



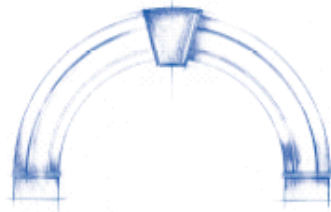
**Kings Court Newcomen Way Colchester CO4 9RA**

**GEORGE BRAITHWAITE**

**Appraisal of development options**

**JUMBO WATER TOWER  
COLCHESTER**





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**Our Ref:** pdr/  
**Your Ref:**  
**Date:** 12 May 2013  
**Email:** peter@mrallp.co.uk

Dear Sir,

### **Jumbo Water Tower, Colchester**

I am instructed by you to assess in terms of financial viability the relative merits of eight alternative schemes for Jumbo Water Tower (Jumbo) in Colchester. Details of the options are in Appendix 2. This assessment is to support the planning application you have submitted on behalf of your client the owner of Jumbo, George Braithwaite.

This is not a valuation in accordance with the RICS Valuation - Professional Standards (Red Book) - March 2012. However, I have referred to Market Value and Market Rent which is defined by the Red Book and set out in Appendix 1.

I have relied on the following information provided by you

- 1) Plans of the options prepared by Plater Claiborne Architects – 18 August 2009
- 2) Budget costs for each option prepared by Messrs Burr and Neve, Quantity Surveyors – 7th March 2013
- 3) Cost estimates for a 5 year maintenance cycle – Burr and Neve – May 2013

#### **Background to appraisal technique**

Each of the options are summarised on the table in Appendix 2. Put simply, the difference between the options is the combination of the different accommodation types and their relative positions within the tower. The accommodation types are -

- 1) Restaurant
- 2) Café
- 3) Large multiplex apartments
- 4) Smaller flats
- 5) Offices, with and without parking

- 6) Hotel
- 7) Tourist attraction (museum?) with associated shop and café
- 8) Public viewing gallery

Market Values per square foot of accommodation have been assessed and applied to each of these types and used to calculate the gross development value of each option.

The development costs prepared by Burr and Neve for each option have been deducted (together with the development 'on costs') to arrive at a surplus (deficit) for each option. This is then expressed as a percentage of the total development cost to demonstrate the relative profitability of each option.

The figure arrived at by deducting the total development cost of each option from the gross development value is the 'developer's profit'. This is the developer's return on capital; his justification for undertaking a development; his reward for the risk he is taking. What constitutes an acceptable developer's profit will vary from developer to developer in accordance with market conditions applicable at the time and for example, whether he is borrowing money to finance the development costs.

### **Gross Development Value**

The approach taken to arrive at the Market Value for each accommodation type can be summarised as follows.

#### 1) Restaurant

It is assumed this will be a high quality restaurant taking advantage of the views from the upper levels in the tower to enhance the dining experience. It will be a 'destination restaurant' with a named chef proprietor capable of maximising the value of the location. The main limiting factor on value is the lack of customer parking usually expected by high net worth diners.

Rental values in the south east for this type of restaurant will be between £15 and £20 per sq.ft capitalised at 7% to 8% depending on the length of lease and quality of tenant. Examples considered locally are the Oyster Sheds at West Mersea.

#### 2) Café

This will be a more affordable dining option where necessary associated with the museum/tourist attraction. The tenant is more likely to be an operator already known in the town so local rents and values are applicable. Rental values are more likely to be in the range of £10 to £15 per sq.ft.

#### 3) Large multiplex apartments

The designs show a number of apartments referred to as Penthouses with sizes ranging from around 2000 sq.ft to in excess of 4500 sq.ft. They will have four or five bedrooms. To put the size into context, 1500 sq.ft is considered a good size for a four bedroom family home.

This unique location warrants accommodation finished to a very high and well-appointed standard and all modern appliances would be expected. Access is by lift as these units will be in the higher reaches of the tower.

Valuing by simply applying a rate per sq.ft is not straight forward. High quality apartments might typically command values between £250 and £300 per sq.ft in a town like Colchester. However this might produce values in well excess of £1m and I have some doubt how many purchasers there will be prepared to pay such sums. There are some practical issues for a family to live atop a water tower in the centre of town with limited external space. Looked at from the other extreme how many bachelors will there be in the market for a million pound 'pad'?

