



## **Updated Viability Report Hampton Court Station Project 2018/3810**

HCRC has reviewed Red Loft's update to their viability report dated 10 September 2020 and follow-up emails by James Owens, who represents Alexpo I.O.M., dated 7 October and 3 November 2020. We note the following points made by Red Loft:

- "As the scheme details remain unchanged, we have not sought to reappraise the development entirely, but have reviewed and comment on trends evidenced in the principal viability inputs".
- "The private residential values within the financial viability assessment were robustly supported by comparable evidence within the local area. On review, the values applied are considered reasonable at today's date, if not optimistic, given the current uncertainty in the residential property market and wider economy".
- "Additionally, we have also reviewed build cost inflation since 2018, evidenced in the BCIS All-in Tender Price Index (TPI), to understand any movement in these inputs across the time elapsed since concluding our assessment. BCIS recorded a cumulative change in tender prices of 1.2% between 2018 and 2020, suggesting current day construction costs would exceed those included in the financial viability assessment".
- "... market conditions have become more challenging over the period since viability discussions took place."
- "Given the additional costs and market trends noted, it is reasonable to conclude that the financial performance of the scheme would be negatively impacted, if the development were reappraised at today's date".

### **HCRC Assessment**

#### **Revised Viability**

HCRC has always maintained that the viability assessment submitted with this application is manifestly contrived and not credible. We are asked by that original viability assessment to believe that Alexpo, a presumably prudent developer, was prepared to risk a £54m construction spend for an anticipated profit of £1.1m. We are also aware that the agreement between Alexpo and Network Rail includes a profit share arrangement which suggests that Alexpo's return on this development will, at best, be only a percentage of that figure. Alexpo's rate of return on this development according to Red Loft's revised viability assessment doesn't even come close to matching high street deposit rates.

So, either Alexpo's relentless pursuit of planning permission for this development is genuinely in the hope that it will (in a best-case scenario) break even on this project, or the viability assessment from Red Loft is fundamentally flawed.

**In it's September 2020 update to their viability assessment, Red Loft quote the scheme's headline profit of £1.1m as calculated in December 2018. In our assessment this figure is plainly wrong and must be revised.**

Costs increases to September 2020 listed by Red Loft total £950,000. These are:

- Holding (interest) costs £210,000.
- Professional fees £100,000.
- Construction costs £650,000 (1.2 % increase on £54m).

Using Alexpo's own cost increases the forecast scheme profit at 10 September 2020 should have been £187,843 and not £1.1m which was the original calculation when the scheme was submitted.

It is also clear that Alexpo has omitted costs in relation to the temporary use for parking on Cigarette Island Park during construction. Here we estimate post scheme remediation costs of £15,000, installation costs for lighting, surface materials and fencing of £25,000 and operational costs for staff to manage the facility during construction of £55,000; all of which totals £95,000. Given that this is a commercial project we assume that Alexpo will pay Elmbridge Council a suitable fee, to be determined, to rent Cigarette Island park. We would welcome any alternative Cigarette Island Park costs from Alexpo but assume that ours are in the right ballpark and likely to be conservative, particularly with respect to operational costs.

Other costs not detailed in the viability report are development management fees due to Premcor Estates Ltd. At present we have no visibility with respect to these fees, but we assume they will be at least 1 percent of contract value, which would place those fees at not less than £540,000. It is inconceivable that such a small company would run this scheme for six plus years waiting for a profit share which their own figures suggest can't be achieved. We are given no explanation as to why Premcor's development management fees have been omitted from the viability appraisals when all other professional fees have been included.

### **Station Refurbishment Costs**

On 14 October 2020 HCRC met Network Rail. Attendees included:

Stuart Selleck - Leader Elmbridge Council (via MS teams)

Adrian Phillips - Director Historic Royal Palaces

Andrew Roberts – HCRC

Stuart Kirkwood MD Property Network Rail

Anthony Green Development Manager Network Rail

At the meeting Stuart Kirkwood on behalf of Network Rail stated that the scheme will generate £1.5m towards the cost of refurbishing Hampton Court Station. This £1.5m cost is not detailed anywhere in the viability assessment.

