

VICTORIA SQUARE
Financial Model – Update

November 2022



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 the first half of 2022.

As part of a separate engagements in May 2016, November 2017 and January 2021, 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 July last year we were asked to update the existing financial analysis and the financial model with your amended assumptions and to reflect the delays to the development scheme ahead of the much-anticipated opening on 23rd March 2022.

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



Marc Roberts
Director



The Economic Landscape

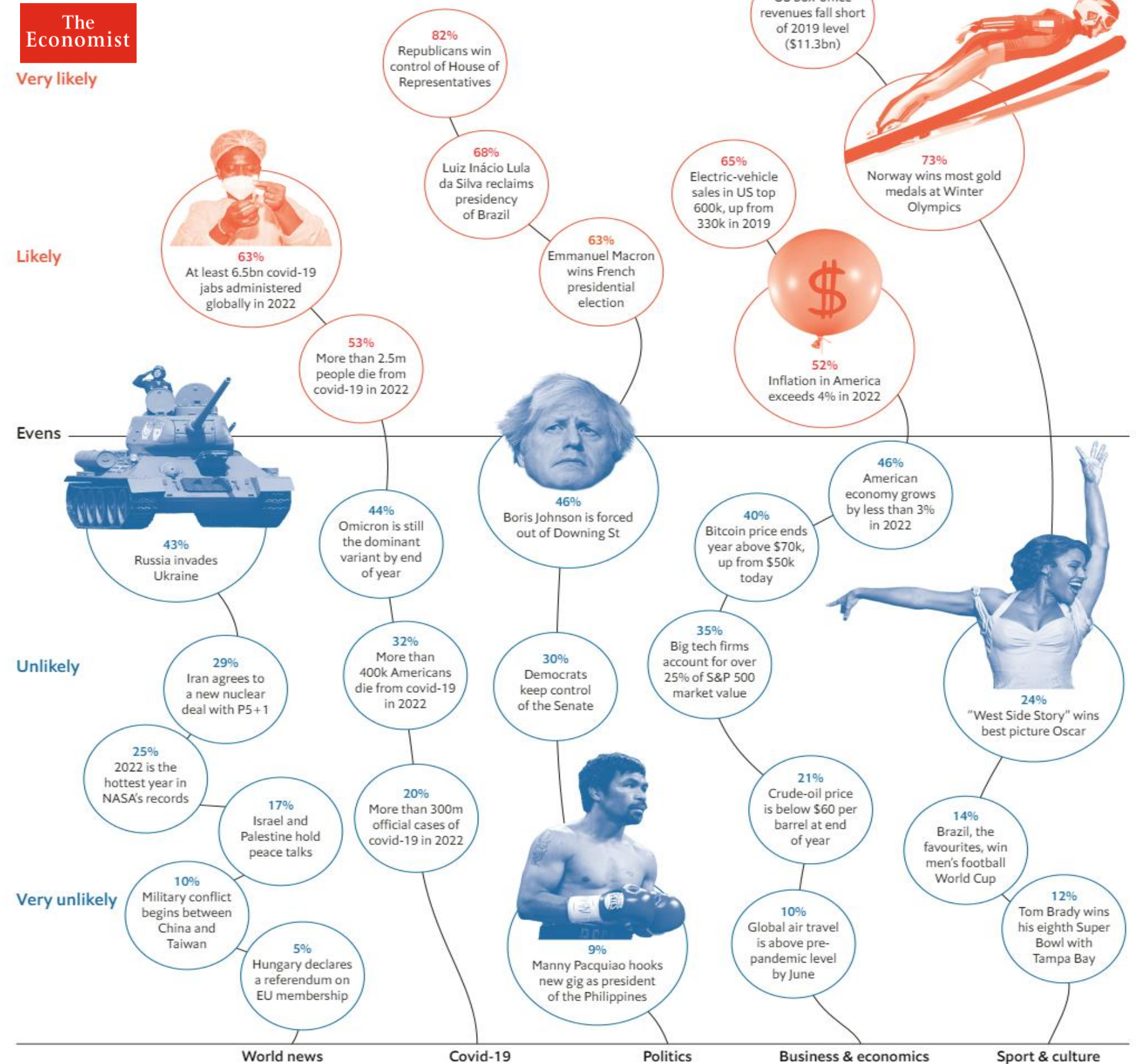
What does the next 12 months look like and how could it impact residential lettings, retail sales and car park revenues?

If the fitful past two years of the covid-19 pandemic offer any lesson, it is that the future remains murky and uncertain.



Implied chance of this happening in 2022

December 27th 2021



Victoria Square opened on 23rd March 2022 despite the challenges of the past 6 years.

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 has continued to face significant changes since our last update.

Our working assumptions

Key assumptions:

- Practical completion on 23rd March 2022
- Hotel revised opening date December 2023
- Car park sold at the end of the 55-year term
- The Council pay the JV a car park management fee
- Construction borrowing set at 2.26% which has been set to reflect the actual borrowing costs achieved by the Council
- Long term finance at an interest rate of 2.25% (reflecting long-term PWLB annuity loans secured)
- Borrowing post practical completion using a revolving facility at 2.50%
- Income has been updated for the actual commercial deals negotiated
- Construction costs updated by WH Stephens to reflect actuals as of June 2022
- Construction contingency increased to £10m to address commercial risk from the cladding and car parking claims

