Executive Summary – Bognor Regis Arcade Appraisal

We have been asked to provide an analysis of three key performance metrics in regards to the redevelopment of the Bognor Arcade. This is the second piece of work we have undertaken with regards to the Arcade, the first being a day one (one point in time) analysis of the likely surplus/deficit of undertaking the development. The current piece of work looks at the development on a cashflow basis over a period of time.

In undertaking our study we have made our own analysis of the reasonable inputs for our calculations and have also made a number of assumptions which we detail below, along with the key performance metric outputs. This Executive Summary should be read in conjunction with our Stage 1 report and will be followed by a detailed Stage 2 report supporting our inputs and assumptions.

Performance Metric – Residential Element Only	Value * on borrowed amount only
Pay Back Period	**27 Years**
Return On Investment	**3.489%**
Net Present Value (Surplus)	**£650,000**

Inputs and Assumptions

- The land/property is put into the development for nil value.
- The council will seek 0% profit as part of the development, preferring to hold the asset and generate a long term return instead.
- Our baseline annual rent equates to approximately £454,000, we have applied annual inflation of 2.5% to our rental values in line with Savills research and the government's target rate. If inflation rates increase above this assumed percentage the payback rate will decrease.
- We have adopted the build costs provided to us which have been prepared by independent costs consultants - Sum Cost Management.
- The Baseline build costs provided equate to £6,435,880, which is inclusive of 3.6% build cost inflation. We have allowed for further fit out cost, contingency, and professional fees within our cost analysis. Total build costs equate to £7,470,859, this is the figure we have used to calculate our payback period and Return on Investment.
- The Surplus/ NPV and payback period is on the borrowed amount only and excludes the grants, council contributions and potential value engineering as detailed in our Stage 1 report.
- The total borrowed amount within our calculations is £6,030,137.
- We have allowed for 15 months pre-construction and 24 month build period with our appraisal of the NPV.
- We have allowed for finance cost of 5.2% which we understand is in line with current PWLB lending rates.
- Our cashflow is over a period of 40 years.
- Our cashflow assumes operating costs of 20% of annual rent and a capital expenditure programme every 10th year of 10% of annual rent.
- The current figures are for the residential element only (including the proposed new build deli/retail unit which forms part of the new link building) but does not include the existing retail arcade.
- When the retail element is added into the appraisal the payback period should reduce further as there will be more income to add into the cashflow with a minimal increase in the build costs.

Please note - any figures reported herein provide indicative guidance only and are not a substitute for a formal valuation report as contemplated by the RICS Red Book. In particular, they should not be relied upon as the basis for any binding decision and Savills does not accept responsibility for the consequence of any binding decision that may be made on the basis of this exercise. This advice is for your use alone.