In his 3 November 2020 email to Elmbridge Council in relation to funding the station refurbishment, James Owens stated that these costs were a matter for Network Rail and therefore not relevant for the purposes of Alexpo's planning application.

However, Mr Owens then stated:

*“...it is recognised that these costs can be financed from the profit shares and overage”.*

Alexpo has consistently refused to disclose the terms of its agreement with Network Rail, citing 'commercial sensitivities'. However:

- Whilst Alexpo and Network Rail have sought to garner credibility for their scheme by referencing the benefits of the station refurbishment, they have refused to explain how the development will fund or otherwise facilitate that refurbishment.
- We are told that the scheme will be subject to a profit share between Alexpo and Network Rail, but whilst the profitability of this development is at the very heart of the viability assessments carried out, Alexpo has refused to clarify the nature of that profit share.
- We are also told by Mr Owens that the scheme is subject to an overage provision. Since overage in these circumstances is essentially a payment for the purchase of the land, albeit one conditional upon an event or events, it is a core cost to Alexpo but again Alexpo has refused to clarify the overage arrangements in place.
- The refusal to provide details of the refurbishment on the grounds of commercial confidentiality is inconsistent with the approach taken in the 2008 scheme, which also disclosed land purchase costs of £4.5m due to Network Rail from the applicant Gladedale.
- The obvious solution to this problem is a planning condition requiring detailed plans and costs of the station refurbishment and a requirement to complete the refurbishment prior to completion of the submitted scheme.

Our concern here is that if there is a cost overrun or asset values are lower than forecast, will the quality of the station refurbishment be compromised, or will the station refurbishment be abandoned altogether? At the very least we would welcome confirmation from Network Rail that in the event that the scheme generates a loss, or is only partially completed, the station refurbishment project will not be compromised in any way.

In any event, based on the very limited information available in this regard, adding parking costs and Premcor Estates Ltd management fees to Red Loft's updated viability assessment gives an overall scheme loss of £450,000. On the face of it, that means that station refurbishment costs cannot be funded by scheme profits. Equally, in those circumstances it is not immediately clear how Alexpo could afford to pay overage. With that in mind, subject to any confirmation from Network Rail per the above, we consider that station refurbishment costs should therefore be treated as an expense to the development, which would take the total loss as at September 2020 to £1.95m. This is a £3.3m variation on the £1.1m profit suggested by Red Loft.

#### **Additional Costs – September 2020 to Determination 30 April 2021**

If the scheme is determined on 30 April 2021 there will be additional "holding costs" of £95,000 (£2850 x 33 weeks) and we assume professional fees of circa £25,000 in relation to the Environment Agency consultation. Plainly any further delay in determination of the scheme will result in additional holding costs.

#### **Land Values**

The protocol for viability assessments in relation to affordable housing calculations is to use Existing Use land Values (EUVs). Red Loft was therefore correct when it assigned a zero value to the Jolly Boatman site which Alexpo acquired for £1.2m (see attached) and £500,000 to Network Rail's land which had a Land Registry value in

2017 of £2m (see attached). While these land acquisition costs sit outside of the affordable housing formula they are very real costs which will be incurred by Network Rail and Alexpo.

These land values give additional costs to the development of £2.7m. Bearing this and the above figures in mind, Red Loft's viability assessment suggests that the scheme will generate, at best, a loss of £4.8m which represents an £18m variation from Red Loft's suggested commercial return of £13.4m.

These financials sit uncomfortably with our late 2020 phone conversations with James Owens and development manager Rob Lane, who both suggested that the scheme is "very much viable".

We assume that Alexpo will point to the Dixon Searle Partnership (DSP) review commissioned by Elmbridge Council and a possible late stage review of profitability as providing adequate protection for the Council. We have our doubts and suggest that any review will face considerable challenges.

