**Sandown Park Appeal – Additional Note of Nicholas Fell**

1. Additional Note by Nicholas Fell, witness for the Appellant on matters of Viability, in respect of *Self-Development of the Residential Schemes* as set out in paragraphs 8.3 – 8.7 of the Proof of Evidence of Dr Lee (CD: EBC3/1) and the associated appendices (CD: EBC3/3).

2. This additional note follows cross examination of Nicholas Fell by Dr Bowes and is intendeded to assist the Inspector in respect of points raised by him during cross examination on Day 8 (Wednesday 25/11/20).

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3. I do not dispute the 'maths' of the self-development model, which is set out in the development appraisal at Appendix 3 of the Appendices (EBC3/3) to Dr Lee's Proof of Evidence. Nor do I dispute that self-build is an option open to any landowner. However, during cross examination I said I dispute the appropriateness of the self-build model based on the evidence of Mr Gittus and that all of the risks associated with the self-build model have not been fully explored by Dr Lee.

4. The points I made are as follows:

5. At paragraph 8.4 of Dr Lee's Proof he implies that appointing a development manager (which can also mean a project manager) would simply overcome all of the complications of delivering a residential scheme of over 300 units across 5 separate sites. This is strongly disputed and is a gross over-simplification. This is a large residential scheme even for medium to large residential developers. The responsibilities of the project manager will be defined initially by the professional appointment under which they are employed and then by the form of building contract used for the works. The project manager sits between their employer (in this case JCR) and the contracting/ consultancy team. The project manager is clearly a very important role in delivering projects on time and to budget, but they are not the overall decision maker, this rests with their employer (JCR). It was the evidence of Mr Gittus, on behalf of JCR, that they are not residential developers and are not equipped to deliver such a large residential project. They are a not-for-profit organisation akin to a charity, he said. My point under cross examination is that Dr Lee's proposition, that the appointment of the development / project manager overcomes all of the complications of delivering the residential development project is a gross over-simplification that has not been fully explored by Dr Lee. The residential proposal before the Inquiry is for the construction over 300 residential units across 5 sites that needs to ensure that it is able to cross fund the delivery of £36m of racecourse improvement works, itself a complicated project. If JCR were to self-develop (rather than sell the land to a residential developer) they would be responsible for the c.£79.19m development cost of the residential sites. This carries enormous risks and would be a complicated proposition for even the larger house builders, let alone one that has never carried out residential development before.

6. The second point I raised in connection with the self-build model related to the proposition put to Mr Gittus by Dr Bowes in cross examination regarding the use of a Special Purpose

Vehicle (SPV) to carry out the development. The use of an SPV was not in Dr Lee's evidence. Dr Bowes suggested that this could assist in isolating the risk of development to JCR. I accept that carrying out self-development via an SPV can be a way of isolating risk and they are designed to prevent adverse risk being transferred to or from the owner of the SPV. However, this is not applicable in this case.

7. The point I was making in respect of an SPV is that it would still require JCR to have the necessary funds to secure development funding and that the lender will want security against the loan. No institutional funder is going to lend 100% of the construction cost. Typically loan to cost (LTC) ratios for development finance range from 60-80%. It is acknowledged that some higher LTC products are available but the interest charges for LTC above 80% are usually prohibitively high for large scale projects such as proposed in this case (more than 10% once arrangement fees and exit fees are accounted for). Dr Lee's development appraisal for the self-build model at his Appendix 3 (CD: EBC3/3) shows that the costs of development are principally made up of £67.16m build costs, £3.35m contingency, £3.3m S.106/278 & CIL, £1.77m professional fees and £3.61 m development management fee. This is a total of £79.19m. This excludes the agents and legal fees for selling the flat as these are generally paid out of the proceeds of sale.

8. Assuming standard LTC ratios are between 60-80% then JCR would still need between c.£15.83m and c.£31.67m of equity to secure the development finance. It is the evidence of Mr Gittus on behalf of JCR that these funds are not available.

9. The third point regarding development finance is that the lending institution will not lend to an SPV without security, they will want collateral in the event of default. The most likely form of securitisation would be against the land, in this case Sandown Park (or at least the 5 land parcels). This is a standard requirement, but it is a clear financial risk to JCR. Dr Lee acknowledges that there are risks associated with self-development (paragraph 8.7) but isolates this risk to changes in market conditions. It is my opinion that the risk of development extends beyond just changes in market conditions. The formation of an SPV to carry out self-development does not remove the substantial development risk that would remain with JCR.

10. In conclusion, self-build is not straight forward, requires significant equity requirement to raise development finance, will need to be secured against the land and significant risk will remain with the land-owner – here JCR.

11. Development costs will be incurred at the beginning and throughout the project with the profits at the end (with repayment of any loans). This increases the risk significantly which can be avoided completely by sale of land to a developer before the commencement of development. This is clearly the route that JCR is required to take in order to avoid significant undue risk, as stated by Mr Gittus.

25 November 2020