



Oadby & Wigston

Town Centres Area Action Plan

Oadby Project Valuation Explanation





PROJECT VALUATION EXPLANATION

A2.1 This appendix explains BE Group's approach to each element of the financial appraisal, which has been undertaken for the Masterplan projects. It defines each of the categories which are used in the project proformas (see Appendix One).

Existing Uses

A2.2 The existing uses section describes existing conditions in each project area, including the number and size of any existing premises or sites. The section also identifies the present land ownerships and number of leases, noting which freeholds will have to be purchased and leaseholds acquired.

New/Refurbished Premises

A2.3 This section identifies what new or refurbished premises are proposed by the masterplan for each project area, broken down by use.

Costs

Freehold(s) Purchase/ Lease(s) Acquisitions

A2.4 A developer will have to purchase all land and property in the project area, including the car parks owned by O&WBC. Although the real value of the sites and properties cannot be known until negotiations are undertaken with the owners, the capital (freehold) values can be estimated based on recent sales elsewhere. A value of £1m/ha has been placed on the car parks. This reflects the price of car parking land sold elsewhere in the UK, in 2010/2011.

A2.5 To determine the capital value of retail and office /property the appraisal has used an investment method of valuation. In this method the market rent for the properties is multiplied using a figure derived from an initial investment yield, which is appropriate to the property. The yield is the annual rate of return on an investment (i.e. the purchase of a property), expressed as a percentage (e.g. 6 percent). To determine the market rents, BE Group has analysed the current rents being achieved in the retail sectors of Oadby and Wigston. These are discussed in more detail in the development value section below.



A2.6 The Stamp Duty (4 percent of the freehold value), legal fees (0.5 percent) and the property agents' fees (1.5 percent) have been included to obtain the total freehold purchase cost of each project.

A2.7 In addition to the freehold purchase of land and property it is necessary to buy out shop leases and compensate tenants for the costs of relocation, particularly where properties are held on longer leaseholds of five years or more. Compensation has been calculated as two or four years full market rent for that property, depending on the length of the lease to be acquired.

Capital Costs

A2.8 The capital costs for each project are the demolition/remediation costs, building construction costs, public realm costs, along with the costs of any refurbishments. These four costs are shown separately in the project proformas.

A2.9 Capital cost estimates for the projects have been prepared by Steps Projects from the masterplans produced by Taylor Young (see Table 1). The estimates are a high level assessment based on benchmark data, empirical input and outline approximate quantities. Adjustments for any identified site constraints, etc, have been incorporated.

Table 1 – Capital Costs, Oadby

Options	Size (sqm)	Cost per sqm (for buildings/public realm) or per parking space (£)	Total Cost (£)
East Street Car Park			
<i>Demolition/remediation cost</i>	-	-	200,000
Retail construction (R4)	200	1,200	240,000
Retail construction (R5)	500	1,000	500,000
Residential construction (RES2)	1,500	1,600	2,400,000
Residential construction (RES3)	1,300	1,500	1,950,000
Commercial construction (C4, over retail)	1,500	1,400	2,100,000
Leisure construction (L1, developed as shell only)	280	1,100	308,000
Parking (P2, surface parking)	126 spaces	1,500	189,000



Parking (P2, surface parking)	126 spaces	1,500	189,000
Parking (P3, undercroft parking)	30 spaces	10,000	300,000
<i>Total construction cost</i>	-	-	<i>7,987,000</i>
<i>Public realm cost</i>	<i>5,418</i>	<i>350</i>	<i>1,896,300</i>
Total capital cost	-	-	10,083,300
The Precinct/Chestnut Avenue			
<i>Demolition/remediation cost</i>	-	-	<i>200,000</i>
Retail construction (R3)	2,200	1,000	2,200,000
Residential construction (RES1, over retail)	2,900	1,400	4,060,000
<i>Total construction cost</i>	-	-	<i>6,260,000</i>
<i>Public realm cost</i>	<i>1,991</i>	<i>350</i>	<i>696,850</i>
Retail refurbishment (R2)	Refurbishment of Chestnut Avenue shops to be undertaken by the owner		
<i>Total refurbishment cost</i>	-	-	-
Total capital cost			7,156,850
Sandhurst Street			
<i>Demolition/remediation cost</i>	-	-	<i>200,000</i>
Retail construction(R1)	1,900	1,000	1,900,000
Commercial construction (C1, over retail)	800	1,500	1,200,000
Community use construction (CU1, developed as shell only)	1,275	1,500	1,912,500
Parking (P1, decked parking)	212 spaces	7,000	1,484,000
<i>Total construction cost</i>	-	-	<i>6,496,500</i>
<i>Public realm cost</i>	<i>2,086</i>	<i>350</i>	<i>730,100</i>
Retail refurbishment (R6)	-	-	50,000
Retail refurbishment (R7)	-	-	25,000
Elevational improvements to 104 The Parade	-	-	50,000



<i>Total refurbishment cost</i>	-	-	125,000
Total capital cost			7,551,600

Source: Steps Projects, 2011

A2.10 The estimates of construction costs have been priced at rates of labour and costs for materials current at January 2011. No inflation allowances have been included as it is not possible to estimate how construction costs might change over the lifetime of the masterplan. Demolition/remediation and refurbishment costs are estimates based on comparable examples elsewhere.

