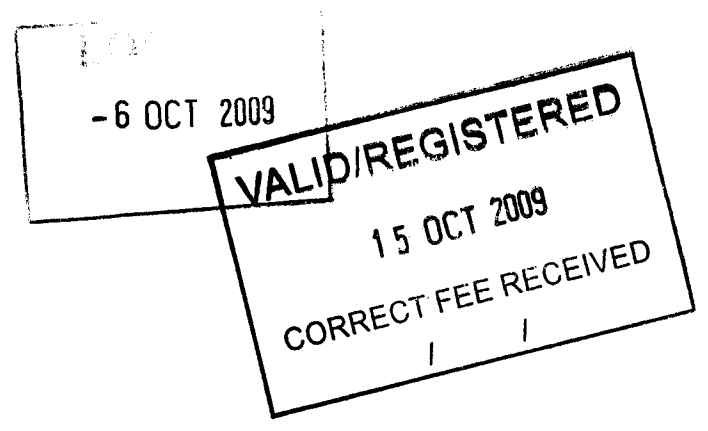


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Report and Valuation  
Prepared for  
Mr G Braithwaite



Property address: The Jumbo Water Tower, Balkerne Gardens,  
Colchester, Essex

Date of report: September 2009

**Prepared By:** Tony Box FRICS

**savills**

Savills (L&P)  
50 Princes Street  
Ipswich  
Suffolk  
IP1 1RJ  
Tel: 01473 234800

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savills

G Braithwaite Esq  
The Grove  
Wormingford Grove  
Colchester  
Essex  
CO6 3AJ

Tony Box FRICS  
E: tbox@savills.com  
DL: +44 (0) 1473 234 844  
F: +44 (0) 1473 230 886

30 Princes Street  
Ipswich IP1 1RJ  
T: +44 (0) 1473 234 800  
savills.com

Dear Mr Braithwaite

**The Jumbo Water Tower, Balkerne Gardens, Colchester, Essex**

**1.0. INSTRUCTIONS & TERMS OF REFERENCE**

**1.1. Instructions**

In accordance with the verbal instructions received from your professional representatives as confirmed in our letter to you dated 18 August 2008, we have made all relevant enquiries in order to provide you with our opinion of the current Market Values of the unencumbered freehold interest of the above property and the appraisals as described below in this report. Copies of the instruction letter and our terms of engagement are enclosed at **Appendix 1**.

You have instructed us to provide appraisals for qualified agency advice on various schemes for development in respect of the subject property. The report is required to provide information as part of a planning application. These schemes are:

Option A - This is the initial works to make the building safe and these costs are included in the other appraisal costs advised.

Option B - The property will be converted to have at ground floor level a covered/enclosed garage for car parking spaces, with staff accommodation at level 3 comprising a granny flat and a staff flat, and a five bedroom flat on levels 5, 6 and 7.

Option C – The property to be converted to provide a ground and first floor restaurant and 2 penthouse flats.

Option D – The property will be converted to a ground floor cafeteria with 3 floors of offices over, a two floor plus a mezzanine area restaurant, and 2 penthouse flats on the top three floors.

Option E – The property will be developed to provide at ground floor level a cafeteria, a two bedroom flat at each of the levels on the first to second floors and a 3 bedroom flat on floor 3, a restaurant similar to that as in Option C above and also two penthouse flats (also similar to Option C).

Option F – The property will be developed to provide ground and first floor offices, a 3 bedroom flat at each of the second and third floor levels, a restaurant similar to that as in Option C above and also 2 penthouse flats (also similar to Option C).

Offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

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Option G – The property to be converted to provide a 31 room hotel with a kitchen and restaurant on the upper two floors.

We are to provide you with our appraisal determinations in connection with all of the schemes which will provide the market value of the completed development on the special assumption that it has satisfactorily completed at the date of this report.

## **1.2. Basis of Valuation**

In accordance with your instructions, we have provided an assessment of the Market Values of each development with the benefit of assumed planning permissions for the various options, together with an assessment of the Gross Development Values of the completed schemes:-

i. Market Value is defined by the Royal Institution of Chartered Surveyors as:-

“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”.

ii. Gross Development Value is defined as the aggregate value of the capital receipts of all the units assuming the development were completed and 100% sold at today’s date at current day values.