There are a number of examples of water towers that have been converted into domestic accommodation. Wivenhoe is an obvious example but a case where the developer converted it for his own use so there is no evidence of market values available.

The Bailey Hill Water Tower in Luton provides 5 bedrooms in over 5000 sq.ft and is on the market at £1.295m. This property however stands in its own grounds. Compare this to a converted water tower in Brundall, Norfolk offering four bedrooms in a total area of approximately 2000 sq.ft. It also has its own gardens and is on the market at £450,000.

#### 4) Smaller flats

These are slightly easier to value as the extremes of size do not present a problem. The designs show these at lower levels in the tower. The location is still unique and there will be excellent views. The unit sizes are still generous and warrant finishing to a high standard.

I have adopted rates of £250 per sq.ft and £220 per sq.ft for units without parking. These rates produce values between £200,000 and £300,000 for 2 and 3 bedroom flats.

#### 5) Offices, with and without parking

Offices are easier to value by comparison with other properties in Colchester. Businesses are less inclined to pay premium values for the 'wow factor' and will look at the opportunity cost and value of the accommodation to their particular business.

Offices in the centre of Colchester are difficult to let without parking. Rates are as low as £8 per sq.ft for standard period accommodation. The highest values in the town are paid on the Business Park where there is ample parking.

The parking available is at a fairly low ratio so I have adopted £12.50 per sq.ft on the net lettable area and £10 per sq.ft where there is no parking offered. The acquisition of additional parking would improve these figures significantly.

#### 6) Hotel

Analysing the prices paid for hotels is difficult as they reflect the value of the business as a going concern. This will include income from restaurants of varying qualities, bars, function facilities and a variety of leisure packages. New hotels are usually developed by the operator and there is little open market evidence available.

Premier Inn has permission to build in St Peter's Street, Colchester and we understand the construction cost is likely to amount to £45,000 per room. We understand that the sale of the Red Lion in 2011 amounted to around £48,000 per room including the restaurant.

Great Hallingbury Manor, Stansted sold recently at a figure equating to £32,000 per room. We understand that Holiday Express expect to pay in the region of £30,000 per room.

The designs for Jumbo show double rooms with ensuite facilities which I have valued at £30,000 per room. There are also slightly larger suites with lounge areas which I have valued at £35,000 per room. Again, the lack of parking will limit the type of operator who will be interested in a town centre position to the budget type chains eg Trusthouse, Premier Inn, Holiday Inn, Hotel Ibis, Formula 1 etc.

#### 7) Tourist attraction with associated shop and café

The nature of this element is uncertain at this stage. Quite clearly there will be demand from people to experience the view from the Belvedere but this is a small space. There is so much more potential for a larger number of people if the potential of the tank can be exploited. I understand that English Heritage are concerned that the walls of the tank remain thereby limiting the viewing experience. This might be overcome by using a modern version of the camera obscura principle to reveal the panorama. To this could be overlaid computer generated images from the town's historic past.

My valuation assumes a commercially viable tourist attraction capable of attracting visitors and educational groups throughout the year eg London Eye, rather than a low key public amenity space.

Market evidence for such a facility is not obvious so I have adopted the same rate as The Valuation Office Agency have applied to Firstsite in Colchester - £12.75 per sq.ft on the gross internal area.

### **Development Costs**

The figures provided by Burr and Neve are the basic construction costs including preliminaries and a development contingency. I have added further development 'on costs' to each option as follows.

#### 1) Purchase Price

£330,000 was paid at auction for Jumbo. This clearly is his an historic price and there is an argument the appraisal should consider the current value. However, as the same figure has been deducted from each option the outcome in terms of the relative value of each option would not change.

#### 2) Professional fees.

I have adopted a figure of 15% of the construction cost. In particular I have allowed 3% for engineers. There are further fees for surveyors, valuers, planning application costs, planning agreement charges, disposal costs and building control charges.

