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**Our ref:** 240405 The Food and Beverage  
Anchor Proposal, Updated Review  
\_Lichfield DC\_v0.1

**Your ref:**

10<sup>th</sup> April 2024

Dear John,

### **Debenhams Lichfield – Food and Beverage Anchor Proposal Review**

Further to our previous discussions, we set out below our further analysis of the potential of securing The Food and Beverage Anchor as an anchor operator within the Cinema development and whether the proposed financial terms and the wider regenerative benefits of attracting an operator of this calibre offset the initial investment required by the Council as part of the Joint Venture with Evolve.

We have previously provided two letters pertaining to the Food and Beverage Anchor proposal, dated 27<sup>th</sup> July 2023 and 29<sup>th</sup> February 2024. Our previous reviews considered the terms put forward by the Food and Beverage Anchor and provided a series of recommendations to the Council with respect to areas where further information or evidence was required.

We understand that further legal advice has been provided by Trowers and Hamlins following our previous reviews. The latest advice provided by Trowers and Hamlins notes that AspinallVerdi's need to provide their professional view on whether the proposed letting is being made on market terms.

Following our initial advice, we understand that discussions have been undertaken between Lichfield DC and Council A on a number occasions, where a similar Food and Beverage Anchor deal has been entered into by the Council. The purpose of these discussions is to understand how the Food and Beverage Anchor proposal has been implemented elsewhere, the potential returns and the wider economic / non-economic benefits of securing this tenant.

In addition to the above, the Council has also commissioned Kada Research to undertake a Benefit Cost Ratio (BCR) exercise, in line with advice given in our previous letters and also recommended by Council A. The BCR exercise undertaken by Kada indicates the potential value for money which would be generated by the Council's joint venture with Evolve entering into the proposed deal with the Food and Beverage Anchor.

In line with the legal advice noted above, our latest letter review seeks to analyse whether the deal put forward by the Food and Beverage Anchor is within broad market terms, i.e., would a commercial market operator be likely to enter into the deal? As such, our analysis considers the following elements:

- Updated financial modelling
- Rental market analysis
- Consideration of the key elements of the Food and Beverage Anchor proposal
- Wider economic benefits

## Updated Financial Modelling

As set out above, we have undertaken further financial modelling in light of additional information provided by the Council.

Following discussions with the Council on what is likely to constitute a reasonable level for business rates and service charges, we have adopted the following for the purposes of our updated modelling:

- Business Rates: £135,000 rateable value x 0.546 multiplier = £73,710, say £74,000
- Service Charge: £36,000 based on Council modelling (central scenario)

The above results in a total of £110,000. Deducting this from the Base Rent of £135,000 gives a minimum base rental income of £25,000 to the council.

In addition to the above, we have also been provided with information in relation to the expected levels of turnover, based on the actual turnover achieved in other locations where the Food and Beverage Anchor has opened. The information relied upon for the purposes of our updated testing reflects the current turnover levels achieved elsewhere:

- Council A: c. £60,000 per week in the first year of trading
- Council B: c. £75,000 per week in the first year of trading

For the purposes of our updated testing. We have assumed that the starting point for turnover is £60,000 per week, at the conservative end of the range shown above. As such, we have produced models based on the following scenarios:

- Scenario 1: £60k/week Turnover – No Growth
- Scenario 2: £60k/week Turnover – 3% Growth
- Scenario 3: £60k/week Turnover – 5% Growth

Our updated models provide the following outputs:

- Scenario 1: Total Council Return: £3,813,000 Payback Year: 12 IRR: 7.30%
- Scenario 2: Total Council Return: £4,668,292 Payback Year: 10 IRR: 9.40%
- Scenario 3: Total Council Return: £4,929,451 Payback Year: 10 IRR: 9.55%

We note that we have currently assumed there to be no finance cost included in the cash flow assumptions. This is based on the assumption that the Council will be able to fund the capital contribution required through land receipts for other elements of the Birmingham Road Site. If the Council needs to fund the capital contribution through financing, this will have a corresponding effect on the income they generate from the Food and Beverage Anchor and therefore the payback period. Likewise, if the Food and Beverage Anchor generate a turnover closer to the levels achieved in Council B, then the payback period will be further reduced. We provide additional commentary on our assumptions within the appended cash flows.