For reference we refer the Council to NPPF guidelines which provide ample scope for "decision makers", in this instance the planning committee, to give due weight to the viability report: National Planning Policy Framework paragraph 57 states:

*The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force.*

## **Requests for Information**

HCRC has the following queries:

- We consider that it is critical to any realistic assessment of the viability of this development that Alexpo discloses its agreement(s) with Network Rail.
- Would a late stage review include a forensic assessment of all input costs by a credible independent auditor and quantity surveyor?
- How will the station refurbishment be funded – and if the refurbishment is to be funded, in whole or in part, by the scheme, will this expense form part of the late stage review calculations – i.e. used in the affordable viability calculations?
- We request disclosure of the actual viability numbers Alexpo will share with their investors, financiers and any future developer.
- Does Premcor Estates Ltd have any interest in the scheme other than as an arms-length development manager?
- Will development management fees be included in the affordable housing viability calculations?
- How would any review deal with a land owner and developer hiding behind an Isle of Mann shell company?
- Confirmation of the consideration, if any, for land owned by SCC currently providing access to Cigarette Island Park.
- Updated CIL calculations using 2020/21 figures.
- BICS inflation costs for highways works (we calculate £30K).

- Confirmation of the exact period Red Loft apply the BICS cost increases to (Red Loft quote “between 2018 and 2020”). Also, what are the BICS costs increases from September 2020 to April 2021 including BICS forecasts where appropriate?

## Conclusions

We have taken advice from a very experienced property manager who ran a £700m property fund for the past 16 years. He described the viability report as wholly fictional; needless to say, we agree.

Given the upfront costs for the scheme (highways costs of £2.5m and £10m plus for the car park) he doubted that the scheme had any chance of progressing unless investors were reasonably confident that they could achieve a high teens return. He also confirmed that where you have multiple property asset classes (car park, residential, retail, hotels etc.) and assets sold over a protracted time period, developers will have very powerful ammunition if they want to frustrate a subsequent late stage independent review of profitability. He also pointed to Alexpo’s I.O.M. structure as a cause for concern.

We note DSP’s review of Alexpo’s viability report and their reference to the RICS guidance note on viability which states: *“the ability of a development to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project”*.

DSP goes on to say: *“The applicant’s view of this profit position is not explained in the FVA and DSP therefore assumes that they are proposing to proceed on this basis, providing the challenging looking viability scenario is not exacerbated by any further affordable housing contribution”*.

Our view is that DSP didn’t go far enough and should have used its considerable expertise to benchmark this project against other similar projects, compare risk and returns, and determine whether this scheme reasonably meets the RICS thresholds. Alexpo’s own advisors reference a suitable benchmark profit for this scheme of £13.4m versus the original £1.1m they originally anticipated and which under careful examination and with the passage of time clearly cannot be delivered.

The updated financials clearly show that the scheme is not viable when assessed with respect to affordable housing, or on purely commercial grounds. It is not our job to assess why the viability report is so contrived, but clearly there is a problem when a statutory landowner works in cohort with an entirely unknown developer based in an off-shore tax haven and seeks permission for a scheme with such spurious financials. If Alexpo cannot provide clear evidence that the scheme is viable and will generate a credible commercial return then the Council has an obligation to refuse the scheme.

As matters stand, we do not believe that it is reasonably possible for Elmbridge Council, or indeed any third party, to assess the actual anticipated profitability of this scheme. Until such time as Network Rail, Alexpo, and Premcor Estates provide the information requested, it will continue to be impossible to do so. We consider that the

Council should not, as a matter of principle, approve any scheme where the viability assessments provided are so plainly, and presumably deliberately, divorced from reality, nor can the Council justifiably expect a change of approach when the time comes to produce a late stage review of profitability. Any such review will be equally flawed and therefore a pointless exercise.

