FLEET CIVIC QUARTER REGENERATION

DRAFT VIABILITY UPDATE BRIEFING PAPER

FEBRUARY 2023 UPDATE

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1.0
INTRODUCTION

INTRODUCTION

Hart District Council (HDC) commissioned a Montagu Evans (ME) led multi-disciplinary team in August 2020 to help inform the commerciality of a town centre regeneration project in Fleet, known as the Civic Quarter. The Montagu Evans team included HLM Architects, who have led on the masterplanning options review and cost advice we provided by Gleeds. The project focused on the existing civic campus which is located to the south west of the main high street, off Fleet Road. The brief from HDC sought to understand the available regeneration options to achieve a viable and deliverable solution which would create a vibrant quarter centred around the civic and cultural offerings within Fleet.

The 2020 masterplan review concluded that there were two scheme options that best met the project and the Council's critical success factors and offered the strongest long-term masterplan for Fleet, namely Option's C and D. These options assume:

I. The existing HDC office building is retained/refurbished with 2 sub-options reviewed, 1. Residential refurb (Option C) or 2. Office refurb (Option D) – Building 2 on HLM's plans (Fig 1)

In both Options C and D

II. The Harlington is demolished and a new build Harlington performance centre is re-provided with active edges on the high street – Building 1 on HLM's plans (Fig1)

III. The current library is demolished, with a new build residential block to be built to include a re-provided library – Building 3 on HLM's Plans (Fig 1)

This briefing note provides an update on the viability position of these two options to inform HDC's next steps.

In preparing this note we have engaged with cost consultants, Gleeds, to review the build cost assumptions and undertaken a market review of commercial and residential capital and rental values.


Fig 1
New-Build Performance Centre
Residential Permitted Development
New-build Residential & Library
New Hard Landscaping
New Soft Landscaping
New Square
Car Park Improvements
Refurbished Civic Offices
Victoria Road Car Park Improvements
Linking Avenue
3
New Square
2
Linking Avenue
1
Flagship House Car Park Improvements

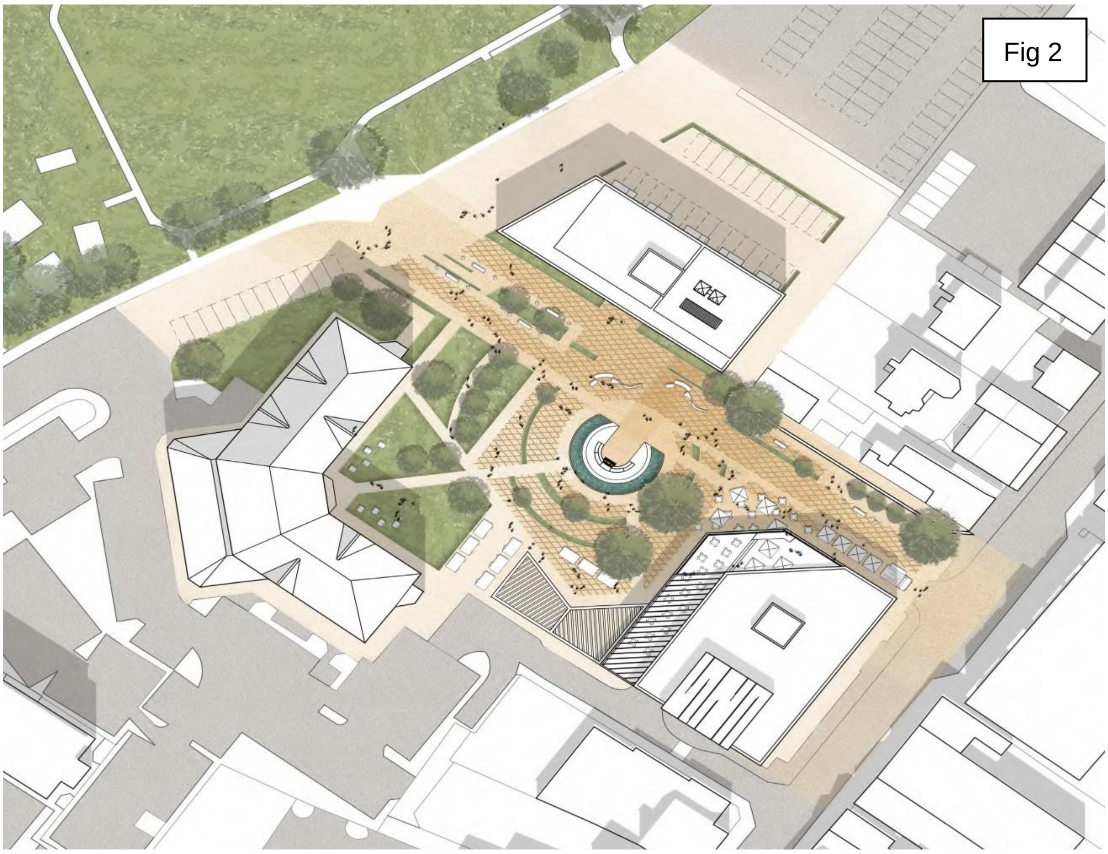


Fig 2

VIABILITY COMMENTARY

EXECUTIVE SUMMARY

The rise in build costs since early 2021 and the increase in the cost of borrowing, combined with static values means the business case for options C and D in its entirety has become more challenging primarily due to the increased funding deficit for the reprovision of the Harlington where costs have risen to c.£18M in comparison to the £16m previously forecast.

The scope for development to deliver significant cross-subsidy is limited by virtue of the modest level of development within the masterplan and therefore modest land receipts. The potential for cross-subsidy has also diminished since our report in 2021, primarily due to rising costs.

As a result, there is a need to undertake more detailed business planning by HDC and Fleet Town Council (FTC) to assess the affordability of a replacement Harlington and consider what this means for the size of a new venue and consideration of refurbishment/extension of the existing facility as an alternative to provide an up to date baseline from which to compare new build vs retention.

There is however a clear case for HDC to address refurbishment or redevelopment of the civic office building in isolation (as an early phase of work), which allows parallel workstreams to be progressed including a more detailed examination of the Harlington options.

The Harlington business case will need to be built around the long-term revenue considerations, rather than a reliance on commercial development cross-subsidising significant community investment with funding from HDC/FTC. At c.£18M, the anticipated development costs are creating a significant funding gap.

We have provided an updated detailed financial review below. This includes an assessment of the individual elements of the masterplan on a building-by-building basis. Based on the review of each building we have summarised what this means for different scenarios for HDC in the latter part of this Briefing Note to provide a financial overview.

In terms of next steps, we would recommend that HDC/FTC assess the business case and RIBA Stage 1 brief for the Harlington in parallel with the development of the masterplan by a more detailed review of (1) the funding streams to inform refining the options, (2) review the potential to share facilities, (3) review the potential to retain/refurbish/extend and (4) assess the opportunity for redevelopment of a slightly smaller facility, so up-to-date comparisons can be drawn to aid further decision making. This should also involve reviewing the opportunities for sharing of space by all three public sector stakeholders to make more effective use of facilities and reduce overheads where possible.

BUILDING 1 (FIG. 1) – NEW HARLINGTON

The estimated cost of a new venue is c.£18M, including fees and a contingency of 7.5%. Gleeds have based the costs on Charcoal Blue's previous building specification and spatial requirements. This compares to £16M two years ago.

We have assumed HDC provide the land for the new venue <u>at nil value,</u> with the loss of car parking income displaced to Victoria Rd Car Park.

'Fleet Town Council are faced with the challenge of a large increase in build cost for the new Harlington plus reduced borrowing capacity due to the rate increases (£10m to £7m). From engagement with Bob Schofield at FTC it is evident FTC are - in light of higher borrowing rates - having to revise the amount of borrowing FTC would contemplate to finance a new venue.

As context, FTC previously in 2021 considered funding the majority of a new venue through Public Loans Board (PWLB) funding with a £10M loan. However, FTC now believes £7M is the limit possible. Therefore, a c.£3M funding gap has emerged plus the additional £2M of costs, so there is c £5M of extra cost assuming the other assumptions in the 2021 report were agreed by HDC/FTC.

The rates precept that FTC has raised is anticipated by FTC to provide the basis for funding PWLB loan interest and covering the anticipated revenue shortfall of c £120K p/a for running the venue. It is clear FTC have a key role to play as a funder and operator.

To recap, in 2021 the funding scenario in our report assumed;

- £3M from FTC assuming £2M collected and additional precept collected over 2021 and 2022
- £3M from HDC funding the site-wide public ream and providing land at nil cost
- £3M HDC capital contribution
- £10M PWLB loan funded by FTC
- Annual running deficit funded by FTC

In 2023 however, given the increase in costs and reduced capacity of FTC's borrowing capabilities, the current indicative funding model would by comparison to 2021 be as follows:

- £3M from FTC assuming £2M collected and additional precept collected over 2022 and 2023
- £8M from HDC or FTC as a capital contribution
- £3.3M from HDC funding the site-wide public ream and providing land at nil cost
- £7M PWLB loan funded by FTC
- Annual running deficit funded by FTC

Assuming FTC can support the funding of the £7M loan, and FTC can only provide £3m additional funding including the precept - the cost to HDC would be c £11.3M in total to fund the Harlington and public realm which equates to a circa £5M uplift when compared to the previous viability report. Based on HDC adopting PWLB funding at 5% with MRP to fund the £11.3M, this would equate to an annual cost of circa £565k p/a. Which equates to a circa £325k p/a uplift when compared to the 2021 viability report on a like for like basis (assuming £6m gross funding cost excluding building 3 site sale).

