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Brookfield Riverside Update on Selection of Sovereign Centros as Development Partner

JOINT REPORT PREPARED FOR

**BROXBOURNE BOROUGH COUNCIL AND
HERTFORDSHIRE COUNTY COUNCIL**

SEPTEMBER 2020

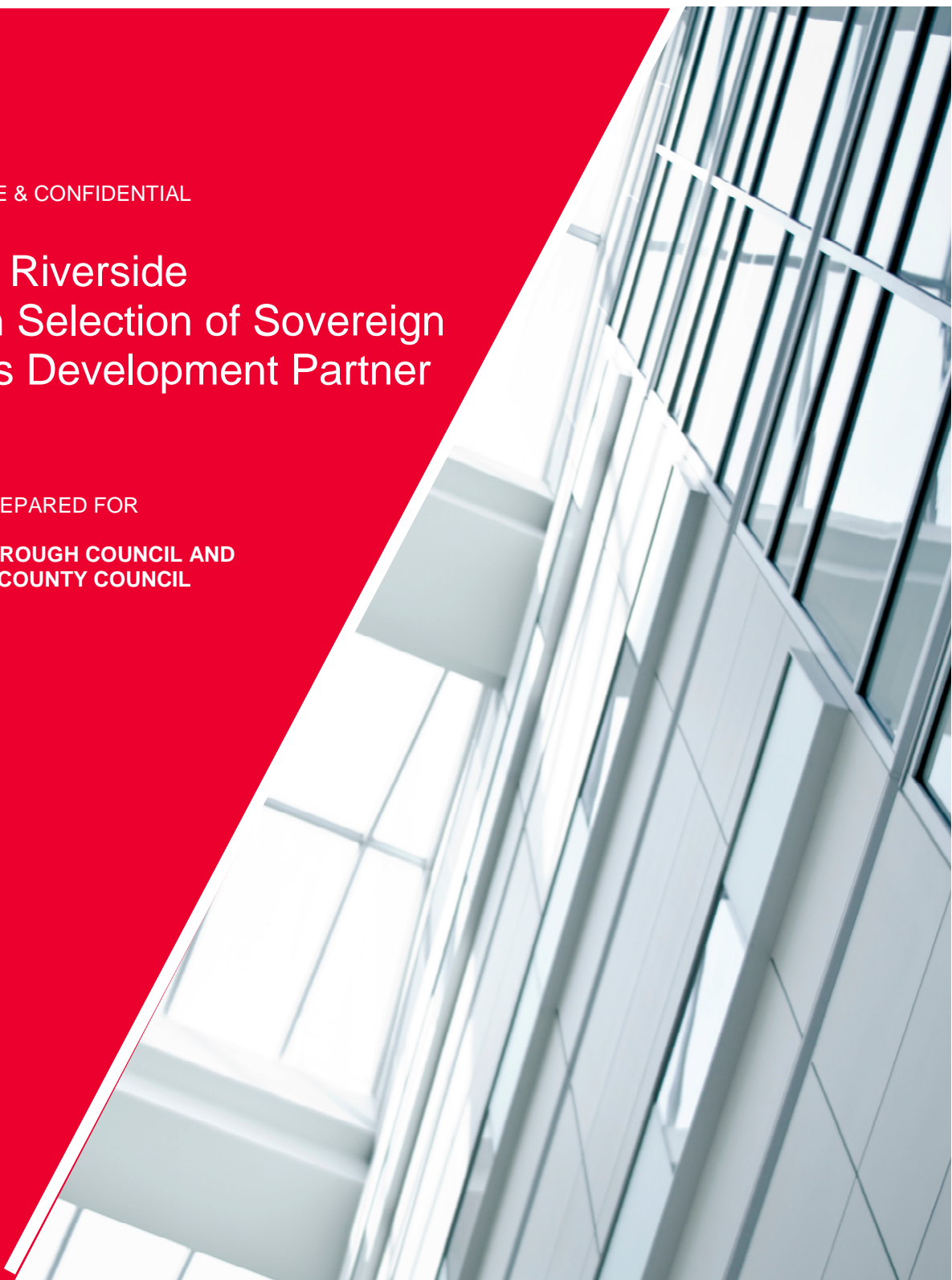


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1. Introduction and Background

