



Valuation report

White Rock Baths
White Rock Road
Hastings

November 2011



Prepared for

Hastings & St Leonards Foreshore
Charitable Trust

GVA
1st Floor, City Point
29 King Street
Leeds
LS1 2HL

(0)8449 02 03 04

gva.co.uk

Executive summary



photo



photo

White Rock Baths were built in approximately 1870 as a Health Spa business, although extensively reconstructed in the 1930's to incorporate main baths, spectator gallery and other leisure facilities. In later years the property has been refurbished to create an ice rink, roller rink and café, but for the last 10/11 years has remained vacant and has fallen into a state of disrepair. The property is largely subterranean, with a small central section at street/promenade level.

Location

White Rock Baths are located on the main foreshore and promenade in Hastings, West Sussex.

Description

See above

Tenure

Freehold

Proposal

Consideration is being given to the refurbishment of elements of the building and subsequent grant of a 10 year lease to Lifecycle.

Key valuation issues :

- Current state of the building
- Proposal to reinstate key areas to facilitate the occupation
- Proposed terms of the lease

Summary of value :

Our valuations are summarised as follows:-

Market Rent	£18,000p.a
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Our reference: RNB/02B147477

21 November 2011

Chair of the Board of Trustees
Hastings & St Leonards Foreshore Charitable Trust
(Registered charity 1105649)
c/o Hastings Borough Council
Aquila House
Breeds Place
Hastings
East Sussex
TN34 3UY

First Floor, City Point
29 King Street
Leeds LS1 2HL
T: +44 (0)8449 02 03 04
F: +44 (0)113 280 8080

gva.co.uk

For the attention of: Glyn Carter, Economic Development and Inclusion Manager

Dear Sirs

Property: White Rock Baths, White Rock Road, Hastings
Customer: Hastings & St Leonards Foreshore Charitable Trust

In accordance with your email instructions we provide an update to our previous report and valuation dated 28 April 2011, of the above freehold property in order to advise you of our opinion of its current market rent on the terms and provisions of a proposed lease to Lifecycle.

Furthermore we also provide:-

- Comment and suggestions on the terms of the proposed lease;
- Confirmation that it is in your interest to enter into these arrangements.

Our formal valuation advice has been prepared in accordance with the RICS Valuation Standards – Global and UK (7th Edition).

The report and valuation is required to comply with procedures set out in section 36 (3) of the Charities Act 1993 (The “Act”)

Valuation

WE ASSESS the **Market Rent (MR)** of the freehold interest in the property identified within our report as at 15 November 2011 to be:-

£18,000 p.a
(Eighteen Thousand Pounds per annum)

All valuations are reported exclusive of VAT.

We draw your attention to our accompanying report, the Definitions and Reservations for Valuations to which our advice is subject and to the Terms of Engagement agreed between us.

Yours faithfully



Richard N Baldwin BSc (Hons) MRICS
RICS Registered Valuer
Associate
GVA Humberts Leisure
For and on behalf of GVA Grimley Ltd



John Anderson BSc (hons)FRICS
RICS Registered Valuer
Director
GVA Humberts Leisure
GVA Grimley Ltd

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Appendix 1 EPRM

Definitions and Reservations for Valuations

1. Instructions

Instructions were received via email on 2 November 2011 to reconsider our previous report and valuation dated 28 April 2011 in respect of the property in order to comply with procedures set out in section 36 (3) of the Charities Act 1993 (The "Act"). We understand that the Trust is considering the allocation of funds to facilitate the refurbishment of the building and the subsequent grant of an occupational lease over part of the property.

We are instructed to provide the following valuation:-

- Market Rent

In addition we will also provide:-

- Comment and suggestions on the terms of the proposed lease
- Confirmation that it is in your interest to enter into these arrangements.

Our valuation has been undertaken in accordance with your instructions and has been prepared in accordance with Valuation Standard 2 of the RICS Valuation Standards – Global and UK (7th Edition).

Conflict of interest

As far as we are aware, we have no conflict of interest in relation to the provision of valuation advice in respect of the property.

We have previously provided you with a report and valuation dated 28 April 2011 and you have confirmed that you are satisfied that the above does not constitute a conflict of interest nor does it compromise our ability to report to you with independence and objectivity.

Professional indemnity

See our "General Terms of Appointment – Clause 4: Limitation of Liability".

Date and extent of inspection

The property was previously inspected on 1 April 2011 by Richard N Baldwin MRICS, an RICS Registered Valuer within GVA Humberts Leisure and who is qualified and suitably experienced for the purposes of the instruction and has the knowledge, skills and understanding to undertake the valuation competently. No subsequent inspection of the property has taken

place and the property is assumed to be in a similar state of repair and condition as at the time of our previous inspection.

Provision of information

We have relied upon the following key information which has been provided by Hastings Borough Council:-

- General site refurbishment costings (document MX-4501N_20111007_152945)
- Lifecycles draft Heads of Terms – second draft September 2011
- Lifecycle design statement
- Proposed elevations, lower and upper level plans
- Lifecycle bike company 08 cash flow model

Subject to our comments set out in this report, we have relied upon these documents in preparing our valuation and opinions.

2. Location

White Rock Baths is located on the main foreshore of Hastings, West Sussex in close proximity to the Hastings Pier and directly on the south side of White Rock Road (A259). This section of the Promenade is approximately 0.5km distant and west of the more touristy eastern Stade area, the foreshore and Old Town area of Hastings, recognisable by the tall fishing hut. Recent developments within this historical section, including the recent and ongoing building of the Jerwood Gallery, have added to its general draw.

Hastings Pier served as a focal point and major draw for tourism and general footfall to this more westerly section of the foreshore, however in October 2010 the Pier caught fire and was all but destroyed.

We have provided a plan below showing the approximate location of the property within the context of **East Sussex**.



3. Situation

White Rock Baths nevertheless has a prominent position with frontage to White Rock Road (A259) together with the pedestrianised promenade and cycle route which runs directly along the beach front from the Old Town through to St Leonards and forms part of the National Cycle Network Route 2 between Dover in Kent to St Austell in Cornwall.

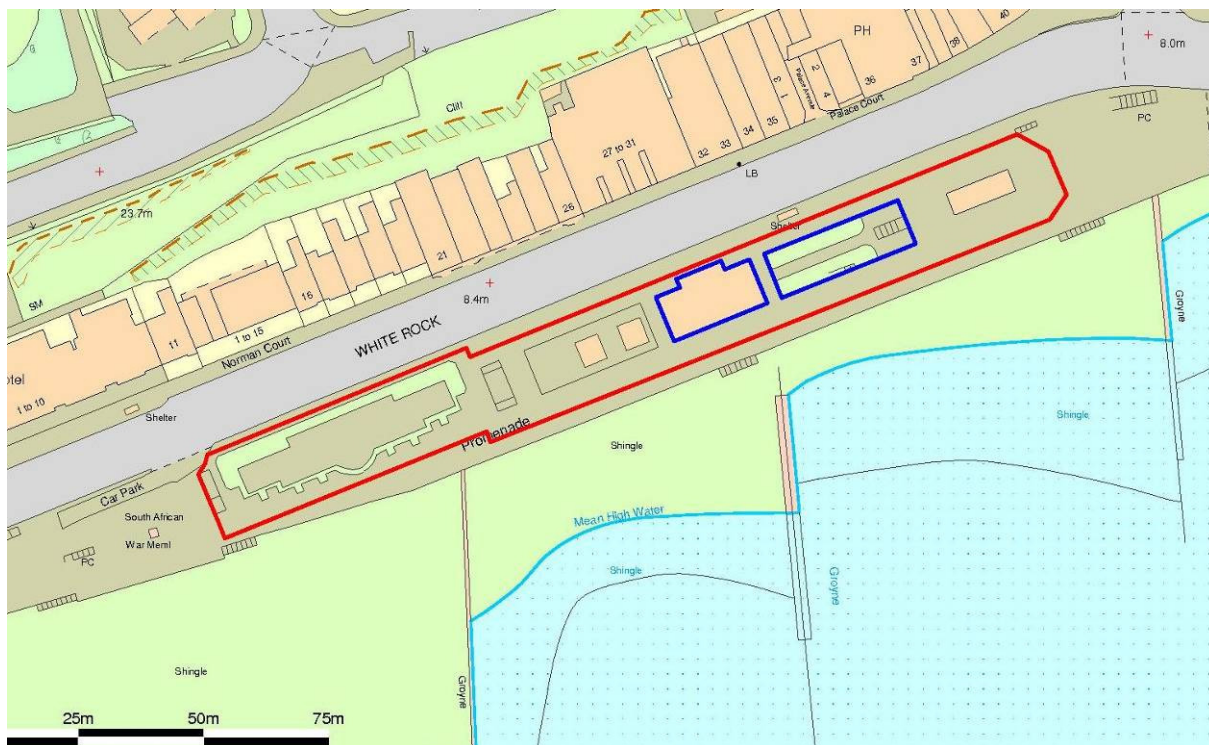
We have provided a plan below showing the approximate situation of the property, which is denoted by a red circle.



