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**REGENERATION
INVESTMENT FUND
FOR WALES (RIFW)**

**LSH RESPONSE TO THE
AUDITOR GENERAL FOR
WALES' REPORT
DATED 15 JULY 2015**

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1. INTRODUCTION

- 1.1. Lambert Smith Hampton (LSH) has been requested to submit a written response to the points raised within the Auditor General for Wales' (AGW) Report on the operations of the Regeneration Investment Fund for Wales (RIFW) dated 15 July 2015.
- 1.2. One of the key conclusions in that Report is "Due to flaws in the way RIFW was established, in the selection of assets and also in the sale process itself, neither RIFW nor the Welsh Government are able to demonstrate that value for money was achieved from the portfolio sale transaction."
- 1.3. LSH has co-operated with the Wales Audit Office (WAO) throughout its investigation and made all our files and emails available for inspection. We are disappointed that the WAO has been unable to reach a positive conclusion.
- 1.4. The principal evidence that leads the WAO to this conclusion is the Valuation that has been prepared by the District Valuer (DV). However, LSH have not been provided with a copy of the DV's report, despite numerous requests, and cannot therefore respond in any meaningful way to the AGW report. LSH consider this to be in breach of the rules of natural justice but will, however, make it clear that we disagree with many of the values that the DV has ascribed to the assets as they do not reflect market value. LSH fully reserves its right to provide a further response once the DV's report is published.
- 1.5. It is also important that the Public Accounts Committee fully understands the respective bases of value reported, as it appears from the AGW report that the WAO is confusing the definitions and applications of the RICS Valuation Standards. The valuer must determine the basis of value that is appropriate for every valuation to be reported.
- 1.6. The sale of the portfolio of assets involved a relatively straightforward transaction that was negotiated in a difficult market but took a long time to document, because of errors and omissions in the legal Titles. The transaction was agreed on the basis of stage payments, which provided RIFW with the funds when it was expected they needed them, and included overage profit sharing arrangements on two key assets.
- 1.7. The outline terms of the transaction are as follows:

Property: The majority of the RIFW Portfolio comprising 15 assets.

Transaction: Freehold Portfolio Sale.

Agreed Terms: **Total Sale Price:**
**£21,747,500 plus overage as agreed on Monmouth and
Lisvane,** with cash being received over a 24 month period (secured

on the assets), subject to the deferred completion of Brackla and adjustment if assets are sold by the purchaser during this period. Exchange of Contracts took place on 18 February 2012.

The Transfer Value of the sold assets was £19,830,000.

A schedule of the transfer values and apportioned sale prices is attached in Appendix 1.

2. LSH'S RESPONSE TO THE AUDITOR GENERAL FOR WALES' REPORT

- 2.1. Fundamentally, we are clear in our opinion that we achieved a good price for the sale of the portfolio of assets and acted in the best interests of RIFW at all times.
- 2.2. The advice that LSH provided to Amber (the Fund Manager) and to the RIFW Board was clear and was openly discussed and agreed. LSH provided four reports over a period of 10 months, dated 20 April 2011, 2 June 2011, 15 December 2011 and 26 January 2012, with updates on the sale negotiations. Full disclosure has been made to WAO, including copies of these reports.
- 2.3. An additional report entitled "RIFW Portfolio Transaction Report – Update for Audit Review" and dated 30 October 2012 was prepared for the WAO review to provide additional background to the transaction and an update on the position at that time. A copy of this report and enclosures, which includes copies of the previous reports referred to above, is attached as a separate document.
- 2.4. Our response to the AGW report will cover the following broad topics:
 - LSH's Role as Investment Manager
 - The Objectives of the Fund
 - The Sale of the Portfolio
 - Land Assets
 - Building Assets
 - The District Valuer's Valuation
 - Market Evidence
 - Conflicts of Interest

3. LSH'S ROLE AS INVESTMENT MANAGER

- 3.1. LSH was appointed as the Investment Manager (IM) under a Contract dated 14 December 2010. The Appointment was specifically by way of sub-contract from Amber Fund Management Limited, appointed as Fund Manager (FM). Regeneration Investment Fund for Wales LLP was also a party to the Contract.
- 3.2. LSH's duties under the Contract were "...to provide the Services to the Fund Manager upon the terms and conditions set out in this Agreement...". Specifically, the obligation was to comply with the instructions of the FM; to support the FM in fulfilling their obligations under the Fund Management Agreement; and to attend Management Board meetings of the Partnership (the LLP) to support its actions and to provide relevant advice. All

communication and advice was provided via Amber and our attendance at Board meetings was in an advisory capacity only.