Key impacts on Project Costs: Updated Analysis 2022

Over the 55 Year Period

Programme Delay & Other

- Practical completion delayed by 12 months to 23rd March 2022 which has delayed the opening of some parts of the development by 18 months and increased borrowing in the interim.
- Hotel cladding issue has been resolved technically but the delay damages and consequential costs and revenue impact is outstanding
- Assumed delay damages incorporated
- Contingency sum increased to £10m (+£3m) to address interim costs associated with ongoing cladding issues and a 70% recovery figure
- Hotel opening is delayed until December 2023

Retail Assumptions

- Commercial lease expectations have been updated as leases have been negotiated or renegotiated.
- Assumption now made that the Car Park is bought by the Council in 2071 and in the interim pays a management fee to the JV

Residential Assumptions

- Residential rents updated to reflect Native Rental Forecast
- Management fee payable to Native to be deducted from headline rent
- Currently 301 let and 262 occupied

Key impacts on Project Costs: Updated Analysis 2022

Over the 55 Year Period

Loans

- Included £43mn of rolled up interest to March 2022
- Long term debt secured at an interest rate of 2.25%
- Peak debt forecast to reach £880m in 2057

Service Charge Assumptions

- Savills have issued their 5 year service charge forecast and the model has been updated using the following weightings:

Cost Centre	Area	Apportionment %
Peacocks Centre	388,120	51.72
Wolsey Place	210,040	27.99
Victoria Square	79,795	10.63
Red Car Park	72,478	9.66

- The total annual service charge figure comprises of £613,261 (VSQ) + £324,740 (RCP) = £938,001 per annum exclusive of VAT. This figure is inclusive of all car parks and the Hilton Hotel.

Impact over 50 years

Net cash on March 2071 asset sale (Feb 2021 model)	= £229m
Increased Financing Costs (PWL B Rate)	= £(157)m
Impact of delay in completion	= £(174)m
Income changes inc. car park management fee	= £50m
Operating costs assumptions	= £(100)m.
TOTAL	= £(152)m

Key impacts on Cash

Over the 55 Year Period

Key Metric	Updated Analysis (Jan 21)	Updated Analysis (Oct 22)	Variance	Comment
Net Cash Flow Pre Financing	£891m	£847m	£(44)m	
Cash Flow Post Financing	£229m	£(152)m	£(381)m	Increased interest rate on long term debt secured
Peak Debt	£648m (2051)	*£880m (2057)	£232m	Of which £58.7m is due to the decision to defer the sale of the car park
Outstanding debt at end of Cash Flow	£420m	£831m	£411m	
Date Sale Value exceeds Debt	2062	After 2071	Capital receipt = £680m	Assumed value

* Car Park sale moved from Q2 2021 to 2071 contributing to significant additional borrowings required by the JV.

Financial Position

Sensitivity

We have assessed the 'sensitivity' of the model to key inputs in order to test how future changes may impact the model.

Long-term (post-PC) Interest rates

*Note that borrowing beyond practical completion is taken at 2.5%

Key Metric	Updated Analysis (Oct 22) 2.25% Interest Rate	Interest rates			
		Reduced by 0.5%	Reduced by 0.25%	Increased by 0.25%	Increased by 0.5%
Cash Flow Post Financing	£(152)m	£46m	£(52)m	£(254)m	£(360)m

In addition, we have assessed an initial increase in the borrowing rates for the next two years (2023 and 2024) on the post-practical completion borrowing, in-line with the Council's Treasury advisors prediction.

Key Metric	Updated Analysis (Oct 22) 2.25% Interest Rate	Increased interest rates for 2 years
Cash Flow Post Financing	£(152)m	£(164)m

Financial Position – Sensitivity Analysis

We have assessed the ‘sensitivity’ of the model to key inputs in order to test how future changes may impact the model.

Residential Rents

We have assessed an initial residential rent increase over two years to reflect the currently high inflationary environment in the UK. It should be noted that the change detailed for the second year is in addition to the existing modelled inflation of 2.4% per annum.

Key Metric	Updated Analysis (Oct 22)	Initial residential rents (change per year for 2 years)			
		Reduced by 2.5%	Increased by 2.5%	Increased by 5%	Increased by 7.5%
Cash Flow Post Financing	£(152)m	£(202)m	£(100)m	£(47)m	£8m

Financial Position

Sensitivity

We have assessed the 'sensitivity' of the model to key inputs in order to test how future changes may impact the model

Extension to asset lifespan

Key Metric	Updated Analysis (Oct 22) (Sale in Q1 2071)	Increased asset lifespan						
		Increased by 1 year (Sale in Q1 2072)	Increased by 2 years (Sale in Q1 2073)	Increased by 3 years (Sale in Q1 2074)	Increased by 4 years (Sale in Q1 2075)	Increased by 5 years (Sale in Q1 2076)	Increased by 6 years (Sale in Q1 2077)	Increased by 7 years (Sale in Q1 2078)
Cash Flow Post Financing	£(152)m	£(129)m	£(106)m	£(82)m	£(57)m	£(31)m	£(5)m	£22m

Financial Position

Sensitivity

We have assessed the 'sensitivity' of the model to key inputs in order to test how future changes may impact the model.

Residential Rents

Key Metric	Updated Analysis (Oct 22)	Initial residential rents			
		Reduced by 2.5%	Increased by 2.5%	Increased by 5%	Increased by 7.5%
Cash Flow Post Financing	£(152)m	£(178)m	£(126)m	£(100)m	£(74)m

Key Metric	Updated Analysis (Oct 22)	Rental Inflation	
		Reduced by 0.15%	Increased by 0.35%
Cash Flow Post Financing	£(152)m	£(188)m	£(60)m

Key messages



- Victoria Square is a **long-term regeneration project** and as the Financial Model.
- 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 16%**
 - **Retail 21%**



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