#### 3) Interest

I have assumed the developer will fund the development costs by borrowing at commercial rates and the project will take two years to complete.

#### 4) Maintenance Costs

Jumbo will always be an expensive building to maintain. I have discussed this with Burr and Neve who suggest a budget of £130,000 would be required to implement a 5 year programme to maintain those elements of the building that that tenants and occupiers would consider too expensive and specialised to be maintained under a service charge operating at the rates normally expected by purchasers paying the rates I have used.

#### Summary

The rates I have used as described above are in some case subjective. However, they are applied uniformly so that changes apply across all the options.

The output of my analysis is shown on the table below. Each scheme shows a deficit but this is minimised in the case of Option J (with the tourist attraction). It is however, still in the region of 50%.

Option*	GDV	Build	Purchase	On Cost	Surplus	Profit
A	£0	£834,000	£330,000	£153,001	-£1,317,001	-100.00%
B	£1,185,106	£2,225,000	£330,000	£822,077	-£2,191,971	-64.91%
C	£1,096,713	£2,620,000	£330,000	£915,867	-£2,769,154	-71.63%
D	£1,813,159	£3,294,000	£330,000	£1,091,498	-£2,902,339	-61.55%
E	£2,211,877	£3,704,000	£330,000	£1,227,195	-£3,049,318	-57.96%
F	£2,230,214	£3,590,000	£330,000	£1,183,147	-£2,872,932	-56.30%
G	£1,725,874	£4,147,000	£330,000	£1,379,489	-£4,130,615	-70.53%
J	<b>£2,078,538</b>	<b>£3,094,000</b>	<b>£330,000</b>	<b>£1,050,571</b>	<b>-£2,396,033</b>	<b>-53.55%</b>

\* Details of each option are described in Appendix 2

The value of Option J is highly sensitive to the approach taken to valuing the tourist attraction element. If the space were to be 'gifted' to an operator on a charitable basis Option J would not be the most attractive option. In such circumstances Option F would be more attractive.



**P D Riches BSc FRICS**

RICS Registered Valuer No. 00069214

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### **Market Value (MV)**

The value prepared on an open market basis in accordance with the RICS Valuation Standards issued by the Royal Institution of Chartered Surveyors and which is defined as follows:-

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"

### **Market Rent (MR)**

Defined in the RICS Valuation Standards as follows:-

"The estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms, in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

## APPENDIX 2 – OPTION COST SUMMARY

Option A	No works  Note: A budget of £672,500 was produced for initial repair/safety works and accepted by the Appeal Inspector and Colchester Borough Council in December 2001.	£834,000
Option B	Construction of a single residence	£2,225,000
Option C	Construction of Kitchen and Toilets (Level 0), Restaurant (Level 1), 2 nr Penthouse Flats (Levels 3-5)	£2,620,000
Option D	Construction of a Cafe (level 0), Offices (Levels 1-3), Kitchen and Toilets (level 4), Restaurant (Levels 5 & 6), 2 nr Penthouse Flats (Levels 7-9)	£3,294,000
Option E	Construction of a cafe (Level 0), Flats (Levels 1-3), Kitchen and Toilets (Level 4), Restaurant (Levels 5 & 6), 2 nr Penthouse Flats (Levels 7-9)	£3,704,000
Option F	Construction of Offices (Levels 0-1), Flats (Levels 2&3), Kitchen and Toilets (Level 4), Restaurant (levels 5 & 6), 2 nr Penthouse Flats (Levels 7-9)	£3,590,000
Option G	Construction of a Hotel comprising Bar (Level 0), 31 nr Rooms with en-suites (Levels 1-7), Kitchen and Toilets (level 8), Restaurant (level 9)	£4,147,000
Option J	Construction of Offices (levels 0-1). Flats (Levels 2-4), Restaurant (Levels 5 & 6), Kitchen and Toilets (Level 7), Museum Office/Shop/Cafe (Level 8), Museum (Level 9)	£3,094,000
	Options designed by Plater Claiborne 18 August 2009 Costs prepared by Burr and Neve 7 March 2013 (all figures current for Q1 2013)	