



**PROPOSED DEVELOPMENT AT SANDOWN RACE COURSE, PORTSMOUTH ROAD,
ESHER KT10 9AJ (PINS REFERENCE APP/K3605/W/20/3249790)**

RESPONSE TO 'ADDITIONAL NOTE OF NICHOLAS FELL' (25 NOVEMBER 2020)

1. This note responds to Mr Fell's note dated 25 November 2020 on self-development of the Appellant's proposed residential developments which is addressed at paragraphs 8.3 to 8.7 of my proof of evidence. I note that Mr Fell agrees the output of my appraisal at Appendix 3 of my proof of evidence, which shows a profit that would fund the Appellant's entire identified race course works as noted at paragraph 8.5 of my proof of evidence.
2. During cross-examination at the Inquiry, Mr Fell advanced three new points in relation to self-development, my understanding of which I summarise as follows:
 - Point 1: Appointing a development manager would not overcome the complications of delivering a scheme of 500 units across 5 separate sites.
 - Point 2: The use of a Special Purpose Vehicle ('SPV') by the Appellant would not obviate the need for the Appellant to fund construction costs by borrowing, which Mr Fell says would be unavailable.
 - Point 3: Funding will not be available without security being provided and this would require a charge against the development land.
3. I deal with each of these points in turn below.

Point 1

4. Mr Fell's states that his understanding of "development manager" is a "project manager" which significantly understates the role envisaged in my evidence. A development manager ('DM') will run all aspects of a development from initial design through to practical completion and final unit sale. A DM is an experienced development company who will act as client and manage the entire professional team, bringing their skills and experience of their own developments to bear on the development they are appointed to manage. This role extends well beyond the "project manager" role noted by Mr Fell.



5. Mr Fell appears to confuse matters by merging the residential developments with the racecourse improvement works. In practical terms, there is no linkage between the delivery of the residential developments and the race course improvement works, other than the subsidy generated by the former towards the latter. It is presumably not the Appellant's case that such complications would arise for a developer if the land were simply sold; nor would they arise under a self-development scenario, as the Appellant would have controlled the racecourse improvements in any event.
6. Mr Fell suggests that bringing forward the residential development would be a complicated proposition, but with respect, the proposed residential developments are far less complicated than many other schemes brought forward by a range of developers across the south east. The form of construction envisaged is not complex; there are no listed buildings or heritage assets involved; and the developments would take place in an established residential area where demand significantly outstrips supply.
7. Mr Fell's critique fails because he has limited the role of the DM to that of a mere project manager, which is a different role to the one I envisaged. I regularly work alongside development managers (who are experienced developers in their own right) who bring schemes forward on behalf of investors and other parties (who do not have direct experience of development) and there is no material difference in their role and degree of control in comparison to other developers I have worked with. For example, I am currently working with Dartmouth Capital who are appointed by City Developments Limited to bring forward the re-development of the 8.6-hectare former Stag Brewery Site as a mixed-use development providing 1,250 residential units. I am also working with Londonecastle who are appointed by Cross Property Sarl to bring forward a development of 373 residential units across 12 buildings adjacent to the Royal London Hospital in Whitechapel. In both cases, all day to day decisions are taken by the development managers.

Point 2

8. Mr Fell accepts that using an SPV can mitigate risk but he goes on to suggest that this would not remove all risks, particularly those associated with funding the development costs.



9. I agree that the SPV would need to finance the development costs and I do not take issue with the loan to value ratios that Mr Fell cites in his note.
10. Mr Fell includes the Development Management fee in his list of costs that would need to be financed, but most of these costs are typically funded from profit when it has been achieved.
11. Mr Fell's critique is limited in its consideration of the role that the affordable housing and the Registered Provider could play in delivering of the residential developments. Clearly this role becomes very important when the affordable housing is provided at a rate of 40% or 50%, as would be required by policy CS21. The Registered Provider would pay a deposit for its units at commencement of construction and then pay the balance of its agreed acquisition price in staged payments over the build period. This would remove the need for the Appellant to fund a significant proportion of the £67.16 million build costs.
12. Furthermore, Registered Providers are increasingly taking on a role as lead developer and moving away from their traditional role of simply purchasing the new affordable housing units delivered through section 106 agreements by developers. Mr Fell's critique does not consider the role that a Registered Provider could play in delivering the whole development, including both forward funding the affordable housing and costs of delivering the private housing. This could, in principle, limit the role of the Appellant to simply providing the land.

Point 3

13. In his third point, Mr Fell indicates that a lending institution will not lend without security and that they would want collateral in the event of default. However, he admits that this is a "standard requirement" and presumably he would also accept that any developer purchasing the sites from the Appellant would also have to provide the same collateral to a lender.
14. It is therefore unclear why Mr Fell claims that offering the residential development land as collateral for a loan would result in "*a clear financial risk to JCR*". In the event of a default, the lending institution would take control of the land and the limit of the Appellant's risk would be that they would lose ownership of the land.



Conclusion

15. In his final point, Mr Fell suggests that self-development would increase risk which could be “*completely avoided by sale of land to a developer*”. I do not dispute that self-development is a riskier proposition in comparison to a simple land sale (which in itself is not without risk), but the latter option would generate lower returns to fulfil the Appellant’s stated objectives of improving the racecourse facilities. However, as outlined above, Mr Fell’s note significantly overstates that risk by underplaying or disregarding options for risk mitigation.

Anthony Lee
26 November 2020