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Appendix 1

MONTAGU EVANS

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30 October 2012

Jonathan Bretherton Esq
Hereford Futures
4 Blackfriars Street
HEREFORD
HR4 9HS

Dear Jonathan

COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL ("the Council")
HEREFORD FUTURES LIMITED ("Futures")
STANHOPE PLC ("Stanhope")
(2) HEREFORD SHOPPING CENTRE GP LIMITED AND (3) UNION PROPERTY HOLDINGS (LONDON) LIMITED ("the Funder")
DEVELOPMENT AGREEMENT ("DA") RELATING TO THE RETAIL QUARTER SITE, EDGAR STREET, HEREFORD ("Retail Quarter")

I refer to previous correspondence and in particular my letter of 25 September 2012.

You are being asked to approve funding terms between Stanhope and the Funder which show a deterioration in the terms that were conditionally exchanged in late September between the two parties. This does not in itself impact the Council and I would advise that these terms are at least in line with market expectations.

Our analysis shows that neither the initial nor revised funding terms has a likelihood of overage being achieved for the Council.

Additionally, Stanhope have sought that the Council contribute £500,000 to the development, reducing the terms of the Council deal. However, the terms are highly competitive compared to what would be expected in the open market, if the Council were to re-tender the opportunity, based on the current market conditions.

If an alternative developer was to consider the opportunity they would either have to drastically reduce the quality of the development or seek greater financial assistance from the Council in order to achieve a market acceptable level of profit – being 15% to 20% of profit on gross development costs.

Stanhope are however fully committed to this project and are carrying out the project for an anticipated profit return of less than would be the market norm. The level of profit and the financial level of the Council deal do appear to me to deliver value for money to the Council, considering the Council's desire for a comprehensive, high quality, well integrated development that sees uses such as a cinema, modern multi storey car park, family restaurants and a department store, as well as retail occupiers new to the City. Attracting these uses are expensive and require to be subsidised by other uses/parties. As it stands, it is the reduced profit level of Stanhope that is a major contributor to the delivery of the quality of the project.

From our experience of other Local Authority led projects in the market at present, Stanhope's request is not surprising considering the overall viability of the development appraisal. This is in line with the funding appetite for major developments which, as has been shown, reduces end capital values and therefore impact on a developers ability to fund the upfront land and associated costs. Stanhope are therefore seeking that the upfront costs are reduced to take into consideration the reduced end value. Their detailed development appraisals and those of the Funders support this analysis. Montagu Evans are working for a number of Local Authorities who are being forced to re-negotiate terms agreed in 2007-2010 and the level of this request by Stanhope appears minimal compared to other projects we are having sight of.

We remain of the opinion that the proposed transaction is the best obtainable outcome for the public interest at this time with regard to the price and other conditions achieved. A comprehensive, high quality development for the city would not be deliverable at the same financial package to the Council if the Developer sought a market profit level as required by a new developer free from the historic costs that Stanhope have invested in this project.

I trust that the above clarification assists in your approval process. Please do not hesitate to contact me on any matter.

Kind regards.

Yours sincerely

ALAN HARRIS
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