

Valuation Review

Seaways Car Park
Southend on Sea
SS1 2RQ

Report for:
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Borough Council

Prepared by:

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Executive Summary

1.1 Description

The site comprises a surface level car park of approximately 630 spaces, together with the site of the former Rossi Factory, 29 Herbert Grove and 1-3 Herbert Grove which were acquired with government funding to be demolished and incorporated in to the wider redevelopment scheme as proposed.

The car park appears to be a marked tarmac surface. The car park is pay and display or pay by phone although there does appear to be the capability to obtain season tickets for parking within certain areas.

The site slopes from west to east.

1.2 Location

The Property is located in Southend on Sea, which is located approximately 70km (43 mi) east of Central London and 25 km (15 mi) east of Basildon, on the northern side of the Thames Estuary.

Seaway Car Park is situated behind and to the north of the amusement arcades on Marine Parade and abutting the nightclubs which front onto Lucy Road.

To the north of the site are Chancellor Road and Queensway, linking into the A13 to the north. To the west is Herbert Grove, and to the east the rear gardens of Hartington Road

1.3 Tenure

The council own the freehold interest of the subject property and have agreed to grant a lease on the following terms:

A new 152 year lease will be granted upon the Lessee satisfying the conditions of the agreement for lease and sale.

No premium is payable as the lease will be subject to a ground rent.

The initial rent of £282,000pa is subject to review on an upward only basis until after the 3rd review.

1.4 Valuation Date

The date of the Savills section 123 certification is 21st November 2018.

1.5 Special Assumptions

The following special assumptions have been assumed:

Valuation 1 - current Market Value of the freehold interest, upon the Special Assumption there is no alternative use value ("Special Assumption Value"); i.e. the value of the operational car park business, but assuming no development potential.

Valuation 2 - the Market Value of the freehold interest, subject to the proposed long lease and upon the Special Assumption the current scheme has been granted planning consent ("Special Assumption Value"); i.e. the capitalisation of the rental income to be received by SBC accounting for the specific lease terms

Valuation 3 - the Market Value of the freehold interest, upon the Special Assumption the current scheme has been granted planning consent ("Special Assumption Value"); i.e. the valuation of a policy compliant scheme that would likely be constructed at the site the proposed scheme represents the most likely development due to the numerous consultations.

This is effectively the value of the unencumbered freehold site assuming development of the scheme.

1.6 Market Value

Savills Opinion of Value

Valuation 1 - £3,800,000 (THREE MILLION EIGHT HUNDRED THOUSAND POUNDS)

Valuation 2 – £4,585,000 (FOUR MILLION FIVE HUNDRED AND EIGHTY FIVE THOUSAND POUNDS)

Valuation 3 – NEGATIVE (£3,155,378)

1.7 Remarks

The report provided by Savills is detailed, logical and well evidenced having regard to the nature of the scheme.

I consider that the conclusion drawn by Savills that the proposed deal represents best value is appropriate and reasonable

The value of the new interest being created safeguards the Council's income whilst providing them with an investment which has a higher underlying value than the property reflecting the existing use.

Whilst there are concerns over the current restaurant market the scheme has 3 major anchor tenants which account for a large part of the rent. The hotel and cinema rents are also indexed linked which will help maintain the overall rental value.

The value of the proposed interest is also greater than the value that could be achieved if sold on a freehold basis. In reality the valuation figure provided showing a negative figure is of little relevance as a landowner is not going to dispose of site at less than the market value of the existing use. Where an asset is still operational

anyone looking to acquire the land for development would potentially have to provide some level of incentive to persuade the landowner to sell.

The value of the Council's new interest is 20.65% higher than the value reflecting the existing use and this is considered to be a reasonable uplift and this may well increase depending on the success of the scheme.

The Council has the benefit of an overage arrangement to capture a share of profit if the scheme exceeds the agreed profit threshold which is also reasonable.

1. Introduction

I refer to your instructions dated 13th June 2018 my Terms of Engagement dated 27th June 2018, subsequent correspondence confirming the instruction.

I have undertaken the review of the Savills report dated November 2018 and I am pleased to report to you as follows.

2. Valuation Parameters

2.1 Identification of Client

The instruction is undertaken for Southend-on-Sea Borough Council.

2.2 Purpose of Valuation

The instruction is to undertake a review of the Savills valuation report produced in relation to the proposed disposal of the site.

The heads of terms between the parties are agreed and the Agreement for Lease and Sale was completed in December 2014. We understand that the parties remain under contract and have Cabinet planning approval subject to securing certification of the transaction for Best Consideration, in accordance with Section 123 of the Local Government Act 1972, prior to exchange of contracts.

My Instruction is as follows:

1. Review Savills' Report and s.123 LGA letter dated 21st November 2018.
2. To consider whether and confirm if appropriate that:
 - a. Savills approach is reasonable and objective and appropriate
 - b. the conclusions drawn are reasonable
 - c. and I concur with Savills approach, conclusions and s.123 LGA certification

For the avoidance of doubt DVS have not undertaken a valuation but have undertaken research and comment accordingly on the approach and conclusions of the Savills report.

2.3 Subject of the Valuation

The site to be disposed of comprises the Seaway Car Park, Chancellor Rd, Southend-on-Sea SS1 2AS, together with the site of the former Rossi Factory and 29 Herbert Grove.

The interest held by the Council is freehold and it is proposed that they will dispose of a long lease at a geared ground rent.

2.4 Date of Valuation

The date of the Savills section 123 certification is 21st November 2018.

Please note that values change over time and that a valuation given on a particular date may not be valid on an earlier or later date.

2.5 Confirmation of Standards

In reviewing the valuation advice and certification provided by Savills regard has been had to the following:

The valuation should be prepared in accordance with the professional standards of the Royal Institution of Chartered Surveyors: RICS Valuation – Global Standards 2017 and the RICS Valuation - Professional Standards UK (January 2014, revised April 2015), commonly known together as the Red Book.

Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuations Standards (IVS).

