



**HAWNBY GROUP**

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## **VICTORIA SQUARE** Financial Model – Update

January 2020



# VICTORIA SQUARE - Financial Model

## Background

The Council decided to proceed with the scheme in December 2016 and the construction contract was awarded to Sir Robert McAlpine Ltd. Several significant scheme design changes have taken place and delayed the delivery of the project to October 2021. The Covid19 shut down of the project has further delayed the project.

As part of a separate engagement in May 2016 and November 2017, we developed a financial analysis to assist the Council in analysing and understanding the financial, commercial and economic implications of the proposed Victoria Square development scheme.

In June this year we were asked to carry out a detailed review of the existing financial analysis and build a new financial model with your amended assumptions, reflecting recent changes made to the development scheme ahead of the Executive meeting when the revised timeline and cost model will be presented for further review and approval.

The Team engaged to carryout the financial analysis is the same team originally employed by EY in 2016 and are now working for Hawnby Group.

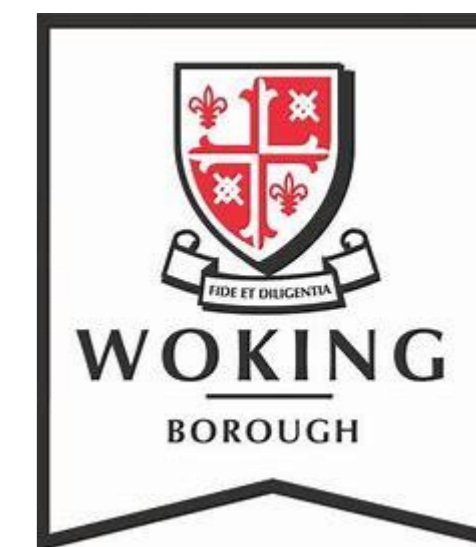


Marc Roberts  
Director



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# Our role

## Activities:

- Analyse the latest data and assumptions for the scheme
- Establish any structural and functionality changes that need to be made to the financial analysis spreadsheets
- Update the financial analysis for the latest data and assumptions
- Develop a summary reconciliation of the cash flow forecast between the previous version of the analysis and the updated analysis, breaking down the impact of the assumption changes
- Update the assumptions log

## Work products:

- An updated summary of the financial analysis outputs
- Updated assumptions log
- Summary reconciliation

**The Victoria Square development is on track for phased completion by the end of 2021.**

# The Economic Landscape



**How will the third national lockdown impact residential sales, shops and gyms?**

# The Economic Landscape

## UK Leaving the EU

The UK's vote to leave the EU

### 2021 Model – Victoria Square:

- ✓ The model makes a working assumption that residential rents are held at 2017 levels and increase by 2.4% per annum
- ✓ Interest rate reduced to reflect achieved and forecast financing costs
- ✓ The GIA for the scheme has increased 47,647sqft to include the former Toys 'R' Us unit
- ✓ WH Stephens January 2021 updated cost plan reflected in the model
- ✓ The model assumes that the freehold of the Band Stand Mall is acquired for £8m
- ✓ Target opening of the scheme delayed until October 2021
- ✓ The model contains updated rental values provided by Victoria Square Woking Ltd ("VSW")
- ✓ The average void period for commercial properties has been increased
- ✓ Operational costs for the Toys 'R' Us space have been updated with new values provided by VSW
- ✓ The model includes increased sensitivity functionality

reduction in economic activity.

How will the second national lockdown impact residential sales, shops and gyms?

# The Economic Landscape

## UK Leaving the EU

The UK's vote to leave the EU  
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### 2021 Model – Victoria Square:

- ✓ WH Stephens January 2021 updated cost plan reflected in the model

Development Costs

£648.11M

£648.11m + £50.2m = £698.31m



Originally: £514.26M

Construction Cost + Interest = Total Forecast Out-Turn January 2021

indus

rest

collapse of Toys 'R Us, who were scheduled to be a key tenant of the development.

Economic uncertainty due to pandemic leading to substantial global job losses and a reduction in economic activity.

XIT

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How will the second national lockdown impact residential sales, shops and gyms?



# Financing Costs

Impact of reduction in project rates on total finance costs over 55 year period**		Impact of Financing Reduction	
	Average Project Rate	Percentage Saving	Cost of borrowing
Base Case****	2.44%	-	£859m
Revised project rate 2.44% reducing to 1.75%*** (effective 1 <sup>st</sup> October 2020)	1.75%	30%	£627.96m (-£231.04m)