4. Site area

The entirety of the White Rock Bath building is extensive and contains various subterranean levels that are in a poor state of repair. It was not therefore possible to undertake accurate measurements and in the absence of any scale floor plan, we are unable to provide specific details on the floor areas beyond that of the Central Court building at street level. Nevertheless as measured off Promap, the total White Rock Bath building footprint extends to 3150m² at street level with a main frontage of some 180m directly to White Rock Road.

This area has been computed using the Ordnance Survey Pro-Map system. Our understanding of the site boundary is shown outlined in red on the plan below. We have assumed that this represents the correct boundary to the site and that there are no ongoing boundary disputes. We would recommend that our understanding is confirmed by your legal advisers.



5. Description

The accommodation at the time of our previous inspection can briefly be summarised as follows:-

Level 1 Ground Floor at Promenade level

Entrance building – a broadly rectangular building with frontage to both the promenade and White Rock Road, formerly used as a reception and main entrance to the leisure facilities below together with a café/kiosk. 2 sets of stair wells lead to the floor below. (GEA – 208m²)

Level -1 Pool Level

Access from the Promenade level entrance providing the former lounge/secondary reception area with wood panelling leading to a former large swimming pool @100yds in length which was boarded over and converted into an ice skating rink. This section of the building has various rooms surrounding it, including former changing facilities and a viewing gallery.

To the other side of the central core is access to an open courtyard (GIA 271m²) leading through to a former smaller swimming pool which was also converted to form a skateboard park, indoor ice rink and roller rink (access to this area was restricted).

Surrounding the lounge area and former courtyard are a series of redundant former spa treatment rooms together with former skate hire areas, wc facilities and general administration rooms.

Level -2 Basement level

This level is accessed again via a series of stairwells within the main core area and was previously used for boiler room and plant facilities. There are also a series of water settling tanks at this level, as the building is prone to water penetration especially within these basement areas.

We refer you to our previous report and valuation for basic floor layout and elevation drawings together with photographs of the property at the time of our inspection.

6. Services

We are informed that the property has the benefit of mains electricity and water. Whilst there is an historical drainage connection to the mains sewerage system adjacent in White Rock Road, this is currently not in use.

7. Condition

The property has been vacant for approximately 10 years and is in a poor condition generally throughout suffering from an element of obsolescence, some minor vandalism together with general water ingress particularly at lower ground levels, primarily it appears as a result of water leaking in from the roof and street level and also through the retaining walls. Considerable and significant repair and refurbishment are now required to put the property, whether as a whole or in part, into a suitable state fit for commercial occupation.

We have been provided with both a Structural Condition Report and Structural Report On Ongoing Management and Future Strategy dated November 2009 by Conisbee Consultant Structural Engineers which conclude that "baths are in a poor condition which, as expected is worsening". Both Conisbee Reports are attached within our previous report and valuation at Appendix 7.

Structural inspections have been carried out in 1999, 2005 and 2009 to check that failure is not imminent. The structural report notes defects in the reinforced concrete from “cover and carbonation”, “chlorides”, “corrosion” and “water ingress”. The report concludes that “overall structural integrity of the White Rock Baths does not appear at present to have compromised sufficiently to question its support of the promenade and the sea walls. There is no evidence to suggest the Victorian sea wall, probably a “gravity retaining wall”, does not continue to provide support to the main road, the A259, and equally the 1930’s sea wall shows no evidence of distress”. The report continues that “it is clear however that the deterioration of the reinforced concrete is ongoing and since it is not a uniform process, subject to prevailing conditions and other unknowns, it is impossible to predict when the structural integrity will fail”. An annual detailed visual inspection is recommended and we assume this will be the case.

8. Local authority enquiries

Planning Policy

The Hastings Local Plan 2004 was formally adopted by the Borough Council on 14 April 2004 and has now become the statutory Local Plan for the Borough of Hastings. It sets out a framework of policies to guide and encourage development in Hastings up to the year 2011 whilst safeguarding and enhancing the environment.

The Hastings Local Development Framework is a new type of Spatial Plan currently being prepared following the Government’s reform of the planning system in September 2004. The Hastings Local Development Framework is scheduled to replace the local plan.

Under the current Local Plan the area is shown to be within the White Rock Conservation Area. Relevant Policies seek to ensure that development including redevelopment, additions and alterations to existing buildings, change of use and design of shop fronts and the display of advertisements will have due regard to the effect on the character and the appearance of the area. New developments should be of a high quality and respectful of the character found in the area.

Planning History

The property has been vacant for approximately the last 10 years and there are no planning applications or other such information shown on the online register that relate to the property.

Flood Risk

We have checked the Environment Agency website which confirms that the property is located within an area which falls outside the extent of extreme flooding at the time of assessment. Generally, this means that the chance of flooding each year from rivers or the sea is 0.1% (1 in 1000) or less. Further information can be found at www.environment-agency.gov.uk

Highways

We have made oral enquiries of Hastings Borough Council who have confirmed that there are no major road proposals for this area and that White Rock Road is adopted and maintainable at public expense.

Fire, health and safety legislation

For the purpose of this report, we have assumed that the property complies with current fire regulations, building regulation controls, employment regulations, defective premises and health and safety legislation.

We have assumed that your customer has carried out a fire risk assessment in accordance with The Regulatory Reform (Fire Safety) Order 2005, has made any necessary alterations to the premises and that no further costs will be incurred in complying with the legislation.

Energy Performance Certificate

In undertaking this valuation we have not been provided with a copy of an Energy Performance Certificate (EPC) for the premises. Our valuation assumes that an EPC would be provided in the event of a sale in accordance with current legislation. We would recommend that this is clarified by your legal advisors. An EPC will be required for the purposes of letting the property also.

9. Environmental issues

We have not carried out an environmental audit of the site and therefore have not investigated any past processes carried out on it that might have been a source of pollution. From the inspection carried out by our valuation surveyor, we did not note any issues of environmental concern, other than those referred to elsewhere in this report. The subject property is currently vacant and not in use. We also understand that prior to this the property was used for mixed leisure purposes, with the building dating back to the 1870's and reconstructed in 1931.

We would also comment that the property is located on the seafront and we would regard it as unlikely that the subject property and uses would have resulted in significant environmental issues. Based on the above information, we believe that purchasers would regard the risk of environmental liability as being low.

We would emphasise that we are not qualified to give assurances concerning the presence or otherwise of contamination of a particular site, as this can only be done by way of an Environmental Audit. If an Environmental Audit was undertaken and the property was found to be contaminated, it is likely that our valuation would be affected.

Our valuation has been undertaken on the assumption that the site is free from contamination and no allowance has been made for the cost of any remedial works.

10. Deleterious material

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the property or have since been incorporated. Although our inspection did not reveal any obvious deleterious materials, we are unable to report that the property is free from risk in this respect. We have assumed for the purposes of this valuation and report that no deleterious materials were used in the construction of the property. Bearing in mind the age and nature of construction, we believe that this is a reasonable assumption.

Within the Definitions and Reservations for Valuations attached as Appendix XXX we comment on the new asbestos regulations which came into force in November 2006 and the requirements of owners and occupiers to comply with these regulations. Your legal advisers should enquire as to compliance with these regulations and property owners need to be able to provide confirmation as to the existence and condition of asbestos.

11. Ground conditions

We are not qualified to give assurances on the ground condition of the site and we would confirm that we have not undertaken any formal enquiries to ascertain whether the property is affected by mining or other works. Furthermore, we have not undertaken any site stability enquiries, investigation works or research. Accordingly, we have specifically assumed for the purpose of this valuation and report that the property is not adversely affected in this regard, nor is it affected by subsidence, and our valuation advice has made no allowance for the cost of any necessary remedial works in this regard.

12. Economic overview

UK economic growth improved from the minimal 0.1% growth seen in Q2 to achieve 0.5% in Q3. However, overall economic growth over the last year has only been 0.5% and total output is now still well below its early 2008 peak.

Employment growth has also weakened noticeably in recent months and has actually declined sharply by 178,000 in the three months ending in August. Unemployment was the highest for 17 years, taking the rate to 8.1%. Further increases in unemployment and declines in employment are expected next year as the government spending cuts bite. This all suggests weakening occupier demand for property.

In April this year the consensus view was for 1.7% economic growth in the UK in 2011 and 2.1% in 2012. The October view is just 0.9% growth in 2011 and 1.3% in 2012. This weak economic and employment growth will delay any improvement in the performance of the property occupier market.

The full EPMR should be attached as an **Appendix 1**.

13. General report commentary

We provide below specific commentary on the proposed lease.

It is our understanding that the White Rock building has been marketed previously as “a unique opportunity in a prime tourist seafront location” but without success. Any further interest was generally dissipated due to the prohibitive cost of restoration and therefore commercial viability.