Aggregate Value is defined as the sum of the estimated capital receipts of all the units, valued on an individual unit basis, and does not represent the value of the units if sold in a single portfolio, which figure may, by necessity, be lower to reflect an appropriate margin for profit.

## **1.3. General Assumptions and Conditions**

All our valuations have been carried out on the basis of the General Assumptions and Standard Conditions set out in the relevant section of this report.

## **1.4. Date of Valuation**

Our opinions of value are as at the date of this report. The importance of the date of valuation must be stressed as property values can change over a relatively short period.

## **1.5. Purpose of Valuation**

We understand that our agency advice is required for possible submission to the local planning authority and English Heritage as part of an application for planning permission to develop the property.

## **1.6. Conflicts of Interest**

We are not aware of any conflict of interest, either with the Property or with the Borrower, preventing us from providing you with an independent valuation of the Property in accordance with the RICS Red Book. We will value as External Valuers.

## 1.7. Valuer Details and Inspection

The due diligence enquiries referred to below were undertaken by A J W Box FRICS. The appraisal valuations have also been reviewed by Mr A Redman MRICS.

The Property was externally inspected on 26<sup>th</sup> August 2009 and on previous occasions by A J W Box FRICS. We were unable to inspect the whole of the property, and were not able to gain access to the site or the building. The weather on the date of our last inspection was hot and sunny.

## 1.8. Extent of Due Diligence Enquiries and Information Sources

Our valuation has been carried out in the absence of the following definitive information: report on title, lack of any ability to inspect the property internally (our inspection was limited to an external inspection only from the street) and detailed plans on options A, B and D. The way in which we have approached these matters is set out in the relevant sections of our report below.

We have received information dated 1<sup>st</sup> July 2009 from Messrs Burr & Neave, Chartered Quantity Surveyors in respect of the costs relating to all of the options described in this report, and floor plans (reduced) from Messrs Plater/Claiborne, architects in respect of options B – plan's numbers 2619/B/02 – 05 inclusive, option C now plan nos 2619/C/02 – 04 inclusive, option D (plan numbers 2619/C/02 – 06 inclusive, option E 2619/D/02 – 05 inclusive, option F (plan numbers 2619/E/02 – 05 inclusive) and option G (plan numbers 2619/F/02 – 05) inclusive. These plans were reduced and are not to scale, but we confirm that we have 1:100 scale plans from the same architects in respect of option C, option E and option D. The information about areas has been either scaled off from these plans and/or supplied by the architects. We confirm that we are relying on the information supplied by the architects as produced on the plans or supplied. The 1:100 scale plans have different option designations but we have altered these designations to what is now accepted by all parties. These plans are Option C 2619/02 – 04 inclusive, Option D 2619/02 – 04, 06 and 07 inclusive revision A, Option F plan numbers 2619/02 - 04 inclusive and 07, Option C, Option G (plans option D 2-4, 7). We have also made enquiries with Colchester Borough District Council Planning Department, and undertaken comparable research.

Where reports and other information have been provided, we summarise the relevant details in this report. We do not accept responsibility for any errors or omissions in the information and documentation provided to us, nor for any consequences that may flow from such errors and omissions.

## 1.9. RICS Compliance

This report does not fully comply with but has been prepared generally in accordance with The Royal Institution of Chartered Surveyors' ("RICS") Valuation Standards, 6th edition (the "RICS Red Book") published in November 2007 and effective from 1 January 2008 as subsequently amended, in particular in accordance with the requirements of Practice Statements PS6 entitled Valuation Reports. This is because the report is an agency orientated report, and also instructions on matters relating to developers profit and construction issues restrict this report so that the values advised may not be fully reflected in the property market, and as a result the report does not comply with the "Red Book" requirements.

Our report is set out below.

## 2.0. LOCATION

Colchester is about 16 miles south west of Ipswich, and 55 miles north east of London. It is linked to both of these towns and also Norwich via an electrified railway line and the trunk road A12 by passes the town which gives access to Ipswich and London as well as the national trunk road and motorway network. The international passenger and container port of Harwich is situated about 19 miles east on the A120 and Colchester itself has very limited port facilities.

Colchester is the oldest recorded town in England, with extensive Roman remains. It has a population of about 110,000 people, and serves a catchment area in excess of 250,000 people. It has an important tourist industry, a large retail centre where many of the national retailers are represented, regional quality industrial estates and also regional service sector services.