If Network Rail had a genuine desire to contribute to the UK housing stock they would not have encouraged a large hotel on their Hampton Court way plot. Given their significant financial interest in the success of this scheme both in terms of a profit share and overage payments, Network Rail cannot cast itself as a passive landowner sitting at arms-length; when this is plainly not the case. Moreover, it is unacceptable that they are party to an inherently deceptive and opaque scheme which clearly breaches their Code of Business Ethics which demands:

*“Working in an ethical way means we are selfless, objective, accountable, open and honest, and demonstrate integrity and leadership. We should all behave in a way that meets these high standards. Government and the taxpayer trust us with significant resources, and it’s up to each of us to respect this trust and use these resources properly and efficiently”.*

To date the only justification we have heard from Network Rail as to why they remain committed to this project is that their development partner has made a significant investment in this project. For all of the reasons detailed we are deeply troubled by Network Rail’s position.

We look forward to a full and frank update from Network Rail, Alexpo I.O.M. and Premcor Estates following which we also assume that DSP will be instructed by Elmbridge Council to update their review of the submitted viability information.

HCRC

3 February 2021

## Hampton Court Station Development - Financials

	Date	Data Source	Scheme Profitability
Scheme Application P & L	20/12/2018	Application Viability Report redroof/Alexpo	£1,147,843 Profit/loss when scheme registered
<b>Alexpo Cost Update (sep 2020)</b>			
Holding Costs (interest) dec 2018 to Sep 2020	10/09/2020	redroof/Alexpo	£210,000
Professional fees	10/09/2020	redroof/Alexpo	£100,000
Construction cost increases	10/09/2020	redroof/Alexpo (calc by HCRC)	£650,000
		<b>Total</b>	<b>£187,843</b> Profit/loss with Alexpo updates

Cigarette Island parking costs	20/01/2021	HCRC estimate	£95,000	<b>£92,843</b> Profit/loss including scheme parking costs (CIP)
Premcor Estates (Development Management Fees)	20/01/2021	HCRC estimate	£540,000	<b>-£447,157</b> Profit/loss including Premcor Estates Ltd fees (estimate)
Station refurbishment		Network Rail Property MD	£1,500,000	<b>-£1,947,157</b> Profit/loss including station refurb costs
Highways works costs increases			£31,200	<b>-£1,978,357</b>

Weekly holding costs (£2850) 10/9/2020 to 30/4/2021 = 33 weeks			£95,000		
Professional Fees 10/9/2020 to 30/4/2021			£25,000	<b>-£2,067,157</b>	Profit as at time of determination April 2021
<b>Land acquisition costs</b>					
Jolly Boatman site (2018)	20/10/2014	Alexpo (Land Registry)	£1,200,000		
Network Rail	21/12/2017	Network Rail (Land Registry)	£2,013,000		
		less value assigned by redroof to car dealership land	-£500,000		
		<b>Total</b>	<b>£2,713,000</b>	<b>-£4,780,157</b>	Profit/loss including land costs
<b>Profit required to achieve commercial return of 18% to enable project to be implemented</b>				<b>£13,376,000</b>	
Variation between scheme financials and commercially viable project				<b>-£18,156,157</b>	Variation

Title Number : SY354700

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This extract shows information current on 8 FEB 2016 at 16:35:42 and so does not take account of any application made after that time even if pending in the Land Registry when this extract was issued.

REGISTER EXTRACT

Title Number	: SY354700
Address of Property	: The Jolly Boatman, Hampton Court Way, East Molesey
Price Stated	: Not Available
Registered Owner(s)	: Alexpo (IOM) Limited (incorporated in Isle of Man) of PO Box 145, Level 6, 10A Prospect Hill, Douglas, Isle of Man, IM99 1FY and care of Forsters LLP, 31 Hill Street, London W1J 5LS.
Lender(s)	: None



## Title number SY354700

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### A: Property Register

This register describes the land and estate comprised in the title.