In regard to restoration, we understand that the council have revised costings for general refurbishment of the building and well areas as follows:-

Promenade level building	£179,000
Stairwell and lower level internal works	£71,000
Courtyard works	£31,000
Professional fees	£58,000
Contingency	£61,000

In summary the works proposed for this stage include:

- Re-roofing the entrance /café block
- Installation of heat exchange ventilation system

-
- Insulation to Building Regulation Standards
 - Installation of new wiring and lighting
 - New flooring
 - Repairs and redecoration
 - Installation of toilets in original bathrooms
 - Platform lift to enable access to lower levels
 - Rubberised flooring in eastern courtyard for children's play
 - Repair of windows and doors
 - Partitioning and installation of new kitchen
 - External repairs and decoration
 - Security
 - Ramps and change levels to ensure disabled access

We would regard these works as essential to bring the property into an occupational shell condition, fit for purpose.

We note that Lifecycle have budgeted a contingency on the cost of £61,000 that will be underwritten by them. This equates to approximately 17.5% of the overall refurbishment cost (including fees) or some 21.7% on overall costs. We consider this to be a reasonable contingency proposal given the scale and nature of asset.

We are unable to provide specific advice in regard to the costings of the refurbishment as it is relatively specialised in nature, and given the condition of the property prevailing. We assume that individual item unit costs will be market tested / tendered to ensure that the most competitive price is agreed. We understand that one of the principals behind the Lifecycle proposal is a building projects manager (Tim Larkin), and that he has given due care and attention to the budgets as appropriate.

Lifecycle proposal

The current proposal for the property on which we provide specific commentary is the establishment of "Lifecycles" and we understand that this proposal has changed little since the time of our last report with it encompassing the following commercial elements:-

- Promenade, bicycle hire and supporting services, retail and repair
- Promenade level café
- Soft learn to ride and bike area
- Indoor BMX area
- Climbing wall
- Under 18's alcohol free venue
- Winter ice skating
- Exhibition space

This proposal in full utilises the entire building but given the estimated refurbishment and renovation costs for the entirety, we reiterate that it would be appropriate in our opinion that this proposal is considered as achievable over two primary phases with the latter phase dependant upon the viability or ongoing success of the initial phase. For the purposes of our report the Lifecycle proposed plan phases are:-

Phase 1

This principally includes the upgrading of the general aesthetic appearance of the site at Promenade level, the establishment of a cycle hire and retail business, a children's training area within the open courtyard and a promenade café in the main entrance building, with some circulation and storage space at lower ground floor.

The Lifecycle proposal details the estimated capital costings for building improvements and fit out to facilitate this phase of approximately £120,000 (previously £115,000) after an estimated £175,000 contribution from both the Council and the Foreshore Trust to the general repairs (£350,000 in total) This total sum includes a full refurbishment and making good to shell condition together with actual fitting out and stocking of both the café and rental bike area so as to be effectively ready to trade.

Phase 2

This phase will focus on the former ice rink and the installation of a BMX/skating facility, climbing wall and traverse wall. In addition the plans include making good the lounge area with the installation of a juice/refreshment bar which could also be utilised for an under 18's music venue.

The estimated capex for this phase is approximately £142,000.

Our report focussed specifically on the property and Phase 1 of the refurbishment, fitout and operation. The success, or otherwise of this phase will be the catalyst to the second phase.

General - the works to make good are reasonably substantial but make no allowance for the provision of the sewage connection or form of appropriate foul water collection/drainage facility. We understand however that the elements of "essential" repairs have been discussed, and a budget of some £185,000 has been tabled for these, which include:

- Restoring the sewage system to the building
- Asbestos survey and removal
- Other waste and rubble clearance
- Concrete repairs and waterproofing

-
- External redecoration

14. Commercial viability and rental proposal

In order for the Trust to achieve a commercial rent for the section of the property proposed to be occupied as part of Phase 1, it would generally be a landlord's requirement to put the accommodation into a suitable state of repair or present in a "shell" condition, ready for tenant fit out.

In our opinion without works being undertaken by the freeholder or Charity to this level, and the general fabric and infrastructure/ service provision, or a suitable contribution to those works being provided, it is unlikely that the property would appeal to a tenant, given the potential risks involved in undertaking works to a property such as this, which has been redundant for a reasonable period of time, and clearly has suffered from some deterioration. (The previous marketing of the property on this basis would suggest this to be the case).

15. Proposed agreement for lease/building agreement

We understand that you are considering the grant of an agreement for lease and building agreement, the details of which are as follows:-

Landlords responsibilities

To remove waste and rubble, to provide sewerage drains and connections and to carry out repairs to reduce water ingress to the demised premises and elsewhere

Tenants works and responsibilities –

The landlord will agree a schedule of works, delivery plan, method of project control, and a scheme for staged payments. The salient works to be carried out include:-

- Limited concrete repairs
- Internal and external making good and redecoration
- Wiring and lighting, heating and ventilation installations
- Repair and replacement of windows and doors
- Fitting out
- Lift
- Security

The tenant must obtain all approvals for the works and must supply to the landlord a copy of every application for an approval, with a copy of any accompanying drawings and documents and a copy of every consent.

The works are to be carried out and completed in a good and workman like manner with sound material to an agreed specification and to the complete satisfaction of the landlord.

The landlord's surveyor to be afforded an opportunity to attend all site meetings relating to the works and may enter the premises on reasonable notice to view and state the progress of the works.

A long stop date for completion of the works is to be agreed.

Lease

It is proposed upon practical completion of the works that the landlord will grant the lease to Lifecycle on the following salient terms:-

Demised premises

The structure on the Upper Promenade (including the parapet walls) and parts of the building on the Lower Promenade (including the east lightwell) as shown edged red on the attached plan.

Rent

25% of profit.

Rent reviews

5 yearly.

Lease length

10 years.

Break clause

None.

1954 Act

Lease to be excluded from the Landlord and Tenant Act 1954.

Rights

The Landlord reserves rights of access to the unoccupied areas of the building for all purposes.

Assignment and Subletting

Assignment not permitted.

Subletting of part permitted with Landlords consent but any sublease to be at current market rent and excluded from the Landlord & Tenant Act.

Repairing Obligations

The Tenant to keep the demised premises in no worse condition than on completion of the works as evidenced by a schedule of condition. The schedule is to be prepared by the Landlords Surveyor on completion of the works.

The Landlord to be responsible for the parapet walls, any major and significant structural repairs and any unoccupied areas.

Decoration

Exterior (promenade building) - every 3 years to a colour scheme approved by the Landlord.
Interior - every 5 years.

Alterations

Permitted subject to Landlords prior consent.

Permitted Use

Cycle hire/repair/retail/training and café or other Leisure uses with the prior consent of the Landlord.

Hours of Operation

From Easter to end of September – 7 days per week. (10am – 4pm minimum).

From Oct to Easter – every weekend, school holidays and half term (10am – 3pm minimum), with the exception of Christmas Day. Or such other hours as agreed between the parties (both acting reasonably).

Insurance

The Landlord to insure the building and recharge the Tenant a fair proportion of the premium applicable based on the area occupied.

The Tenant at its own cost to effect all necessary insurances against 3rd Party and Public Liability claims of at least £10m or such other sum as may be reasonably required by the Landlord in the joint names of the Landlord and the Tenant and to provide evidence of this to the Landlord.

Rates

The Tenant responsible for payment of any rates and other outgoings.

Utilities

The Tenant to pay all utility bills associated with the demised premises.

Comment on lease proposals

Lease term

The current proposal is for a lease term of 10 years, which in our opinion secures the short term future of this section of the building and provides the charity with an income from it which would otherwise not be attainable in the short term, Given the level of capital investment (i.e fit out and establishment) that the tenant is proposing to input into this project, a 10 year term is adequate in which to make a return on capital.

Rental basis

The proposed rental basis is 25% of profit and as such is based on the success and growth of the business activities. We reiterate that a profit share basis of rental payment is potentially open to misinterpretation and possible tenant misrepresentation. A more mainstream basis would be to consider a turnover related rent based on actual audited yearly trading figures. This is generally more common place in the leisure sector, however similarly to a profit share, turnover can be manipulated particularly by cash businesses of this nature. Either way, where a start up company is the proposed tenant, the risk of return is higher for the freeholder on this basis of rental provision but conversely the reward should the business be successful is greater.

We would recommend that consideration is also given to a rental payment based upon say 25% of profit, subject to a minimum amount.

You should ensure that the basis of the interpretation of Profit is explicit within the lease to avoid disagreement. We would recommend that you consider profit on an EBITDA basis as a suitable measure against which to base the rental calculation.

Rent reviews

We note that a five rent review pattern is proposed, but the basis of this review is not detailed. In the light of the proposal for a rent based on a percentage of profit, a commercial rent review structure may not be applicable or only workable on an approach incorporating say some profit percentage flexibility, or perhaps a reversion to a more mainstream open market rent basis, (which would be generally calculated by way of comparison to commercial rents in the immediate area) which ever is the greater.

Further material considerations

In our report dated 28 April 2011 we commented on various provisions of the proposed lease and provided various recommendations and consideration for your reference. We note that

many of these have been acted upon and suitable wording has been made within the proposed heads of terms as now provided to us and in particular:-

Landlord and Tenant Act 1954 – The lease is now proposed to be excluded from the Landlord and Tenant Act 1954 or contracted out.