Within the town centre there are multi storey car parks and access to and from the centre is quite good. The subject property is located close to a historical feature, the roman wall, and is within 200 yards of multi storey car park accessed by a pedestrian bridge that oversails a dual carriageway inner ring road. The property is also within 100 yards of the principle retail areas of the town. As a result of the link from the car park there is a steady pedestrian flow of office workers, tourists and shoppers past the subject property.

Adjoining uses are principally commercial, with small retail and office schemes as well as the theatre and some restaurant uses.

We attach at **Appendix 2** a location plan.

## 3.0. SITUATION

Immediately adjoining the subject property is a private car park, and the properties nearby include offices, a public house, a theatre and cafeteria/restaurant with some limited residential accommodation.

We attach at **Appendix 3** a situation plan, showing the property bordered red.

## 4.0. DESCRIPTION

### 4.1. Overview

The level site on which the water tower is located has an estimated area of 0.65 hectares (0.16 acres) with road frontage (Balkerne Gardens and Balkerne Gate) on two elevations and is bordered red on the plan.

The water tower dates from 1882, and is constructed with four supporting substantial solid engineering brick wall columns with a central stairwell which gives access to the higher level former water tank area. This has a copper roof, as does the lantern light structure situated at the very top of the tower. The central stairway is fully enclosed, and there are open fenestrations below what appears to be the principle water tank housing.

We were unable to see the surface of the ground due to the fact that the site was fully enclosed with security boarding but is likely to be either lawned or part hard surfaced.

We have not been able to inspect the property internally and the above details were from our cursory external inspection from the adjoining road.

Photographs of the Property taken at the date of our inspection are attached at **Appendix 4**.

## **5.0. ACCOMMODATION**

We have not been able to inspect the base of the water tower or gain access to the actual site itself. We have therefore not climbed to the water tank housing area and cannot provide details of the subject property. Our advice relates only to the proposed schemes that are advised later in this report.

## **6.0. CONDITION**

As instructed, we have not undertaken a structural survey and, apart from any matters specifically referred to in this report, we have assumed that the property is free from hidden defects, structural faults, rot, infestation or other defects. The report is prepared on this assumption.

Our cursory external inspection suggests that the property is in need of external decoration, and high level timber features are likely to be in need of significant overhaul. It is also likely that the internal stairwell and upper parts of the property are in need of refurbishment, but from our very basic inspection the property appears to be generally in a structurally stable state. The high level copper roofs and gutters etc will need inspection and we are assuming that the roofs are generally sound but that the gutters in particular will need replacement. Scaffolding will be required for many repairs.

Under the report on the financial appraisal of options prepared by Messrs Burr & Neve, option A refers to the initial remedial works required to the property. In addition to our comments above, these indicate that additional works include cleaning of the property, safety repairs to high level walkways and balustrades and windows will need to be replaced to the Belvedere together with various associated repairs. Health and safety features will also need to be installed. These are priced to cost approximately £881,000. These costs are included in all appraisals, under each appraisal cost.

Messrs Burr & Neve also advise that over a five year cycle an additional £56,000 will be required for ongoing decoration and maintenance. It is assumed that these costs would be recovered from the occupier(s) for the purposes of our valuations, but if these were not recovered then the valuations advised would be adversely affected.

## **7.0. ENVIRONMENTAL CONSIDERATIONS**

We were unable to gain access to the site and therefore cannot confirm that there are no visible signs of contamination on site. We are instructed to assume that there is no contamination on the subject site or on neighbouring sites.

### **7.1 Informal Enquiries**

As instructed, we have not carried out a soil test or an environmental audit. Following informal enquiries, we understand that the property was previously used as a water tower. Whilst it is possible that some deleterious materials would be used in the construction of the water tower and associated pipe work, significant contamination might be regarded as being unusual on this site. On the basis of these informal enquiries, it would appear unlikely that land contamination exists. This comment is made without liability.

We would raise the possibility that in the event of development taking place there may be a requirement for an archaeological dig. Given the proximity of the site to the roman wall, it is possible that articles of interest may be found which may increase the cost of the development. We have made no allowance for this in our appraisal and if this is required there might be a slight adverse effect on our appraisals.