\*Over a comparable 55 year period

\*\*Illustrative calculation, applied PWLB borrowing only

\*\*\* An assumed blended rate over the 55 year term

\*\*\*\* Interest rate applied up to Q4 2020



# Victoria Square Development

Woking Borough Council & The Moyallen Group

Model Excludes Wolsley Place



# Construction Costs & Peak Debt

## Updated Forecast

Project Completion

30/09/2021



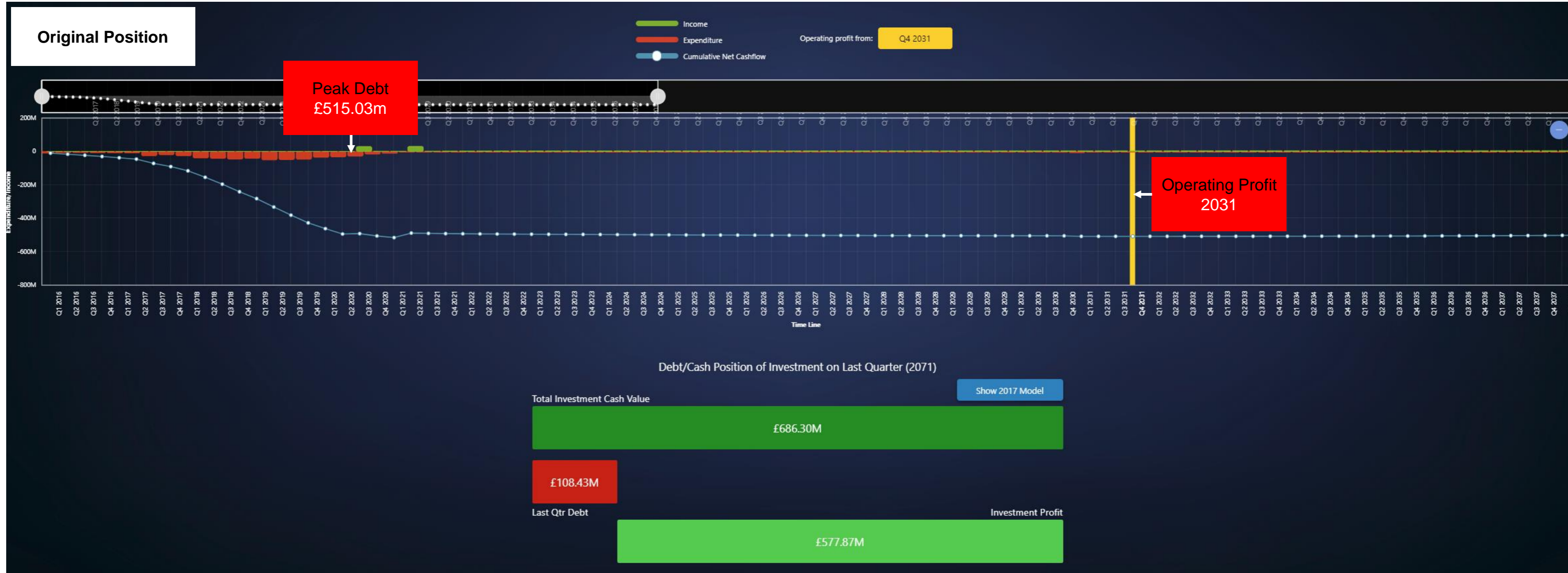
Originally: 31/03/2021

Development Costs

£648.11M



Originally: £514.26M



# Construction Costs & Peak Debt

## Updated Forecast

Project Completion  
30/09/2021

Originally: 31/03/2021

Development Costs  
£648.11M

Originally: £514.26M



Debt/Cash Position of Investment on Last Quarter (2021)

Total Investment Cash Value

£643.72M

Show 2017 Model

£419.37M

Last Qtr Debt

Investment Profit

£224.36M



# Construction Costs & Peak Debt

## Updated Forecast

Project Completion

30/09/2021



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# Construction Costs & Peak Debt

## Updated Forecast

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# Key impacts on Project Costs

Over the 55 Year Period

## Programme Delay & Other

Anticipated increase in costs due to tenant enhancements, procurement, additional provisions and other budget pressures. This also includes an increase in finance costs due to the additional borrowing required.

**Estimated cost c.£108m\***

## Band Stand Mall & WBC Assets

Additional costs relating to:

- Acquisition of Bandstand Mall units from Peacocks (+£8m)
- New footway/cycle bridge (+£6m)
- New Town Centre signage (+£1m)
- WBC/Thameswey additional development related costs (+£10m)

**Estimated cost c.£75m\***

\*Impact to Net Cash Flow based on comparable 55-year period

\*Illustrative split of impact of combined increase

## COVID-19

Estimate of increase in costs relating to the impact of the COVID-19 pandemic, including additional costs due to slower construction activity, additional financing costs and other costs.

**Estimated cost c.£194m\***

## UK Leaving the EU

A conservative estimate relating to increased labour costs as a result of Britain's vote to leave the EU.

**Estimated cost c.£5m\***

# Key impacts on Revenue

Over the 55 Year Period

## Construction Delay

Overall construction completion has been delayed until late 2021, which has delayed the opening of some parts of the development by 12 months, and others by 6 months including the Car Park which lead to increased borrowing in the interim.