We appreciate there are significant financial implications for both HDC and FTC in a do-nothing and redevelopment scenario. We recommend the updated do-nothing scenario is assessed so there is clarity over the costs to HDC/FTC of the current and anticipated repairs. This will form part of a refreshed outline business case review for the Harlington and Civic Quarter Masterplan. This will allow FTC/HDC to review the assumed size of the building and review should its functionality change to cater for more flexibility. We see this as a priority piece of work it allows FTC/HDC to prepare a business case for funding and operating and comparing this with refurbishment, reduction in size and specification.

The scenarios above would need to be compared to the "do nothing option" for HDC. We have also been made aware by the HDC that they are in discussions with FTC regarding the grant of a full repairing and insuring lease for 72 years for the Harlington and corresponding underlease of the reception area of the HCC library for 72 years at a peppercorn. In effect, this would mean the repairing liability for HDC on the Harlington would be passed over to FTC – and therefore HDC would, in a no scheme world, not be liable for backlog maintenance, but instead only be liable for the sum of £100K for the replacement of the boilers as part of the lease agreement. In this scenario the 'do nothing position' for HDC is not exposed to significant financial expenditure, but if FTC is unable to fund the new venue then there could be an option for HDC to play some form of funding role; however, this may require a new lease and a review of any investment case.

Grant funding opportunities should be explored as part of a business case review.

BUILDING 2 (FIG.1) – HDC CIVIC OFFICES

OPTION C

This option focuses on the conversion of the current office space to residential use for c.50 units. We have assessed the viability of both a refurbishment for sale and letting. Below shows the comparison from today's appraisals with updated cost and value assumptions compared to the previous appraisals in 2021. Full details of the assumptions can be found within Appendix 1.

Previous 2021 Appraisals

Option	NDV	Total Cost	Profit (20%)	Residual Value / or Yield	Net Development Yield (net of HDC decant)
Sale	£15.4m	£8.2m	£1.6m	£5.4m	
Let	£8.3m	£7.5m	n/a	5.9%	4.1%

Current 2023 Appraisals

Option	NDV	Total Cost	Profit (20%)	Residual Value / or Yield	Net Development Yield (net of HDC decant)
Sale	£15.4m	£8.8m	£2.6m	£4.0m	
Let	£9.3m	£8.1m	n/a	6.2%	4.6%

The cost has increased by c.15% from the previous iterations in 2021 which has a detrimental effect on the land value on the sale option – a reduction by £1.4m. In the residential for let option the development yield has improved, despite the cost increases, as the rental values have increased by c£100 per calendar month within the appraisal. However, we appreciate HDC may not wish to retain the building as an investment.

OPTION D

Option D assumed the HDC office building is refurbished and remains as commercial space. We have assessed two options as previous:

i) Public Hub - assumes the building is refurbished, the Council remain on one floor of the building (assumed level 2 is retained as democratic and work space functions) and the remainder of the office space is let to other public sector related occupiers. This could include the Police/ACAS, possibly HCC Library. We have assumed the 1st floor space is let to Farnborough Tech college as per the Agreement for Lease in place at £230k per annum - Alteration works will be undertaken at the tenants cost and therefore we have removed the refurb cost to the Council on this floor.

ii) Commercial leasing - The Council move out of the HDC office entirely, the building is refurbished and then let to the private sector. The Council would lease space reduced space (c.5,500 sq ft) within a third party owned office building, assuming a rent of £17.50 psf (£96,250 pa) plus a potential fit-out cost assumed at £800k (£90 psf plus fees, moving cost and IT). We have assumed HDC pays for the refurbishment of the office building. It is also possible within this option that HDC remains in occupation and lets then the remainder of the space to private businesses, subject to demand.

A comparison of today's appraisals with updated cost and value assumptions compared to the previous appraisals in 2021 is below. Full details of the assumptions are within Appendix 1.

Previous 2021 Appraisals

Option	NDV	Total Refurb Cost	Income (p/a) before interest	Dev yield (Before Interest)	Net Dev yield (inc. Flagship move)
Public Hub £12.50	£3.5m	£5.7m	£312K	5.5%	n/a
Commercial £12.50	£4.8m	£5.3m	£433K	8.2%	5.7%
Commercial £15.00	£5.8m	£5.3m	£519K	9.8%	7.3%

Current 2023 Appraisals

Option	NDV	Total Cost	Income (p/a) before interest	Dev yield (Before interest)	Net Dev yield (inc. Council decant)
Public Hub £12.50	£4.9m	£5.1m	£410K	8.0%	n/a
Commercial £12.50	£4.8m	£6.0m	£433K	7.2%	5.0%
Commercial £15.00	£5.8m	£6.0m	£519K	8.6%	6.2%

Notes

Floor Area Assumptions:

- Total Net Area: 35,866 sq ft
- HDC occupied: 10,764 sq ft (second floor)
- Farnborough Tech College: 9,138 sq ft (first floor)
- Third Party Let: 15,964 sq ft.

Office rents have remained similar to 2021 and so we have assumed the same rents in our updated appraisals. The development yield has reduced in all scenarios due to the increase in cost of the refurbishment, with the rents remaining at the same level as previously. <u>It is important to note the returns are before interest costs are taken into account.</u>

ASSESSMENT

From our assessment of demolish/rebuild or refurbish, we are of the view that HDC would be better to retain the existing building and refurbish for office use if there is demonstrable demand from other public or private sector occupiers. Farnborough Tech College is a good example of potential demand, reducing the letting risk of a refurbishment option with one less floor to find occupiers for. In the absence of public sector occupiers, a leasing agents review is recommended to assess the scope for attracting occupiers with the public sector in situ. Potentially a positive income stream can be secured which negates HDC having to relocate and preserves the civic hub anchor to the town centre.

We have used a conservative rental of £12.50sqft and assumed a permanent void of 10% on lettable space. With the council staying within the HDC building, this negates the rent and fit out costs associated with moving to new office premises which we have estimated at c.£800K to fit out. We have assumed the building will require refurbishment though at a cost of £5.1M. The cost of finance could be c.£0.255M p/a, which would create a net income to the Council of approximately £155K. In addition, HDC will reduce its current operating costs of the building. Based on high level information, this could be in the region of £205K p/a, and therefore a total net revenue benefit of £360K p/a - but this will need to be assessed as part of a more detailed business case.

Residential Conversion: The residential private rental option D provides scope to retain control of the building and manage the environment and create an income stream. The capital investment would be c £8.1M to generate a rental income of c £500K p/a. However, allowing for finance costs of 5% inc MRP on the cost of £8.1M, would leave a surplus of only c.£95K p/a, but HDC would be liable to pay off-site offices, which are likely to cost c.£100K p/a, plus fitting-out costs. Therefore, given the rise in building and borrowing cost, a disposal of the site for residential is the more viable option of the two when compared to retaining and receiving rental income.

A disposal of the building for residential use this could generate in the region of £4m, allowing HDC to use the proceeds to pay towards the site-wide masterplan cost and/or office move to alternative premises. This would be a lower risk option in creating an actual capital receipt, but it would mean HDC forgoing a degree of control.

BUILDING 3 (FIG. 1) – NEW BUILD RESIDENTIAL

This building comprises a new build residential development of c.38 units with commercial / activation space at ground floor. This could accommodate a relocated library. It assumes the Harlington is demolished. 20% Affordable Housing (AH) is assumed. We think the building could produce a modest land value of £0.3m (assuming 20% AH) which could contribute towards funding the public realm for the Civic Quarter.

This compares to a land value of £1.25m previously, with the contributing factor in the reduction being an increase in build cost over the two-year period.

HAMPSHIRE CC LIBRARY

We have considered the scope for a cost-neutral solution for HCC to incentivise a relocation to new, smaller accommodation. From our high-level updated review, we think it is likely HCC will still require an additional payment over and above the existing asset value as the value of the library is assumed the same but the cost have increased.

We have assumed HDC purchase HCC Library at £1M, but the cost to deliver the ground floor of building 3 is c.£2m. in terms of build costs/fees exc profit. Therefore, HCC will be in a c.£1M deficit to buy a long leasehold interest of this 8,000sqft unit. But HCC will have capital cost liabilities for upgrading the existing Library which could be c.£250K for a heating system and repairs. Equally, if HCC are making revenue savings on lower overheads could these costs also be capitalised? If the overheads are say £25K p/a lower, capitalised over 20 years at a discount rate of 7%, a case be made for the “funding gap” to be c £250-500K in total.

Alternatively, if the library is left in situ, the cost of buying out HCC is obviously negated and would represent a saving to the project. However, the impact of the Library on the masterplan options would limit the scenarios.

COMBINED SITES FINANCIAL SCENARIO

INTRODUCTION

To illustrate the overarching financial position for the masterplan sites we have used two scenarios (based on the same funding principles for the Harlington we adopted in the 2021 report for consistency) to show the impact of the updated projections.

Scenario 1 – HDC sells the civic offices for residential development, leases third-party space, sells Building 3 development opportunity site and the Harlington is redeveloped as per the current Charcoal Blue plans.

