

**VALUATION ADVICE IN RESPECT OF PROPOSED
VISITOR CENTRE, CLIFFORDS TOWER, YORK**



DECEMBER 2016

BY SANDERSON WEATHERALL

Your ref:

Our ref: AWE/kb

5 January 2017

City of York Council
Property & Asset Management Team
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**For The Attention of N Collins Esq MRICS –
Commercial Property Manager**

Dear Sirs

PROPOSED DEVELOPMENT PROJECT AT CLIFFORDS TOWER, YORK

We refer to the meeting between Nick Collins and Andrew Ellis of Sanderson Weatherall on 1 December 2016 together with our formal proposal of 7 December 2016 and your confirmation of instructions of even date.

Current Situation

In Appendix III we include the site plan provided to us and which shows the current freehold interest of English Heritage shown edged red. City of York Council own all of the other coloured land on the plan (green, pink, blue, salmon and purple) together with other land in the area most notably the Castle Car Park to the north. The Castle Car Park adjoins the Coppergate Shopping Centre and River Foss, and which generally is regarded as a prime re-development opportunity subject to the constraints of such a sensitive location. Cliffords Tower comprises a scheduled ancient monument and Grade I structure. It is well known to you and hence we will not describe it in detail albeit it comprises a large stone tower situated on top of a large bund or Motte. The tower is operated as a visitor attraction by English Heritage, accessed via steps on the eastern side of the Motte to the side of the The Eye of York, York Crown Court and Castle Museum.

This staircase evacuates onto land owned by City of York Council and on which until recently comprised in part a separate car park for use by staff at York Crown Court. The land to the north forms part of the Castle Car Park operated as a pay and display car park by City of York Council.

Discussions have been ongoing between English Heritage, City of York Council and other stakeholders in order to provide an improved and updated visitor experience to Cliffords Tower and help fund repair works to the structure. Negotiations have been ongoing and terms have been agreed to allow English Heritage to secure the necessary property rights in order to construct a new Visitor Centre at the base of the steps of the Tower, part of which would be constructed on land already owned by English Heritage but the majority on land currently owned by City of York Council. Additional land is needed apparently to create a piazza in the approach to the new Visitor Centre. Temporary permission is also required to use additional land around the attraction during the period of construction.

In Appendix II we attach the draft heads of terms. Since these terms were prepared and following an earlier draft of this report the City Council has negotiated a price of £25,000 for transfer of the freehold interest in the land coloured blue and pink. Otherwise the main terms of the transaction are set out below. With reference to the plan in Appendix III the main elements to the transaction are as follows:-

1. Land coloured blue - 102 sq m – freehold transfer required for part of the Visitor Centre.
2. Land coloured pink - 572 sq m – freehold transfer partly to accommodate the visitor attraction and also for protection land around the Tower. Temporary license also required during construction.
3. Land coloured salmon - 216 sq m – required for construction of the piazza but to be held on only a 2 year lease excluded from the security of tenure provisions of the Landlord and Tenant Act.
4. Land coloured purple – 305 sq m – temporary construction license and thereafter returned to City of York Council for continued used as parking.
5. Land coloured green – 1818 sq m – required on a temporary basis during the construction works.
6. In addition various easements are required for services which will cross the green and salmon coloured land to be retained by the Council.

The more detailed terms are set out in Appendix II.

Until recently the Council has received an income of circa £12,000 per annum exclusive from the Court in respect of the existing car parking spaces. This income would be lost as would the potential to replace it with income from another tenant. Accordingly it is proposed to require a rental of some £1,000 per month (i.e., £12,000 per annum) during the period of the construction works effectively to leave the Council in no worse position.

On completion of the works the land coloured salmon and used as the piazza effectively removes 5 car parking spaces from this arrangement and accordingly English Heritage will pay a rent of £5,475 per annum exclusive plus VAT by way of rent. The Council will retain the ability to re-let the remaining 9 spaces coloured purple to third parties. This will return the Council to an equivalent position, it will not though necessarily take account of any additional value being created by English Heritage in respect of the pink and blue land nor which potentially City of York Council might be able to obtain from any third party. On this basis you have asked that we investigate the proposed package of measures and advise in light of the other elements of the transaction the price if any which ought to be levied in respect of the blue and pink land. Following initial advice the sale price for this land has been agreed at £25,000 and in our report we are asked to consider whether as part of a package of measures this can be recommended.