Estimated cost c.£44m\*

## Commercial Lease Update

Commercial lease expectations have been updated as leases have been renegotiated due to construction delay, COVID-19 and the replacement of some expected tenants e.g. Toys 'R' Us.

Estimated cost c.£85m\*

\*Impact to Net Cash Flow based on comparable 55-year period

\*Illustrative split of impact of combined increase

## Residential Rental Income

Expected residential rental values for 2021 are lower than was forecast during the initial stages of the development due to economic impact of COVID-19

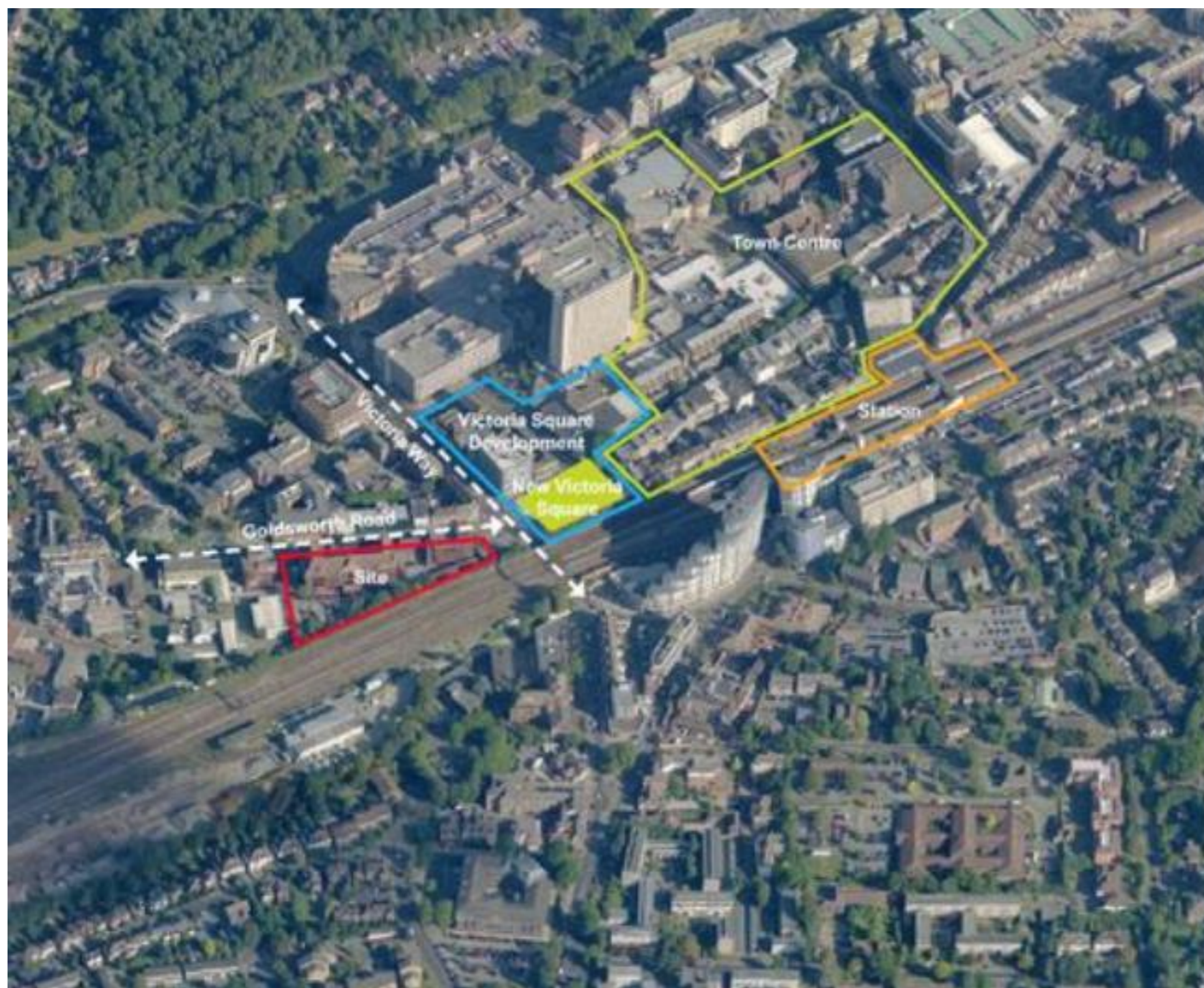
Estimated cost c.£44m\*

## PWLB Reduced Borrowing Rate

A 0.75% reduction in the annual borrowing rate assumed following the 1% change in the PWLB lending rate effective from 1<sup>st</sup> October 2020.