Insurance and repair and maintenance – We note the proposed covenant is for the landlord to insure the building and recharge the tenant a fair proportion of premium applicable based on the area occupied, as per our suggestion.

Further Phases – We note that the tenant is to be granted access to other areas of the building with prior consent for the purposes of assessing the feasibility of bringing them into use and that a long stop date has been proposed for the tenant to table a plan and implement any further phases of development, with the landlord reserving rights to seek alternative proposals for the use of the remainder of the building should these long stop dates overrun. This is essential if alternatives are to be considered. No doubt other proposals may be forthcoming if and when the economic viability of the property becomes apparent following refurbishment.

16. Valuation considerations

We been asked to provide our opinion of Market Rent and for the purposes of this report do so on the assumption that the property is let on standard institutional lease terms with no unusually onerous covenants and conditions. Our opinion of market rent is for those parts of the property that we understand are proposed to be occupied by the tenant for Phase 1 of the Lifecycle Proposal, namely the ground floor level (street level) of the core central building, the open courtyard at lower ground floor and an element of the central core at lower ground floor level to provide ancillary facilities (namely wc's).

Furthermore the Market Rent is based on the property being suitable for commercial use and occupation completed to a habitable shell condition. This is in our opinion an appropriate assumption given that the Charity is providing the majority of funds for this. Our report also assumes that adequate sewerage provision will be provided.

There is very little, if any, comparable evidence of similar rents in the immediate vicinity for a use similar to that proposed. Other uses in the immediate area include various shops, restaurants and amusement arcades, language schools, a rowing club house, public houses and theatres.

In view of the lack of direct comparable evidence, a Rateable Value analysis can provide anecdotal evidence against which to form an opinion.

However rateable value analysis is based on the antecedent date of 01 April 2008 and is as such historic albeit as a result of the recessionary cycle it is in our opinion a fair representation currently.

Analysis of rateable value information shows that those commercial uses adjacent have a rateable value based on £160m² Zone A. The rowing club which is adjacent to White Rock Baths at basement level is assessed on a rateable value overall of £10.45m².

From our measuring of the floor plans provided we estimate that the core building has a ground floor internal area of approximately 171m², and the lower ground floor area or core of approximately 201m². The courtyard is approximately 270m².

In our calculation of Market Rent, we have applied a comparable Zone A rent to the main retail trading area on the ground floor of some £140m², making an allowance for the inherent restricted functionality of the space. We have applied a factor of ½ to this rate over the remainder at ground floor, with the exception of the stairwells which are taken at a comparable rate to the lower ground floor circulation and core areas at a factor of an ⅓ to Zone A. In addition we have applied a nominal rate to the courtyard area.

Area	M ²	Rate £/M ²	MR
Café	54	140	£7,560
Cycle Hire	24.75	70	£1,733
Kitchen	36	70	£2,520
Front of House	24.75	70	£1,733
Stairs	15.75	17.5	£276
Stairs	15.75	17.5	£276
LGF	169	17.5	£2,966
Courtyard		Say	£1,000
			£18,054

We have also considered an opinion of the Market Rental Value based on an income analysis approach. In this scenario it is common place that a tenant would pay an appropriate percentage of sustainable net profit, or turnover, as a fair representation of Market Rent. For fully equipped operational entities, the capacity to pay is a key element in any rental valuation of a trading entity, and the tenant bid or rental is a factor of the divisible balance of profit.

The general norm for trading entity rental values on this basis is as a percentage of perhaps 45% - 50% of profit or EBITDA (earnings before interest taxation depreciation and amortisation) and on the assumption of an institutional lease being offered for a reasonable term.

Obviously this percentage would be lower in the case of properties that are originally let on a shell basis, by as much as up to half largely depending upon the quality of unit and potential earning capacity. This implies that the margin adopted in the Lifecycle business plan of 25% is representative of market sentiment.

The business plan illustrates a trading profit of some £50,000, and as such a rent of some £12,585. In our opinion this projection is perhaps somewhat misrepresented as it is post depreciation and interest on loans etc. We would normally analyse margins on an EBITDA basis, and if the calculation is taken on this basis the rental payment would equate to £18,000 (or 25% of £72,346 – when loan payments and depreciation are added back to profit).

17. Valuation

We set out below our valuations on the various bases requested in your instruction letter.

We confirm that our valuations have been carried out by qualified valuers and in accordance with Valuation Standard 3.2 of the RICS Valuation Standards – Global and UK (7th Edition).

Our valuations are exclusive of VAT.

Having regard to the above factors and comments we are of the opinion that the Market Rent of the freehold interest in White Rock Bath as at 15 November 2011, is:-

£18,000 p.a
(Eighteen Thousand Pounds per annum)

18. Conclusion

In our opinion it is in the Charity's interest to enter into a disposition by the granting of a lease for the part of the property as detailed in this report and on the assumption that the final terms of the lease agreed are on generally commercial terms, being not unduly onerous or restrictive on either party.

The Heads of Terms are generally commercial in form, but we would specifically suggest that the basis of Profit calculation against which the rent is calculated is explicit. Our recommendation is that this should be based on EBITDA profit (Earnings before interest tax depreciation and amortisation), or a suitable alternative that allows transparency. A minimum rental payment with profit percentage slice is an alternative to consider. For example 25% of EBITDA profit, subject to a minimum payment (perhaps £10,000 p.a.)

Consideration should also be given to the rent review clause, and we would recommend that this should also be specific, and perhaps prescriptive in nature so as to allow for a form of minimum rental payment as above. RPI inflationary increases to the minimum payment could be considered also.

The building has been vacant for over 12 years and is generally in a poor state and suffering from, in particular, water ingress, but this is more prevalent at lower ground and basement levels. The proposed lease would facilitate the refurbishment and cosmetic upgrading of the central core building at ground floor level (with majority Trust and Council funding). This section of the building is the most prominent and visible with direct frontage to White Rock Road and assuming the works are undertaken competently, the refurbishment should enhance the building's general appearance from its current redundant unoccupied state.

Given that Hastings Pier provided the main draw to this area of the Promenade prior to its permanent closure due to fire, and there are limited other facilities of a similar nature in this area, the proposed form of renovation to White Rock Baths and the provision of retail and a leisure offering, would, in our opinion, be to the benefit of this section of the town foreshore.

The proposed use is also suitable to the location being directly on a key cycle route, but we appreciate that the cycle shop and café combination is a speculative proposal and therefore its viability holds uncertainty. There are however no other offerings of this nature in the location and as such no immediate competition, particularly in regards to the bike offering. Proactive marketing and efficient operation will be key drivers to its appeal therefore.

Café operations in Hastings continue to evolve to the market place, which inevitably changes with time, be it with customers requiring better value for money, loyalty offers, free wifi etc. The success of the food and beverage offering may not be immediate and may take some time to become established and this affords extra risk and uncertainty to the Trust and tenant equally.

In the circumstances of a speculative start up proposal such as this, rent concessions may be appropriate to entice and assist the tenant whilst the business becomes established during the initial stages of the lease term.

We do not believe that it would be necessarily in the best interest of the Charity to advertise the proposed disposition at this time. The property has been advertised previously and remained vacant for over 12 years during which time we understand there had been little commercial interest, with the exception that the current proposal/interest was generated from this original campaign.

Given the current state of repair we do not believe that any form of premium would be applicable for a lease of part. The speculative nature of occupation given the length of building vacancy also draw us to this conclusion.

The current proposal potentially secures the short to medium term future of part of the building, and in the long term potentially the whole, with the development of possibly a future mix of uses that complement the location.

Whilst the lease and rental proposal may not provide a commercial return on investment due to the state of the building currently and cost to bring it into a state of fit occupation, it does bring it back (in part initially) into commercial use, with a tenant obligated to ensure it is maintained and kept in a suitable standard of repair and decoration. Given the historical importance of this building and that it has been vacant for a considerable time, we see this to be beneficial.



Report

Appendix 1

EPMR

Research
report

EPMR

Economic &
Property
Market Review

Q4 2011



Economic trends

The euro zone crisis – the latest agreement from the euro zone countries is one further step in the right direction, but looks to be too little too late. The only viable long term solution must surely be for a fiscal as well as a monetary union, but this still looks some way off and would have consequences for all euro zone countries and also for EU countries not in the euro zone, like the UK.

Fiscal union would not, by itself, solve the problems of Greece (or other high debt countries), where the severe austerity programme is probably unimplementable and could cause a dangerous economic downward spiral. But the alternative of a major debt default and/or exit from the euro zone would have serious consequences for Greece and the future of the euro.

All this uncertainty is affecting euro zone economic growth, which has ramifications for the UK because the euro zone is a key export market for the UK. The UK deficit reduction programme is also, arguably, reinforcing the UK slowdown in output and employment growth.

