000

Table 3: Other Infrastructure Costs (*considered outwith the appraisals*)

Infrastructure	£ m (Q2 2010)
Highways, station works and interchange	£3.95
Public realm	£4.53
Services	£3.15
Other site preparation and servicing works	£1.60

Value Assumptions

4.9 Tables 3 and 4 summarise the assumptions that were adopted on values. They represent our best assessment, given current market conditions and the slow pace of the economic recovery, but look ahead over the ten year delivery programme; and take fully on board the underlying drivers of demand including the forecast changes in the size and structure of the local economy, the forecast population changes, the competing supply trends and the wider planning environment (for example, in directing offices into the town centre). . The value assumptions also take into account the development quality built into the cost assumptions and the fact that, with comprehensive development approach, the site creates 'own environment' and is, to that extent, sheltered from some of the less advantageous externalities in the town centre.

Table 3. Central (pre-sensitivity) Assumptions on Values for Commercial Uses

Use	Rent £ per sq m	Rent £ per sq ft	Yield	Incentives
Business Space	£129.17	£12.00	8.50%	12 months rent free
Prime Retail	£161.50	£15.00	6.00%	12 months rent free with capital incentive which amounts to a further 12 months rent free
Harbour Retail	£161.50	£15.00	7.50%	12 months rent free
Other Retail	£134.50	£12.50	7.75%	12 months rent free
Branded Hotel	£3,500 (per room)		6.5%	N/A

Table 4. Central (pre-sensitivity) Assumptions on Housing Values

Use	£ per sq m	£ per sq ft
Internal residential	£2,475	£230
Harbour, town-side residential	£2,960	£275
Harbour, waterside residential	£3,300	£300
Retirement village	£3,070	£285
Townhouses	£1,670	£145-55

4.10 All property types were assumed to have net to gross ratio of 85%, except the 'own front door' offices (90%) and the retirement complex (70% to allow for the additional facilities in this type of product - warden / lobby accommodation and such like).

Phasing

4.11 The phasing of the development parcels assumes the most valuable sites will come first, both to benefit the Council's cash flow position and to set a high benchmark for quality, build market confidence and drive values on the more challenging parcels that come later in the phasing programme.

4.12 The phasing also takes into account the practicalities of developing the Burlington Parade scheme and, in particular, the need for infrastructure and strategic public realm works to be delivered in advance of the development of certain parcels.

4.13 In line with this rationale, the replacement supermarket at Parcel 1A will be developed first. It frees up Parcel 1C for release for the development of the unit shop site – one of the two most commercially appealing parcels – and provides the Council with the funds to proceed with key parts of the site's infrastructure.

4.14 The Station Plaza (and attendant works to the railway facilities) need to be in place when the replacement Tesco store opens. The critical date for completing the widening of (and public realm improvements to) Quay Road/Prospect Street/Manor Street is the opening of the unit shop scheme.

4.15 For traffic management reasons, as well as practical issues (including the need to retain HGV access to the Harbour) the widening of Hilderthorpe Road must occur early in the development programme. This, in turn, requires the upgrading of Beck Hill to be completed in advance, as the very first step in the delivery of Burlington Parade.

4.16 The second anchor site at the bottom of Burlington Parade is the Harbour Top (Parcel 4) where the hotel, retail and leisure uses and housing will benefit from the attractive waterside location. The Council will aim to procure a partner for this development of this parcel at about the same time as it procures a developer for the unit shop site. The two anchors together – in their 'dumbbell' configuration – make it feasible to achieve commercially viable development on the more challenging along the Gypsey Race and the Hilderthorpe Road frontage in between the two ends of the 'dumbbell'.

4.17 Also fundamental to driving values are the works to the Gypsey Race to create its 'feature' interest and quality of development setting (the park and the pedestrian and avenue along its length). The development of the two public car parks is also critical. The expectation is that the Lords Feoffees car park will proceed first (perhaps before the unit shop scheme is constructed with its car park); followed, once it is complete, by the redevelopment Palace Car Park and the creation of the Gypsey Race park (the 2B land uses can follow the construction of the Palace Car Park). Parcel 3A could be released alongside the construction of Gypsey Race park as it is a relatively free-standing parcel.

5. The Outcome of the Appraisals

5.1 The appraisals, on the conservative assumptions adopted, produced a small surplus of values over costs. However, further design work is required before there can be more certainty on the costs of the infrastructure (thus the 10% contingency allowed for); and the costs considered by the appraisal do not yet include the costs of replacing the operational facilities and land in the Harbour Top (nor any other element of the deal yet to be agreed with the Harbour Commissioners). Even with the addition of these costs, however, the balance sheet for the development as a whole would still be solidly within the scale of the gap that the Council is prepared to finance.

The Sensitivity Tests

5.2 The appraisals tested the sensitivity of the residual to increases and decreases of 5% of both costs and values. The sensitivity test for a 5% increase in costs coupled with a 5% decrease in values produces a gap between costs and values that is still within the ceiling set by the Council. If costs decrease and values rise by 5%, the project overall produces a surplus over costs that is close to double the value on the central assumptions. The other scenarios lie between these the two ends of this spectrum.