## **7.2. Assumption**

As our informal enquiries have suggested that land contamination is unlikely and no environmental audit obtained, we have valued the Property on the basis that it has not suffered any land contamination in the past, nor is it likely to become so contaminated in the foreseeable future. However, should it subsequently be established that contamination exists at the Property, or on any neighbouring land, then we may wish to review our valuation advice, as the values reported may be adversely affected.

We have assumed there to be no adverse ground or soil conditions and that the load bearing qualities of the site are sufficient to support the building constructed thereon.

## **7.3. Flooding**

We have made enquires with regard to potential flooding at the Environment Agency website, [www.environment-agency.gov.uk](http://www.environment-agency.gov.uk) and note that the site is clear of any high risk zone. The Environment Agency advise that the site is outside the extent of the extreme flood and that a chance of flooding each year from the rivers is 0.1% (1 in 1000) or less. The risk of this site flooding is highly unlikely. We enclose a copy of the flood map in **Appendix 5**.

## **8.0. TOWN PLANNING**

### **8.1. Local Plan/Unitary Development Plan**

We have inspected the website of the local planning authority, Colchester Borough Council, which states that the statutory plan covering planning policy and development control for the area is the Colchester Borough Council Local Plan (LP), which was adopted in March 2004 and which runs until 2011. In accordance with recent changes to planning legislation, the LP will be replaced by a portfolio of Local Development Frameworks. The principal LDF, the core strategy was adopted in December 2008 and a further LDF relating to development options and site allocations is in the process of being prepared with public meetings and public consultations having been completed. We understand that the core strategy will cover the period up to 2021. Local Development Frameworks are prepared over a number of years and will gradually replace the Local Plan policies and supplementary guidance.

The property is in a Conservation Area and we understand that it is Grade II star listed. We are informed that it is not directly affected by any highway, town planning or other schemes or proposals.

No further enquiries have been made due to the nature of this report, but assumptions have been made for planning permission for each of the options appraised.



Please note that ongoing delays in getting planning permission for the scheme chosen could increase costs and losses.

## 9.0 TAXATION

### 9.1. **Business Rates/Council Tax**

The existing property has no rateable value.

Upon completion of the development, the various units that will be created will be subject to either Council Tax or have a commercial rateable value(s). The residential and commercial property will, upon completion, be subject to a void rate free period as this is a listed property of special architectural and historic merit.

### 9.2 **VAT**

Our advice is on the assumption that no VAT is chargeable or, if it is, can be fully reclaimed.

## 10.0 PROPOSED DEVELOPMENT

### 10.1 **Proposed Scheme**

We are required to advise or comment on six schemes, which involves the construction or creation of 5 or 10 floors of accommodation around the central stairwell and infilling the four brick supporting columns of the water tower itself. Two schemes are for 5 floors only. It is proposed that the existing tanks be removed and that the three upper floors may become penthouse flats in most schemes. Please note that our measurements are taken from some of the plans prepared by Plater Claiborne or areas supplied by them and are on a gross internal floor area basis with any residential flats being on net useable area (i.e. excluding staircases) except where stated.

The accommodation to be provided under the various options is set out below, but please note that option A (not reported on) relates to necessary refurbishments only (please see section 6) and is not subject to appraisal.

Option	Floor	Use	Sq m	Sq ft	Comments
B	Ground	Garage			Four undercover parking spaces to be provided.
	Level 3	Granny flat	57	613	Comprises living area with kitchenette area, bathroom and one bedroom – lift access to hallway.
		Staff flat	49	527	Comprises living area with kitchenette, lobby and bathroom with one bedroom. Lift access as above.