UK economic growth nevertheless improved from the minimal 0.1% growth seen in Q2 to achieve 0.5% in Q3, but this partly reflects a bounce back after growth in Q2 was affected by the extra bank holiday for the royal wedding and other one-off factors. Overall economic growth over the last year has only been 0.5%, as Chart 1 indicates, and total output is now still well below its early 2008 peak, as Chart 1 also shows.

The service sector was the main driver of growth in Q3, increasing 0.7% compared with 0.2% in Q2. Within services, business services and finance (nearly 40% of all services and the main driver of the office sector) increased by 0.8%. Much lower growth occurred in manufacturing of 0.2% and construction saw a 0.6% decline.

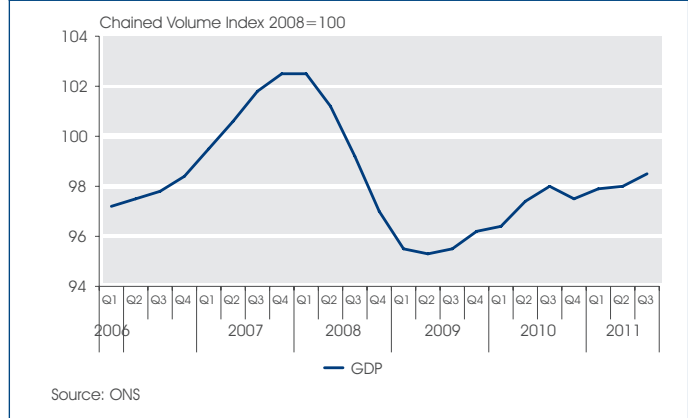
Retail sales volume excluding petrol sales declined by 0.2% in Q3 and by 0.4% over the last year. Strong internet sales growth means that the decline in sales in physical stores was even more marked, reflecting the effects of weak income growth and high inflation.

Employment growth has weakened noticeably in recent months and, as Chart 2 shows, has actually declined sharply by 178,000 in the three months ending in August (the latest figures available). Unemployment was the highest for 17 years, taking the rate to 8.1%. Further increases in unemployment and declines in employment are expected next year as the government spending cuts bite. This all suggests weakening occupier demand for property.

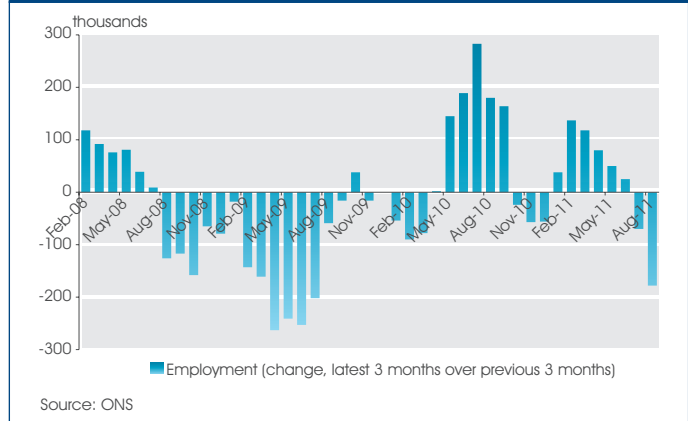
The **UK economic outlook** has weakened noticeably in recent months due to concerns about the euro zone and the US economy, and worries about high inflation in the UK and the impact of the deficit reduction programme. It is difficult to see how strong economic growth can return in the EU when a large number of countries are pursuing similar austerity programmes. In April this year the consensus view was for 1.7% economic growth in the UK in 2011 and 2.1% in 2012. The October view is just 0.9% growth in 2011 and 1.3% in 2012.

As a result of this weak outlook, the bank base rate is unlikely to increase for at least the next 12 months, even though inflation is currently more than double its official target rate. Next year UK inflation should moderate as this year's VAT increase drops out of the calculations and weaker world economic growth reduces the rate of commodity price inflation. Nevertheless, the weak outlook for economic and employment growth in the UK will delay the hoped for improvement in the property occupier market (see Chart 3).

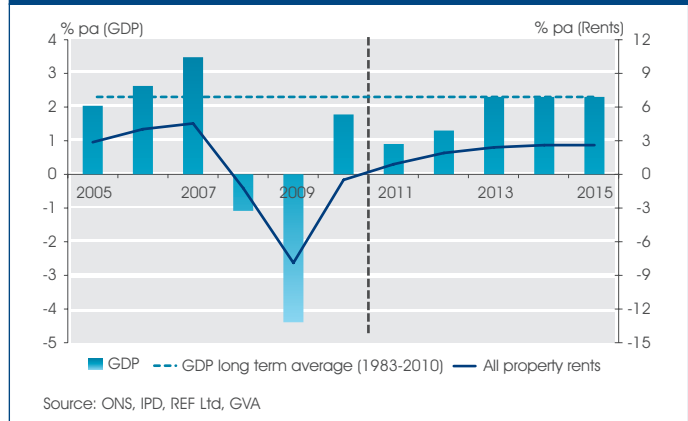
UK Output growth



Employment growth (ages 16 & over)



Economic output and all property rents



Latest consensus forecasts, October 2011

	2010	2011	2012	Long-term average
Economic growth (GDP)	1.3%	0.9%	1.3%	2.3% pa (1983-2010)
Private Consumption	1.2%	-1.0%	0.9%	
Employment growth	-0.2%	0.3%	-0.1%	0.4 - 0.6% pa
Bank base rate (Q4)	0.5%	0.5%	0.6%	
CPI – Inflation (Q4)	3.3%	4.6%	2.2%	
RPI – Inflation (Q4)	4.7%	5.2%	2.7%	
House Price Inflation (Q4)	-1.2%	-0.9%	1.3%	

Source: HM Treasury (compilation of forecasts), GVA

Commercial property market

Recent occupier market trends

The UK occupier market remains polarised between central London and the rest of the UK. The first chart shows the change in average rental values, using the IPD Monthly Index. This illustrates the contrast between strongly rising rental values for central London offices and the rest of the UK market.

Take-up in the central London office market was 2.25 million sq ft in Q3, exactly in line with the average over the last ten years. The central London vacancy rate peaked in Q2 2009 at 9%, and fell to 6.2% in Q2 2011, but this trend has reversed in Q3, with a slight increase to 6.4%. The average prime headline rent across the central London office market increased by 2.9% during Q3, taking the increase over the last 12 months to 7.5%.

Activity in the key regional markets has improved steadily throughout 2011. Supply shortages at the prime end of the market are beginning to emerge, and there is evidence of deals becoming more competitive. This contrasts with more secondary property, where rental values are still falling. Average rental values for the regional office markets have fallen by -0.4% over the three months to September, and by -2.1% the last 12 months (IPD Monthly Index).

The retail market is highly polarised between the prime and secondary centres. A number of major high street retailers have expansion plans, notably in the fashion sector, and are typically targeting the top 50-100 centres. But the smaller towns are struggling, and need to contract and offer a vibrant retailing experience. These are issues that the Portas Review, to be published soon, will attempt to address.

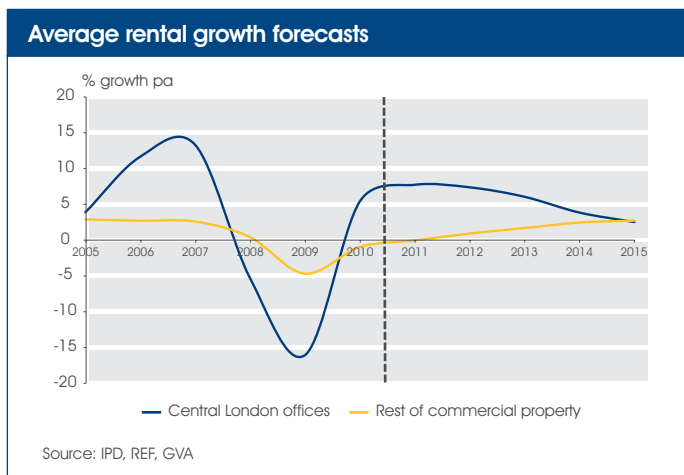
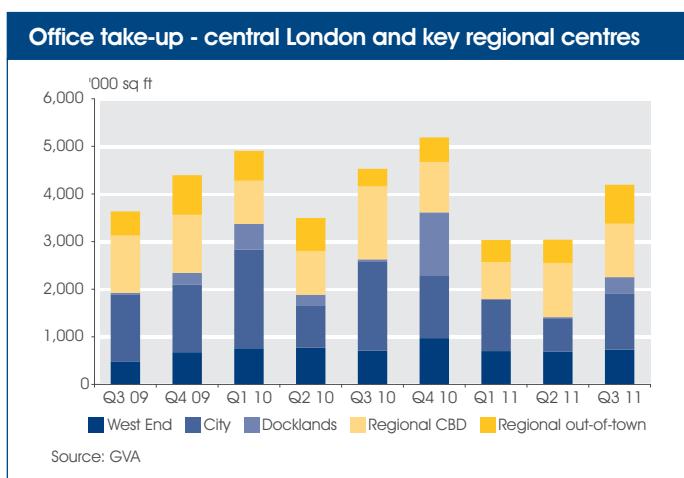
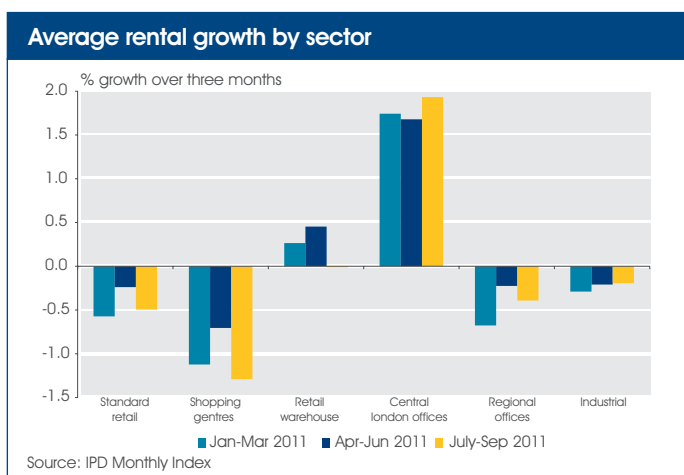
The central London retail market continues to trade well, and is seeing strong rental growth in comparison with the rest of the UK. Average rental values increased by 3.9% over the 12 months to September (IPD Monthly Index), whilst the UK high street market as a whole experienced a fall of -2%. Shopping centres are seeing sharper falls in rental values than stand-alone high street units, although there is a considerable split between larger prime centres and more secondary ones.