- Civic office capital receipt - £4M
- Building 3 receipt - £0.3M
- HDC lease offices at a cost of c.£100K p/a and incur moving costs of c.£0.8M

Other HDC Costs:

- Public realm costs £3.3M as per masterplan
- £8M Harlington capital contribution (FTC fund £10M of Harlington costs inc. £7M loan)
- Net Cost to HDC if £4M and £0.3M of building sale receipt off-sets £11.3M capital sum; £7M
- Annual borrowing cost based on £7M at say 5% £350K p/a
- Relocated Civic offices cost say £100K (excs service charge): £100K p/a

Total annual cost to HDC: £450K p/a (note repayment of principal loan to be reviewed with HDC).

Scenario 2 – HDC remain in the Civic offices and re-let to the private sector or public bodies. Building 3 development opportunity is sold and the Harlington redeveloped as per Charcoal Blue scheme.

- Civic office net revenue benefit compared with current position, saving of - £360K p/a (assuming borrowing of £5.1M for the refurbishment)
- Building 3 Receipt - £0.3M

Other Costs:

- Public realm costs £3.3M as per masterplan
- £8M Harlington capital contribution (FTC fund £10M of Harlington costs inc £7M loan)
- Net HDC cost: £11M
- Annual Interest Cost of £11M = £550K p/a (note repayment of principal loan to be reviewed with HDC)
- Less Additional net benefit from HDC offices: £360K p/a

Net Extra Cost: say £190K p/a

NOTE: capital of c.£5.1M required to refurbish the HDC offices. MRP to be discussed.

Scenario 3 – Do Nothing

To compare the scenarios with the current day position we have taken data provided in 2020 on the existing offices and Harlington to provide a baseline. We would recommend the current day position is updated with the latest repairs and backlog maintenance position.

Harlington:
In 2020 HDC advised there was c.£5m of capital expenditure required plus annual running cost in the order of £140K p/a. Noting that FTC covers the annual running cost deficit.

Civic Offices:

Total anticipated HDC civic office overheads to March 23 are projected to be £611K. This equates to £20.39 per sq ft according to the schedule we have received from the Council.

Assuming HDC reduce their occupational requirement from the 86.5% liability to c.30% this would equate to savings of £360K p/a.

SUMMARY

Building 2 (HDC offices)
The land value of Building 2 (HDC offices) as a residential conversion for private sale units could generate a c.£4M sales receipt. This funding could be used in part to fund the downsizing and relocation of HDC's offices, with surplus funds used towards the Harlington and public realm works. However, HDC will have an ongoing rental liability to fund new offices. This could be in the region of c.£100K p/a plus service charge depending on the size of accommodation.

Residential refurbishment is no longer seen as viable allowing for finance costs and the annual cost of renting out alternative HDC office space.

The retention of the existing Civic offices as public sector offices or a combination of public sector and private sector rental is seen as a more viable option particularly in light of the Farnborough Tech College letting. This option has the potential to generate a longer-term benefit. Demand testing is recommended for the vacant space to inform the future revenue projections and capital budgets for refurbishing the lettable space.

There is clearly a standalone business case for the refurbishment of HDC's current offices, but there is modest scope to create surplus income or capital to contribute to the replacement of the Harlington. The option to refurbish the Civic offices for commercial/civic use provides more synergy with the masterplan objectives but carries letting risk which will be informed by the demand assessment. The Farnborough Tech College letting helps mitigate occupier risk.

Building 3
Based on today's costs and values the building's land value has reduced by c.£1M to £0.3M (based on 20% affordable housing) since 2021 due to the increase in build costs. This building can therefore only provide a very modest contribution towards funding the public realm of the wider masterplan redevelopment.

Harlington
The affordability of the Harlington is the principal concern for the project. The building cost based on the current size and specification requirements has increased to c.£18M (from £16m in 2021), and FTC borrowing capacity via PWLB has fallen from £10M to £7M. Assuming FTC can still only provide £3M additional funding including the precept – the cost to HDC, therefore, could equate to £8M, in order to achieve the required £18M to fund the Harlington and £3M for the public realm. It is important to note the split of financial contributions will need to be discussed between FTC/HDC, so the figures we have provided are for illustrative purposes.

HDC will need to review the business case options (with FTC) as part of the affordability assessment to consider the implications for funding the project. Options could include:

- A smaller venue/optimisation of the current plans for the Harlington.
- Assess the refurbishment option – capital and revenue implications to allow a comparison with 1. Do Nothing scenario and 2. New Build

The opportunity from Farnborough Tech College taking space within the Council office / Harlington, if the requirement is being positively progressed.

Harlington Refurbishment Option

As part of the recommended next steps we have considered with HLM the opportunity to bring the HCC Library into the Civic offices ground floor area. This could form part of an alternative option to consider refurbishment of the Harlington and an assessment of optimism the use of space and assets. The HLM sketch option below includes a new build residential building within Gurkha Square.

The viability of Building 2 in this scenario would remain as per the above with the Council retaining the second floor with the remainder let out to either the public sector or a combination of public and private sector occupiers. Building 3 viability is likely to be similar to the current projected figure. The opportunity is to reduce the costs of the Harlington through a refurbishment option.

RECOMMENDED NEXT STEPS

Given the impact of the Farnborough Tech College letting and Harlington lease on HDC's commercial position we would recommend more detailed business planning is undertaken to assess a preferred option for Civic Quarter masterplan.

The approach taken to the future of the Harlington will be critical to the direction for the masterplan. This work can include parallel work by to deliver the rationalisation of HDC's civic offices, which is the logical first phase and can be de-coupled from the Harlington delivery.

Whilst the viability of the masterplan has become more challenging the opportunity remains to optimise the use of the public sector assets (to reduce revenue costs through the sharing of space where possible) on the site and we would recommend that is an important thread of any next stage work. More specifically we would recommend:

- Review the funding options for HDC/FTC to understand the financial parameters which will inform the affordability criteria.
- Collate up to date data on the existing Harlington running costs and repairs required.
- Collate data with FTC to understand the trading projections for a redeveloped building and understand the scope for a reduced building footprint and scope for sharing uses.
- A business case review including spatial planning to assess the above which compares refurbishment vs redevelopment.
- Appoint a local office leasing specialist to advise on the office leasing implications for the 2 vacant floors of the Civic offices to inform the detailed business planning.

APPENDIX 1

FEASIBILITY OVERVIEW

FLEET CIVIC QUARTER REGENERATION

VIABILITY UPDATE

PRIVATE & CONFIDENTIAL

FEBRUARY 2023

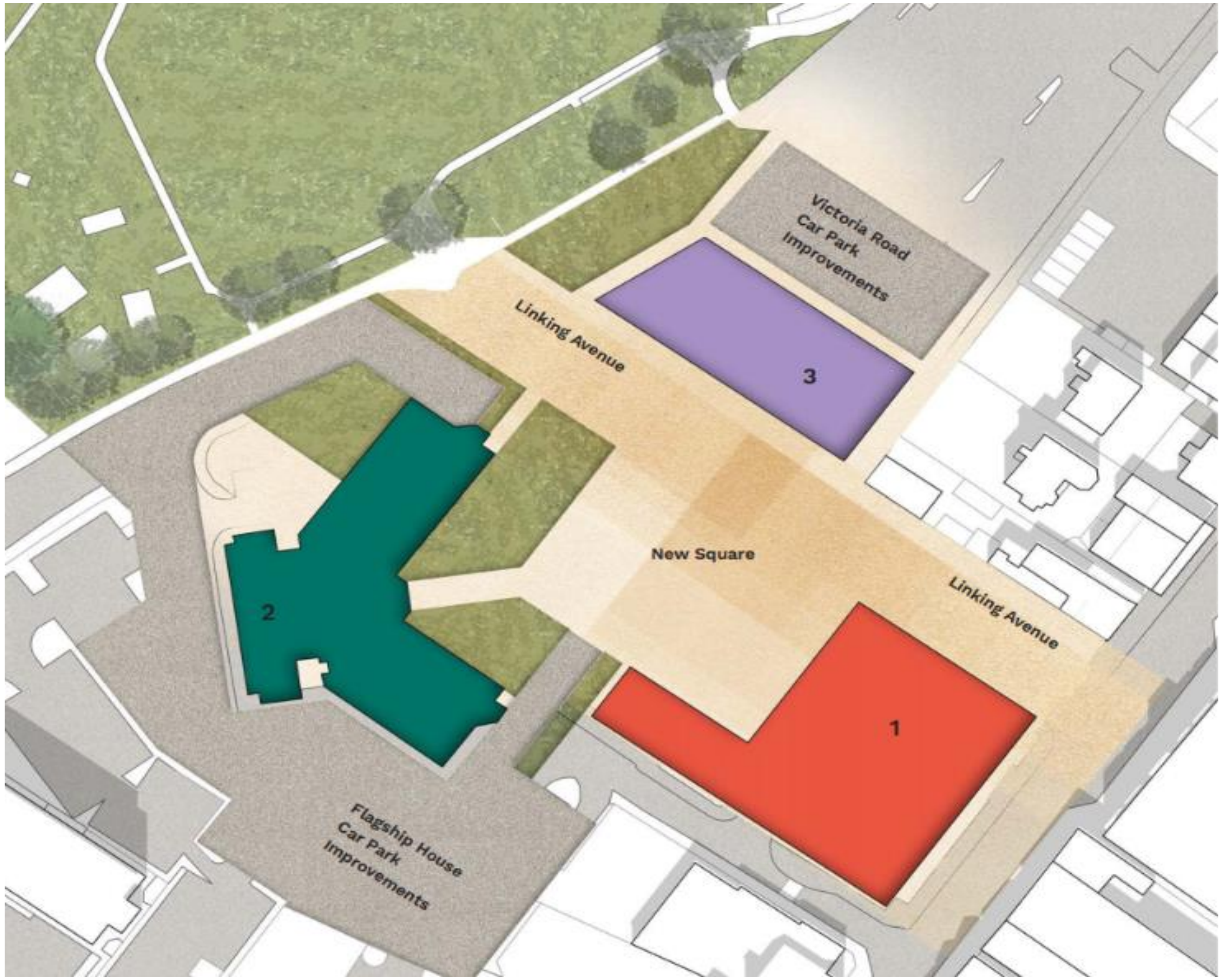
gleeds

HLM Architects

Hart DISTRICT COUNCIL

OPTION C & D

New-Build Performance Centre
Residential Permitted Development
New-build Residential & Library
New Hard Landscaping
New Soft Landscaping
New Square
Car Park Improvements