- 1.1 Cushman & Wakefield (C&W) are the strategic development advisors to Broxbourne Borough Council (BoB) and Hertfordshire County Council (HCC) - 'the Councils' – on the Brookfield Project.
- 1.2 As part of this role, C&W completed a Tender Evaluation Report (in February 2019) for the procurement of a Development Partner to the Councils for the Riverside element of the Brookfield Project, and this confirmed that Sovereign Centros be confirmed as the selected Partner, on the basis of the detailed evaluation exercise undertaken and associated scoring, all as related to that procurement exercise.
- 1.3 Both Councils subsequently adopted this recommendation, and after this formal approval process had been completed by both Councils, detailed negotiations between the Councils and Sovereign Centros to translate the agreed 'Heads of Terms', which formed part of the procurement exercise, in to comprehensive legal documentation commenced.
- 1.4 This exercise has now concluded, and a summary of the legal documentation is contained in a parallel Report to the Councils from WBD, the Councils jointly appointed external legal advisor for Riverside.
- 1.5 C&W have previously confirmed their formal advice on the procurement exercise and associated proposals, as highlighted above, but it was considered by both Lead Project Officers of each Council and by C&W itself that the Councils would find it beneficial if C&W reported on various key themes which the Councils might also be considering at this defining stage, alongside the formal Report from WBD on the legal documentation.
- 1.6 This brief Report therefore considers various key themes/questions which the Councils may find relevant/be considering at this time.

2. Are all key commercial terms still consistent with those agreed in the procurement process?

- 2.1 In summary, yes.
- 2.2 This is a particularly encouraging aspect, as over the intervening year and a half the general property market has suffered a significant decline, due to the impact of Covid 19, and also in certain circumstances, structural change within certain property Sectors, including retail and leisure.

3. Is the scheme concept still strong and relevant?

- 3.1 The general challenges in the retail and leisure Sectors are very well known, and Sovereign Centros' scheme is clearly a town centre scheme, but based on retail and leisure uses. However, Sovereign Centros have confirmed that the scheme concept remains essentially as previously proposed, and moreover, to place this view firmly in context, they are now actively progressing a planning application for the whole of the Riverside area based on this concept. This should provide the Councils with significant reassurance.

- 3.2 The Riverside schemes overall scale, and associated mix will vary only marginally from the bid concept, but this is not for any commercial reason, but in order to best relate it to the ultimate position reached with the Local Plan allocations for retail and leisure, adopted after the scheme was submitted as part of the procurement competition.

4. Will there still be demand for the scheme from occupiers?

- 4.1 Whilst Sovereign Centros consider that now is not the time to engage potential occupiers to negotiate transactions on the scheme, as the associated commercial transaction would inevitably be weak in the current market – a position C&W firmly support – equally, Sovereign Centros are receiving unsolicited interest and are also undertaking initial informal discussions with potential key occupiers, and it is clear to them from these contacts that in principle demand for the scheme remains strong.
- 4.2 C&W share Sovereign Centros' ongoing confidence in this core aspect, on the basis that Riverside is a 'blue chip' location for retailers/leisure operators, due to its location and associated catchment. Alongside this, existing scheme representation is relatively poor, and certainly there is no other existing, or proposed scheme in the area focused on delivery of a pre-eminent scheme of such quality and associated scale. This is why occupier interest remains.
- 4.3 What is changing is the potential mix of such occupier interest. We still consider 'mainstream multiple occupiers' will be interested, but also two other emerging occupier Groups – occupiers who's current sales 'platform' is principally/exclusively 'on line', who are now seeking very select physical representation too; and strong local/regional brands, who are now becoming an acceptable investment grouping for such schemes.
- 4.4 The above is clearly encouraging for Riverside, albeit it is important to highlight these themes apply only to prime schemes, and that the ongoing 'polarisation' between a select number of prime schemes, and the majority of the remainder is continuing to increase. It is vital that Riverside remains positioned within the former category as it moves forward, and that the Councils support Sovereign Centros to achieve this leasing strategy, as otherwise Riverside will fail to deliver the Councils' objectives.

5. Is there still Investor interest in the scheme?

- 5.1 In short, yes, albeit very much on the assumed leasing basis outlined above.
- 5.2 Again, it is too early to engage the Investment market for the actual long term Investor for the scheme – its core elements must first be created (planning consent; key occupier pre-leasing; viability etc) – but provided they are, then that long term Investment Partner(s) will logically then be attracted.
- 5.3 The best evidence of this at this stage is the fact that Sovereign Centros have already secured an initial funding Partner to ensure that the significant initial speculative costs required to progress the Project from this point are in place. This Company (Bowmer & Kirkland) and Sovereign Centros itself would not be investing the very substantial initial funding if they did not consider that the proposed Riverside scheme would become a reality and associated commercial success.

6. Would the Councils receive more interest in Riverside, and/or improved proposals, if they retendered the opportunity now?