Guardianship

We are advised that currently the pink land is already under the guardianship of English Heritage. From the information provided to us it is our understanding that for land under guardianship although legal title remains with the Council, English Heritage already has control of the land together with responsibility for maintenance. This land is required to be transferred as part of the proposal as the rights of guardianship held by English Heritage do not extend so far as to permit development. Nonetheless it does seem to us that this guardianship further limits any value attributable to the pink land. This is not an area of law we have come across previously and hence recommend that your solicitors confirm our understanding of the situation and, in particular the restrictions, is correct.

Information Provided

As well as the information described above you have also provided to us a business case prepared by English Heritage which seeks to identify both the costs of the proposal and the likely additional revenue streams and amounts such to be able to establish the payback period. As identified in your e-mail exchange of 7 December 2016 and which is appended to the business case, it is understood that the anticipated cost of the proposed development is in the order of £5.2m and that a payback period of circa 14 years is anticipated based on additional profits of some £350,000 per annum on average. We are not cost or business consultants and it is not possible for us to assess whether the construction costs and other figures in the business case are correct. We assume this to be the case.

Description

The property and location are well known to us. In addition a series of photographs were taken on Saturday 10 December 2016 and which are attached in Appendix V. We can entirely understand the proposal from English Heritage to improve the visitor experience, which in our opinion currently is underwhelming for one of the main attractions in the City. The land generally presents poorly at the entrance to the facility and has a general hard covering with a mixture of fencing and bollards.

Development Potential

The history of the various development proposals for the Castle Car Park and what generally is known as Coppergate II is already very well known to you. The site has generated a lot of interest over the years with strong feelings on both sides as to whether or not the area should be redeveloped and, if so, how. There is no doubt that the location is extremely sensitive given not only the Cliffords Tower Monument but also The Eye of York and surrounding buildings. That said it would seem to us that the location is right for some form of sensitive redevelopment and as such this potential should be factored into the consideration of the land transactions now. Undertaken properly with appropriate legal documentation the temporary construction works over the wider area should not fetter any potential future redevelopment provided the land is returned back substantially to its existing condition.

Within the permanent legal transactions it is pleasing to see that the lease on the piazza area is to be excluded from security of tenure provisions of the Landlord and Tenant Act and as such gives the Council as landlord the unencumbered right to require return of this land. You may well wish to include a reinstatement provision albeit probably better still is for the works to the piazza to be undertaken in such a way that the Council could benefit from an upgraded surface and below ground works that would be capable of being used again for parking if nothing else. Please note however it is likely that a revised planning permission will be needed as by that time presumably the car parking use will have been superseded.



The fact also that the lease is for a comparatively short term seems also to be very much in the favour of City of York Council. We expect that English Heritage will wish to renew the lease in 2 years' time, presumably having spent so much money on the land in particular but also more generally into the overall visitor experience. In such circumstances the Council will be free to identify improved terms if it were minded so to do. This does not necessarily have to be the case but at least the Council would seem to be in a position to be able to recover possession if needed and also secure a valuable income from a good covenant going forward with greater security for the longer term. In looking at the package overall this is a significant improvement over the current short term arrangements for parking.

The transaction to transfer the freehold could be undertaken by way of a long ground lease as the more normal way of imposing restrictions on use and maintenance. In this case we understand English Heritage are not prepared to proceed without the freehold. We also understand that you are relaxed to proceed on the basis of a freehold sale having regard to the package of terms, the price to be paid and your belief that the covenants you propose can be made binding as a result of your significant land holdings surrounding. Ordinarily we would prefer such transactions to be undertaken by means of a long lease and the terms for which carefully drafted to avoid risk of enfranchisement. In this case we understand this will not be possible and taken as a package and from our analysis below can still recommend the transaction.

It seems to us in assessing the transaction that we should do so as part of a package of measures of which the temporary and permanent rental income is a part. Also it seems to us that we should look at the transaction in 3 ways, namely:-

- a. Based on the likely value for the current use of the blue and pink land, albeit the pink land is already under the guardianship of English Heritage.
- b. Whether it is likely that this blue and pink land might be of any significantly greater value for an alternative use to any other party; and
- c. Its value to English Heritage as a potential special purchaser.