Option	Floor	Use	Sq m	Sq ft	Comments
	Level 5 – 7 inclusive	Residential flat	459	4,941	Level 5 two storerooms, lift, lobby and three en-suite bedrooms, level 6 lift lobby, landing, two master bedrooms, both en-suite, dressing room. Level 7 lift/lobby, coats area, kitchen, dining and lounge areas. Lift access to this floor and other floors stated.
C	Ground level 1	Restaurant	75.89	817	Area based upon cafeteria area for option D
	First	Restaurant	82.38	887	See ground floor above – area based upon option E level 1. restaurant to be finished to plastered wall/decorated finish.
	Levels 5 to 7	Penthouse 1	180.04	1,938	Accommodation as in option D – lift to level 7 at least.
	Levels 5 to 7 inclusive	Penthouse 2	207.44	2,233	Accommodation as in option D – lift to level 7 at least.
D	Ground	Cafeteria	75.9	817	Also lobby – cafeteria to be developed, shell finish.
	Level 1	Offices	74.5	802	To be developed to decorated/plastered finish.
	Level 2	Offices	113.98	1,227	To be developed to decorated/plastered finish.
	Level 3	Offices	113.98	1,227	To be developed to decorated/plastered finish.
	Level 4	Kitchen	104.32	1,123	To be developed to shell finish.
	Level 5	Restaurant	101.81	1,096	To be developed to shell finish.
	Level 6	Mezzanine restaurant	45.05	485	To be developed to shell finish.
	Level 7	Penthouse 1	180.04*	1,938*	One en-suite bedroom and hallway. *areas stated relate to total areas of levels 7, 8 & 9.
		Penthouse 2	207.44*	2,233*	Two en-suite bedrooms and hallway *areas stated relate to total areas of levels 7, 8 & 9.

Option	Floor	Use	Sq m	Sq ft	Comments
	Level 8	Penthouse 1			Two bedrooms hallway and bathroom. Lift access to this floor and previous floors
		Penthouse 2			Two en-suite bedrooms, one with dressing area and landing/hallway
	Level 9	Penthouse 1			Living/kitchen/dining areas (all open plan) with larder, WC and utility room.
		Penthouse 2			Living/kitchen/dining areas (all open plan) with larder, WC and utility room.
E	Ground	Cafeteria	75.9	817	To be developed to shell finish only
	Level 1	Flat	81.7	879	Two en-suite bedrooms, living/dining/kitchen/study, WC, store and hallway.
	Level 2	Flat	114.7	1,234	Two en-suite bedrooms and further bedroom, living/dining/kitchenette area, WC, shower.
	Level 3	Flat	114.7	1,234	Two en-suite bedrooms and further bedroom, living/dining/kitchenette area, WC, shower.
	Level 4	Kitchen	104.32	1,123	To be developed to decorated/plastered finish.
	Level 5	Restaurant	101.81	1,096	To be developed to decorated/plastered finish.
	Level 6	Mezzanine/restaurant	45.05	485	To be developed to decorated/plastered finish.
	Level 7 – 9 inclusive	Penthouse 1	180.04	1,938	Accommodation as in option D – lift to level 8 and other floors
	Level 7 – 9 inclusive	Penthouse 2	207.44	2,233	Accommodation as in option D – lift to level 8 and other floors.
F	Ground	Offices	84	904	To be developed to shell finish.

Option	Floor	Use	Sq m	Sq ft	Comments
	Level 1	Offices	86	925	To be developed to shell finish.
	Level 2	Flat	114.7	1,234	Same accommodation as in option E – level 2
	Level 3	Flat	114.7	1,234	Same accommodation as in option D – level 3
	Level 4	Kitchen	104.32	1,123	To be developed to plastered and decorated finish.
	Level 5	Restaurant	101.81	1,096	To be developed to plastered and decorated finish
	Level 6	Restaurant/ mezzanine			To be developed to plastered and decorated finish.
	Level 7 – 9 inclusive	Penthouse 1	180.4	1,938	Accommodation as in option D. lift to level 8 and all floors between.
		Penthouse 2	207.44	2,233	Accommodation as in option D. lift to level 8 and all floors between.
G	Ground	Hotel reception	27	290	Net internal area stated
	Ground	Office/admin/ toilets	84	904	Includes toilets. Gross internal floor area stated.
	Levels 1 – 7 inclusive				31 en-suite bedrooms
	Level 8	Kitchen	81.5	554	Presumed to be finished off to shell finish only. Disabled, male and female toilet accommodation.
	Level 8	Store	2.88	31	
	Level 9	Restaurant	228	2,454	Lift to this floor and all floors between. Net internal floor area stated.

Please note that there is no scheme prepared for option G and following instructions received we have used the assumed areas as stated above for the types of uses indicated. With regard to costs, we have used the same costs as indicated for option B although we consider that the actual costs should be slightly lower than option B due to the fact that the restaurant is being constructed to a shell finish only. There may also be some other savings in connection with the upper floors penthouse flats. Please note that the values advised in connection with this scheme may vary upon the receipt of more detailed information following a detailed preparation of a scheme and detailed costings by Messrs Burr and Neve.