3.3. The Services under the Investment Management Agreement (IMA) include:

- Management of the Direct Asset Holdings, including:
 - Preparation of an Asset Realisation Plan (ARP), having regard to the cash requirements of the Fund
 - Managing the implementation of the Plan, including liaising with Local Planning Authorities
 - Preparation of asset specific business plans, to be reviewed in the context of the ARP
- Promoting the Fund's participation in investment opportunities
- Evaluating potential investment opportunities
- Undertaking relevant due diligence on potential investment projects
- Monitoring investment project implementation and investment performance

3.4. Importantly, LSH's role was to provide advice to Amber and to support the LLP as a Limited Liability Partnership. It was made clear to all parties by the Welsh Government representatives during the procurement of the advisers that the LLP was intended to be created to enable the FM and IM to take a 'commercial' approach to their dealings with matters on behalf of RIFW.

3.5. It was, however, stated in the IMA that no actions of the Parties should be allowed to prejudice or fetter the Welsh Ministers in their public law functions and it is acknowledged that LSH was effectively acting on behalf of a Public Sector body.

4. THE OBJECTIVES OF THE FUND

4.1. The primary objective of the Fund was to identify and support regeneration projects in Wales. The sale of the assets was to generate cash to invest in development opportunities and the imperative was to achieve this in a timely manner, whilst maximising the sale receipts. The ambition was to invest the ERDF and WG monies and to seek additional private sector investment to enlarge the Fund.

4.2. The assets comprised mostly agricultural land which was deemed to have development potential but which was of variable quality. Most sites had planning and title issues, where the possible planning outcome was uncertain and the timeline to achieve planning was unknown. Importantly, there was the potential to spend significant time and cost in running the sites through the planning process and rectifying title defects to facilitate disposal, which the Fund was not set up to undertake and time did not allow.

4.3. For example, the site at Monmouth achieved a planning consent in early 2015 and the site at Lisvane is still awaiting the outcome of the Examination in Public relating to the Cardiff LDP and a recent Public Inquiry (which took place in August 2015) in respect of a planning appeal for residential development. As a consequence, the Lisvane site still does not have a planning allocation or consent and Cardiff is still without an LDP some 3.5 years after the portfolio sale.

- 4.4. The initial ARP was prepared on the basis of individual sales of the assets and LSH was engaging in appropriate activities in order to protect and enhance the planning position wherever possible. It was always acknowledged, however, that there were a number of poor assets that would be extremely difficult to sell in isolation and that a portfolio sale may be a beneficial option for RIFW.
- 4.5. The draft ARP and RIFW Business Plan envisaged the sale of the majority of the assets during 2011 and 2012, with two final asset sales of part Brackla Industrial Estate (employment land with limited demand) and part Imperial House/Courtyard (significantly over-valued liability requiring asset management to mitigate losses) generating receipts in 2013 and 2014.
- 4.6. It should be noted that the ARP itself suggested an indicative timeline, based on assumed timescales required to dispose of the assets. Clearly, from a marketing perspective it is not possible to guarantee a sale date even when selling by auction, as there is always the risk of non-sale.
- 4.7. The sale of the portfolio enabled RIFW to achieve a figure in excess of the transfer values plus substantial overage/profit share opportunities. This, in turn, provided cash to meet the requirements of the ERDF Match Funding and sufficient liquidity to meet RIFW's primary objective of providing development finance for regeneration projects in Wales.

5. THE SALE OF THE PORTFOLIO

- 5.1. LSH did not engage in formal marketing of the assets but relevant investors and developers in the market were well aware of the intended sale and the transfer pricing. Information had been released into the market by Welsh Government as part of the procurement of advisors, including the King Sturge (now Jones Lang LaSalle) valuation reports; and Amber and LSH were making it clear in the roadshows that were set up to promote the RIFW investment activities that the assets would be sold to generate funds to invest.
- 5.2. The offer that was originally received from Barclays Wealth, which was representing GST Investments, was unsolicited but was at a sufficiently attractive level to warrant further investigation and negotiation. The proposal was market tested against discussions that LSH were having with investors and developers in the marketplace and indicative offers that were received.
- 5.3. It was made clear in our advice to Amber and the RIFW Board that a portfolio sale was beneficial to RIFW as there was a clear risk that a number of the less desirable or more challenging assets would not sell and/or may need to be sold at a discount in a poor market.
- 5.4. On an individual basis, or even with 'prudent lotting' as suggested by the DV, it is likely that as a result of the emerging title defects; restrictions; liabilities; occupational security of tenure threatening the ability to secure vacant possession; and ransom risks etc, would have resulted in many individual sales collapsing. Only by grouping the whole portfolio on a 'warts and all' basis would a purchaser have been able to take a commercial view of the assets with most risk.
- 5.5. The issues affecting the majority of the assets were not known when the ARP was initially drafted.