## Rental Market Analysis

In order to quantify whether the income which the Council will receive from the Food and Beverage Anchor is within broad market terms, we have considered the effective rent in £ / psf terms which would be generated by each scenario. Based on the latest Heads of Terms, we have assumed the lettable area of the unit is 7,376 sqft, comprising 5,490 sqft of internal floorspace and a 1,886 sqft terrace area.

We have assumed the terrace area will be within the exclusive occupation of the Food and Beverage Anchor unit and is therefore included within the hypothetical lettable area.

The effective £ / psf rental income for the respective scenarios is as follows

- Scenario 1: £21.01 psf
- Scenario 2: £25.85 psf
- Scenario 3: £26.01 psf

Subsequently, we have sought market evidence of transactions in the local market for similar sized units and for similar types of occupiers (i.e., food and beverage uses). We have undertaken an analysis of commercial rental values previously in support of both the previous letter produced to review the Food and Beverage Anchor proposals (dated July 2023) and the valuation reports provided in support of the wider cinema development.

We have undertaken an updated review of rental levels in the Lichfield City Centre commercial market to establish whether there have been any significant shifts in the commercial retail market, and more specifically the food and beverage market since our previous reviews were undertaken. However, our review did not identify any transactions relating to F&B uses in the period since our previous reviews were undertaken. Further, given the limited number of transactions for F&B premises over the previous 3-years, we have included lettings of all commercial retail uses within our sample.

When excluding transactions for floorspace under 500 sqft, which reflect inflated £ / psf rates which would not be achieved at the subject property, our search identified 22no. transactions. The transactions ranged from 520 sqft – 5,500 sqft and achieved rental values from £6.02 psf - £43.83 psf, with an average of £23.27 psf.

Whilst we note that our search did not identify any transactions for units of a similar size to the proposed Food and Beverage Anchor unit (7,376 sqft), the sample is useful in providing an indication of the average transactional values over the past three years. In line with general market trends, we would anticipate that the size of the Food and Beverage Anchor unit would mean it would achieve a lower £ / psf rate when compared to smaller units. As such, we would consider the £23 psf average to be at the higher end of what the Food and Beverage Anchor unit may achieve in the open market.

Even in the base scenario of our modelling, whereby no turnover growth is assumed, the effective rental value of c. £21 psf is shown to be in the range of the market analysis identified and potentially at the higher end for a unit of this size.

### **Package / Deal**

In addition to the effective level of rental income which could be generated by the Food and Beverage Anchor proposal, we have also considered other elements of the Heads of Terms and the wider proposal in the context of wider market conditions.

At present, due to difficult wider economic conditions caused by inflation, interest rate rises and the war in Ukraine, landlords need to offer increasingly generous incentives to ensure that their units do not remain vacant for substantial periods of time. For town centre commercial premises, it is not uncommon to see void periods of in excess of 12 months, with rent-free incentives of a similar length or longer. As such, it is not uncommon for landlords to go 24 months or more without receiving income for units which have become vacant.

In contrast to the prevailing market conditions, the Food and Beverage Anchor proposal incorporates a reduced, 20-week rent-free free and ensures there is no void, i.e., when the unit is fitted to shell and core, the term starts with the tenant fit out to be completed during rent rent-free period.

We also previously noted that the provision of a limit on the rent review associated with the proposal to 80% of market rent may prevent the proposal from achieving market levels. However, given that this provision only relates to the base rent, the Council will still be able to benefit from a rental value at or above current market rents, assuming the Food and Beverage Anchor trades as expected and generates levels of turnover in line with what has been achieved in other locations.

### Wider Economic Benefits

In line with our previous recommendations, and in order to quantify the qualitative benefits of bringing the Food and Beverage Anchor into the cinema scheme, the Council has commissioned Kada Research to undertake a Benefit Cost Ratio (BCR) calculation. In layman's terms, a BCR seeks to quantify the economic benefits of a proposal against its costs. In general terms, a BCR over 2 is considered to reflect good values for money i.e. for every £1 you spend you get £2 back to the local economy.