FEASIBILITY SUMMARY

Building	Description	NDV	Total Cost	Profit	Land Value or Profit / deficit	Development Yield	Net Development Yield (inc. decant cost)
1	Performance Venue	£0	£18m	n/a	n/a		
2 - Option C – Refurb sale	£100k p/r	£15.4m	£8.8m	£2.6m	£4.0m		
2 - Option C – Refurb let	£100k p/r	£9.3m	£8.1m	n/a	n/a	6.2%	4.6%
2 - Option D - Public Hub (£12.50)	Council Remain	£4.9m	£5.1m	n/a	n/a	8.0%	
2 - Option D – Commercial (£12.50)	Let All	£4.8m	£6.0m	n/a	-£1.2m	7.2%	5.0% (inc. £800k decant cost)
2 - Option D – Commercial (£15)	Let All	£5.8m	£6.0m	n/a	-£0.2m	8.6%	6.2% (inc. £800k decant cost)
3 - (either option) – (20% AH)	New Build Residential	£12.5m	£10.3m	£1.9m	£0.3m		
Public Realm Cost (C/D)			£3.3m				
HCC Library Purchase Price	Valuation to be discussed		£0.9m				

Notes:
1. If HDC sell Building 2 then replacement rental c £100K p/a plus capital cost of c £800K
2. If HDC decant then need to assume cost p/a to rent committee rooms?

BUILDING 1

Building 1 - Performance Venue

CharcoalBlue specifications:
Performance
Multi-purpose studio/performance
Social spaces including cafe
Administration
Ancillary (Changing etc)

GIA: 2,100sqm

CharcoalBlue Plus:
Multi-purpose (meeting/conference)
Bookable meetings/workplace
Roof top terrace and bar

GIA: 550 sqm

Active frontages to New Square and part Fleet Road

Total GIA: 2,650 sqm

Building A provides a new performance venue replacing the Harlington Centre. The building area is based Charcoal Blue's previous work.

HLM have provided initial plans for the building and Gleeds have provided a high level benchmarked build cost estimate.

The total construction cost equates to £14.1m which includes the demolition of the HCC building (£200K). Professional fees of 12%,a contingency of 7.5% and a DM fee of 3% is included. We have excluded finance costs pending discussing the source of funding.

The question of who funds and takes the business case risk will need to be considered. If this is FTC, then does HDC rent rooms periodically and provide the land at a cost to be agreed, so FTC take on all operational control/risk of the building. This avoids HDC taking operational risk and streamlines control. Land purchase by FTC? These are not topics we are proposing to discuss at the next Working Group, but we wanted to discuss the topic with the HDC officer team.

Option	NDV	Total Cost	Profit	Land Value
Building 1	£0m	£18.02m	N/A	N/A

BUILDING 1

Funding Gap

How does the new venue costing £18m get funded?

Could be funded by both FTC/HDC. An indicative model we propose for discussion on possible sources of capital funding for the building could involve:

- £3M from FTC assuming £2M collected and additional precept collected over 2022 and 2023
- £8M from HDC as a capital contribution
- £3.3M from HDC funding the site-wide public ream and providing land at nil cost
- £7M PWLB loan funded by FTC
- Annual running deficit funded by FTC

Assuming FTC can support the funding of the £7m loan, and FTC can only provide £3m - the Cost to HDC will be £11.3m to fund the Harlington and Public realm. Taking account of the sale of building 3 for £0.3m this net cost to HDC would be £11m.

Based on PWLB funding at 5% with MRP, this would equate an annual cost of £550k p/a – which is worse than the current do nothing scenario.

Other options for the Harlington will need to be considered.

BUILDING 2 – OPTION C

For Building 2 we have looked at a number of potential scenarios for the repurposing of the HDC office space. This option focuses on the conversion of the space to residential use.

Option C – Refurb for Sale

The Council move out of the office and the building is converted into residential for private sale.

GIA of 4,550 sq m (c 49,000 sq ft). We have assumed a 70% efficiency ratio producing 3,185 sq m (34,250 sq ft), providing c.52 residential units.

A 20% developer profit on cost is assumed for the sale option, assuming a sales value of £450 psf.

Option C – Refurb for Let

The Council move out of the office and the building is converted into residential development for PRS. The same area and unit assumption have been assumed as in the private sale option.

We have assumed an average rental value per calendar month of £1,050 per unit. 25% management and void cost have then been deducted producing a net rent of £500,850 per annum.

The base build cost is assumed at £172.50 psf (15% inflation since previous iteration) equating to £8.45m. However we are aware specialist developers will operate at a lower cost model which can influence the residual/yield on cost, so we have shown a range.

Option	NDV	Total Cost	Profit (20%)	Residual Value / or Yield	Net Development Yield (inc. Council decant)
Sale - £100k	£15.4m	£8.8m	£2.6m	£4.0m	
Let - £100k	£9.3m	£8.1m	n/a	6.2%	4.6%

Council decant - Council would pay a rent in the region of £96,250 pa (5,500 sq ft at £17.50) plus service charge and rates. Plus there could be a cost of c £800K to fit-out and move.

Add £800k to cost and deduct £96,250 from rent for net yield calculation.

BUILDING 2 – OPTION D

For Building 2 we have looked at a number of potential scenarios for the repurposing of the HDC office space to include:

Option D - 1 (Public Hub)

We have assumed the building is refurbished, the Council remain on one floor, Farnborough Tech College (FTC) occupy the 1st floor (HoT's reflected £230k) and the remainder is let to other public sector related occupiers. This could include the Police/ACAS, possibly HCC Library (ground floor) if there was a requirement. FTC will be responsible for the cost of works to that floor.

We have therefore assumed the Council remain on the second floor at nil rent enabling the retention of the Committee Rooms and Chambers (2,600 sq ft) and then use the remainder of the floor as office space (6,450 sq ft) plus 1,000 sq ft of circulation space.

The total rent from the lettable space is c £410K @ £12.50 psf per annum (including FTC rent of £230k), excluding the HDC occupied space. We have allowed a 10% permanent void. We have also run this option at £15 psf.

Option D – 2 (Commercial leasing)

The Council move out of the HDC office entirely, the building is refurbished and then let to the private sector at a target rent of £15.00 per sq ft. This would produce a rent of c £519K p/a. A 10% permanent void has been included. We have also run this option at a rent of £12.50 psf for comparison. Whilst the income return is significantly higher there is a higher risk attached to this option as tenants will need to be sought, we question if there would be sufficient demand for the whole building.

For both options we have assumed no developers profit assuming the Council retain the building and undertake the refurbishment works themselves. A project managers fee of 3% has been included within the costs.

Council decant to 3rd party address

If the Council were to move out of their current office, we have assumed the Council could take c.5,500sqft NIA of space in the alternative office building. Based on a rent of £17.50 per sq ft the Council would pay a rent in the region of £96,250 pa plus service charge and rates. Plus there could be a cost of c.£800K to fit-out and move.

This rent should be deducted from the rent generated from refurbishing the existing HDC building in Option D (Commercial Leasing) option to give a net rent and development yield should the Council move out. See Net Development Yield column below:

Option	NDV	Total Cost	Income (p/a)	Dev yield	Net Dev yield (inc. Council decant)
Public Hub £12.50	£4.9m	£5.1m	£410K	8.0%	n/a
Public Hub £15.00	£5.3m	£5.1m	£446K	8.7%	n/a
Commercial £12.50	£4.8m	£6.0m	£433K	7.2%	5.0%
Commercial £15.00	£5.8m	£6.0m	£519K	8.6%	6.2%

Notes:

1. In the Commercial Leasing option HDC will also incur extra overheads by renting a committee room on a regular basis
2. Space summary Public Hub:

- HDC occupy c 25%
- HCC could occupy c 25% for Library on ground floor
- Police could occupy c 15% TBC
- Remaining space leased to private sector 35%-50% depending on HCC

BUILDING 2 – OPTION D

BUSINESS CASE – NET RETURNS

RENTAL Option:
Looking at the Council's net rent and therefore Development Yield of Building 2, we also have to consider the possibility that HDC will incur interest payments to pay for the purchase of the HCC Library and Public Realm costs.