In addition it also necessary to consider The Local Government Act 1972: General Disposal Consent (England) 2003.

Measurements stated are in accordance with the RICS Professional Statement '**RICS Property Measurement' (2nd Edition)** and, where relevant, the **RICS Code of Measuring Practice (6th Edition)**.

2.6 Agreed Departures from the RICS Professional Standards

There are no departures beyond those restrictions on the extent of investigations and survey, and the assumptions, stated below.

2.7 Basis of Value

In England, the Local Government Act 1972: General Disposal Consent (England) 2003 removes the requirement for authorities to seek specific consent from the secretary of state for any disposal of land where the difference between the unrestricted value of the interest to be disposed of, and the consideration accepted (the 'undervalue'), is £2 million or less.

The detailed valuation requirements are set out in the Technical Appendix to the Consent, which specifically incorporates this guidance note and the definition of market value in VPS 4.

The basis of value adopted is Market Value which is defined at VPS 4, para 4 as:

'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

UK VPGA 17.1 sets out the Bases of valuation.

The consent requires the valuer to provide the following figures:

- unrestricted value
- restricted value and
- the value of voluntary conditions.

Unrestricted value

The unrestricted value is the best price that is reasonably obtainable for the property. It is the *market value* of the land, as defined in VPS 4, except that it should take into account any additional amount that is, or might reasonably be expected to be, available from a purchaser with a special interest.

The valuer should take account of any uses that might be permitted by the local planning authority if these would be reflected by the market, and not only a use (or uses) intended by the parties to the proposed disposal. It should also ignore the reduction in value caused by any voluntary condition imposed by the local authority (see restricted value).

The valuer should assume that the freehold disposal is made, or the lease is granted, on terms that are intended to maximise the consideration. For example, where unrestricted value is based on the hypothetical grant of a lease, at a rack rent or ground rent, with or without a premium, the valuer should assume that the lease would contain those covenants normally included in such a lease by a prudent landlord. The valuer should also assume that the lease would not include unusual or onerous covenants that would reduce the consideration, unless these had to be included as a matter of law.

Restricted value

The restricted value is the *market value* of the property having regard to the terms of the proposed transaction. It is defined in the same way as unrestricted value, except that it should take into account the effect on value of any voluntary condition. Where the local authority has invited tenders and is comparing bids, the restricted value is normally the amount offered by the local authority's preferred transferee. Otherwise it is normally the proposed purchase price.

The value of any voluntary conditions

Sales may be subject to voluntary conditions. These are any term or condition of the proposed transaction that the local authority chooses to impose. Voluntary conditions do not include any term or condition that the local authority is obliged to impose, for example, as a matter of statute or a condition that runs with the land. They also do not include any term or condition relating to a matter that is a discretionary, rather than a statutory, duty of the local authority.

2.8 Special Assumptions

The following special assumptions have been assumed:

Valuation 1 - current Market Value of the freehold interest, upon the Special Assumption there is no alternative use value ("Special Assumption Value"); i.e. the value of the operational car park business, but assuming no development potential.

Valuation 2 - the Market Value of the freehold interest, subject to the proposed long lease and upon the Special Assumption the current scheme has been granted planning consent ("Special Assumption Value"); i.e. the capitalisation of the rental income to be received by SBC accounting for the specific lease terms.

Valuation 3 - the Market Value of the freehold interest, upon the Special Assumption the current scheme has been granted planning consent ("Special Assumption Value"); i.e. the valuation of a policy complaint scheme that would likely be constructed at the site the proposed scheme represents the most likely development due to the numerous consultations.

This is effectively the value of the unencumbered freehold site assuming development of the scheme.

2.9 Nature and Source of Information Relied Upon

In addition to relying upon VOA held records and information, I have assumed that all information provided by, or on behalf of you, in connection with this instruction is correct without further verification – for example, details of tenure, tenancies, planning consents, etc.

My advice is dependent upon the accuracy of this information and should it prove to be incorrect or inadequate, the accuracy of my valuation may be affected.

Various background information has been provided but the key documents are as follows:

Savills Valuation Report – Dated 21st November 2018
Savills letter for Section 123 Best Consideration – Dated 21st November 2018
Background paper and details of the scheme

The sources of any other information used that is not taken from VOA records include, Google Street View and Aerial mapping, Office for National Statistics, Environment Agency website, EGI and Focus Costar.

2.10 Date of Inspection

As agreed, the property has not been inspected.

2.11 Extent of Investigations, Survey Restrictions and Assumptions

An assumption in this context is a limitation on the extent of the investigations or enquiries undertaken by the valuer. The following agreed assumptions have been applied in respect of your instruction, reflecting restrictions to the extent of our investigations.

- As agreed with you, no inspection of the property was undertaken and the advice and valuation has been prepared on a 'desk-top basis'; i.e. it is provided on the basis of 'restricted information'.
- No detailed site survey, building survey or inspection of covered, unexposed or inaccessible parts of the property was undertaken. The Valuer has had regard to the apparent state of repair and condition, and assumed that inspection of those parts not inspected would neither reveal defects nor cause material alteration to the valuation, unless aware of indication to the contrary. The building services have not been tested and it is assumed that they are in working order and free from defect. No responsibility can therefore be accepted for identification or notification of property or services' defects that would only be apparent following such a detailed survey, testing or inspection.
- It has been assumed that good title can be shown and that the property is not subject to any unusual or onerous restrictions, encumbrances or outgoing.
- It has been assumed that the property and its value are unaffected by any statutory notice or proposal or by any matters that would be revealed by a local search and replies to the usual enquiries, and that neither the construction of the property nor its condition, use or intended use was, is or will be unlawful or in breach of any covenant.
- Valuations include that plant that is usually considered to be an integral part of the building or structure and essential for its effective use (for example building services installations), but exclude all machinery and business assets that comprise process plant, machinery and equipment unless otherwise stated and required.
- It has been assumed that no deleterious or hazardous materials or techniques were used in the construction of the property or have since been incorporated. However where an inspection was made and obvious signs of such materials or techniques were observed, this will be drawn to your attention and captured in this report.
- No access audit has been undertaken to ascertain compliance with the Equality Act 2010 and it has been assumed that the premises are compliant unless stated otherwise in this report.
- No environmental assessment of the property (including its site) and neighbouring properties has been provided to or by the VOA, nor is the VOA instructed to arrange consultants to investigate any matters with regard to flooding, contamination or the presence of radon gas or other hazardous substances. No search of contaminated land registers has been made

