

27th April 2011



Ms. Sarah Corben  
Planning Policy Officer  
Wycombe District Council  
Queen Victoria Road  
High Wycombe  
HP11 1BB

Dear Sarah

**Re: High Wycombe Town Centre Masterplan  
Review of Market Conditions to inform deliverability assessments**

Further to our recent instructions, we write to you to provide a brief desktop review of market conditions since our deliverability assessments dated 30<sup>th</sup> March 2009 and 30<sup>th</sup> January 2010. We understand that this overview is to allow Wycombe District Council to take an informed decision as to the reliability and longevity of the appraisal assessments which were previously undertaken by Dobson-Grey.

**1.0 General Market Overview**

Dobson-Grey produced the deliverability assessment dated 30<sup>th</sup> March 2009 against a backdrop of considerable market volatility, due to a global financial crisis which was triggered by the US sub prime mortgage crisis, rising oil prices and a weakening dollar. The first quarter of 2009 witnessed massive government bail outs and nationalization of UK banks through government asset protection measures. By January 2010, the economic environment had improved slightly but transactional activity was considerably affected due to illiquidity of bank funding being available, particularly for property development.

The current UK economic climate in 2011 has seen a slight improvement with GDP growth of 0.5% in the first quarter of 2011 which meant the fears of a double dip recession were allayed but reaffirming views that the recovery remains slow and sluggish. Unfortunately the construction sector remains in recession. It is anticipated that the latest results for GDP will see interest rates remain at their record low for the time being. The new Conservative government's major austerity measures, job cuts in the public sector and with the global volatility in the oil producing countries leading to shortage and soaring oil prices, UK inflation running at 4% against a Bank of England target of 2%, VAT increase from 17.5% to 20% and increase in commodity prices means the global, national and local economic environment are still precarious. Furthermore these factors are eroding the real value of money and disposable income of consumers.

Since the beginning of 2011, there are signs that property lending conditions have appeared to stabilize albeit with the added cost of lending. Banks however are much more cautious than they were during pre 2008 credit crunch.

A number of lenders are seeking to reduce their property exposure and those lenders who are committing to lend are quite risk averse and ensuring loan to value (LTV) ratio no less than 70% with investment lease terms of around 15 years. Essentially pre lets need to be in place or identified in order to ensure financial support.

It is important to appreciate this global and national financial backdrop as it is against this backdrop that lenders will or will not support developers and property investors. Transactional activity and occupational requirement in Wycombe town centre have increased since our first report in 2009 thereby demonstrating improved demand within the town centre, retail and leisure sectors.

In terms of how this translates in rental values has been difficult to assess. For instance from our dialogue with the asset managers of the Eden Centre we are informed that the scheme is doing "OK".

Regrettably they were unwilling to share any information regarding current rentals, incentives or vacancy rates.

They admitted that some shops have remained empty since the scheme opened. Deals are suggested to be better than 2009 but the market still remains difficult with tenants asking for break clauses and generous fit out incentives. Some tenants are accepting penalties for such incentives. However retailers in Wycombe continue to be in a strong position to demand that landlords cover the cost of fit out either through rent free periods or premium payments.

The level of such depends on the sector e.g. fashion having the higher demand in terms of fit out. Clearly there have been some unit closures in the leisure sector within the scheme. However the presence of the cinema and concentration of national operators supports leisure interest in the scheme. We would advise that rental values reported in or previous feasibility remain sufficient in the short term but anticipate that these are revisited in the latter part of the year when we anticipate an improvement in the levels of incentives available to retailers which are currently depressing overall values.

The transactional data for offices shows that demand is slow with office occupiers still preferring out of town locations due to limited modern town centre stock. Wycombe's office agents express concerns that the next 10 years would continue to see a high number of office buildings vacant. The effect on rental value has been threefold. An increased demand by tenants for incentives such as rent free periods (6-12 months) and a compression of rentals. Tenants are also demanding more in terms of office fit out from landlords.

We highlighted concerns over the market supply in 2010 of high number of vacant office premises, a high number of competing sites in more established HQ locations and whether Wycombe could hold its own against these towns. For the size of development proposed in the Town Centre Deliverability Assessment for Wycombe, risk is a key factor. Without an identified tenant or pre let in place prior to development the risk to banks and funding partners in such a marginal location for office headquarters will exacerbate the perception of the opportunity as being even more marginal. Pre lets are essential in supporting interest from developers and investors. The occupier is still very much in the driving seat for office developments.

That said, the expansion of the BNU campus will be a significant driver to attracting developer interest to the site as an identified occupier. Considerable risk will be taken out of development viability which will enable finance to be raised.

In terms of the residential sector, the Land Registry House Price Index for Buckinghamshire shows an improvement in values since our first report was written in 2009 showing a 10% improvement in average prices by January 2011, with sales volume increasing by around 55% from March 2009 to December 2010. A significant number of new homes have been supplied locally by St. James, Taylor Wimpey and Fairview Homes but demand still remains sluggish for new freehold apartments despite local lettings agents reporting a strong start for lettings in 2011 in Wycombe.

In January 2010 there was a shift away from residential development which reflected the significant downturn in demand in the residential apartment market. There continues to be a general malaise towards residential apartments in Wycombe, due again to the availability of finance and the continued reluctance of banks to loan to developers for this perceived high risk product and their reluctance to support first time buyers. There is an improved demand for supported living (whether learning disability/secure living or elderly care). There has also been an increased desire for land for student accommodation.