Public realm borrowing cost @ 5% on £3.3m – block 3 sale (£0.3m (20% AH)) = £3m @ 5% = **£150K per annum**

Borrowing cost on £1.2m HCC library purchase @ 5% = **£60K per annum.**

Council relocation fit out cost - £800k @ 5% = **£40k per annum**

SALE Option:

If HDC sell Building 2 for a build to sell residential refurb, assuming the sale receipt of c.**£4m**, plus **£0.3m** receipt from Building 3.

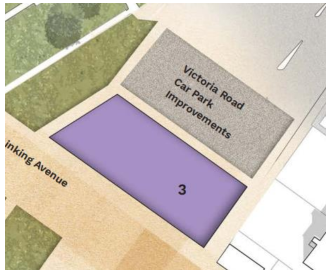
Total receipt say - £4.3m
Less: public realm - £3.3m
HCC Library - £0.9m

Net surplus to HDC: £0.1m (in essence – breaks even)

HDC also incur a rental of c.£100K p/a for the new offices/customer service within new rented accommodation.

Option	Rental Income	Dev yield	Net Dev yield (inc. Council decant)	Dev Yield after Interest cost
Public Hub £12.50	£410,000	8.0%	n/a	13.9% (net rent £200,000/£5.1m)
Commercial £12.50	£433,000	7.2%	5.7%	1.4% (net rent £83,000/£6m)
Commercial £15.00	£519,500	8.6%	7.3%	2.8% (net rent £169,500/£6m)

BUILDING 3



Building 3 looks to provide a new build residential led development over 5 stories on the former Harlington Centre site.

We have assumed the ground floor provides 760 sq m GIA of ground floor commercial space which is rented out at a nominal rent of £7.50 psf.

The 4 upper floors are assumed to be residential for sale units over 3,040 sq m GIA (32,722 sq ft). Based on an efficiency ratio of 82% this provides a total NIA of 26,832 sq ft which can accommodate c.38 units based on a NIA per unit of c.700 sq ft. 40% Policy compliant Affordable Housing has been assumed, but we have also run sensitivities based on the %.

Car parking at 1:1 to be provided in Victoria Road Car Park.

We have assumed a demolition cost for the Harlington of £450k. The total construction cost of building C equates to £7.65m. Contingency, professional fees, letting and sale fees and 17.5% developers profit have also been applied. The appraisal outputs can be seen below.

Option	NDV	Total Cost	Profit (17.5%)	Residual Value
40% AH	£11.6m	£10.2m	£1.8m	-£0.4m
20% AH	£12.5m	£10.3m	£1.9m	£0.3m
0% AH	£13.4m	£10.5m	£2.0m	£0.9m

20% and 0% Affordable Housing is able to provide a residual land value that can contribute to a cross subsidy required for public realm, albeit minimal unless 0% can be justified.

OTHER ASSUMPTIONS

Council relocate into Alternative Address

Assuming the Council are to move out of the HDC office building if the building is to be converted into residential, we have assumed the Council who require c.5,500sqft NIA of space could relocate to a floor in an alternative office building.

We have assumed the move would include stripping out the floor, a Cat B fit out cost of c.£90 psf and an allowance for furniture. The total cost provided by Gleeds equates to £652k.

Based on current comparables a rent of £17.50 psf may be achievable in new space. Based on a floor area of 5,500 sq ft the Council would have to pay a total rent in the region of £96,250 pa plus service charge and rates.

Total cost of relocation:

£652k (fit out), plus fees and moving costs/IT costs, assume c.£800,000.
borrowing cost @ 5% pa = £40,000

Rental cost to lease c.£96,250 p/a, plus service charge. The rental options for HDC owned buildings to be reviewed to establish net rent after finance costs.

Public Realm & Flagship House Car Park Works

Public Realm

New public square - £1.05m
Soft landscaping and greenery to car parks - £270k
Hard landscaping, street furniture, lighting etc - £1.4m
Car Park – £220k

Total - £2.94m plus fees say £3.3m in total

OTHER ASSUMPTIONS CONT…

Current Library Value

Options C and D will require the purchase of the HCC library site. This cost will need to be included in the appraisals of the two schemes. Currently we believe the current book value is high and purchasing at this price will significantly damage the viability of the entire scheme.

We have therefore looked at the Library's existing use value assuming a nominal rent based on the current internal floor area of 1,102m/2 (11,862 sq ft).

11,862 x £7.50 = £88,965 rent per annum

Capitalised @ 7.5% = £1.186m

However, the building also requires a significant amount of work that would include new boilers and roof. Gleeds have estimated this cost at £290k and have deducted it from out estimate of value.

Estimate of exiting use value - £1.186m - £0.290m = £896,000 – **Say £900,000**

VICTORIA ROAD CAR PARK

Valuation

We have been provided with the Current income by the Council, see below:

Annual Income – **2021/22 income £134,449** (excludes Gurkha Square CP income) – **average over the last 3 years £158,864.**
The development of building 3 will mean some spaces will be lost – tbc. But if we assume Gurkha Sq. car park £100K p/a (average of last 3 years) income is redistributed to Victoria Square and Church Road.

Valuation based on average income less assumed operating cost capitalised at 7% - **£1.49m** but would increase with extra income

Supermarket Sale

Based on the site area of 1.55 acres for the car park (including Harlington site) it is likely that Lidl could purchase the site in the region of c **£1.5m.**
However the site is sub-optimal for the floor layout/parking.

OTHER ASSUMPTIONS CONT…

Building 2 – Public Hub – Net Income and Operating cost savings

Based on current service charge budget - £611K

Unit		Area Sq.Ft.	Schedule 1 - Estate	Budget Year	Schedule 2 - Utilities	Budget Year	Schedule 3 - Building A	Budget Year	Total Base Line Budget	Cost Per Sq.Ft.	Schedule 3 - Exceptional Expenditure	Budget Year	Budget - Grand Total	Cost Per Sq.Ft.	Previous Budget	Variance (£)	Variance (%)
Ground Floor	CAB	2000	6.67%	£ 10,667	6.67%	£ 8,813	6.67%	£ 21,299	£ 40,778	£ 20.39	6.67%	£ 600.03	£ 41,378.46	£ 20.69	£ 26,541.98	£ 14,836.48	55.90%
Ground Floor	Hart DC	4000	13.33%	£ 21,333	13.33%	£ 17,625	13.33%	£ 42,598	£ 81,557	£ 20.39	13.33%	£ 1,199.97	£ 82,756.82	£ 20.69	£ 26,541.98	£ 56,214.84	211.80%
First Floor	Hart DC	6000	20.00%	£ 32,000	20.00%	£ 26,438	20.00%	£ 63,897	£ 122,335	£ 20.39	20.00%	£ 1,800.00	£ 124,135.28	£ 20.69	£ 15,284.95	£ 108,850.33	712.14%
First Floor	External Tenant	2000	6.67%	£ 10,667	6.67%	£ 8,813	6.67%	£ 21,299	£ 40,778	£ 20.39	6.67%	£ 600.03	£ 41,378.46	£ 20.69	£ 12,831.16	£ 28,547.30	222.48%
Second Floor	Hart DC	8000	26.67%	£ 42,667	26.67%	£ 35,250	26.67%	£ 85,197	£ 163,114	£ 20.39	26.67%	£ 2,400.03	£ 165,513.74	£ 20.69	£ 27,380.31	£ 138,133.43	504.50%
Third Floor	Third Floor	8000	26.67%	£ 42,667	26.67%	£ 35,250	26.67%	£ 85,197	£ 163,114	£ 20.39	26.67%	£ 2,400.03	£ 165,513.74	£ 20.69	£ 56,767.96	£ 108,745.78	191.56%
Totals		**30000**	**100.00%**	**£ 160,000**	**100.00%**	**£ 132,189**	**100.00%**	**£ 319,487**	**£ 611,676**		**100.00%**	**£ 9,000.00**	**£ -**		**£ 165,350.00**		

New assumed rent - Building 2	£410,000	
Cost of borrowing 5% on 5.1m	£255,000	
	£155,000	**net income to council**
Ground & 3rd floor Business Rates and Service savings	£ 244,671	Council will save £163k + £81,557 that they are paying on the third and ground floors currently
Minus BR + SC for Farn Tech	£ 40,778	Council are currently liable of £122k on 1st floor, with External Tenant liable for a further £40k on 1st floor - tech college taking whole space with rent all icnlusive - Council there will become liable for this additional £40k also
	£ 203,892	**Total saving**
	£ 358,892	**Total net benfit to the Council**

BUILD COST ASSUMPTIONS

Gleeds have provided high level benchmark costs for each of the scenarios which have been appraised.

Option C – residential conversion assumes a total construction cost of £8.45m equating to c.£175 per sq ft.

Option D – office refurbishment cost of £80 per sq ft for the rental workspace, £115 per sq ft for the Council workspace and £150 per sq ft for the ground floor business hub.

Contingency, professional fees, letting and sales fees have been applied where relevant. Car parking for all options assumed 1:1 and provided for within the current parking zone for the building.

An additional cost for the replacement of the exiting windows of £700k has been included in each option. For Option D this budget can be applied to M&E upgrades instead of the windows – but further survey work would be required to verify the costs.

APPENDIX 2

MARKET REVIEW UPDATE

INTRODUCTION

In order to support the Civic Hub regeneration, an understanding of the property market context, an understanding of Fleet's property market is required. This paper examines property demand and pricing across the office and residential market within Fleet, whilst drawing upon independent property market research and other trusted sources including Rightmove, Zoopla, CoStar & Promis.