However, where an inspection was made and obvious signs of contamination or other adverse environmental impact were visible this will have been advised to you, further instructions requested and the observations captured in the report. Where such signs were not evident during any inspection made, it has been assumed that the property (including its site) and neighbouring properties are not contaminated and are free of radon gas, hazardous substances and other adverse environmental impacts. Where a risk of flooding is identified during any inspection made, or from knowledge of the locality, this will be reported to you. The absence of any such indication should not be taken as implying a guarantee that flooding can never occur.

- No allowances have been made for any rights obligations or liabilities arising from the Defective Premises Act 1972.

3. Property Information

3.1 Situation

The Property is located in Southend on Sea, which is located approximately 70km (43 mi) east of Central London and 25 km (15 mi) east of Basildon, on the northern side of the Thames Estuary.

Southend has good road communications via the A130 or A127, both of which provide direct access into central London and to national road and rail links via the M25. In addition, both the A13 and A127 connect to the A130 dual carriageway, which provides access northbound towards Chelmsford and the A12

The town is served by two railway lines, providing links to London Liverpool Street and London Fenchurch Street, with journey times of between 50 minutes and an hour 15 minutes depending on the service.

Seaway Car Park is situated behind and to the north of the amusement arcades on Marine Parade and abutting the nightclubs which front onto Lucy Road:

To the north of the site are Chancellor Road and Queensway, linking into the A13 to the north. To the west is Herbert Grove, and to the east the rear gardens of Hartington Road.

3.2 Description

The site comprises a surface level car park of approximately 630 spaces, together with the site of the former Rossi Factory, 29 Herbert Grove and 1-3 Herbert grove which were acquired with government funding to be demolished and incorporated in to the wider redevelopment scheme as proposed.

The car park appears to be a marked tarmac surface. The car park is pay and display or pay by phone although there does appear to be the capability to obtain season tickets for parking within certain areas.

The site slopes from west to east.

The site has not been well maintained according to the Savills report and requires maintenance and improvement.

3.3 Tenure

We have not had sight of any title document but have been provided with the following details:

The council own the freehold interest of the subject properties and have agreed to grant a lease on the following terms:

A new 152 year lease will be granted upon the Lessee satisfying the conditions of the agreement for lease and sale.

No premium is payable as the lease will be subject to a ground rent.

The initial rent of £282,000pa is subject to review on an upward only basis until after the 3rd review.

The reviews are at year seven and every fifth year thereafter the Lease rent is reviewed. The rent review determines the rent as a percentage of 11% of all receipts less irrecoverable expenditure by the tenant. The principles of the rent review are as follows:

- a. TSL will provide full open book access to their accounts;
- b. the rent review is based upon all the rents received by TSL, (the "Gross Rent");
- c. the Tenant is able to deduct from this any expenses it has incurred in relation to the management of the development that it cannot recover from the subtenants. In practice, the tenant would usually recover all its expenses from each tenant and any expenses not recovered, such as by the tenant leaving early, becoming insolvent etc. will be deductible from the Gross Rent; and
- d. in order to minimise any deductions to the Gross Rent the tenant covenants to practice good estate management and not to so order its affairs to do otherwise.
- e. After the third review the rent will be as calculated as above but without the upward only restriction.

3.4 Easements and Restrictions

We are not aware of any restrictions or easements affecting the car park site which would impact on value.

However, we understand there is a restriction on title relating to the former Rossi factory and 29 Herbert Grove. The properties were funded through a grant from the East England Development Agency (now Homes England) to enable the properties be included in the scheme, any other disposal would require the grant funding to be repaid.

3.5 Site Area

The site area is approximately 2.3 hectares.

3.6 Services

It is assumed the site can readily be connected to all mains services.

3.7 Access and Highways

Access can be gained to the car park from Hartington Road and Chancellor Road with exit to Queensway.

3.8 Planning

I have been provided with various information regarding the planning status of the land.

The site is within an area where Policy CS6b applies (Seaway Car Park and Marine Parade).

The policy wording is as follows:

'The Council will pursue with private sector partners and private landowners and developers the redevelopment of this area for high quality mixed use development, including the provision of:

1. *leisure, cultural and tourism attractions including restaurants, digital gallery destination space and quality hotel offer together with new housing and re-provision of car parking;*
2. *design and layout solutions that allow for:*
 - a. *remodelling of the urban form to create:*
 - i. *a north-south axis which makes a clear sight line from Queensway to the sea;*
 - ii. *a stronger relationship with the Town Centre in particular to the expanded retail circuit in the Tylers Quarter,*
 - iii. *a new link to Marine Parade designed around the 'Spanish Steps' concept of the stepped public urban space;*
 - iv. *A series of public and semi-public terraces that negotiate the level change from Tyler's Avenue through Seaway to Marine Parade,*
 - b. *active and/or attractive frontages to all new and existing streets and spaces;*
 - c. *appropriately sited taller buildings to take advantage of the estuary views provided they do not cause undue overshadowing or be detrimental to the amenity of neighbouring development;*
 - d. *materials and colour to reflect the vibrancy and colour of the seaside;*

- e. *use of sustainable construction techniques and renewable technology appropriate to the type and scale of development and incorporate best environmental practice in design and layout.*

All development proposals must protect buildings of historical importance particularly Listed and locally listed Buildings and respect their setting and character.

All development will be required to demonstrate how flood risk has been taken into account and the measures which have been taken to mitigate against it if required'.