- 5.6. Detailed terms were negotiated with GST Investments and SWLDL (the ultimate purchasing entity) and LSH is confident that a good price was achieved, which included overage provisions on two key assets. Amber were closely involved in the negotiations.

6. LAND ASSETS

- 6.1. The two key development opportunities within the portfolio were Monmouth and Lisvane and it was agreed that overage provisions would apply to these two assets.
- 6.2. Overage is an important mechanism to protect a vendor against an uplift in value being achieved in the future, but there is a balance to be considered between the certainty of a higher initial price and the uncertainty of future receipts under an overage arrangement.
- 6.3. [REDACTED] These were agreed following extensive negotiation and reflected the perceived risk in each case, including the likelihood of achieving an advantageous planning allocation and the time and cost that was expected to be involved. Both sites were seen to be contentious but Monmouth, at the time, was considered to be more likely and involve less delay.
- 6.4. The Monmouth site was only included in the adopted LDP with a residential allocation in February 2014. Inclusion of this site was in the balance throughout the LDP process and only achieved inclusion in the Draft Deposit LDP by a single vote. The inclusion of the site came under sustained challenge during the EIP process, which included a call for the site to be dealt with by an inquiry style cross examination process.
- 6.5. The site at Lisvane is currently awaiting the outcome of a planning appeal following a recent Public Inquiry (which took place in August 2015), which has been called in by Welsh Government. The Planning Directorate of the Welsh Government (PDWG) received a copy of the Planning Inspector's Report and associated documentation relating to the planning appeal on 28 August 2015.
- 6.6. The appeal is now to be determined by the Welsh Ministers. The indicative target for determining the appeal is on or before 20 November 2015. If it appears that the PDWG is unlikely to meet this target date, they will advise the appellant that they require an extension. There is no prescribed timescale for determination by the PDWG and it is widely considered that a decision will be delayed until the Cardiff LDP is adopted.
- 6.7. Progress with the Cardiff LPD has recently been further delayed. In January 2015 it was anticipated that both the Examination in Public would be completed and the Inspectors report issued in August 2015, with LDP adoption in October 2015. The Planning Inspectorate has now programmed additional hearing sessions to be held over two days on Monday 28 and Tuesday 29 September 2015 at Cardiff City Hall, to consider the representations received on Cardiff Council's recent Matters Arising Changes (MAC) Schedule, whereby Cardiff Council has responded to circa 180 queries raised by the Inspectorate.
- 6.8. Currently, the Inspectorate is programmed to issue its report on 30 November 2015 (to be confirmed, subject to outputs of additional hearing sessions) and the Council will be required to adopt the LDP within 8 weeks thereafter. Currently, therefore, the earliest that the LDP is likely to be adopted is the end of January 2016.

- 6.9. In practice, the inclusion of an overage provision on an asset sale generally leads to a reduction in the 'up front' price offered. In this situation, it was demonstrated by comparison with the indicative proposal received from Rightacres Developments to acquire the portfolio at a base price of £17.47m with overage being offered on five of the assets. The GST offer at the time was at £23.5m (reduced to £22.5m) with overage on two sites.
- 6.10. The risk is that overage will not be received and it was LSH's and Amber's advice to proceed with the proposal that offered the higher initial sum, which provided a certain receipt and satisfied RIFW's funding requirements (in terms of amount and timing).
- 6.11. In December 2014 the Monmouth site achieved a planning consent for residential development. The site had been re-marketed and sold to Barratt Homes by SWLDL, subject to planning, at a price of £12m. [REDACTED]
- 6.12. Importantly, the 'base value' for calculation of overage was set at the Transfer Value in each case, which was lower than the value the purchaser had ascribed to the assets and provides an advantageous position for RIFW when carrying out the overage calculation.

7. BUILDING ASSETS

- 7.1. An additional important consideration was that Imperial House and Imperial Courtyard were valued by King Sturge at a figure that did not properly reflect the expenditure required to refurbish the buildings and to bring them up to a condition that made them marketable.
- 7.2. The buildings at the time of sale were showing a negative cashflow position of circa £100k per annum as a direct result of a lack of professional asset management during the period prior to the transfer of the assets into RIFW.
- 7.3. The King Sturge Valuation was at £5.1m whereas the LSH ARP identified a value at £4m. In contrast, the Savills and Colliers valuations range from £3.5m to £4m and the DV valuation is at £3.7m.
- 7.4. GST identified the same issue and their original offer was based on the requirement that either Imperial House and Courtyard were removed from the deal or that an impairment of £2.5m was allowed against this asset as part of the overage calculation of the Monmouth site. This was resisted in our negotiations and the apportioned value was actually recorded as £5.75m, further reinforcing that this asset was sold at over value.