Where references to offices are made, these are net internal areas and exclude potential toilet areas.

It is understood that the penthouses will have one car parking space each reserved to them at the base of the tower, but this could possibly be supplemented (and here we would recommend this) by an arrangement with National Car Parks who own the multi storey car park on the opposite site of the dual carriageway ring road. Additional car parking could be provided and may be of great benefit for potential occupiers but, of course, if any land adjacent to, or close to the existing water tower could be obtained for car parking provision then this would be a major benefit.

We enclose in **Appendix 6** as summary of the costs for each of the schemes prepared by Messrs Burr & Neve, and including the qualifications/exclusions. We confirm that we are relying on these costs. We point out that matters that will affect the future running costs of the building include insurance, professional fees for supervision of works required, VAT and any sinking fund costs. These will also inflate the annual service charge costs and may well have an adverse effect on property value growth. The Quantity Surveyor's qualifications state that the Café, restaurant and offices within the options are built to a shell stage only and we therefore assume that the residential areas and hotel bedrooms are completed to a good quality of finish using good quality fittings.

With regard to the accommodation to be developed to limited finish only i.e. cafeteria, restaurant and offices to plastered wall and ceiling and decorated wall finishes, we would advise that we have reflected the potential cost of fitting out by either the landlord or the tenant by deferring the receipt of any income in the valuation process. In practice it may be better for the offices, in particular, to be fitted out by the landlord to a good but limited finish to allow the immediate occupation, but given the cost appraisal approach the deferment of income would be appear to the best way of addressing these issues.

## **10.2. Specification**

We have not been provided with a detailed specification and made certain assumptions as to the extent of the works that are to be undertaken and the quality of the fixtures and fittings to be installed, which provide the basis of our valuations.

We understand that the specification and the quality of workmanship and materials used will be high and are assuming this in our valuations. We further understand that all schemes will have lift provision, that offices will be designed for air conditioned (but not installed) as will public dining areas in restaurants. We understand that offices, and the restaurant will be designed to a limited finish only with flats, penthouses and the hotel will be finished to a high standard.

## 11.0. INFRASTRUCTURE AND SERVICES

We have been advised that mains gas, electricity, water and drainage and telecommunications are all available to the subject property. No tests have been undertaken. No fitting out of offices, restaurant or cafeteria will be undertaken.

In reporting our appraisals and opinions of value, we have assumed that the existing services have sufficient capacity to accommodate the proposed development or are included in the costs advised and that no works are required to upgrade their capacity. Should any upgrades be required, and the cost borne by the developer, our opinions of site value may be affected.

## 12.0. HIGHWAY AND ACCESS

We have made informal enquiries of Colchester Borough Council Highways Department and understand that Balkerne Gardens, Balkerne passage and Church Street is an adopted highway and maintained at public expense. We are informed that the Highways Authority is not aware of any proposals or schemes likely to adversely affect the subject property.

In reporting our opinions, we have assumed that there are no third party interests between the boundary of the subject site and the adopted highways, and accordingly the site enjoys unfettered vehicular and pedestrian access.

We have also assumed that there are no issues relating to visibility splays which may impact upon the use, or proposed use, of the property.

## 13.0. TENURE

We have valued the freehold interest in the property as outlined in red on the Ordnance Survey Extract at **Appendix 3**.

We have not been provided with a copy of a Report on Title and have not seen a copy of the title deed. We understand that there is a right of access to the sub-station, that no other parties have any access rights, and that no third parties enjoy any rights over the subject property. Your solicitors should confirm that there are no onerous restrictions or obligations as part of the due diligence process.

It is assumed for valuation purposes that the property is not subject to any onerous or unusual covenants which are likely to affect the valuations herein provided.

We would strongly advise that your legal advisors confirm our understanding to be correct and to ensure that there are no further elements, restrictions or charges contained which are likely to have a detrimental effect upon the valuations as herein reported.