In summary the proposed development will comprise a cinema complex, 4 leisure units, 10 restaurant units, an 80 bed hotel, cafe and a 555 space car park

The detailed accommodation schedule is as follows:

Unit	Description	Area Net Lettable (sqft)	Comments
0	Cinema	28,235	
L1	Leisure	20,395	
L2	Leisure	5,318	
L3	Leisure	15,210	
L4	Leisure	5,899	
R1	Restaurant	6,039	
R2	Restaurant	5,005	
R3	Restaurant	3,250	
R4	Restaurant	4,058	
R5	Restaurant	3,498	
R6	Restaurant	3,272	
R7	Restaurant	2,928	
R7A	Restaurant	2,928	
R8	Restaurant	3,681	
R9	Restaurant	1,991	
	Hotel	30,906	80 rooms
	Café	969	
	Parking	119,299	555 spaces
Total		262,881	

3.13 Equality Act 2010

Whilst I have had regard to the provisions of the Equality Act 2010 in making this report, I have not undertaken an access audit nor been provided with such a report. It is recommended that you commission an access audit to be undertaken by an appropriate specialist in order to determine the likely extent and cost of any alterations that might be required to be made to the premises or to your working practices in relation to the premises in order to comply with the Act.

3.9 Mineral Stability

The property is not in an underground mining area and a Mining Subsidence Report has not been obtained.

3.10 Environmental Factors Observed or Identified

I am not aware of any environmental issues that may impact on the site.

3.11 Rateable Value

The rateable value of the car park is £196,000 with effect from 1st April 2017.

4. Review of the Savills Methodology and Evidence

4.1 Valuation Methodology / Approach and Reasoning

Essentially in order to demonstrate that the Council are obtaining best value they need to follow the guidance in Circular 06/03. It is necessary to demonstrate that the site is not being sold for less than best consideration and if it does exceed the sum for which they will be required to seek consent.

The unrestricted value is the best price reasonably obtainable for the property and should be expressed in capital terms. In general terms, unrestricted value is intended to be the amount which would be received for the disposal of the property where the principal aim was to maximise the value of the receipt. Apart from the inclusion of bids from a purchaser with a special interest it is defined in the same way as market value.

The restricted value is the market value of the property having regard to the terms of the proposed transaction. It is defined in the same way as unrestricted value except that it should take into account the effect on value of any voluntary condition(s).

In the case of a disposal of a leasehold interest, the unrestricted value should be assessed by valuing the authority's interest after the lease has been granted plus any premium payable for its grant. This will usually be the value of the authority's interest subject to the proposed or assumed lease. In other words, it will be the value of the right to receive the rent and other payments under the lease plus the value of the reversion when the lease expires.

Savills have undertaken three valuations which are as follows:

- **Restricted Valuation 1** - *The current Market Value of the freehold interest, upon the Special Assumption there is no alternative use value ("Special Assumption Value"); In respect of the trading business, once fully established this type of property normally changes hands in the open market as a fully equipped operational business unit, and is therefore valued including:*
 - *all plant, equipment, furniture, furnishings, fixtures and fittings on the assumption that these are free from lien and encumbrance.*
 - *the market's perception of the trading potential excluding any personal goodwill.*
 - *all licences, consents, certificates and permits necessary to allow the property to properly trade on the assumption that these will be received as required.*

- all existing staff, membership and bookings but excluding stock in trade, consumables and any additional value attributable to works of art, historic artefacts and the like
- **Restricted Valuation 2** - The current Market Value of the freehold interest, subject to the proposed long lease and upon the Special Assumption the current scheme has been granted planning consent ("Special Assumption Value"),
- **Unrestricted Valuation 3** - The current Market Value of the freehold interest, upon the Special Assumptions of Vacant Possession and the current scheme has been granted planning consent ("Special Assumption Value")

Valuation 1

Savills have approached this by looking at the current Market Value of the freehold interest, upon the Special Assumption there is no alternative use value ("Special Assumption Value"); i.e. the value of the operational car park business, but assuming no development potential.

The property has been principally valued by the profits method having regard to the income generated by the car park. Savills have had regard to the last three years income and then adjustment this to reflect the reinstatement of coach parking. This is a reasonable approach.

The income has been correctly adjusted for VAT.

The fair maintainable turnover is estimated at £432,000.

They have then deducted various expenditure for items such as business rates, enforcement, maintenance and security which results in a Fair Maintainable Operating Profit of £345,600 pa.

The income has been capitalised at 8.5% which is in the middle of the range of yields from table 1 to reflect the size of the property.

They have then allowed for resurfacing of the car park which has been neglected due to the development plans resulting a value of £3.8 million.

The valuation breaks back to £8,444 per space if this is decapitalised at 6% this would result in a potential rent of £506 per space or £227,988pa which compares with the current rateable value of £196,000 although this is based on a different number of spaces.

Parking Charges

Summer Tariff (01/04 - 31/10)	Winter Tariff (01/11 - 31/03)
2 hours - £2.90	2 hours - £2.20
4 hours - £6.60	4 hours - £5.00
6 hours - £10.00	6 hours - £7.70
7+ hours - £12.00	7+ hours - £9.60

Named Car Park Zone 1	Winter Weekday Only
	Annual £200
	Monthly £50

DVS are aware of the sale of car park in Haywards Heath that sold in 2015 for in 2015 which purportedly let to national operator at : giving a yield of 5.67%. The rent reflects around £680 per space, however the new owner is seeking to develop the site although the car parking is still operating. The yield is however in line with those provided by Savills for investment properties.

The Haywards Heath car park is close to a railway station with good links to London although daily prices are less than subject property it probably has a better overall occupancy level but is also considerably smaller.

Overall the approach appears logical and the valuation appears reasonable having regard to the established income and condition of the car park. The income achieved seems to suggest that the current car park is not overly utilised the whole year round hence why concessions are available for the winter months.

No value has been included for the former Rossi Factory and 29 Herbert Grove, it is assumed this is due to the restriction on title which does not appear unreasonable.