Figure 1.1, below, contains an excerpt from the Kada BCR report, summarising the BCR associated with securing the Food and Beverage Anchor within the cinema development. We provide a full copy of Kada's BCR report appended to this letter.

### Figure 1.1 – Kada BCR Summary

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#### NPV/BCR

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The table below outlines the Gross Value Added Net Present Value (GVA/NPV) and corresponding benefit cost ratios (BCRs) associated with the proposed installation of the anchor F&B operator at the redevelopment site. The 3-year BCR is positive, and the 5-year and 10-year BCRs represent good and high value for money respectively.

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#### NPV and BCR figures

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	GVA (Net Present Value)	BCR
<b>3 years</b>	£2,823,578	1.7:1
<b>5 years</b>	£4,145,483	2.4:1
<b>10 years</b>	£6,206,521	3.7:1
<b>25 years – lease length</b>	£7,993,968	4.7:1

Kada Research Analysis 2024

The above shows that all of the BCRs generated are positive, with those for the 10-year and 25-year periods reflecting really positive value for money in wider economic terms.

Of note within the Kada BCR report is reference to the halo effect which has been identified in respect of the Food and Beverage Anchor being secured in other locations across the country. In essence, evidence shows that the presence of the Food and Beverage Anchor encourages private sector investment into areas where it operates, with other high-profile occupiers often taking space shortly after the Food and Beverage Anchor commit to a centre. In this sense, the Food and Beverage Anchor has acted as an anchor tenant in other locations, helping to secure wider benefits to schemes where it is secured.

We understand that the deal which the joint venture has entered into with Everyman (the new cinema) limits the F&B occupiers which can be approached to take space in the scheme to 8no. occupiers. There is little evidence of other operators within the list contained in the Everyman deal having the same halo effect as has been generated by the Food and Beverage Anchor in other locations. As such, this would

suggest that the Food and Beverage Anchor is likely to have a substantially positive effect on the cinema scheme as a whole, in addition to the wider Birmingham Road site.

## Conclusions

To summarise, on the basis of the information provided by the Council and our updated financial modelling, the income generated by the Food and Beverage Anchor unit is likely to result in the Council recouping their investment prior to the break clause within the Heads of Terms. Table 1.2 provides a summary of the financial metrics associated with each of the scenarios tested. A full copy of our cash flow analysis is appended to this letter.

**Table 1.2 – Financial Summary**

Scenario	Total Council Income	Payback Year	IRR	Equivalent Rental Income (£/psf)
£60k/week TO – No Growth	£3,813,000	Year 12	7.30%	£21.01 psf
£60k/week TO - 3% Growth	£4,668,292	Year 10	9.40%	£25.85 psf
£60k/week TO - 5% Growth	£4,696,580	Year 10	9.55%	£26.01 psf

Source: AVL, April 2024.

The above highlights that since our previous reviews of the proposal, the additional clarity provided in terms of several aspects means the Council is able to have more confidence in the income they will receive and the likely period in which their investment will be recouped.

As with any investment, there is always a risk, for example, default by the tenant due to wider market factors. However, if the Food and Beverage Anchor trade as expected and turnover does grow, then the Council will have an asset with a significant value and secure a revenue stream that covers the initial upfront investment of £1.7m as well as a wider economic impact.

Our rental market analysis has highlighted that, assuming the Food and Beverage Anchor trade in line with or better than the comparative locations (i.e., Council A and Council B), the rental levels achieved will be broadly in line with the market evidence of achieved local rents. Even in the most pessimistic scenario, assuming £60k per week turnover and no growth, the equivalent £ / psf rent achieved would be £21.01 psf. This is at the upper end of what the market evidence indicates could be achieved for a similar sized unit as the Food and Beverage Anchor unit. As such, our analysis indicates the Food and Beverage Anchor deal to be within market terms.

Further to the above, the analysis undertaken by Kada helps to highlight the value for money in a wider economic sense and the benefits to the city centre economy which would be generated by securing the Food and Beverage Anchor as an anchor tenant in the cinema scheme.

We trust the above will assist the Council in their decision making in respect of the Food and Beverage Anchor proposal. However, do let us know if you have any further queries in respect of the above.

Yours sincerely,



Parm Dosanjh MRICS MRTPI  
Executive Director