In reporting our opinions of value of the completed developments, we have assumed that the completed residential units will be made available for sale on a long leasehold basis with a minimum term of 125 years at a rent of a peppercorn with full service charge provisions to recover the insurance for the property, the maintenance of common parts, decoration, structural maintenance costs and associated fees. With regard to commercial lettings, we have assumed unexpired terms of at least 10 years subject to a 5 year rent review provision again with full service charge recovery costs subject to rent free periods for fitting out purposes. With regard to the hotel, we have assumed a sale of the freehold interest with vacant possession to a hotelier.

#### **14.0. DEVELOPMENT ISSUES**

In reporting our opinions of values we have assumed that the various options are Building Regulations compliant and can be implemented in accordance with the plans provided. In the event that amendments need to be made to the proposed scheme as a consequence of it failing to meet appropriate statutory standards, our opinion of values may be affected.

We have also assumed that the proposed development proposals do not raise issues with regard to rights of light and no third parties enjoy positions that may result in the payment of compensation or an injunction.

We would recommend that the units are sold with the benefit of NHBC/Zurich 10 year New Build Warranty. Financial institutions can be reluctant to lend to prospective purchasers without this. The developer will need to register the works with the appropriate authority and appoint registered contractors.

With regard to the eventual development itself, we have assumed that a suitable craneage rights will be obtained to undertake the development scheme and that future maintenance will also have the ability to get such licences as are required.

In the event that this is not the case and that there are outstanding issues, which may impact upon the form of the development, or the proposed programme of works, our opinions of value may be affected.

#### **15.0. MARKET CONDITIONS AND COMPARABLES**

##### **15.1. National Market Commentary**

Following the near collapse of the international banking system due to sub prime lending failures, national governments have acted both in unison and on a national basis to try to stimulate their economies and to prevent a global recession. In the UK the Bank of England has reduced the interest rates to 0.5% and injected money into the financial system by means of quantitative easing. The UK has subsequently extended this latter policy for a further period. Three banks are in full or partial government ownership as part of a rescue package to prevent those banks collapsing and to minimise the adverse effect on the banking sector. It is anticipated that the Bank of England minimum lending rate will remain at low levels for the next few months, and in the meantime the banks are slowly recovering their financial position and strength. The LIBOR rate has fallen significantly which is now allowing banks to start, albeit cautiously, to lend to each other but we are still some way before a full recovery of these activities is completed. Credit facilities to residential occupiers still remain difficult and there is only slow improvement here and certain sectors of the business community are finding it almost impossible to obtain loans. Unemployment has now reached 2.6million, and is anticipated to increase significantly over the next few months.

On the property front, the RICS UK Commercial Property Survey (quarter 2) 2009 confirms that business demand is stabilising in offices but at low level with more accommodation becoming available. Rents for offices in London are expected to fall and more inducements are required to keep occupiers in existing properties. This runs through all sectors although the industrial and retail markets were in a slightly stronger position than the office market. Cash rich investors are now beginning to re-enter the market to acquire attractively priced properties and as a result values have started to stabilise although there remains some downward pressures. Please see the RICS survey in **Appendix 7**.

There are some signs that the increased investor activity coupled with the shortage of property being on the market is leading to a slight strengthening in yields and Savills Research consider that this is not necessarily a blip but is more indicative of the early seeds of recovery, although it will be some time before these are confirmed. There are also some signs that some developers are beginning to become more active but these will be in very selective areas. The prime yields for provisional offices are 7%, and prime yields for high street retail are at 6%, and for regional hotels 7.25% (the latter has moved out). We enclose the Savills Research "Market in Minutes" bulletin in **Appendix 8**.

In **Appendix 9** we enclose the August 2009 Residential Property Focus produced by Savills Research and again the cash rich investors or purchasers are beginning to stimulate the market. A shortage of supply has seen price increases in certain areas, although there is concern that this may level off or even fall once a larger sector of potential vendors place their properties on to the market. This may be counteracted by more credit facilities becoming available as banking institutions confidence returns but it is too early to say. It is predicted that further falls of approximately 6% will occur during 2009, with growth returning during 2011 at 4.9% and at increasing levels thereafter. The inability, for whatever reason, by developers to develop residential sites, particularly in towns, will lead to a shortage of supply once the available space has been sold. This, coupled with a changing attitude to purchase of freeholds which may be linked to difficult credit facilities, will mean that rents should rise at a higher rate and residential investment yields will improve. The over supply of some properties means that cash rich investors can secure good residential units at relatively low prices and these will be attractive in the medium term for a higher than average rental growth. Institutional investors may be attracted to enter the sector which will have a significant impact on this type of property for institutional property returns.