Valuation 2

Savills have approached this by looking at the Market Value of the freehold interest, subject to the proposed long lease and upon the Special Assumption the current scheme has been granted planning consent ("Special Assumption Value"); i.e. the capitalisation of the rental income to be received by SBC accounting for the specific lease terms.

They have adopted the investment method of valuation whereby the rental income stream is capitalised at appropriate capitalisation rates based on current comparable investment market transactions.

In relation to the current market rental values of the proposed units, Savills consider that this would result in a Ground Rent below the current guaranteed rent, however the agreed commencing rent is guaranteed for the first 17 years. Some of the rents are subject to indexation

They have capitalised the guaranteed rent at a yield of 4% to reflect the guaranteed income of £282,000pa and then reverted to their estimation of the market rent which is £250,253 which they have capitalised at 5.75%.

Savills have not had regard to the rents which are indexed within their valuation which potentially would result in a higher rent at review than currently assessed This is a cautious approach but probably not unreasonable in the current market.

This approach appears to be a term and reversion and in my view in order to get to the valuation figure the term yield is 4.75% rather than 4% as stated, however, this may be a result of the valuation software used

The investment is effectively over-rented initially, so I consider it prudent to value the market rent at a market yield and then to value the over-rented element at a lower yield to reflect the value of the guaranteed income. This approach results in a value extremely close to that provided by Savills and well within accepted valuation tolerances.

The initial yield ignoring purchaser's costs reflects around 6.2% which is a significant return on what is effectively a fixed income stream of 17 years.

Valuation 3

Savills have approached this by looking at the Market Value of the freehold interest, upon the Special Assumption the current scheme has been granted planning consent ("Special Assumption Value"); i.e. the valuation of a policy complaint scheme that would likely be constructed at the site.

It is my view that the approach taken by Savills to assume that the proposed scheme represents the most likely development as result of the consultations and significant time spent by both SBC and the Developer, is a reasonable approach and fulfils the policy requirement of the planning authority.

Savills have undertaken a residual appraisal which is an accepted method used to value property with development potential.

The land value is identified in their appraisal as the residualised price which forms part of the acquisition costs. The rationale of this method is very simple, namely;

The value of the completed development.

Less The total cost of development plus the development profit
Equals The Value of the existing property for development purposes

Because of the large number of variables, which are generally used, the method comes in for considerable criticism from many quarters the most common being that a large number of estimates have to be made by the valuer, which increases the chance of error. However in the methods defence, its use enables the likely financial success of a possible scheme to be considered (and refined when more variables are included) at an early stage so helping parties to decide whether or not to proceed.

The valuation has been undertaken using ARGUS Developer, propriety software used widely by the property industry.

The residual value will represent the freehold value of the site if it was to be sold as a site rather than under the terms of the proposed agreement.

The development appraisal has been undertaken having regard to their assumptions on rent and yield and therefore adopts a lower level of rent than will be received by Southend.

My only observation in relation to valuation 3 relates to the requirement of the RICS Guidance for the Valuation of Development Land (VIP 12) to give an appraisal context by referring the land transactions where possible

Practice Statement 6.8 of the RICS Red Book does require negative figures to be reported. In this case the valuation is subject to the special assumption for the agreed development to be sold on a freehold basis and would not represent best value

I am not aware of any useful current transactional evidence which would help give context to the appraisal but it is also my view that the appraisal would result in a negative land value based on the current information and would not be deliverable if developed on a freehold basis.

4.2 Savills Comparable Evidence and Market Overview

In the Savills report they have provided comparable evidence and a commentary on the information provided. I have also undertaken my own research to see if the views given seem reasonable

Car Park

There is a lack of evidence for Operating Car Parks and where they do come to the market it is often for redevelopment.

Savills have provided two tables of transactions, the first, area specific sales giving a guidance for potential yields to be applied to the income for freehold properties and the second table details to investments sales.

The transactional evidence in the first table is fairly historic showing yields of between 7% and 9.32% in addition a car park failed to sell at auction in July 2018 with the last bid reflecting around 4.76%.

The second table comprises car park mostly let to major car park operators. The yield range is 4.33% to 7.5%. Most of these deals however are still fairly old but there is a lack of evidence.

However, overall the evidence provided does help give the valuation context.

Cinema/Leisure

Savills have provided a summary of the cinema market in the UK and the significance of the various sectors of the market

Savills have accepted the rent agreed by the Empire Cinemas and the pre-let to Hollywood Bowl reflect the market value.

I have no evidence to contradict this view

The two key leisure rents represent just under 25% of the total rent roll and both will be let on 25 year leases

Savills make observations in relation to the other 3 leisure units but at this stage there is no other confirmed interest so they have taken a conservative approach to value and yield in the appraisal.

Restaurant

There is detailed commentary on the restaurant market which covers the recent issues faced by many operators. They highlight a number of major casualties and draw the conclusion that the current market rental values of the restaurants in the developer's appraisal are overstated. This is backed up by the recent report by Accountancy firm Moore Stephens who said there had been 1,219 insolvencies, ranging from standalone restaurants up to large investor-backed chains - up from 985 in 2017.

Moore Stephens also stated that insolvencies were at their highest level since it began tracking the sector in 2010.

It blamed an influx of private equity investment that had led to some restaurant chains opening too many sites that were now failing to break even.

It also said interest rate rises and Brexit concerns had "put a dent" consumer spending growth, as operators faced rising overheads such as the minimum wage and ingredient costs

Savills are fairly pessimistic about the rental values and incentives on the scheme and indicate that they are lower than the assumptions on which the guaranteed rent is based.

However, they do state that the investment market is fairly good due to the lack of stock and the current concerns regarding restaurant operators is not translating into the investment market even though some are seeking CVA's.

There are a total of ten restaurant units in the scheme of which there appears to be interest and terms agreed in principle for around half, clearly in the current market this is concerning but not a direct issue for Southend at this stage due to the rental guarantee for the first 17 years.

Hotel

An extensive and detailed commentary has been provided with a significant schedule of comparables for both investments and rents

The hotel comparables relate to those sold for investments or rented in chain hotels which is in line with the proposed development.