We have focused on the residential and office markets as the primary uses influencing the masterplan, specifically the private sale and build-to-rent sector.

It should also be noted that this report was prepared against the backdrop of the high inflation and consequently, rising interest rates. The full economic shocks of the latter are not yet known, nor the duration. Thus, the views below must be measured against the current market environment, as well as a longer-term horizon, by which time the concerns and volatility associated with these market forces will be expected to have subsided.

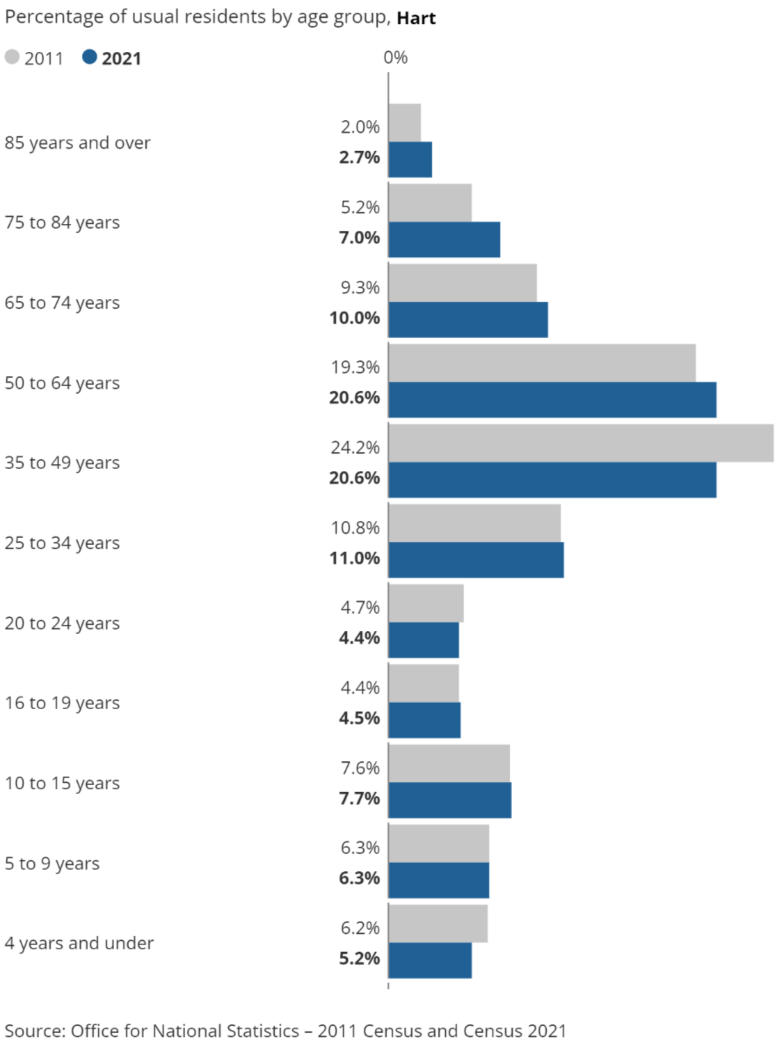
The situation is still evolving with investors, lenders, authorities, and occupiers considering their current property positions as the economy heads towards a recession. The pressures of mortgage affordability and the cost-of-living crisis is expected to cause a fall in house prices continuing into 2023, with recovery initiating towards the beginning of the following year. As a result of this, rental values may increase due to the shift in demand in these markets, balancing out the increasing operational costs.

This being said, market sentiment is divided, with some estimates of economic resilience in 2023 being able to weather the inflationary storm, and monetary policy pivoting to a neutral position. With this, a return in investor & consumer confidence may lead to pricing corrections in both the residential & commercial markets.

It is only over time that market activity will dictate the long-term property valuation implications, but in the short term, we can only advise where we see changes in market sentiment and must acknowledge the wider context in which this report has been produced.

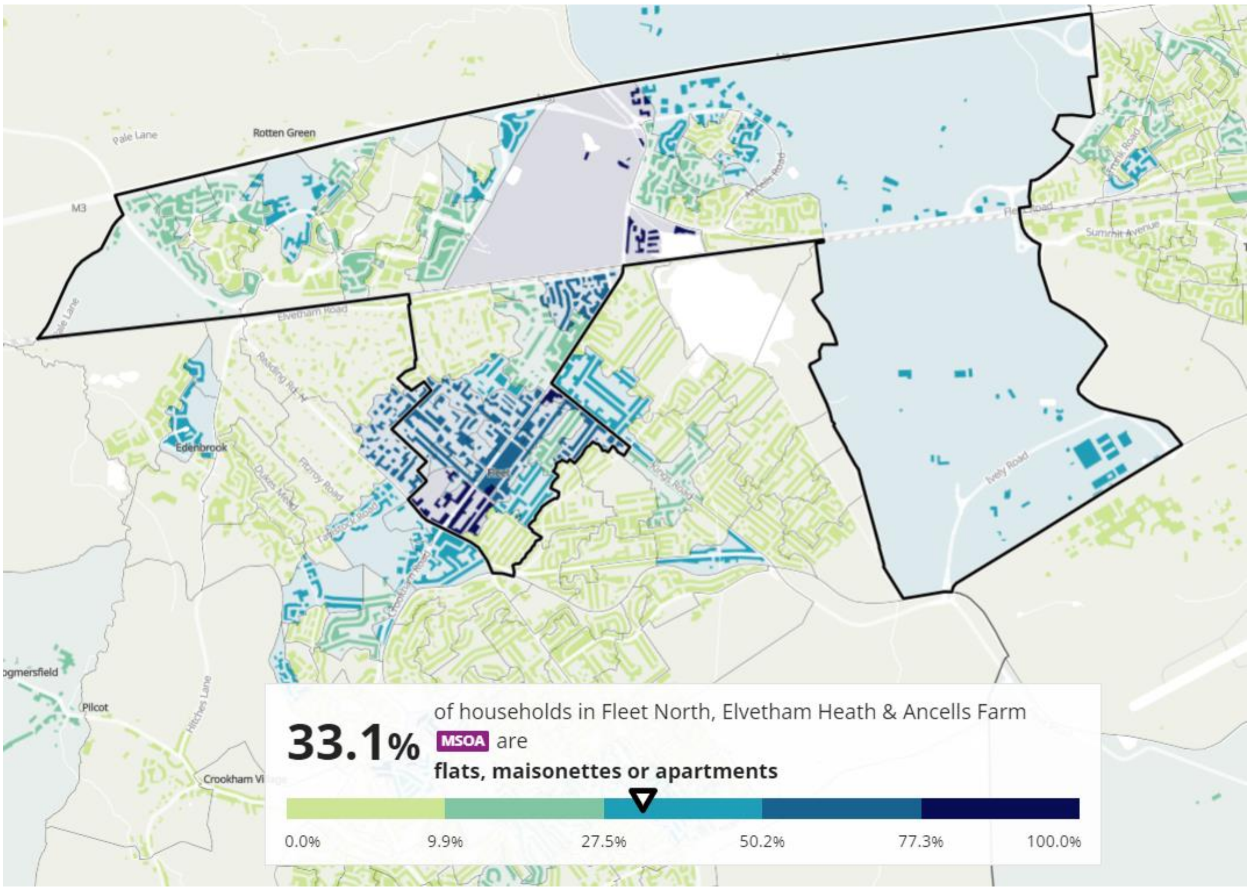
FLEET DEMOGRAPHICS

As complete Census data for Fleet is yet to be published, this report will draw upon data produced for the Local Authority District of Hart, in which Fleet is located. According to 2021 Census data, Hart had a population of 99,400. Between the last two census average age of Hart increased by two years, from 41 to 43 (*Source: ONS).* This is a marginally higher average than the Southeast region (41 years) and rest of England (40 years). However, Hart has an old age dependency ratio of 33.3 per 1000 working age population which is 23rd lowest out of 51 districts in the South-East region and 70th lowest out of all district authorities in England.



The subject site is located within Middle Layer Super Output Layer (MSOA) of Fleet North, Elvetham Heath and Ancells Farm. This MSOA is disproportionately represented in education levels, with Level 4 and above pertaining to 47.4% of the population, 37.8% of the population obtaining Level 1,2 or 3 qualifications and 9.3% of the population having no qualifications. 3.4% of the population have obtained apprenticeship level education and 2.3% with other qualifications. This reflects the national averages with 47% of the UK population obtaining a Level 4 or above qualification in the 2021 census.

In terms of accommodation type, 66.8% of households in the MSOA of Fleet North are whole houses or bungalows and 33.1% are flats, maisonettes, or apartments. The image below shows the distribution of flats, maisonettes or apartments within the MSOA of Fleet North. Within this, 28.2% of dwellings are owned outright, 41.5% are owned with a mortgage or loan and 24.7% are privately rented. The remaining 5.6% of dwellings are provided through social rent. In comparison to national figures, outright ownership is lower the national average (62.5%) and the number of privately rented dwellings is also significantly lower (37.3%).



In the last quarterly survey, Hart's labour market is composed of 46,500 individuals in employment between the age 16-64, reflecting a total c.85.1% of Hart's total population of working age (*Source: Hampshire County Council*). This is higher than both the national average (c.75.4%) and for the Southeast region (c.78.2%). Fleet North's population is equally dominated by those in L4, L5 and L6 professions (26.5%) and L1, L2 and L3 professions (25.3%). This reflects the comparative affluence of the area with these groupings of professions tending to have higher than national average levels of remuneration.