In assessing each of these in turn it seems to us:-

1. Current use value

The blue, salmon and purple land currently generates an income in the order of £12,000 per annum and which following the transaction the Council will receive an income of slightly in excess of this amount but in two parts namely; £5,450 per annum in respect of the salmon land from English Heritage and the ability to relet the 9 spaces remaining on the purple land for at least another £9,000. On this basis it looks unlikely that the Council will be any worse off from the transaction.



2. Alternative use value

The Castle Car Park site undoubtedly forms a potential development opportunity and for which therefore it has a significant value for existing use but also a potentially higher value for redevelopment. It is impossible to quantify the extent to which the alternative use value of such a scheme would generate a price in excess of the existing use value which already would be high as a result of the high value car parking use. Nonetheless we would expect a premium price to be generated for any comprehensive redevelopment of the area. It is though open to very considerable debate whether the blue, pink and salmon land really would form part of any comprehensive redevelopment. This land is situated immediately adjoining one of the most important buildings within the City of York and to our knowledge formed a major part of the decision making criteria when assessing planning constraints for comprehensive redevelopment.

Furthermore, the subject area is situated directly at the entrance to the visitor facility and we would therefore assume significantly more important and therefore protected than other areas close to the tower. Put another way the setting back of buildings from the tower is likely to be even more important at the entrance.

It is also arguable that the salmon, blue and pink land does not really form part of the Coppergate II scheme as it is around the side of the facility and overlooking The Eye of York, again another highly important series of buildings and open space.

On this basis it is our conclusion that there is very limited prospect of any higher alternative use being secured on the blue, salmon and pink land as part of either a development in isolation or more likely as part of Coppergate II.

3. Special Purchaser Value

In light of items 1 and 2 above it might be assumed that the transaction is acceptable. In our opinion any such judgement can only be made once you have looked at the potential benefits that English Heritage may obtain by obtaining control of the land. There seems to be little doubt that English Heritage will not be able to construct a visitor centre purely on their own land. The facility already seems to be comparatively small and it is hard to understand how any smaller facility might actually provide a useful addition. Furthermore it appears extremely unlikely for any such facility in any case to be housed within the land within the existing red line boundary. On this basis it would appear that the only way in which English Heritage can construct its Visitor Centre is on land owned by the City Council.

On this basis we have therefore asked for and been provided with the business case attached within Appendix IV. As with all such situations we have no real way of interrogating the information. We assume it to be the honest and complete opinions of English Heritage but must flag that we have no real way of checking current visitor numbers and forming a view on anticipated increased revenue streams. Furthermore even then we would expect that these can only be broad brush estimates by English Heritage. It ought to have more access to information of similar situations but frankly this would appear to be a unique set of circumstances and as such any business case must also come with such a health warning.



On this basis however it does look like the scheme generates additional revenue streams for English Heritage but that the costs of developing next to such an important building and in the further and significant repair costs to the existing Tower does lead to an extended payback period of in the order of 14 years. We note from the figures also that there is no element of financing included within the figures and given that the costs are to be incurred upfront this ought significantly to extend the payback period. Also there is no provision for any increase in rent that you may require in respect of the area coloured salmon.

Accordingly, whilst it is necessary to make clear our caveats about the validity and reliability of the information, it does seem to us that as proposed the scheme does not make a significant net profit having taken into account all costs. On this basis it does not appear that English Heritage are making a "super profit" out of the arrangement and which ought therefore to be shared with the Council. Even if such a profit stream did appear likely to be generated then there would be additional issues about the division of such profits, particularly as they are by no means certain and English Heritage would be taking all of the risk. On this basis any such additional monies would have to be shared with English Heritage and in our opinion with a significant proportion of the monies (in our opinion, probably well over 80%) going back to English Heritage. As such it seems to us that the risk of such an under sale is comparatively small.