SURREY : ELMBRIDGE

- 1 (30.11.1966) The Freehold land shown edged with red on the plan of the above Title filed at the Registry and being The Jolly Boatman, Hampton Court Way, East Molesey.
- 2 There are excluded from this registration the mines and minerals excepted by the Conveyance dated 11 November 1966 referred to in the Charges Register.

### B: Proprietorship Register

This register specifies the class of title and identifies the owner. It contains any entries that affect the right of disposal.

Title absolute

- 1 (30.10.2014) PROPRIETOR: Alexpo (IOM) Limited (incorporated in Isle of Man) of PO Box 145, Level 6, 10A Prospect Hill, Douglas, Isle of Man, IM99 1FY and care of Forsters LLP, 31 Hill Street, London W1J 5LS.
- 2 (30.10.2014) The price stated to have been paid on 15 October 2014 was £1,200,000 plus £240,000 VAT
- 3 (30.10.2014) The Transfer to the proprietor contains a covenant to observe and perform the covenants referred to in the Charges Register and of indemnity in respect thereof.

### C: Charges Register

This register contains any charges and other matters that affect the land.

- 1 A Conveyance of the land in this title dated 11 November 1966 made between (1) British Railways Board and (2) Mecca Limited contains restrictive covenants.

*NOTE: Copy filed.*

- 2 The land in this title is subject to the rights reserved by the Conveyance dated 11 November 1966 referred to above.

*NOTE: A Copy of the Agreement dated 19 December 1946 referred to in the said Conveyance is filed.*

- 3 The land is subject to the rights in respect of water soil gas electricity and telephone and other services and supplies granted by a Deed dated 10 June 1970 made between (1) Mecca Limited and (2) The Urban District Council of Esher.

*NOTE: Copy filed.*

Title Number : SY850207

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REGISTER EXTRACT

Title Number	: SY850207
Address of Property	: Hampton Court Railway Station, Hampton Court Way, East Molesey (KT8 9AE)
Price Stated	: £2,013,000
Registered Owner(s)	: NETWORK RAIL INFRASTRUCTURE LIMITED (Co. Regn. No. 02904587) of 1 Eversholt Street, London NW1 2DN.
Lender(s)	: None

## Title number SY850207

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### A: Property Register

This register describes the land and estate comprised in the title.

SURREY : ELMBRIDGE

- 1 (21.12.2017) The Freehold land shown edged with red on the plan of the above title filed at the Registry and being Hampton Court Railway Station, Hampton Court Way, East Molesey (KT8 9AE).
- 2 (21.12.2017) The land has the benefit of any legal easements reserved by a Conveyance of land adjoining the south eastern boundary of the land in this title dated 6 December 1978 made between (1) British Railways Board and (2) Thames Water Authority.

-NOTE: Copy filed.

### B: Proprietorship Register

This register specifies the class of title and identifies the owner. It contains any entries that affect the right of disposal.

#### Title absolute

- 1 (21.12.2017) PROPRIETOR: NETWORK RAIL INFRASTRUCTURE LIMITED (Co. Regn. No. 02904587) of 1 Eversholt Street, London NW1 2DN.
- 2 (21.12.2017) The value stated as at 21 December 2017 was £2,013,000.

### C: Charges Register

This register contains any charges and other matters that affect the land.

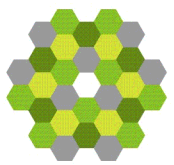
- 1 (21.12.2017) The parts of the land affected thereby are subject to the leases set out in the schedule of leases hereto.  
The leases grant and reserve easements as therein mentioned.