Estimated cost saving c.£253m\*

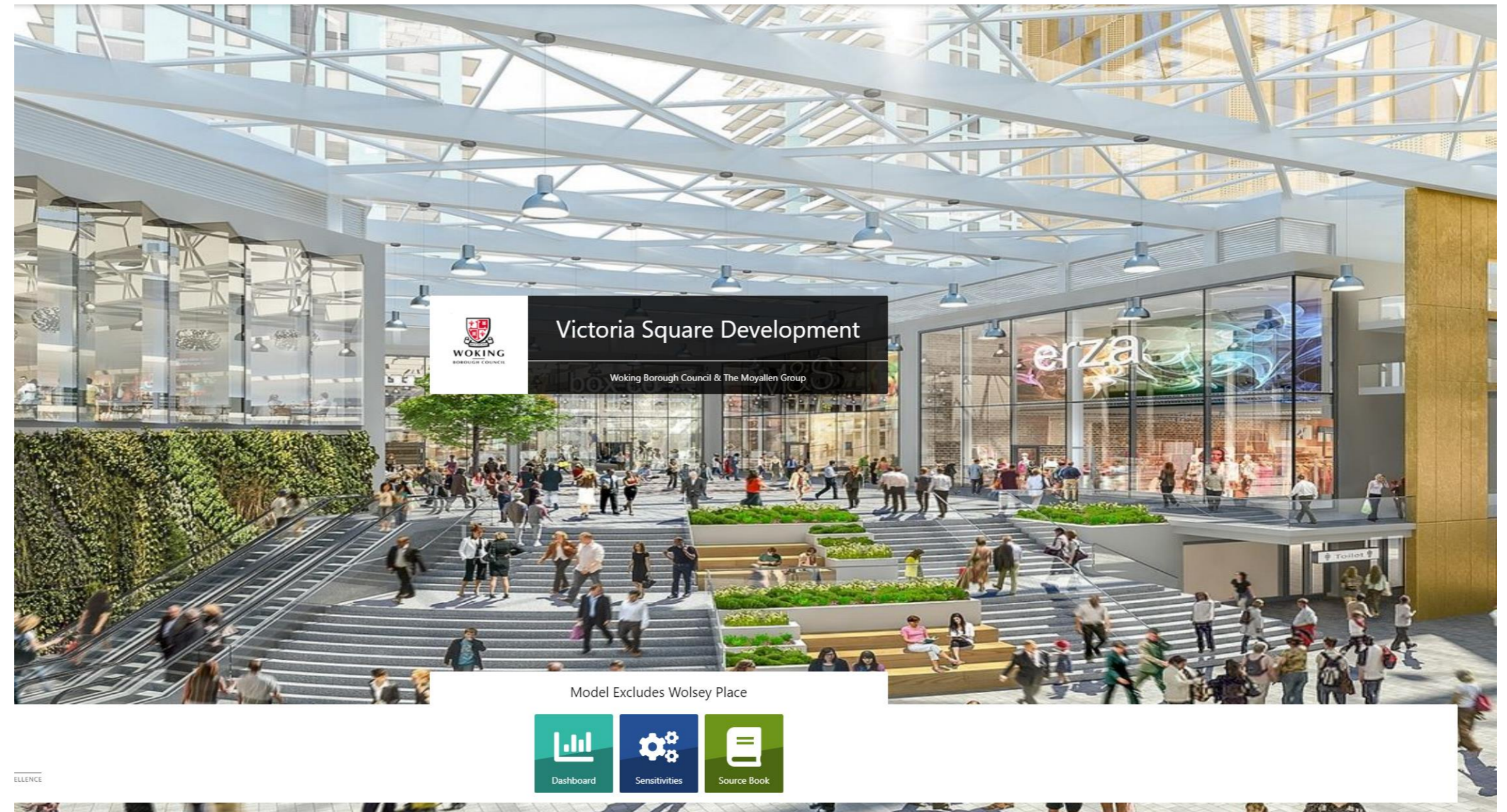
# Key messages



- Victoria Square is a longterm regeneration project and as the Financial Model demonstrates is being delivered at no cost to the Council Tax Payer
- Despite Peak Debt increasing and the Break Even date being pushed out, the longterm Financial Model demonstrates the Victoria Square development remains viable
- The regeneration project brings together 2 retail centres and supports diversification of the retail space
- The Hilton Hotel conference facilities replace the HG Wells venue and reduces the Council's running costs
- 429 residential homes are being delivered to meet the pressing need for local housing
- The all new Victoria Square retail, residential development and hotel plays an integral role in Woking's transformation and future
- Revenue split by property type:
  - Residential 63%
  - Hotel 22%
  - Retail 15%

# Project review process

- Victoria Square Members Briefing 21<sup>st</sup> January
- Consideration at Finance Task Group 28<sup>th</sup> January
- Update reported to Council 11<sup>th</sup> February







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