That said English Heritage are making a significant investment in the facility and it seems to us that something ought to be paid for the land. Within the size of expected investment such a payment would be comparatively small to English Heritage. Put another way, from a negotiation perspective it is hard to think that English Heritage will "lose" the opportunity as a result of a requirement for a relatively small payment for the legal rights. In addition whilst the Council ought to be put back in an equivalent position from a revenue perspective it will have sold some land and such sale might, it could be argued, makes the reletting of the piazza land more difficult in the event English Heritage do not renew for whatever reason. Again on this basis it seems that some payment ought to be made for the transfer of the freehold interest, particularly in respect of the blue land.

Additional Benefits to the City

We understand the argument that an improved visitor experience at Cliffords Tower benefits the City generally and as such that there may be additional knock on effects that benefit the Council from English Heritage making this investment. For the avoidance of doubt this report solely is in respect of the property transaction. We agree that it is appropriate for City of York Council to take account of these potential benefits in making its decision. However for the avoidance of doubt no such allowance has been made within our own calculations.

Advice and Recommendations

Having regard to the above we are of the opinion:-

1. That we should assess the proposed disposal of the land coloured blue and pink as part of the whole package of measures and not just as sales in isolation.
2. That on this basis the Council appears to be no worse off in terms of revenue from its land holdings and transactions.



3. That the transaction with English Heritage would not in itself appear to provide English Heritage with a super profit. English Heritage has to invest in excess of £5m at risk and which is likely to have a significant payback period, even more so if finance and holding costs are taken into account.
4. That on this basis the transfer of the land coloured blue and pink can be undertaken at relatively low value. It is our opinion though that there should be some consideration, as the blue and pink land ought to have some value to English Heritage. This is particularly the case in respect of the blue land. The pink land forms part of the Motte and is already subject to the guardianship of English Heritage. As such it has limited or no potential for alternative use and therefore value.

Also it is open to question that if the salmon land ever was returned to the Council that it might not necessarily be able to generate an income of at least £5,500 in isolation due to the awkward shape. In such circumstances, albeit we accept probably unlikely, it may well be that the blue land ordinarily would have been required for access and circulation space if nothing else.

We are advised the Council has agreed a sale consideration of £25,000 for the blue land. This is calculated on a simple site area basis having regard to the value of the blue, salmon and purple land currently. It seems to us that in respect of the consideration negotiated, whilst obtaining the other benefits to the scheme including the same and probably greater revenue from a better covenant on the remainder, then this transaction can be recommended.

5. Other factors. In addition we recommend:-
 - a. that in the construction of the piazza that this is undertaken in such a way as to be capable of being used for parking if ever returned to the Council. This would include both the above and below ground works to include structural stability, lighting and drainage.
 - b. We recommend the blue and pink land is transferred by means of a long ground lease or freehold transfer with restrictions on English Heritage effectively limiting use to what is now proposed and solely by them. Also to prevent alternative use which might then at least allow the Council to secure some form of share in any upside. We shall be happy to advise on these terms if required. We would though counsel against granting a ground lease which would allow English Heritage to serve notice to require the Council then to transfer the freehold interest at nil cost (i.e., enfranchisement). It is our understanding that as such this would require the ground lease to have meaningful terms, probably in respect of use and for instance not to be granted for a term probably in excess of 250 years but this requires detailed legal advice from your solicitors please.
 - c. That you include lift and shift provisions particularly in respect of the easements for services so that this does not prevent or sterilise anything else you propose for your retained land.
 - d. We assume that there are no other benefits that you might wish to secure from the construction works particularly to benefit adjoining land such as oversizing of services, access rights etc?

Conclusion

We trust this report covers all that you require and confirm that we shall be happy to meet and discuss our advice as required. Similarly we shall be happy also to advise in more detail in respect of any of the proposed restrictions.

Liability

Our valuation advice is provided for the stated purpose and is for the use of the addressee only and no responsibility is accepted to any other party for the whole or any part of its contents. In particular, our liability is not extended to any financial institution or similar party in the event of them obtaining a copy of this report.

Neither the whole nor any part of this report or any reference thereto, may be included in any document, circular or statement nor our opinions of value disclosed without our prior written approval of the form and context in which they will appear.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Andrew W Ellis', with a stylized flourish at the end.

Andrew W Ellis BSc (Hons) MRICS

Partner, Corporate Real Estate

RICS Registered Valuer

Authorised to sign for and on behalf of Sanderson Weatherall LLP

Enc.