- 6.1 Again, in summary, we consider it would be (most) unlikely that the Councils would receive as strong a proposal as previously received, due to the much more challenged marketplace now.

7. Is there a danger Sovereign Centros will exit and/or renegotiate terms?

- 7.1 Clearly there are no 'guarantees' on either aspect, but their commitment to the scheme, and associated legal negotiations has been consistently strong since their selection, despite these intervening market challenges.
- 7.2 There has been inevitable 'robust negotiation' during the legal process, but no serious attempt by Sovereign Centros to renegotiate any aspect of the proposal agreed during the procurement process.

8. What about their initial Funding Partners position?

- 8.1 Bowmer & Kirkland have, to date, been a 'silent Partner', in that all engagement with the Councils has been through the Sovereign Centros Team.
- 8.2 However, Sovereign Centros have confirmed that they have an initial Funding Agreement with Bowmer & Kirkland for the Project. [The Councils are not a Party to this, nor have the Councils seen the terms of it, but both WBD and C&W have no concerns with this, as it is the terms within the Agreements that the Council are to enter in to with Sovereign Centros that are relevant to them.]
- 8.3 C&W assume that a key concern related to their position would be any further delay to exchange of the Development Agreement, as this process has already been protracted, and there is an urgent need to relate their speculative funding to a contractual position with the Councils.

9. How important is Riverside to the Brookfield Project, and will the Councils' make a commercial return from Brookfield?

- 9.1 Riverside is essential – both to create the right 'place' for the linked Garden Village element of the Project, and also in policy terms, as without progression and implementation of Riverside, the Local Planning Authority's now adopted Policy would not allow the delivery of the Garden Village scheme.
- 9.2 In terms of whether the Councils will make an overall financial return from Brookfield, it is a development project, and moreover one of real scale and complexity, and there are clearly 'no guarantees' related to such projects.

- 9.3 However, the current financial proposal to the Councils from Sovereign Centros related to Brookfield, and the current financial modelling work undertaken on the Garden Village concept demonstrate that the Councils can make a commercial return from the overall Brookfield Project – generally, and also related to the required upfront investment to both displace operational assets, and create the necessary strategic infrastructure. In addition, each Council will end up with new operational assets too.
- 9.4 The ultimate extent of this return will relate to how both elements of Brookfield are progressed and implemented, and to associated market conditions during the lifetime of the Project. However, the agreed transactional structure with Sovereign Centros will allow the Councils to have an appropriate involvement to ensure the scheme maximises its return to the Councils, within that associated structure, and C&W's advice on Garden Village is that whichever delivery route is chosen, that a similar level of involvement is created within that agreed delivery strategy.
- 9.5 In terms of 'Best Consideration', C&W have also provided a formal Report on this to each Council, which confirms that the transaction does achieve 'Best Consideration', based on the various assumptions outlined within that Report.

10. Risk Management

- 10.1 As stated above, Riverside, and the wider Brookfield Project is a development scheme, and moreover one of real scale and complexity.
- 10.2 As such, there are inevitably a whole range of risks attached to its progression and hoped for realisation. However, we consider the Councils are continuing to adopt the correct general approach to such risks, as they relate to the Councils themselves.

11. Timing

- 11.1 Timing is as important as anything to the realisation of a successful development. Whilst inevitably 'judgemental', as development always relates to the future, we consider that there is a strong prospect that Riverside could well emerge at a very positive point in the development cycle, provided the Councils and Sovereign Centros progress matters to the current programme.
- 11.2 This assumes a construction start for the main scheme in [some three year's time/2023]. By this time it would be hoped that Covid 19, and its associated impact would be dealt with, and that the economy would be recovering well, both from this, and from any transitional period related to Brexit too.
- 11.3 Linked to the above points, at present Riverside is one of very few retail and leisure led town centre schemes currently being progressed, due to the reasons outlined in Section 4 above. However, if the Parties can achieve a viable scheme to this broad programme, it could well be that Riverside emerges with very little competition, and on the basis that it is the 'blue chip' proposition that it must be, could receive strong occupier, and hence investor interest. The fact that the Councils have chosen to retain a commercial interest in the scheme once completed would then be very beneficial.
- 11.4 Equally, if matters do not proceed so successfully, the 'downside' position for the Councils should be no less than having achieved the creation of a major site, free of existing occupational constraints,

which would be suitable for various alternative redevelopment options, bearing in mind its excellent location.

12. Recommendation

- 12.1 C&W continue to recommend that both Councils enter into the Development Agreement, and associated documentation with Sovereign Centros, as now concluded, and as outlined within WBD's parallel Report to the Councils.