Average industrial rental values are falling modestly, with the IPD Monthly Index showing a fall of -1.1% over the year to September. But the rate of decline has moderated a little during 2011, and the three months to September saw a fall of only -0.2%. Demand for distribution warehousing is robust, driven partly by the increase in internet sales. Confirmation that Jaguar Land Rover is to open a new engine plant at the i54 business park near Wolverhampton is a welcome boost, which will create knock-on requirements from suppliers.

Outlook for occupier market performance

Increased economic uncertainty will inevitably have an impact on demand, as occupiers delay taking decisions, and employment growth remains subdued at best. We expect average all property rental values to increase by less than 2% next year, and growth is likely to remain below 3% pa throughout the next four years. However, there will continue to be strong differences according to sector and quality.

As the third chart shows, central London office rental values will continue to pull away from the rest of the market, and we expect average rental levels to increase by around 8% next year, a similar rate to this year. For the rest of commercial property, average rental values will either rise at below inflation, or see a modest fall in nominal terms next year. It is only at the prime end of the market that some above-inflation growth may occur.



All property rental growth forecasts

	2011	2012	2013	2014	2015
Consensus (August)					
Maximum	1.7%	3.1%	4.4%	-	-
Minimum	-0.5%	-1.0%	-0.2%	-	-
Average	0.8%	1.7%	2.4%	-	-
GVA (October)	0.9%	1.9%	2.4%	2.6%	2.6%

Recent investment performance

According to Property Data, investment transactions totalled £6.7 billion during Q3, almost identical to the Q2 total, although some way below the levels seen during Q1 2011 and Q4 2010 (see first chart).

Demand remains strong from overseas buyers, who continued to increase their exposure to UK property during Q3, purchasing a net £875 million. UK institutions and quoted property companies also saw a hefty rise in their total UK property assets of more than £1 billion. More than £300 million was sold directly by receivers.

Gilt yields are still at historically low levels (the 10-year gilt is currently 2.5%), compared with the all property equivalent yield of 7.2% (IPD Monthly Index, September). Debt finance remains heavily rationed, but is certainly available for prime, well-secured property.

Finding the right stock remains a problem for would-be purchasers, with the focus still on prime buildings with good covenants. There are now fewer receiverships than earlier in the year, with sales now typically more consensual.

The IPD all property equivalent yield has been virtually stable over the last few months. Prime yields have generally held steady, with some further downward movement in selected markets. But the trend for secondary yields has been upwards. More realistic pricing has meant an increase in the number of transactions at this end of the market, and this is also improving market transparency.

The rate of capital growth has continued to moderate. Values rose by 0.2% over the three months to September, compared with 0.4% over the three months to June, and 0.6% during the first three months of 2011 (IPD Monthly Index). This takes the total increase since the bottom of the market in summer 2009 to almost 18%. But values are still 34% below their all-time peak in mid-2007.

We expect the overall increase in capital values for 2011 as a whole to be a below-inflation 1.7%. But there is significant variation by sector. For example, industrial capital values have barely moved, with an increase of 0.3% expected for 2011. Regional city centre office values will have fallen by around 3%, but central London offices will have seen a substantial increase, of more than 7%.

The all property total return for the three months to September was 1.9% (IPD Monthly Index). The figure for the year to September is 8.7%, a far cry from the 22.6% recorded over the year to September 2010. Our expectation for 2011 as a whole is for a total return of 7.7%.

Investment market outlook

Increasing uncertainty in the economy and occupier market is inevitably feeding through to investor sentiment, benefitting those assets that offer a secure income stream. The gap between the prime and secondary markets may therefore widen further.

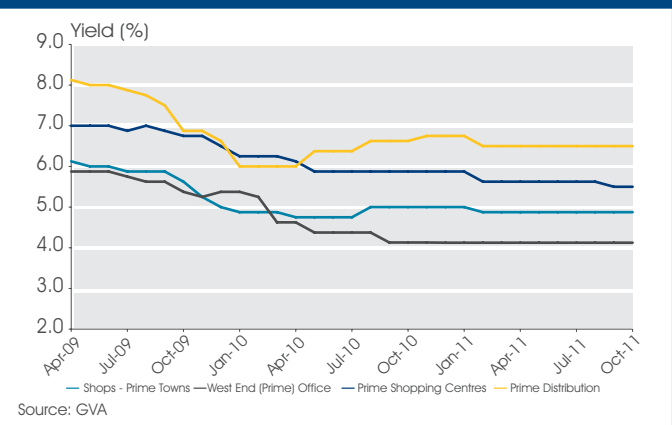
Increasing uncertainty is likely to mean that some purchasing decisions are delayed, and so could feed through to somewhat lower transactions levels. A steady flow of secondary assets is likely to continue to come to market, but prime stock will remain in short supply.

Our forecasts for all property total returns are shown in the table below. We forecast an all property total return of 6.1% for 2012, but the subsequent three years should see returns rise steadily, reaching 8.7% pa by 2015. This reflects the expected modest upturn in rental value growth and some limited downward yield movement towards the end of the forecast period.

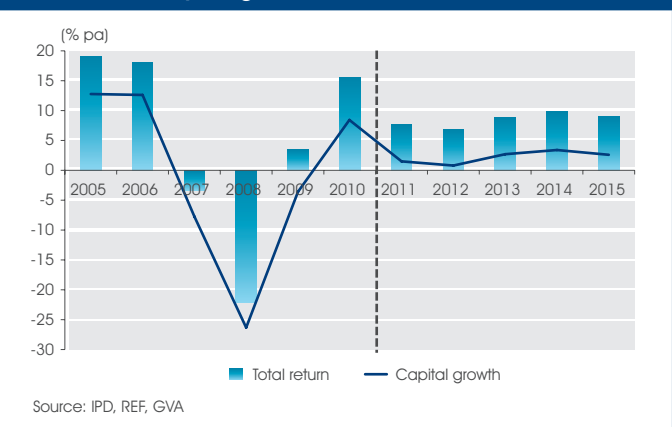
Value of property transactions



Average prime yields



Forecasts for capital growth and returns



All property total returns forecasts

	2011	2012	2013	2014	2015
Consensus (August)					
Maximum	9.5%	8.2%	15.0%	-	-
Minimum	4.5%	3.5%	5.6%	-	-
Average	7.4%	6.5%	8.6%	-	-
GVA (October)	7.7%	6.1%	7.3%	8.1%	8.7%

GVA's award winning Research team provides high quality research and analysis to the business and its clients. Our market commentaries, thought leadership pieces and consultancy advice drive industry debate, distinguish GVA from its competitors, and add value for our clients.



Report

**Definitions
and
Reservations**

Definitions and Reservations Relating To Valuations

Information

All information supplied by the Client, the Client's staff and professional advisers, local authorities, other statutory bodies, investigation agencies and other stated sources is accepted as being correct unless otherwise specified.

Tenure

Title Deeds and Leases are not inspected (unless specifically stated) and, unless we are informed to the contrary, it is assumed that a property is free of any onerous covenants, easements, other restrictions or liabilities including mortgages, grants and capital allowances which may affect the value.

No responsibility or liability will be accepted for the true interpretation of the legal position of the client or other parties.

Tenants

Tenants' status is investigated only where we are so instructed and so specified in the valuation.

Plans

Any plans supplied are for identification purposes only unless otherwise stated. The valuation assumes site boundaries are as indicated to us. The reproduction of Ordnance Survey sheets has been sanctioned by the Controller of Her Majesty's Stationery Office, Crown Copyright reserved.