A2.11 Public realm is costed at £350/sqm, an average price for comprehensive public realm upgrading (a full resurfacing of the space, planting and new street furniture). The costing focuses on areas of intensive upgrading (e.g. the new public square in East Street) and does not necessarily account for all public realm changes (such as new road signage) which may occur throughout both towns as a result of the masterplans.

A2.12 Costs exclude professional fees and finance costs. These are considered as other development costs (see below).

Other Development Costs

A2.13 Other development costs are the other costs (along with land/property purchase and capital costs) which are standard to any development. These are professional fees and development finance costs (the interest on loans taken out by developers to finance the project).

A2.14 Professional fees include the legal fees associated with letting the retail, leisure and office properties (measured at the standard rate of 1 percent of the rental value of the property) and the letting agents fees (measured at 10 percent of the rental value of the property). It is also likely that any developer would wish to sell the completed development to a third party (e.g. a property portfolio, managing agent, or residential occupiers in the case of the housing). This sale would have additional legal fees (measured at 0.75 percent of the development value of the project) and additional property agent fees (measured 1 percent of the development value of the project).



A2.15 Finance costs include the interest which would be accrued on loans while the project is being developed (i.e. before development is complete and the scheme begins to make a profit). A standard interest rate of 5 percent is assumed, charged over a development period of 18 months. It is also assumed that any scheme will take at least 6 months to let or sell, during which time further interest rate charges will be accrued. Again these are standard costs, based on present conditions. It is not possible to know what the real development/occupancy periods of individual projects will be or how interest rates on commercial loans will change over the lifetime of the masterplan. The main other development costs, for each project, are shown in Table 2.

Table 2 – Other Development Costs, Oadby

Project	Other Development Costs (£)	
East Street Car Park	Professional Fees	237,346
	Development Finance	1,225,695
	<i>Total Costs</i>	1,463,041
The Precinct/Chestnut Avenue	Professional Fees	207,286
	Development Finance	1,017,353
	<i>Total Costs</i>	1,224,639
Sandhurst Street	Professional Fees	181,420
	Development Finance	704,558
	<i>Total Costs</i>	885,978

Source: BE Group, 2011

Development Value

A2.16 The development value is the value of the completed project, measured as the freehold sale value of any residential properties along with the combined rental value of other uses. The housing value assumes house prices of £150,000 per unit for new build flats/townhouses. This is the present maximum value of new 2/3 bed flats in the borough and in adjacent areas of south Leicestershire. However, the housing market is still recovering from the recent recession with scope for further price rises over the next few years. The impact of increases in values (for all uses) is considered in the Delivery Strategy.



- A2.17 To determine the capital value of new retail, office or leisure developments BE Group has used an investment method of valuation. In this method the market rent for the properties is multiplied using a figure derived from the initial investment yield developers/investors would expect from similar types of development.
- A2.18 To determine the market rents, BE Group has analysed the current rents being achieved in the retail, leisure and office sectors of both towns for new/good quality properties. This has identified that retail rents are 20 percent higher in Wigston than Oadby.
- A2.19 Where no relevant new/good quality properties are on the market locally, BE Group has taken the market rents of older accommodation and increased them to reflect the rents being achieved for new/good quality schemes elsewhere in the South Leicester Conurbation. For example, office rents for older office properties in Oadby Town Centre (such as Lyn House) are around £110/sqm. However, evidence from new build developments in adjacent districts suggests that up to £150/sqm could be achieved for a good quality office scheme.
- A2.20 In the case of retail, BE Group has also taken account of the differences in rental levels across the town centre. For example, rents on the western side of The Parade, Oadby are 20 percent lower than those on the eastern side, while rents at The Parade/Chestnut Avenue junction are lower still. The north western side of The Parade is therefore the most desirable part of Oadby Town Centre (the prime pitch). The rents and yields applied are shown in Table 3.

Table 3 – Rents and Yields, Oadby

Use (Relevant Project)	Rent, £/sqm (Zone A for Retail)	Yield, percent
General Retail, The Parade west (Sandhurst Street)	200	6.5
General Retail, The Parade east (East Street)	250	6.5
General Retail, The Parade south, Chestnut Avenue (The Precinct/Chestnut Avenue)	250	6.5
Offices (Sandhurst Street, East Street)	150	8.0
Leisure (East Street)	180	6.5

Source: BE Group, 2011



A2.21 These rents are then applied to the new premises proposed in the masterplan. The impact of increases in rents (i.e. what would happen if the proposed properties attract rents above average) is considered in the delivery strategy.

A2.22 Offices and leisure properties are based on a rent per sqft (e.g. £180/sqm). Retail rents are assessed on a Zone A basis where the most valuable space (the first 6 metres depth of the shop) attracts the highest rent. The rent is then discounted by halving back for less prominent space at the rear of the shop (Zone B, C, etc.) and at first floor level. The average of these rents is used in the analysis.

A2.23 The Community Use, Sandhurst Street will be developed by a community organisation for its own use. The commercial value of the building will therefore be negligible.

Surplus (Deficit)

A2.24 The surplus is the profit generated (after all costs have been deducted) from a project. If a project shows a deficit, then that gap would need to be filled by other funds. This would be an additional capital cost for that option. Funding gaps and routes for addressing those gaps are discussed in Delivery Strategy.

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