They have also undertaken an indicative profit and loss valuation which appears to adopt fairly reasonable assumptions. The proposed rent reflects £ per key and this is at the top end of the range of comparable but commensurate with some significant tourist locations.

Their conclusions are that the proposed rental is at the top end of the range and as such have adopted a yield at the top end of the comparable yield evidence.

The capital value breaks back to circa) per room and this does not appear unreasonable from the evidence we have reviewed.

I also understand the rent is subject to a level of index linking at review which is beneficial in maintaining the overall rent received by Southend.

Overall Comment

Overall the assumptions adopted by Savills do not appear unreasonable, I have looked at Festival Leisure Park at Basildon which is probably the nearest direct comparable and the rents achieved there appear to support the proposed rents.

4.3 Savills Opinion of Value

Valuation 1 - £3,800,000 (THREE MILLION EIGHT HUNDRED THOUSAND POUNDS)

Valuation 2 – £4,585,000 (FOUR MILLION FIVE HUNDRED AND EIGHTY FIVE THOUSAND POUNDS)

Valuation 3 - NEGATIVE (£3,155,378).

4.4 Currency

All prices or values are stated in pounds sterling.

4.5 VAT

Savills valuation is exclusive of VAT.

This is normal practice unless advised otherwise.

4.6 Costs of Sale or Acquisition and Taxation

No allowance has been made for liability for taxation, whether actual or notional, that may arise on disposal.

This is normal practice unless advised otherwise.

4.7 Market Commentary

Savills have provided a detailed analysis of the relevant property markets and this needs to be set against the background of a challenging period in the history of the United Kingdom although the economy is in a reasonable state there is still considerable uncertainty.

Following the referendum held on 23 June 2016 concerning the UK's membership of the EU, the impact to date on the many factors that historically have acted as drivers of the property investment and letting markets has generally been muted in most sectors and localities. The outlook nevertheless remains cautious for market activity

over the coming months as work proceeds on negotiating detailed arrangements for EU exit and sudden fluctuations in value remaining possible. We would therefore recommend that the valuation is kept under regular review. Should you intend to effect a disposal, we recommend that specific marketing advice be obtained at that time.

The negotiations for the UK exit from the EU have been ongoing for many months and there is now a draft agreement on the table but it is unclear at this stage whether it will be acceptable to the UK parliament or the remaining EU member states.

In terms of the general economy the key indicators in respect of unemployment, inflation and growth according to the ONS are as follows:

There were an estimated 1.38 million unemployed people (people not in work but seeking and available to work), 20,000 more than for May to July 2018 but 49,000 fewer than for a year earlier.

The unemployment rate (the number of unemployed people as a proportion of all employed and unemployed people) was estimated at 4.1%, virtually unchanged compared with May to July 2018 but lower than the estimate for a year earlier (4.3%).

The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.2% in November 2018, unchanged from October 2018.

The largest downward contributions to change in the 12-month rate came from falls in petrol prices and across a variety of recreational and cultural goods and services, principally games, toys and hobbies, and cultural services.

The Consumer Prices Index (CPI) 12-month rate was 2.3% in November 2018, down from 2.4% in October 2018.

The rate of Retail Prices Index (RPI) inflation, which is calculated differently, was 3.2% in November 2018, down from 3.3% in the previous month.

UK gross domestic product (GDP) in volume terms was estimated to have increased by 0.6% between Quarter 2 (Apr to June) 2018 and Quarter 3 (July to Sept) 2018.

All four sectors of output contributed positively to growth in Quarter 3 2018, with the largest contribution from the services industries at 0.3 percentage points.

The Bank of England base rate was increased to 0.75% in August 2018 following a unanimous vote. In the early part of the year there was a belief that rates will rise over the next three years although this may not be more than a further 0.75% (1.25%) and the increase in August was clearly the first step.

5. General Information

5.1 Status of Valuer

It is confirmed that the review of the valuation has been carried out by _____ a RICS Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the valuation competently, and is in a position to provide an objective and unbiased valuation.

This report has been reviewed by _____ a RICS Registered Valuer for internal quality assurance purposes.

5.2 Conflict of Interest

Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. DVS has had no previous material involvement with the property.

5.3 Restrictions on Disclosure and Publication

The client will neither make available to any third party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

You may wish to consider whether this report contains Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006.

5.4 Limits or Exclusions of Liability

Our valuation is provided for your benefit alone and solely for the purposes of the instruction to which it relates. Our valuation may not, without our specific written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our valuation report. If we do provide written consent to a third party relying on our valuation, any such third party is deemed to have accepted the terms of our engagement.

None of our employees individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.

5.5 Validity

This report remains valid for 6 (six) months from its date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

6. Recommendations

- 6.1 The report provided by Savills is detailed, logical and well evidenced having regard to the nature of the scheme.
- 6.2 I consider that the conclusion drawn by Savills that the proposed deal represents best value is appropriate and reasonable.
- 6.3 The value of the new interest being created safeguards the Council's income whilst providing them with an investment which has a higher underlying value than the property reflecting the existing use. The initial rent is also not dependent on the initial success of the scheme so hopefully by the time of the expiry of the guaranteed rent the scheme will be well established and producing a higher level of value than currently suggested by Savills.
- 6.4 Whilst there are concerns over the current restaurant market the scheme has 3 major anchor tenants which account for a large part of the rent. The hotel and cinema rents are also indexed linked which will help maintain the overall rental value.
- 6.5 The value of the proposed interest is also greater than the value that could be achieved if sold on a freehold basis. In reality the valuation figure provided showing a negative figure is of little relevance as a landowner is not going to dispose of site at less than the market value of the existing use. Where an asset is still operational anyone looking to acquire the land for development would potentially have to provide some level of incentive to persuade the landowner to sell.
- 6.6 The value of the Council's new interest is 20.65% higher than the value reflecting the existing use and this is considered to be a reasonable uplift and this may well increase depending on the success of the scheme.
- 6.7 The Council has the benefit of an overage arrangement to capture a share of profit if the scheme exceeds the agreed profit threshold which is also reasonable.