Predominantly, Fleet North's population works from home (49.8%), followed by 25.9% who travel less then 10km to work and 14.1% who travel over 10km. This rise in hybrid/WFH model has little variance from the national figures in which 42% of those in employment recorded using this model, a character that has been heavily influenced by the Coronavirus pandemic (*Source: ONS).*

2.0
RESIDENTIAL MARKET

RESIDENTIAL PROPERTY MARKET

LOCAL HOUSING MARKET

SALE

Data from Rightmove and Zoopla indicates that properties in Fleet had an overall average price of £507,452 last year. Majority of sales in Fleet in the last year were detached properties (38% of sales), selling for an average price of £745,023. Semi-detached properties (24% of sales), sold for an average of £457,131 and flats/apartments (23% of sales), fetched £232,979. In terms of price indexing, an increase of 7% was observed since 2022 in Fleet, slightly below the national average of 10% and 31% up on the 2020 peak of £388,998 *(Source: Halifax).* The heatmap below indicates the distribution of property prices in Fleet, showing that towards the North East of the town on Reading Rd North and Elvetham Road, the highest property values are observed.

For comparison, in the nearby town of Farnborough, the overall average price of a property over the last year reached £372,972 c.31% lower than Fleet (*Source: Rightmove*). Majority of sales in Farnborough last year were terraced properties, selling for an average price of £348,561. Semi-detached properties in Farnborough achieved an average value of £412,620 and flats fetched £207,013 over the last year.

Camberley is another nearby town useful for comparative analysis. Within the last year, the overall average price for a dwelling was £499,061(*Source: Rightmove)*. Sales were predominantly composed of detached properties, having an average price of £767,277. This was followed by semi-detached properties which achieved £464,193 and Flats recorded an average price of £242,600. Overall, sold prices in Camberley over the last year were 9% up on the previous year (2% higher than Fleet), and 11% up on the 2017 peak of £448,235.

Considering new build residential-led apartment developments, there has been little activity in Fleet's development pipeline. Developments in the area tend to be focussed on provision of semi-detached or detached homes within a 1.5-mile radius of the town centre. Due to the site's nature, flats or apartments will be the main focus within the Civic Hub regeneration. Several providing new apartment stock in Fleet have originated through office conversions in Ancells Business Park and the Fleet High Street. Additionally, developments have been delivered via Permitted Development conversion instead of completely new build stock. Comparable transactions are detailed below.

ANCELLS HOUSE

This is an office conversion providing 1- and 2-bedroom apartments on Ancells Road, just outside the town centre of Fleet (1.21 miles), and nearby to Fleet Train station (0.65 miles). The average price achieved for the flats we have been able to identify, per sq ft for the properties sold from 2021 to date equates to £301 per sq. ft. A selection of the sales can be seen in the table below.

ADDRESS	BED	FLOOR	SOLD PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
Flat 1, Ancells House, Ancell Road	1	-	£200,000	592	£338	01/05/2022
Flat 7, Ancells House, Ancell Road	2	-	£216,500	667	£324	04/05/2022
Flat 13, Ancells House, Ancell Road	2	-	£281,000	1163	£242	18/04/2022

INFINEON HOUSE & LORICA HOUSE

Developer Matthew Homes has converted this business park office into a 19 dwelling apartment block. This development is located on the corner of Ancells & Minley Road, 1.21 miles from Fleet town centre and 0.47 miles from Fleet Train Station. This scheme achieved an average price per sq. ft of £401 for sales since 2020. A selection of the most recent sales can be seen below.

ADDRESS	BED	FLOOR	SOLD PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
16 Infineon House	1	-	£250,000	560	£447	09/11/2021
1 Infineon House	2	-	£298,950	818	£365	30/09/2021
29 Infineon House	1	-	£238,000	474	£503	30/09/2021
1 Lorica House	1	-	£285,000	657	£434	31/08/2021
21 Lorica House	1	-	£215,000	463	£465	27/08/2021
2 Infineon House	1	-	£235,000	614	£383	23/07/2021
5 Infineon House	2		£315,000	958	£329	30/06/2021
10 Infineon House	2	-	£285,000	764	£373	17/05/2021
18 Lorica House	1	-	£215,000	495	£434	15/04/2021
14 Infineon House	2	-	£315,000	958	£329	30/03/2021
11 Lorica House	2	-	£275,000	667	£412	25/03/2021
3 Infineon House	2	-	£235,000	721	£326	24/03/2021
24 Infineon House	2	-	£290,000	958	£303	16/03/2021
8 Lorica House	1	-	£265,000	657	£404	26/02/2021
25 Lorica House	2		£300,000	667	£450	23/02/2021
23 Lorica House	2	-	£282,000	667	£423	12/02/2021

ADDRESS	BED	FLOOR	SOLD PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
7 Lorica House	1	-	£225,000	506	£447	01/12/2020

Current market listings of this scheme are shown below in which an average per sq. ft value of £497 is being asked on the open market.

ADDRESS	BED	FLOOR	ASKING PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
21 Infineon House	1	2	£220,000	565	£389	Live Listing
26 Infineon House	1	2	£210,000	490	£429	Live Listing
27 Infineon House	2	2	£275,000	671	£410	Live Listing
32 Lorica House	1	G	£228,000	465	£490	Live Listing
36 Lorica House	1	G	£230,000	496	£464	Live Listing
44 Lorica House	1	1	£235,000	496	£474	Live Listing

DUCHESS COURT

Duchess court is another office conversion development led by Prunus Developments. It provides a mixture of studio, 1-bedroom and 2-bedroom apartments. It is located in the town centre on Fleet Road, 0.62 miles from the heart of the town centre and 0.16 miles from Fleet Train station. The table below shows live listings for the scheme, in which the average asking price of a dwelling is £427 per sq. ft.

ADDRESS	BED	FLOOR	SOLD PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
Flat 4	1	1	572	£230,000	£402	Live
Flat 3	1	1	587	£265,000	£451	Live

There have also been two new build developments in Fleet by Berkeley homes, a large national house developer. Whilst development of this scale on the subject site is not achievable, and the offering in regard to location and amenity differs between these and the subject scheme, analysis of the values achieved of the Berkley sites can highlight the values achievable in a scheme of larger scale or within a joint venture/development partner agreement.

ALMOND HOUSE

Almond House is a Berkley homes development, providing 141 residential units (24 of which are affordable). It is located 0.91 miles North-west of the subject site, 1.10 miles from Fleet town centre and 1.64 miles from Fleet Train Station. The development offers a mixture of 1,2 and 3-bedroom apartments, along with 4- and 5-bedroom houses. The average price value achieved on this scheme from sales dating from 2021 to current is £469 per sq. ft. Below are the most recent sales associated with this site.

ADDRESS	BED	FLOOR	SOLD PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
9, Almond House, Mulberry Walk	2	-	£325,000	710	£457	17/12/2021

ADDRESS	BED	FLOOR	SOLD PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
2, Almond House, Mulberry Walk	1	-	£255,000	517	£494	26/11/2021
5, Almond House, Mulberry Walk	1	-	£244,500	517	£473	29/10/2021
3, Almond House, Mulberry Walk	2	-	£305,000	710	£429	27/10/2021
7, Almond House, Mulberry Walk	2	-	£345,000	710	£486	29/09/2021
6, Almond House, Mulberry Walk	2	-	£310,000	710	£436	22/09/2021
4, Almond House, Mulberry Walk	2	-	£335,000	710	£472	20/09/2021
8, Almond House, Mulberry Walk	1	-	£262,500	517	£508	20/09/2021

HARESHILL (CROOKHAM VILLAGE)

Hareshill is a Berkley homes development, providing 423 residential units (79 of which are affordable). It is located 0.83 miles East of the subject site, 1.05 miles from Fleet town centre and 1.80 miles from Fleet Train Station. The development offers a mixture of 1- and 2-bedroom apartments, along with 1,2,3,4 and 5-bedroom houses. The average price achieved for apartments units on this scheme from sales onwards of 2021 equate to £557 per sq. ft. Below are examples of these.

ADDRESS	BED	FLOOR	SOLD PRICE	AREA (SQ FT)	PRICE (PER SQ FT)	DATE SOLD
Plot 147	1	GF	£292,500	526	£556	30/09/2021
Plot 155	1	3	£296,500	526	£564	30/09/2021
Plot 165	1	4	£317,500	555	£572	30/07/2021
Plot 159	2	2	£330,000	571	£578	30/07/2021
Plot 175	2	1	£399,950	752	£532	15/11/2021
Plot 160	2	2	£405,500	724	£560	25/10/2021

Based on the evidence above, we would expect the subject scheme to achieve residential sales values of between £450-£475 per sq ft. This range is attributed to the preferable location of the subject site, in comparison to the other schemes in Ancells Business Park, where there is better transport access and nearby amenities. Additionally, the new build nature of the scheme would suggest a better-quality offering with newer and potentially design hardened dwellings, over the conversion offerings seen in several of the comparable schemes.

RENTAL

As mentioned earlier, there has been a number of offices to residential conversion in Fleet town centre via Permitted development (Pioneer House, Fleet House and Oak House). One of the newer schemes that has recently completed is Westminster and Elizabeth House, which was converted under PDR by Shaviram Group to provide 30 one and two-bedroom apartments, entirely for rent. Live listings of this scheme are shown below alongside other build-to-rent developments in Fleet.