Site Areas

Site areas are normally computed from plans or the Ordnance Survey and not from a physical site survey. They are approximate unless otherwise indicated.

Floor Areas and Dimensions

Floor areas and dimensions are taken from inspection unless otherwise specified but are nevertheless approximate. Areas quoted are calculated in accordance with the Code of Measuring Practice published by the Royal Institution of Chartered Surveyors and the basis of measurement is specified. The following bases are those most frequently used, as appropriate.

Net Internal Area - Measured to the internal faces of external walls, excluding toilets, permanent corridors,

internal walls and partitions, stairwells, plant rooms etc.

Gross Internal Area - Measured to the internal faces of external walls, including toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

Gross External Area - Measured to the external faces of external walls, including toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

Ground Condition

Soil stability, mining and geological reports are not undertaken by us or normally inspected. Unless we are instructed to the contrary, we assume that the ground and any adjoining or nearby areas are not contaminated, that there are no dangerous materials in the vicinity and that it is capable of development without the need for abnormal costs on foundations and services.

Condition of Buildings, Plant etc.

Our inspection of a property does not constitute a structural survey. When preparing our valuation we have regard to apparent defects and wants of repair and take into account the age of the property. We do not however carry out the detailed search for defects which is undertaken as part of the structural survey neither do we necessarily set out the various defects when making the report. We do not inspect woodwork or other parts of the structure which are covered, unexposed or inaccessible. We do not arrange for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or any other deleterious materials or permanent woodwool shuttering or composite panelling has been used in the construction.

Unless so instructed we do not arrange for any investigations to be carried out to determine whether or not any deleterious or hazardous material or techniques have been used in the construction of the property or has since been incorporated and the services are not tested.

We are therefore unable to report that the property is free from defect in these respects.

For valuation purposes we assume unless otherwise stated that the property (including associated plant and machinery, fixtures and fittings) is in serviceable order and will remain so for the foreseeable future. It will be assumed that the building/s is/are in good repair, except for defects specifically noted.

Asbestos Regulations

The Control of Asbestos Regulations 2006 came into force in November 2006. The Regulations prohibit the new use of asbestos; existing asbestos containing materials that are in good condition may be left in place, their condition monitored and managed to ensure they are not disturbed.

The Regulations include the 'duty to manage asbestos' in non-domestic premises. The dutyholder is the person or organisation that has clear responsibility for the maintenance or repair of non domestic premises through an explicit agreement i.e. a tenancy agreement or contract.

The responsible party has to take reasonable steps to identify the existence of asbestos containing materials, record their amount, location and condition, set out a plan to manage the risk from the material and take the necessary steps to put this plan into action. Details as to the location and condition of the materials must be provided to anyone who is liable to work or disturb it. There is also a requirement on anyone to co-operate as far as is necessary to allow the dutyholder to comply with the above requirements.

The new regulations have to be complied with. Solicitors will have to enquire as to compliance with the new regulations and freeholders will have to be able to provide confirmation as to the existence and condition of asbestos.

We have not arranged for any investigations to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the property or have since been incorporated. Although our inspection did not reveal any obvious deleterious materials, we are unable to report that the property is free from risk in this respect.

We have assumed for the purpose of this valuation and report that there are no deleterious materials used in the construction of the premises.

Fire Safety

The Regulatory Reform (Fire Safety) Order 2005 (The Order) replaces previous fire safety legislation including both the Fire Precautions Act 1971 and the Fire Precautions (workplace) Regulation 1997. Consequently any fire certificate issued under the Fire Precautions Act 1971 will cease to have any effect. The Order came into force completely on the 1st April 2006.

The Order applies to the majority of premises and workplaces in England and Wales although does not include people's private homes. It covers general fire precautions and other fire safety duties, which are needed to protect 'relevant persons' in case of fire in and around most 'premises'.

Under the order, anyone who has control in a premises or anyone who has a degree of control over certain areas may be classified as a 'responsible person'. It is thus the duty of such individual to comply with the requirements of the Order and make certain that all measures are taken to ensure the safety of all the people he or she is directly or indirectly responsible for.

The responsible person must then carry out a Fire Risk Assessment. In short this is a five-point process whereby fire hazards must be identified, relevant persons at risk recognised, potential risks reduced, staff training implemented and the whole assessment regularly reviewed. The assessment must pay particular attention to those at special risk such as disabled people, those who have special needs and young persons. Furthermore the responsible person must provide and maintain clear Means of Escape, Signs, Notices, Emergency Lighting, Fire Detection & Alarm and Extinguishers.

This approach is different from previous legislation, as it is now necessary to consider everyone who might be on your premises, whether they are employees, visitors or members of the public.

The Risk Assessment must be regularly reviewed and if necessary amended. Finally if the responsible person employs five or more people, the premises are licensed or the Inspector requires it then the Risk Assessment must be formally recorded.

It is assumed that the property is compliant in regard to the above regulations.

Accessibility

The Equality Act 2010, which came into force on 1st October 2010, incorporates the provisions of The Disability Act 1995 and 2005. It is assumed that the property complies with the Equality Act or will be made compliant at the occupiers expense.

Energy Performance Certificates

From 6 April 2008 Energy Performance Certificates (EPCs) are required for the sale, rental or construction of commercial buildings. The requirement was phased in over 6 months between 6 April and 1 October 2008. Commercial properties with a useful floor area of more than 10,000 sq. m. were affected from 6 April 2008, those exceeding 2,500 sq. m. had to comply from 1 July 2008 and the remaining properties had to comply from 1 October 2008. An EPC must be provided on the sale, rental or construction (or in some cases modification) subject to transitional arrangements. Non compliance may lead to sanction under civil legislation, involving a financial penalty.

Our valuation assumes that the property has an Energy Performance Certificate (if required under the Energy Performance of Building Directive) and that the Certificate will be maintained as required.

Services

It is assumed that the services and any associated controls or software, are in working order and free from defect.

Composite Panels and Insurance

We will not test any panels within the property to see whether there are any polystyrene insulated composite panels. The presence of such panels may result in the property being uninsurable, which would have an adverse impact on value.

Defective Premises Act 1972

Obligations or liabilities or any rights thereunder, whether prospective or accrued, are not reflected in valuations unless actually specified.

Environmental Issues

Within our report we may, subject to the statements below and as appropriate, pass comment upon the apparent existence of contamination or pollution at or in the area of the property, the impact of past, existing or proposed uses of the property on its

immediate environment or other environmental issues, such as the energy and efficiency of the building on the property. Our report does not, however, constitute an environmental audit or survey and nothing contained in it should be treated as a statement that there are no contamination or pollution problems relating to the property or confirmation that the property, or any process carried on therein, complies with existing or proposed legislation on environmental matters.

Then either:-

a. If a total disregard of contamination approach is adopted, typically:

We are not aware of the contents of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the property. We have not carried out any investigations into past or present uses, either of the property or of any neighbouring land to establish whether there is any contamination or potential for contamination to the subject property from these uses or sites and have therefore assumed that none exists.

However, should it be established subsequently that contamination, seepage or pollution exists at the property or on any neighbouring land, or that the premises have been or are being put to a contaminative use this might reduce the values now reported.

Or;

b. If valuing or revaluing for annual accounts purposes:

We have been informed that the company has established procedures for inspections of the subject property to be carried out with particular reference to environmental matters and that any such matters identified receive appropriate attention. Unless we have been provided with information (which is referred to in this report) to the contrary, we have assumed that the properties are not, nor are likely to be affected by land contamination and that there are no ground conditions which would affect the present or future use of the properties.

Where we have received evidence from the company regarding contamination, we have reflected this in our valuation but unless otherwise stated, have assumed that the cost of any decontamination work would be immaterial thereto.

Or;

c. When valuing the property where there is no indication of contamination:

We will only make verbal enquiries of the Local Authority as to whether they are aware of any known contamination at the property. We will revert to you should there be issues of concern. In the absence of any information from our enquiries, it will be assumed that the property is free from contamination.

Our verbal enquiries have not revealed any contamination affecting the property or neighbouring property which would affect our valuation. However, should it be established subsequently that contamination exists at the property or on any neighbouring land or that the premises have been or are being put to any contaminative use, this might reduce the values now reported. We would stress that we have made general enquiries only and our report does not constitute an environmental audit or survey and nothing contained in it should be treated as a statement that there are no contamination or pollution problems relating to the property or confirmation that the property or any process carried on therein complies with existing or proposed legislation on environmental matters. We have not considered whether there is any current liability to carry out work needed to comply with environmental legislation or any liability which may arise in the future as a result of proposed legislation.

Or;

d. When valuing property where there is evidence of contamination:

We have made enquiries and have been supplied with information (source) which has identified contamination (specified). Our valuation has had regard to the estimated cost and likely liability for treatment as advised by (state) and our opinion of the markets likely perception of the issues involved. However, should it be established subsequently that other contaminants exist at the property or on any neighbouring land or that the premises have been or are being put to any other contaminative uses, this might reduce the values now reported.

