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9th November 2011

Dear Mary

BRIGHTWELLS, EAST STREET, FARNHAM

James Duck and I were pleased to meet with you and your colleagues on Monday 17th October 2011. At that meeting we gave an explanation of the background to our work, as well as the current shopping centre investment market, and finally the factors that we consider essential for any development funding to be successful. As a consequence, you asked us to give you our written summary of what we ran through to help you in discussions with your fellow Councillors and officers.

We therefore cover the following in this note:-

1. DTZ's role.
2. Background to Funding criteria.
3. Where Farnham sits against the key criteria.
4. Initial stages of marketing.
5. Next steps required.

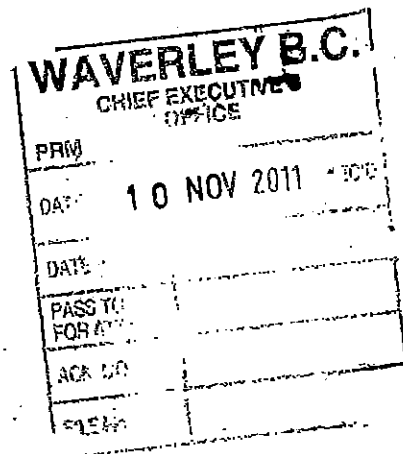
1. DTZ's role.

As you are aware, we are acting on behalf of Crest Nicholson on this instruction in both a leasing capacity as well as securing the Funding. Notwithstanding this, the advice and feedback that we gave in the meeting and

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A list of directors' names is open to inspection at the above address
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in this letter is exactly the same advice that we are giving to Crest Nicholson, who are copied on this note. Furthermore, the basis of our remuneration is on a success only arrangement. Thus, if we fail to successfully fund the project we do not earn any fees. I think this appeared to be quite an important point for you as a council in that there seemed nervousness if advisors were not aligned with their clients on the success of project.

2. Back ground to Funding criteria.

In regard to the comments made above, we are very careful on what funding projects we will take on. We have a strict checklist on projects, and if they fail to hit these criteria (or are incapable in the future of meeting that criteria) then we would not take the project on. In this respect, we have over the last 10 years been involved in 95% of all retail shopping centre Fundings via the investor or developer and consider ourselves market leaders in this area. Consequently, we consider that the advice we give on the success criteria is valid and stood the test of time. Example projects we have/are working on would include Liverpool One, Witney, Wakefield, Barnsley, Camarthan, Westfield Shepherd's Bush and Feltham.

The criteria we consider for projects in general are the following:

- Does the town "need" the project such that the case for building it is overwhelming. This is not a test of what a developer wants to do, but what the town needs.
- Will the scheme let – i.e. does it meet a demand need at a point in time?
- Are the rents/assumptions affordable?
- Can you pre-let to circa 40% - 50% before going on site?
- Is it viable on a sensible basis?
- Is the funding yield at a sufficient discount to the yield that the centre would command when successfully up and let.
- Will land ownership, design and cost issues be dealt with, i.e. when is the developer able to start on site certainty at a fixed point in time?
- In other words, the funding deal is the last part of the jigsaw.

3. Where does Farnham sit against this criteria?

Overall Farnham sits well against the criteria set out above, namely:-

- The scheme provides a much needed retail/leisure/residential environment to the town centre.



- It is targeting high quality retailers to meet the needs of the core catchment.
- The appraisal, funding and yield makes sense.
- The centre is capable of being let.

There are however two key issues outstanding.

The first relates to the level of pre-let income that can be achieved. Clearly the anchors of Marks & Spencer, cinema and restaurants are achievable. We also need 3 "game changing" retailers to set the tone for the tenant mix. The difficulty is that these retailers are not used to taking "pre-lets" on projects that are some 3 years or more out. The phrase "build it and they will come" certainly applies here but a forward funding partner is going to take some persuasion. We know the letting agents are making good progress here.

The second aspect relates to land. When we initially went out to the market in September, we were not fully aware of the CPO situation. At present, the delivery of land is not guaranteed and indeed, the Council have not fully recommitted their powers to secure this. We understand the reasons but this does create a catch 22 situation. This is the issue we understand you are currently debating. Critically, whilst there is uncertainty over land it would be extremely hard to get a fund on board. The principal reason is that the fund will need to allocate sufficient time, effort and expense to doing the analysis and then signing up for a scheme which may then never happen. Once they sign they need to allocate the funds and if there is uncertainty as to whether that money will actually be used they will not go forward in the first place.

4. Initial stages of marketing.

As we explained, there is currently a shortage of prime stock available in the shopping centre market and this is the prime market that we are targeting Farnham for. In particular, the characteristics funds are currently seeking are:-

- Affluent South East locations.
- Supermarket or good quality tenant anchored scheme.
- Modern, well configured units.
- Schemes let off low Zone A rates with the potential for further growth.

Given the lack of development over the last 5 years and the desire for pension funds to hold prime stock rather than secondary shopping centres, there is a significant shortage of available stock for them to invest in. As a consequence, some pension funds are now looking at the possibility of forward funding opportunities that enables them to gain stock, albeit taking more risk.



With the above in mind, we presented the scheme to some 12 funds. All of the funds agreed with the logic for the scheme, namely that there is a need for it; Farnham is under supplied in terms of retail and the demographic/catchment supports the need. Secondly, at an early stage, they believe that the scheme will let, are happy with the design and the size and configuration of the units. Finally, the pricing and structure of the funding opportunity appeared reasonable.

Some funds have rejected the scheme but this was due to the lot size being too small, or, they need to place funds now, or they have a need to place funds and see returns quicker than the funding opportunity would allow, or finally they have simply filled their shopping centre requirements. None of the funds rejected the scheme because they believe the scheme was wrong for Farnham or would not have not been a success.

5. Next steps.

We now have a number of funds who wish to discuss the next stages with us, but want clarity over land ownership and the number of pre-lets. The second aspect is something that we are working with the agents over but the first one is for the Council to consider.

I appreciate that you have got much to consider and perhaps you could let us know of the Council's decision and if you require any further information from us please do not hesitate to call us.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Williams', written over a long horizontal line that extends across the page.

Mark Williams

Head of EMEA Retail Capital Markets

Cc James Duck DTZ
Ian White Crest Nicholson