I trust that the above report is satisfactory for your purposes. However, should you require clarification of any point do not hesitate to contact me further.

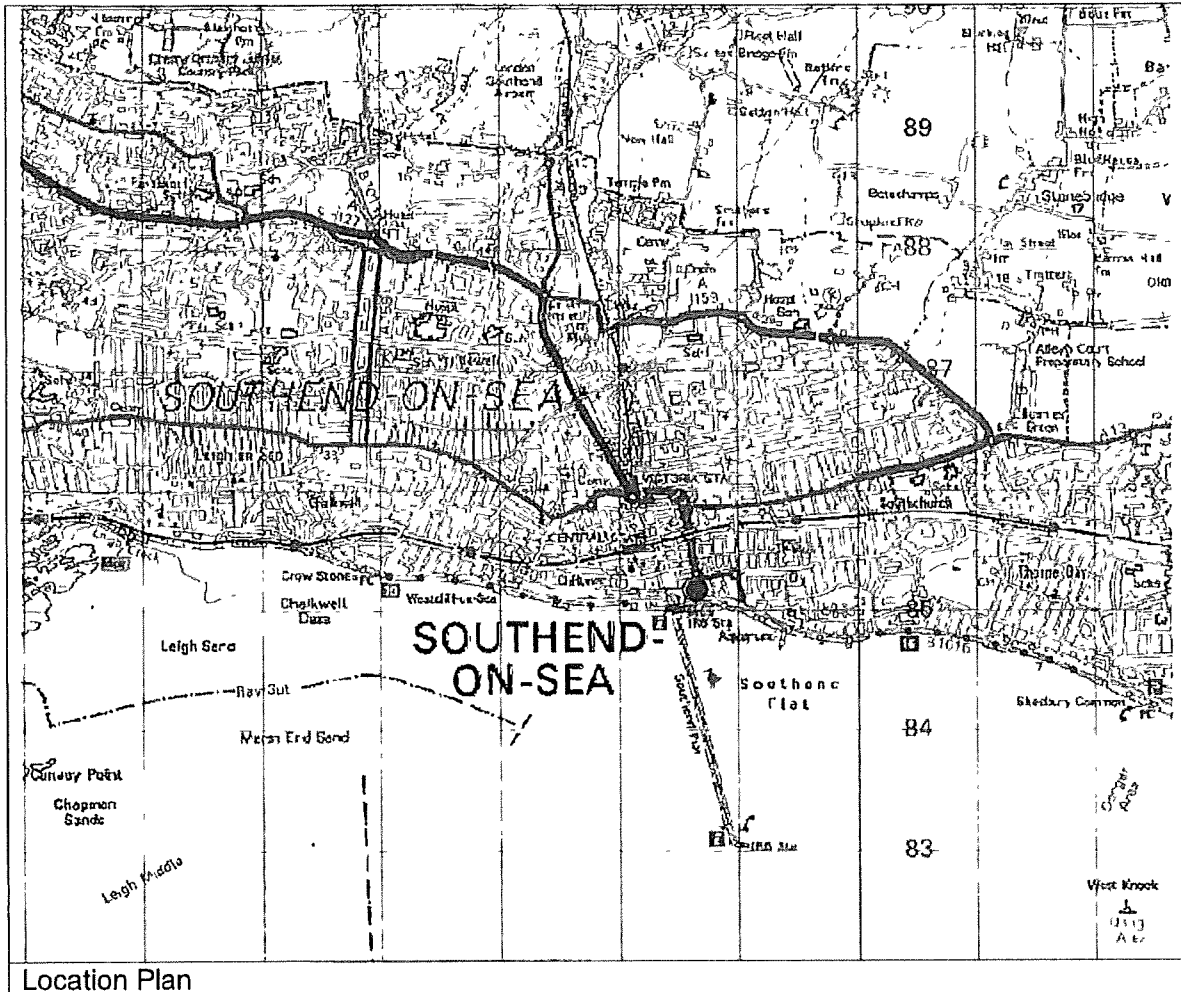
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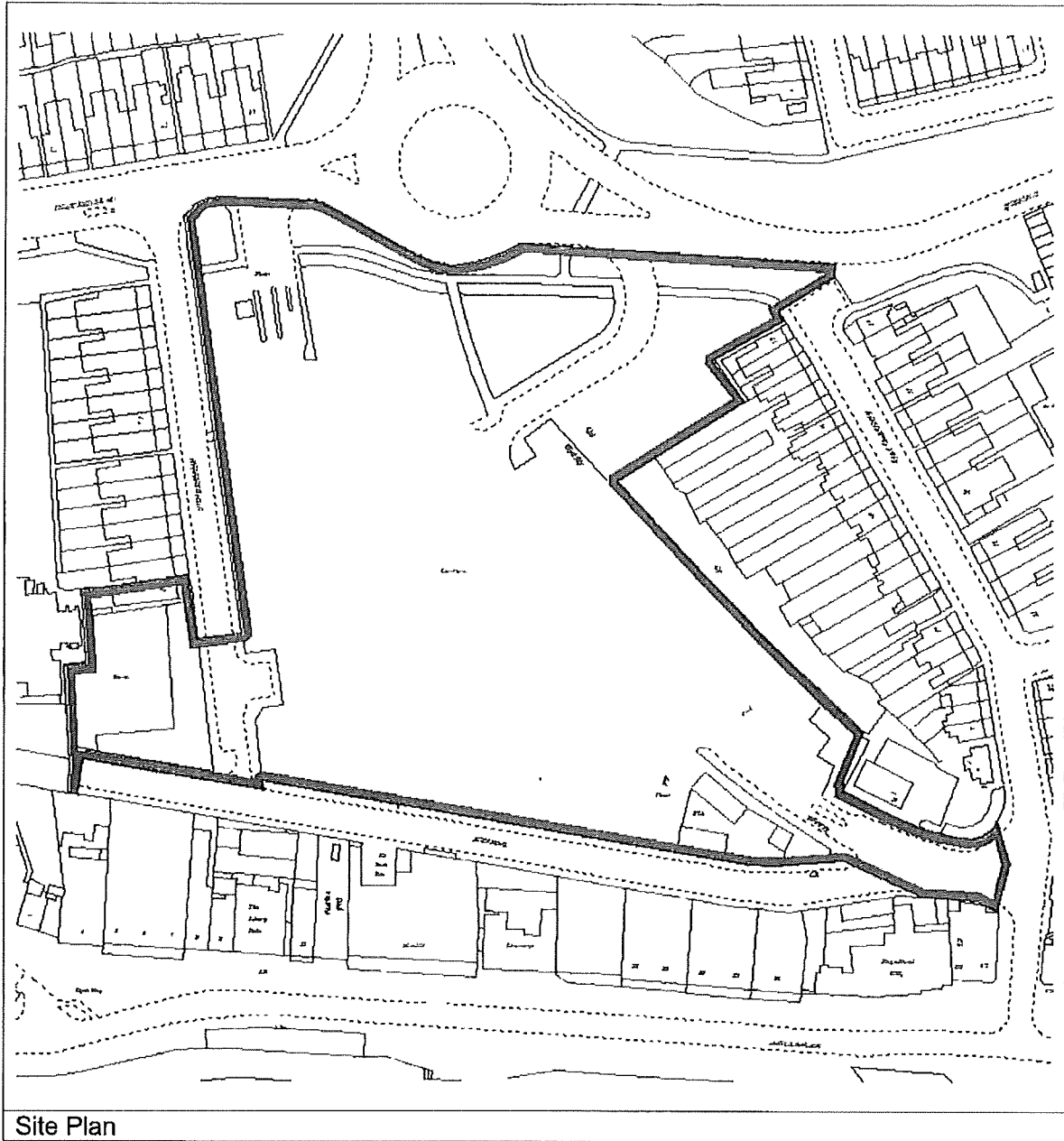
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7. Appendices