The student accommodation market in High Wycombe is centred on Bucks New University who at the time of our last reports had satisfied their need through existing supply in the longer term and only had a short term (1-2 years) immediate need that was not being satisfied. From our discussions with national student accommodation providers current demand is for principal university towns/cities for in excess of 1½ acres. Wycombe was not perceived as a principal university town and therefore no interest was expressed. We would suggest that should Bucks New University commit to supporting and supplying students for a new student accommodation by way of a nomination agreement scheme that this position may change. Again it comes down to the perceived risk associated with the development.

Clearly we did not assess MU15 on the basis of expansion of teaching and office space or student accommodation. Build costs for teaching space are fairly dependent upon the form of teaching space required prior to being able to establish likely cost.

We understand that University for Central Birmingham has recently been tendered with costs excluding external works and demolition in the region of £1,959 sq m on the gross floor area. We would suggest if this figure is rebased for High Wycombe that costs are closer to £2,222 per sq m which are significantly above our assumptions for offices as applied in March 2010. Rental values would need to be considered above levels assumed in our previous reports to ensure viability.

In terms of student residential accommodation build costs for this form of development are closer to £1,260 per sq m which is below our assumed cost for residential of £1,505.65 per sq m. We would need to research the likely income levels to assess whether greater income could be derived to improve the viability of a student accommodation scheme at MU15 as opposed to open market residential. The key would be to have Bucks New University buy-in to committing to taking space from a provider in order to improve demand from national student accommodation providers who have stated their focus is for major university cities at present which Wycombe is perceived not to be. Bucks New University guarantee may alter this position.

In terms of hotel demand we have recently been involved in a site on the edge of the town centre where national hotelier interest was forthcoming despite the number of new hotels springing up in Wycombe town centre.

## **2.0 Build Costs**

There continues to be a fine balance between build costs and income values that would need to be achieved to ensure viability.

Since our previous reports the BCIS All-in-Tender-Price Index, surprisingly shows a negligible difference in tendering levels from first quarter 2009 to current day. The previous indices shows 223 (first quarter 2009) and the current indices is 222 (2Q 2011) which equates to a fall in TPI levels of 0.5%.

The indices show tender levels of 240 at 4Q 2008 which equated to a sharp and substantial drop of 7% from 4<sup>th</sup> quarter 2008 to 1<sup>st</sup> quarter 2009. The lowest point of the market was at 1<sup>st</sup> quarter 2010 with an index of 208 (a further drop of over 7% over the year from the 1<sup>st</sup> quarter 2009). Tender prices have now steadily risen by 7% from 1<sup>st</sup> quarter 2010 and are now comparable with pricing levels at 1<sup>st</sup> quarter 2009. This does not represent a significant increase since 2010 as out build cost figures were set from 1<sup>st</sup> quarter 2009 and therefore these reflect the robust assumptions taken in our first report.

Predictions are that prices are expected to rise by 3% over the next 12 months.

## **3.0 Scheme Changes to MU15 and MU24**

You have asked us to comment on the overall impact of the scheme proposals set out in Appendix A of your brief. Additional floor space created will increase income and value to the scheme subject to that floor space being lettable space.

If the additional floor area provided merely lowers the net to gross ratio of a building the effect may be an increase of build cost which may not benefit in an increase in income. This is particularly worthy of note where storey heights exceed 5 to 7 storeys where there is greater pressure on fire resistance levels and stair/lift cores.

#### **4.0 Conclusion**

Over the course of our instruction the Deliverability Assessment feasibilities and values reported have been refined as more information and a firmer fix on the form of the development has come to light. Such detail on the form of development has been vital to enhance the reliability and accuracy of the residual valuations produced.

The volatile market conditions have led to more depressed values being previously reported and we would anticipate that as the UK continues to slowly work its way out of the recession that the viabilities will appear to be more pessimistic due to the market conditions at the time. The principle affect of this on the viabilities is the headline rentals reported are robust and will stand up in the short term. However, we see over time our assumptions in terms of occupier incentives may be perceived as pessimistic should the market improve substantially by the latter part of the year. This is more applicable to retail and leisure then offices where the development proposed is untested in Wycombe at present and any values will ultimately be driven by the covenant of a major occupier/employer.

We would highlight that certain sectors have witnessed more banking support to assist expansion and further investment, such as supported living (C2) and student accommodation but with the introduction of tuition fees it is difficult to predict whether the current interest in land from the student accommodation sector will be hit detrimentally.

We would recommend that due to the volatile market which, to some extent, still continues, that valuations will continue to fluctuate in the short term and should be revisited and updated during the latter part of 2011/early 2012. In the short term you may wish to update by way of addendum. The potential interest from Bucks New University as a tenant to the offices or student accommodation development on the site as this use was not appraised in our previous reports.

We conclude that the assessments were undertaken close to the bottom of the market during a time of considerable uncertainty. Given the strategic nature and purpose of the assessment and the long term nature of the development process the assessments provide a robust evidence base for your purposes. We would recommend appraisal and closer scrutiny of the Buck New University expansion on to MU15 which was not reviewed in our previous reports.

We trust this covers all the elements requested under your instruction to provide a review of market conditions since the original assessments were undertaken in 2009 and 2010. Unfortunately it was impossible to keep it to two pages!

Should you have any queries please do not hesitate to contact me.

Kind regards.

Yours sincerely

**Keri Dobson MRICS**  
**Managing Director**