ADDRESS	BED	FLOOR	RENT (PER CALENDAR MONTH)	AREA (SQ FT)	DATE	COMMENTS
Fleet House, Fleetwood Park, Barley Way	1	2	£975	797	Live	New BTR Office conversion on outskirts of fleet, open plan, 0.53 miles from Fleet Train Station, high quality finishings, unfurnished, EPC C, close to Fleet pond nature reserve, Ancells farm small parade nearby, in business park, allocated parking
Fleet House, Fleetwood Park, Barley Way	2	2	£1,150	813	Live	New BTR Office conversion on outskirts of fleet open plan, 0.53 miles from Fleet Train Station ,1.25 miles from the TC, high quality finishings, unfurnished, EPC C, close to Fleet pond nature reserve, Ancells farm small parade nearby, allocated parking
Oak House, Harvest Crescent	2	2	£1,050	786	Agreed – September 2022	New BTR office conversion, on outskirts of fleet, open plan, 0.62 miles from Fleet station, 1.37 miles from TC, high quality finishings, unfurnished, EPC C, nearby Fleet pond nature reserve, allocated parking
Oak House, Harvest Crescent	1	1	£925	667	Live	New BTR office conversion, on outskirts of fleet, non-open plan, 0.62 miles from Fleet station, 1.37 miles from TC, high quality finishings, unfurnished, EPC C, nearby Fleet pond nature reserve, in business park, allocated parking
Pioneer House, Fleetwood Park, Barley Way	1	GF	£950	-	Live	New BTR Office conversion, outskirts of fleet, non-open plan, 0.57 miles from Fleet Train Station, 1.30 miles from TC, high quality furnishings, unfurnished, EPC C, nearby Fleet Pond nature reserve, in business park allocated parking
Pioneer House, Fleetwood Park, Barley Way	1	1	£1,110	-	Live	New BTR Office conversion, outskirts of fleet, open plan, 0.57 miles from Fleet Train Station, 1.30 miles from TC, high quality furnishings, unfurnished, EPC C, nearby Fleet Pond nature reserve, in business park allocated parking
Westminster House, Westminster Close	2	1	£1,075	477	Live	Non-Office conversion, BTR scheme, on fleet high street, good access to local amenities and TC (0.2 miles away), 0.5 miles from Fleet Train Station, good quality furnishing, unfurnished, secured allocated parking, EPC D
Westminster House, Westminster Close	2	2	£1,150	560	Live	Non-Office conversion, BTR scheme, on fleet high street, good access to local amenities and TC (0.2 miles away), 0.5 miles from Fleet Train Station, good quality furnishing, unfurnished, secured allocated parking, EPC D
Elizabeth House, Fleet Road	2	1	£1,150	654	Live	Non-Office conversion, Maisonette Dwelling, BTR scheme, on fleet high street, good access to local amenities and TC (0.2 miles away), 0.5 miles from Fleet Train Station, good quality furnishing, unfurnished, secured allocated parking, EPC D
Old Dairy Close	2	3	£1,095	-	Live	Dated "new build", Internal shared communal courtyard, French balcony EPC C, 1x allocated parking space, non-open plan, good location for local amenities and TC (0.14 miles), 0.62 miles away from train station

ADDRESS	BED	FLOOR	RENT (PER CALENDAR MONTH)	AREA (SQ FT)	DATE	COMMENTS
Old Dairy Close	2	3	£1,000	-	Live	Dated "new build", Internal shared communal courtyard, French balcony EPC C, 1x allocated parking space, non-open plan, good location for local amenities and TC (0.14 miles), 0.62 miles away from train station

We would envisage new build apartments within the Civic Quarter to be able to achieve in the region of £1,000 PCM for one bed and £1,100 upwards for two beds apartments. This is supported by the rental figures reflected in other new build developments with a similar offering in terms of access to Fleet's town centre and Fleet Train station, (Elizabeth House & Westminster House). These values are also above those recorded for the office conversion schemes, as a new build premium can be attached to the subject scheme. However, it is worth noting that parking provision is likely to influence the attainable rental values and a sufficient allocation will be required in order to compete with local new build schemes.

COMMERCIAL PROPERTY MARKET

OFFICE SECTOR

Over the previous two years, the COVID-19 outbreak has put pressure on office markets. An increase in hybrid working models has reduced office utilisation rates in less resistant markets. A flight to quality is also being observed in which tenants are prioritising their ESG strategies and as a result, requirements for energy efficient, cleaner, and sustainable office spaces have grown. In turn, the best-in-class space assets and Grade A schemes are showing greater retention of demand, despite Q4 of 2022 showing the lowest levels of office investment since October 2008 (*Source: PropertyData)*. Additionally, we anticipate the flexible work-space sector may experience growth into 2023, through demand from SME and corporate occupiers.

LOCAL OFFICE MARKET

Fleet forms part of the submarket known as Blackwater Valley, the area situated in a triangle junction 4 and 5 of the M3 motorway to the North, and the A31 to the South. This area encompasses three districts Surrey Heath, Rushmoor and Hart. Agents have predominantly combined these districts into one interchangeable market, as such market analytic do not distinguish between them.

The office market is focused on out-of-town locations around the main centres of Camberley and Frimley (within Surrey Heath), Farnborough and Aldershot (Rushmoor) and Fleet and Hook (Hart), which provide good access to the wider M25 West area and to the rest of the South East. These places established themselves as office centres following the high-tech boom of the late 1990s, as overspill occurred from more prominent, core M4 office centres such as Reading, Maidenhead and Slough.

The labour market in the Blackwater valley is majorly occupied by the IT sector, though a number of these were significantly affected by the dotcom crash of the early 2000s and later by the Global Financial Crisis (*Source: Promis)*. The Production sector dominates, in part due to Aldershot's position as the British Army and Airforce HQ and Farnborough's reputation as a hub for aerospace. The area is also home to hi-tech manufacturing and pharmaceuticals firms; however, relocations away from this more peripheral market to surrounding core markets has been prevalent in recent year. The largest subsector in Blackwater Valley is Professional & Business Services, accounting for 14.3% of total employment or 23,600 jobs (*Source: Promis).*

Blackwater Valley: Location factors important to office occupiers

	Blackwater Valley	M25 West average	Office PROMIS average
Availability of labour			
Economic Activity Rate 2021 (% working age pop.)	87	81	80
Unemployment Rate October 2022 (%)	2.2	2.7	3.5
Unemployment annual change to October 2022 (%)	-0.7	-0.9	-1.2
Quality of labour force			
Managerial office based 2021 (% of employment)	41	42	39
Routine office based 2021 (% of employment)	27	28	26
Non-office based 2021 (% of employment)	32	30	35
University Students 2020-21 (No. of)	18,000	10,300	30,000

Sources: Labour Force Survey, National Statistics, Higher Education Agency *Last update: 16/12/2022*

Within the M25 West Market Area the nearest centres in size to Blackwater Valley are Heathrow & Uxbridge and Watford. Since the last review we conducted, there has not been any significant office schemes in Fleet's development pipeline. It is still worth highlighting Ancells Business Park, located approximately 1.5 miles to north of the town centre. Developed from the late 1980s to mid-2000s, Ancells provides a range of multi-let and stand-alone office buildings for occupiers such as Keysight Technologies and Grass Roots. The park suffers prolonged high vacancy rates and resultantly, several buildings have undergone conversion to residential use. Technology House, for example, has been converted to 43 flats which has swiftly followed nearby Oak House's recent conversion. Close by is the fully let Waterfront Business Park, which backs on to Fleet Pond. The park currently comprises of a mix of modern office buildings developed by Helical Bar in 2002 alongside older industrial buildings. Current occupiers include Barclays and NTT, both of which occupy two separate buildings, as well as Royal Mail and a Premier Inn hotel. Located nearby is Summit Avenue, the location of two large office premises of BMW and vehicle leasing firm Alphabet.

Despite the ailing Ancells Business Park, top headline rents in Blackwater Valley stand at £27 psf for out-of-town office and £28.50 psf for in town, according to PMA research. But it should be noted the prime rents are typically set outside of Fleet and within Farnborough. We are of the opinion that in Fleet town centre the top rents are likely to be in the region of £15 - £20 per sq. ft.

Within Fleet town centre there is limited office stock, with Admiral House and Flagship House offering the most modern office space in a central location with good floorplates comparable to buildings within Ancells Business Park. Otherwise, the majority of the space in the town centre is smaller floor plates with previous office space having been converted to residential. Demand within the town centre is likely to be localised.

We have identified the following key deals:

SIGN DATE	ADDRESS	TOTAL SQUARE FT LEASED	RENT PER SQUARE FT PER YEAR
August 2021	161 Fleet Road	1430	£16.50
July 2021	161 Fleet Road	1399	£16.50
December 2021	Beech House, Ancells Business Park	2505	£17.50
June 2021	Beech House, Ancells Business Park	1355	£17.00
July 2021	One Fleet, Ancells Road	2,183	£16.00
July 2020	Fleet 27, Ryle Close	11,712	£16.00
October 2022	349 Fleet Road	1,065	£16.50

We are also aware that floorspace is available within Flagship house, next door to the current HDC offices, which is being marketed at £20.50 psf and Space within Admiral House is currently available for £19.50 psf.

It is of our opinion then, that a flexible refurbished space in the civic quarter could be competitive at rents between £15.00 - £20.00 per sq. ft.

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