Whilst within our report we may as appropriate pass comment upon the apparent existence of contamination or pollution at or in the area of the property, the impact of past existing or proposed uses of the property on its immediate environment or other environmental issues such as the energy efficiency of the building on the property, our report does not constitute an environmental audit or survey and nothing contained in it should be interpreted as such.

Enquiries

Enquiries of local authorities and statutory undertakers are made verbally in respect of contingent liabilities such as road widening, road charges, redevelopment proposals and the possible effect of any town planning restrictions, and on occasion in respect of rating assessments. Local searches are not undertaken. No responsibility is accepted for any inaccurate information provided.

Generally it is assumed that buildings are constructed and used in accordance with valid Town Planning Consents, Permits, Licences and Building Regulation Approval, with direct access from a publicly maintained highway, that Town Planning Consents do not contain restrictions which may adversely affect the use of a property and that there are no outstanding statutory or other notices in connection with a property or its present or intended use.

It is further assumed unless otherwise stated that all necessary licences, permits etc either run with the property or are transferable to a new occupier as appropriate.

Flooding Risk

The valuer will make enquiries concerning flooding risk where it is perceived to be of relevance as published by the Environmental Agency. However we are not qualified to definitively assess the risk of flooding and our valuation will assume no difficulties in this regard. Further, GVA shall not undertake any additional enquiries to confirm this information.

Plant, Machinery, Fixtures and Fitting

Unless otherwise specified, all items normally associated with the valuation of land and buildings are included in our valuations and reinstatement cost assessments, including:-

Fixed space heating, domestic hot water systems, lighting and mains services supplying these,

sprinkler systems and associated equipment, water, electricity, gas and steam circuits not serving industrial or commercial processes, sub-station buildings, lifts and permanent structures including crane rails where forming an integral part of the building structure, fixed demountable partitions, suspended ceilings, carpets, drains, sewers and sewerage plants not primarily concerned with treating trade effluent, air conditioning except where part of a computer installation or primarily serving plant and machinery.

Unless otherwise specified, the following items are excluded:-

All items of process plant and machinery, tooling and other equipment not primarily serving the building, cranes, hoists, conveyors, elevators, structures which are ancillary to, or form part of an item of process plant and machinery, sewerage plants primarily concerned with treating trade effluent, air conditioning where part of a computer installation or primarily serving plant and machinery, and water, electricity, gas, steam and compressed air supplies and circuits serving industrial and commercial processes.

Unless otherwise specified, no allowance is made for the cost of repairing any damage caused by the removal from the premises of items of plant, machinery, fixtures and fittings.

In the case of filling stations, hotels and other properties normally sold and valued as operational entities, all items of equipment normally associated with such a property are assumed to be owned and are included within the valuation unless otherwise specified.

Taxation and Grants

Value added tax, taxation, grants and allowances are not included in capital and rental values as, unless otherwise specified in the report, these are always stated on a basis exclusive of any VAT liability even though VAT will in certain cases be payable.

It is assumed for the purposes of valuation that any potential purchaser is able to reclaim VAT, unless otherwise stated. In particular it should be noted that where a valuation has been made on a Depreciated Replacement Cost basis the Replacement Cost adopted is net of VAT unless otherwise stated.

Unless otherwise specified GVA will not take into account of any existing or potential liabilities arising for capital gains or other taxation or tax reliefs as a result of grants or capital allowances, available to a purchaser of the property.

Market Value (MV)

The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Note: The above definition is that settled by the International Valuation Standards Committee. The Royal Institution of Chartered Surveyors considers that its application results in the same valuation figure as the application of the OMV definition previously used.

Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(Fair value is a measurement basis required or permitted under IFRS, where its application is subject to specific requirements that are discussed in PS 4.1. Fair value is also used in other situations, for example where the valuer is required to determine a price that is fair between two specified parties).

Depreciated Replacement Cost

The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

Operational Entities

The RICS advises that the most appropriate basis of valuation of properties normally sold as operational entities is Market Value as defined above. Such properties include public houses, hotels and other leisure uses, together with nursing homes, residential care homes, private hospital and petrol filling stations. Our valuations reflect the following:-

- a. The market's perception of trading potential with an assumed ability on the part of the purchaser to renew existing licenses, consents, registrations and permits.
- b. That the property is offered with vacant possession throughout, although in the case of nursing and residential care homes, subject to

the contractual rights of the patients/residents occupying the home from time to time.

- c. That trade fixtures, fittings, furniture, furnishings and equipment are included.

Our valuations also specifically assume, unless otherwise specified that the business will continue to operate at a level not significantly worse than that indicated to us.

Existing Use Value

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 acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost.

Market Rent

The estimated amount for which a property, or space within a property, should lease (let) 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 acted knowledgeably, prudently and without compulsion.

Insurance

Insurance is usually arranged by clients (or their brokers) based on reinstatement cost assessments or occasionally on an indemnity basis and other methods of valuation are not appropriate.

Reinstatement Cost Assessment

A Reinstatement cost assessment is our opinion of the likely cost of reinstating all the buildings, normally for insurance purposes, on the basis that:-

- a. the accommodation provided will be similar in construction, design and area to the existing buildings;
- b. the works will be in compliance with conditions imposed by local Authorities in connection with the construction of the building;
- c. unless reported separately, allowances are made to cover the cost of necessary demolition and site clearance prior to rebuilding, external

works such as hardstandings, private roadways and fences and professional fees which would normally be incurred.

Unless otherwise stated, the reinstatement cost does not include any allowance for:-

- a. any loss of rent incurred during rebuilding;
- b. planning restrictions which a planning authority might impose;
- c. special foundations required for plant and machinery or due to adverse ground conditions;
- d. any plant, machinery, equipment, tanks, loose tools, office furniture and equipment (refer to the heading "Plant, Machinery, Fixtures and Fittings" for details of items normally included);
- e. any effect of inflation on building costs occurring after the date of the valuation;
- f. VAT (except on professional fees) which will normally be payable in addition.

Note - A reinstatement cost assessment is not a valuation.

Apportionment of Values

Apportionments provided between buildings, land and plant and machinery are normally for depreciation purposes only. In normal circumstances apportionments are not valuations and they should not be used for any other purpose unless specified in our report.

Future Useful Economic Life

Future useful economic life of buildings is normally assessed in bands of years, most frequently subject to a maximum of fifty years. This applies to freehold properties and to leasehold properties where the future life is less than the unexpired term of the lease. An average figure is usually provided for groups of buildings forming a single asset. The figures are appropriate for depreciation purposes only.

Compliance with Valuation Standards

Where applicable our valuations are in accordance with the RICS Valuation Standards – Global and UK published by the Royal Institution of Chartered Surveyors ("RICS"), the Insurance Companies (Valuation of Assets) Regulations 1981, the Financial Services Authority (FSA) "Listing Rules" ("Source Book") and "City Code on Takeovers and Mergers" ("Blue Book") as amended and revised from time to time. A copy is available for inspection.

RICS Investigations

The valuation may be investigated by the RICS for the purposes of the administration of the Institutions conduct and disciplinary regulations. Guidance on the operation of the RICS monitoring scheme including matters relating to confidentiality is available from www.rics.org.

Total Valuation

Where provided this is the aggregate of the value of each individual property. It is envisaged that properties would be marketed singly or in groups over an appropriate period of time. If all properties were to be sold as a single lot, the realisation would not necessarily be the same as the total of the valuations. This assumption is not applicable to valuations made for taxation purposes.

Legal Issues

Any interpretation of leases and other legal documents and legal assumptions is given in our capacity as Property Consultants (including Chartered Surveyors and Chartered Town Planners) and must be verified by a suitability qualified lawyer if it is to be relied upon. No responsibility or liability is accepted for the true interpretation of the legal position of the client or other parties.

Jurisdiction

In the event of a dispute arising in connection with a valuation, unless expressly agreed otherwise in writing, GVA, the client and any third party using this valuation will submit to the jurisdiction of the British Courts only. This will apply wherever the property or the client is located, or the advice is provided.

Date, Market Conditions and Validity of Valuation

Valuations may be relied upon for the stated purpose as at the date specified. In normal market conditions the value may not change materially in the short term. However the property market is constantly changing and is susceptible to many external facets which can affect business confidence. If any reliance is to be placed on the valuation following any changes which could affect business confidence, then further consultation is strongly recommended. In any event, the valuation should not be considered valid after a period of three months.

Valuations and Reports

Valuations and Reports are only for the use of the party to whom they are addressed. They may be disclosed only to other professional advisors assisting in respect of that purpose. No responsibility is accepted to any third party for the whole or any part of the contents.

Reports should be considered in their entirety and should only be used within the context of the instructions under which they are prepared.

Neither the whole nor any part of a valuation, report or other document or any reference thereto may be included in any published article, document, circular or statement or published in any way without prior written approval of GVA of the form and context in which it may appear.

Warranties

The client warrants and represents that, to the best of its knowledge, information and belief, the information supplied by and on its behalf to GVA is true and accurate and that it will advise and instruct its third party advisers to advise GVA in the event that it and/they receive notice that any such information is either misleading or inaccurate.