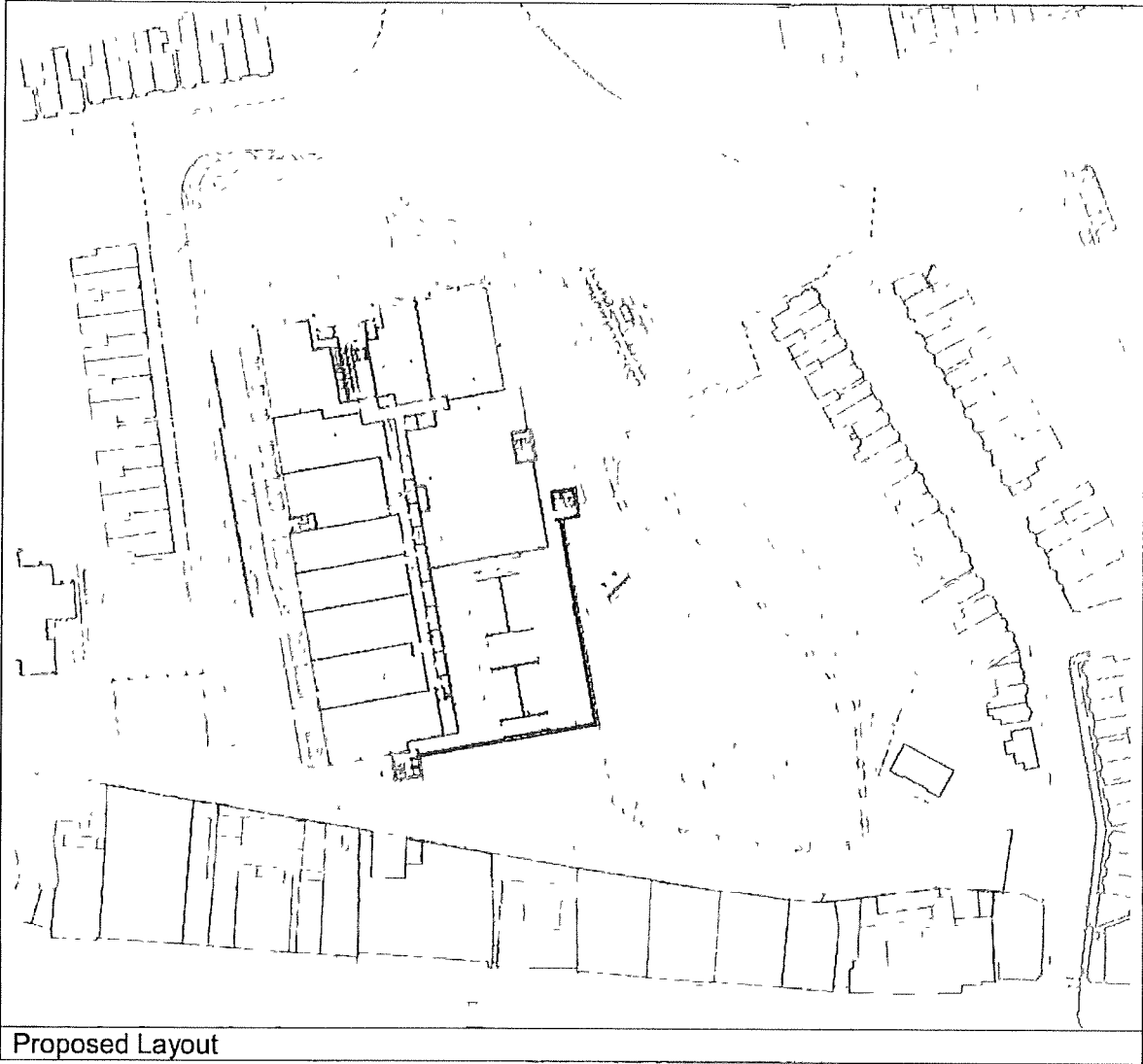
7.1 Plans



Location Plan



Site Plan



Proposed Layout