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Our ref: AWE/kb

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Dear Mr Callow

POSSIBLE SALE OF FREEHOLD INTEREST AT STONEBOW HOUSE, THE STONEBOW, YORK

We refer to the draft report issued in June 2016 and your e-mail of 28 September 2016 detailing the progress made in negotiations. City of York Council has agreed terms for the sale of its freehold interest to Oakgate Group, the ground lease tenant at The Stonebow for a price of £750,000. Each party will pay its own costs in the transaction. There are no other costs to the Council. The purchaser will be responsible for SDLT.

Our report of June 2016 was provided in draft but it seems inappropriate to issue the document now given that the report included advice and recommendations as to future negotiations and which have now taken place. You have therefore asked for our opinion as to the proposed transaction in light of our work undertaken in June 2016 and which we are pleased to set out below.

As identified in our report the original offer of £500,000 did appear to be too low given the current situation. That said, the situation was complex in that the long lease tenant had acquired the interest for a considerable sum and then commenced various works and initiatives in order to get the property ready for comprehensive refurbishment. The works to obtain vacant possession effectively have adversely affected the value for existing use. The ground lease tenant has also commenced works to strip out the office tower ready for change of use and refurbishment for residential. Again this makes the situation rather complex. The acquisition of the freehold interest or re-gearing of the ground lease will be needed to regularise the position and ensure the higher value for development can be secured.

Having regard to the above and in particular our conclusions in paragraph 15(d) of our report we are of the opinion that a sale at £750,000 can be recommended. It is significantly in excess of the market value of the freehold reversion for existing use. In our opinion a sale at £750,000 would provide sufficient premium above the market value and also a fair share of the marriage value which would be created by combining the freehold and long leasehold interests and thereby allowing the development to take place. On this basis we are of the opinion that the sale at £750,000 should take place.

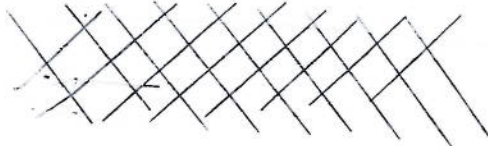
You have also explained that whilst the current intention is to dispose of the freehold interest, you might actually sell the majority of the site freehold and retain the freehold interest in respect of the small area of external space proposed for the additional seating area and instead grant a long lease on this part. Currently this land is owned freehold by the Council but not subject to the original ground lease. Apparently concerns have been raised that City of York Council might wish to recover possession of this land at some point in the future for a highway or public realm improvement scheme. As such you might instead grant a new long lease on benign terms at a fixed peppercorn rent of this part. In the event that this is how you decide to proceed then this ought to make the interest being acquired by the developer to be marginally less attractive. On this basis the recommendation to proceed with the sale at £750,000 for the freehold interest would indicate that this part freehold/part long leasehold type deal can also be recommended. The only potential downside might be in the event that the Council takes on any potentially onerous obligations under the ground lease. Our advice assumes this will not be the case. For completeness probably it is best therefore that we can see a draft of any suggested ground lease in order we can confirm our opinions.

We trust this letter covers everything that currently you require. If you need anything further please contact our Andrew Ellis.

Kind regards

Yours sincerely

For and on behalf of Sanderson Weatherall LLP



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