



DTZ FINANCIAL UPDATE

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As reported in other documents supporting the planning application, Kirkby has been identified as a town in need of regeneration, and although there have been limited improvements in recent years, Tesco's proposals will deliver a transformation of the town, providing the 'step change' required to establish it as a new retail and visitor destination.

When the development proposals were conceived, the initial responses from retailers were reported by Tesco and Morgan Williams to be generally cool, a response which resulted from the long term image perceptions of Kirkby. For the proposals to succeed, Tesco therefore needed to deliver a product which would meet retailers' requirements, i.e. provide the appropriate urban form, levels of car parking and critical mass together with the potential to include mezzanine space.

Ordinarily a developer would seek to maximise the potential mezzanine space so that there is greater flexibility and an ability to respond to market conditions. However, we understand that there are concerns being expressed by neighbouring authorities in respect of the quantum of floorspace. At the onset of the project, retailers response to the proposals were unknown and a decision was made to include a significant quantum of mezzanine space, this would provide flexibility and increase the prospects of the proposals meeting individual retailers' requirements. As the marketing has progressed, the requirements of individual retailers are now better understood, and as a result of this process, Tesco believe they can substantially reduce the quantum of mezzanine space for which planning consent is being sought.

The value of mezzanine space is limited as this space does not ordinarily attract a rent and is often ignored for the purposes of rent reviews, however, it does impact on marketability and as a result can have a detrimental impact on viability. The substantial reduction in mezzanine space could result in certain retailers being unable to secure their optimum configuration of floorspace, which may compromise their trading format and as a result they may seek more favourable terms, others may decide not to seek representation within the scheme at all. This can impact on the lettable and tenant mix. However, as the Kirkby project is now being well received by the market and is attracting strong interest from a range of quality retailers, and given the level of interest generated in the scheme, Tesco has had the confidence to reduce the mezzanine space in the belief that sufficient value can be generated to deliver a viable scheme.