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23rd September 2019

Dear Sir/Madam,

Re: **Northern Gateway development proposal and viability appraisals**

Many thanks for alerting me to this proposal and the related reports prepared in respect of viability appraisals.

There is much detail, but I think there are issues of principle that needs to be aired. The following are the most important:

1. The time given to evaluate the evidence presented, particularly the report made available this afternoon for Councillors and third parties to consider is unacceptably short. It also confirms to me that the viability process is opaque – I will pick up this point later.

2. The role of viability appraisal and evaluation is not to provide answers but to provide the requisite evidence to inform decision-making. I do not believe that the reports and their evidence are in a format which generates these conditions. For example, one would expect to see [in tabulated format] the principal variable inputs, their source and, if changed, how these have been transformed to generate, in summary format, the typical components and outputs of the appraisals. Equally, decision-makers need to have before them a number of iterations which demonstrate requisite outputs and any inferences that can be drawn for the decision-makers.

3. Though I have only seen part of the officer's report [Oxford City Council], it is largely a cut and paste commentary drawn from consultants' reports. Importantly this written commentary fails to declare the Council's agreement, or not, to the position of the evidence. Importantly, it fails to investigate and come to a clear view on benchmark land value; the officer's report is ambiguous and non-committal especially as there is disagreement between the two surveying consultancies and a very wide gap between them and advice informing Homes England's position.

4. Though the appraisals have been re-run, it is not clear if the data inputs have been re-based to the most current edition. Importantly, it fails to reveal the key sources for the value/revenue side of the appraisals; it is this variable that is most powerful in determining viability. On the cost side, though there has been a lot of discussion between consultants, there remain big differences regarding cost levels and the quality of the scheme being proposed. Importantly, there is virtually no written explanation regarding the cash flow and how this has been prepared, for example, the only knowledge we have is the rate of interest, and presumably we can draw inferences from the rent free periods regarding expected voids, however there is no information regarding pace of development, sales rates, site preparation time. Importantly, the character of the proposed development is likely to generate a very "lumpy" cash flow with large interest charges as some elements will not be available in a phased basis [e.g. the large office building].

5. The viability methodology presumes that land has to be transacted and that risks are carried by different entities on completion of purchasing the land. However, this scheme does not seem to possess these typical attributes. The ultimate and future beneficiary of the proposed commercial development is the College. The intermediary and applicant is Thomas White Oxford Limited, which from my understanding is wholly-owned by the College. If this is true, the whole basis of the viability appraisal, to date, is fundamentally flawed. A different development appraisal is required since there is no need to seek profit from the land transaction as this is illusory, the College has declared that it intends to benefit from the proposed development in terms of ground rents, rental income of the commercial elements and that the market housing is to be offered for rent. These future streams of benefits need to be compared to the College's current opportunity cost of capital [i.e. the return from its investments now]. The College is simply giving up benefits currently being received from the site's existing uses [e.g. agriculture], but by investing in the creation of new development, this will produce a longer and higher future stream of benefits to the College. The key question is this: is the expected future rental stream as measured against the cost of generating the scheme higher than the College's current opportunity cost of capital? In respect of the latter, I have no knowledge of the College' position.

The final point is probably the most important and damning. Councillors will need to be assured that the development risks that are being claimed against this proposed development actually exist. From the information I have seen, it is unclear and therefore I would canvass Councillors to ask for much more information on landownership, and crucially the corporate relationship between the applicant and the College, because the viability appraisals that have been conducted presumes that a land transaction involves risk and that this has to be rewarded by profit! I am not convinced and, as a result, I recommend that a very different appraisal approach is adopted!

With Regards,

Professor Stephen Walker

Copy to Bob Colenutt

Sent by Email