#### Schedule of notices of leases

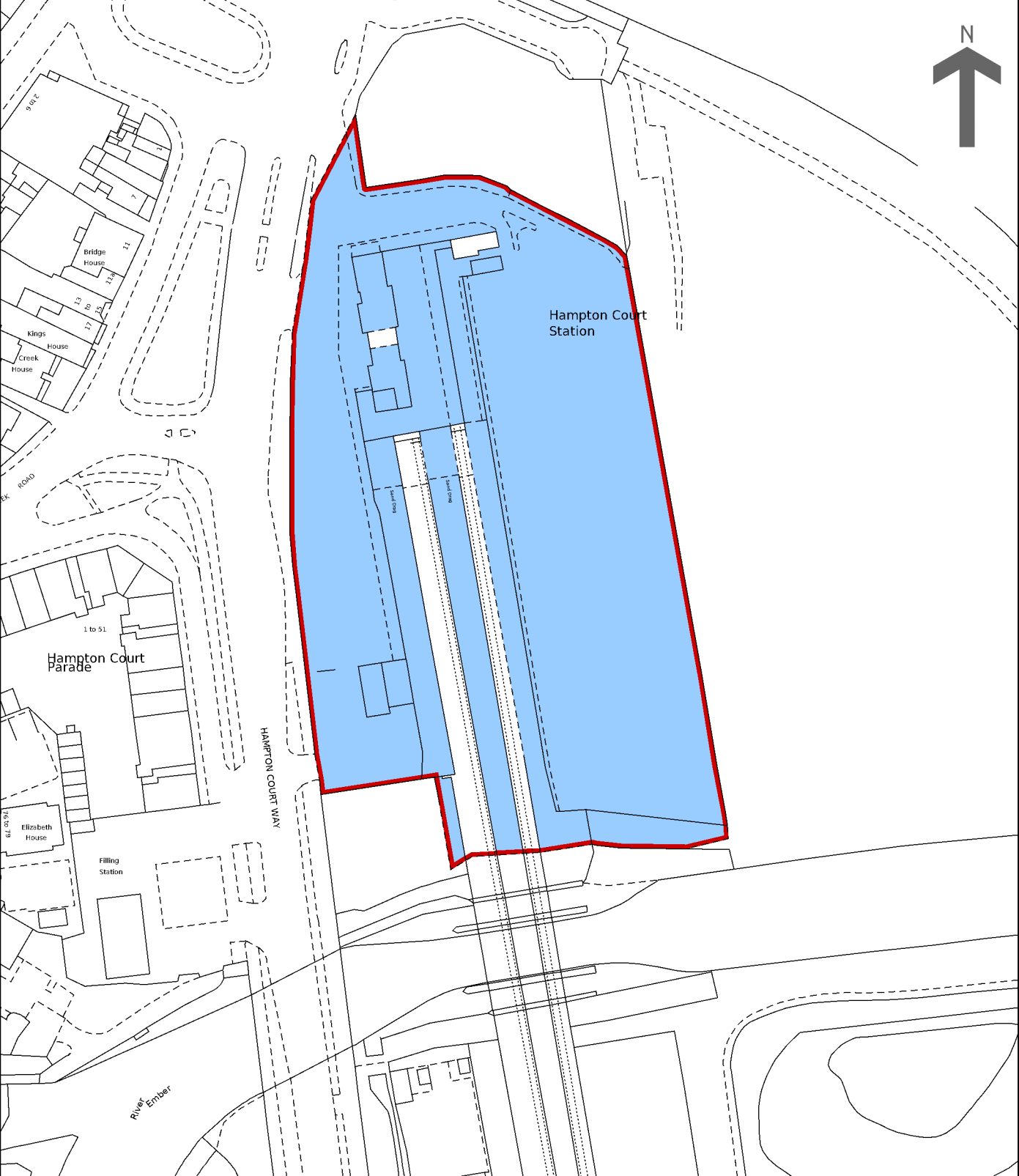
- |   |                           |                                  |   |
|---|---------------------------|----------------------------------|---|
| 1 | 21.12.2017<br>Tinted blue | Hampton Court Railway<br>Station | 17.08.2017<br>Commencing 2am<br>on 20.08.2017<br>and ending on<br>1:59am on<br>18.08.2024 |
|---|---------------------------|----------------------------------|---|

NOTE: The lease includes also other land.

End of register



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