We also enclose in **Appendix 9** the spotlight on residential investment produced by Savills Research.

## **15.2. Local Market Summary**

There are four sectors of the market to consider namely hotels, the residential units, offices and restaurant/cafeterias. All of the sectors are in decline from a property requirement viewpoint at the current time due mostly to current economic conditions but in the case of the smaller flats also due to a general oversupply of small apartments in Colchester. We comment in more detail as follows.

The proposed hotel of 31 bedrooms will not be attractive to a hotel chain as it is too small, and any market that may exist is likely to be confined to the smaller budget chain hotel market. In addition, the property lacks on-site car parking which is detrimental to value, although the benefit of the NCP car park approximately 150m away is important. We consider that a hotel development would be a higher risk development, particularly as the standard of fixtures and fittings would have to be high. The size of bedrooms and the level of fit-out is important in connection with the value of hotels. This undoubtedly means higher build costs. This would be counterbalanced by the location of the property which may not be as attractive as some for prime, upmarket operators. The bedrooms may appear to be too small and some of the facilities only comprise en suite shower rooms which will deter high end operators. There is a trend towards budget hotels, but branded budget operators only tend to consider hotel opportunities of above 40 bedrooms, the hotel is likely to appeal to local entrepreneurs or a business lead by the upper level restaurant. Such development could not be recommended unless there were a group that had agreed to take the property or a lease on it. Having said the above, there is the possibility that the current economic downturn will encourage more interest in local hotels due to the cost of going abroad for holidays. The luxury hotel sector is, we understand, holding firm and providing the hotel is designed to this standard there is a possibility that it could be of interest to



a specialised market.

With regard to the residential market, this is in two distinctive sectors. The penthouse flats will suffer from the fact that there is no adequate on site car parking, but the same comments about the NCP car parking can be made in respect of this and which will also apply to the smaller flats. The uniqueness of the properties will attract considerable interest, and it should be capable to sell them at a stronger than normal market value providing they are sold having consideration to the service charge that will need to be paid. With regard to the small flats, the problem of no onsite car parking will adversely affect the property value, and they are aiming at a market which is in general over supply. Having said that, the rather unique position of the proposed units will make them attractive to a narrow sector of the market and, once again, providing they are priced sensibly they should sell.

The office market is quite weak for a number of reasons including over supply and a lack of demand. Once again the unique location of the offices should make them attractive, particularly if they are designed to be fitted out to a high standard, to professional orientated firms. Again the lack of onsite car parking is a problem although this is negated to a certain extent due to the relative proximity of the NCP car parking and also to the fact that many offices exist in town centre locations with no car parking immediately available onsite.

With regard to restaurant and cafeteria proposals, the cafeteria is likely to attract more interest than a restaurant, particularly from the local and regional market. The cafeteria is easily accessible, and in a location where there are other similar uses which may create a form of local hub for these operations. Turning to the restaurant, again its location will attract considerable interest although there will be some difficulties of servicing the facility. However, a regional or national operator could well be attracted to the unique location and opportunities that the proposal provides.

### **15.3. Period Required to Achieve a Sale**

On the assumption that the various schemes are completed, we advise that in our opinion the likely periods in which to sell the constituent parts of the property are as follows:

Hotel – we would recommend that this is a design and build and therefore there would be a contract to purchase the site or to occupy the site on an agreed lease. As a consequence we consider that a period of 12 months would be appropriate for this disposal with completion of the sale at the completion of the development.

With regard to offices, again the preferred method of disposal would be by a design and build process, but in the event that this is not possible, we would suggest that a period of 12 months would be sufficient time to dispose of the created units after the completion of the development. Marketing would take place during the development period at the end of the development, again assuming that marketing would take place during the development phase. It is probable that incentives will be required for lettings.

With regard to a restaurant or cafeteria type property, again we consider that a period of 12 months would be appropriate for disposal.

The residential units, both penthouse and flats would take up to 6 months to sell after the Jumbo is developed.

We would recommend that pre-lets or sales be undertaken prior to development for any of the property types being considered in order to produce interest, and shorter sale periods.