8. THE DISTRICT VALUER'S VALUATION

- 8.1. We are concerned at the weight the WAO have applied to the DV's Valuation, which is at a substantial variance to the four other valuations and opinions that have been expressed by private sector professional valuers.
- 8.2. This is despite the statement in Paragraph 10 of the Summary on p11 of the AGW Report, which states "we consider it unlikely that RIFW could have disposed of the assets to achieve sale proceeds consistent with the District Valuer's market valuation."

- 8.3. We attach in Appendix 2 a schedule that compares the opinions of five surveyors, including the DV. This is taken from the summary that is provided in Appendix 3 of the AGW Report. LSH has not been provided with copies of the Reports that were prepared by Savills, Colliers or the DV and are therefore relying on the interpretation and accuracy of the AGW summary.
- 8.4. The wide variation in the results shows, amongst other things, how difficult it is to value development land with any degree of accuracy.
- 8.5. RICS Valuation Information Paper (VIP) 12 – Valuation of Development Land provides guidance on how to value such land and the two approaches to valuation:
- (1) Comparison with the sale price of land for comparable development, or
 - (2) Assessment of the value of the scheme as completed and deduction of the costs of development (including developer's profit) to arrive at an underlying land value. This is known as the residual method.
- 8.6. In practice, it is likely that a valuation would utilise both approaches and to which either, or both, are relevant depends upon the nature of the development being considered and the complexity of the issues.
- 8.7. The AGW report does make it clear that the valuations “were provided by different valuers and for different purposes, using a variety of valuation approaches and assumptions. Therefore they are not directly comparable.”
- 8.8. Even with this proviso, the summary does provide a very confusing array of values
- 8.9. The descriptions that have been provided against each opinion are as follows:

District Valuer – £36.375m – market valuations (which reflect any discernable ‘hope value’) as at sale completion, 2 March 2012 (1 March 2013 for Brackla) and reflecting inclusion of overage terms (but not receipts), which were known at the valuation date, for the Lisvane and Monmouth sites.

District Valuer – Portfolio Sale – £30.919m – the DV has assumed a 15% discount for a portfolio sale

King Sturge – £19.83m – existing use value as at 1 October 2009, and used to determine the Transfer Value

King Sturge – £25.58m – market valuations as at 1 October 2009 (which includes ‘hope value’ identified on Lisvane, Pyle, Towyn, St Asaph and Abergele sites), adjusted to exclude land not transferred to RIFW and also assets not sold to SWLD.

RIFW Asset Realisation Plan – £24.435m – assuming phased disposal, March 2011

Savills – £22.176m to £25.44m – Market Valuations (which will include ‘hope value’) at January 2012. Monmouth and Lisvane valuation ranges reflect the proposed overage terms (but not receipts) that were known at the valuation date

Savills – Portfolio Sale – £17.74m to £20.332m – Savills assumed a 20% discount for a portfolio sale

Colliers – £22.225m – market valuations at exchange of contracts, 18 February 2012. The Colliers market values listed for Monmouth and Lisvane ignore the known overage provisions that were included within the sale contracts

Colliers – Portfolio Sale – £19.4m – Colliers assumed a 10% discount for a portfolio sale

8.10. There are a number of points of irregularity and inconsistency that need to be made:

Valuation Date

8.11. The valuation date for the Colliers report was correctly instructed to be the date of exchange of contracts on 18 February 2012, as this was the date of legal commitment to complete on the acquisition.

8.12. The DV valuation date of 2 March 2012 for the majority of the portfolio and 1 March 2013 for Brackla is incorrect. The RICS guidance is to assess the value at the date of the legal commitment to purchase, ie the date of exchange of contracts.

Market Value and Hope Value

8.13. The DV, and therefore WAO, appear to be confusing and perhaps aggregating Market Value and Hope Value and Overage.

8.14. It is stated in Appendix 4 to the AGW Report that the basis of value is "Market Value, as defined within the RICS standards". The RICS defines Market Value as:

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

8.15. Market Value is the basis that is commonly required because it describes an exchange on contracts between parties that are unconnected and operating freely in the market, and ignores any price distortions caused by a special value or synergistic value. It represents the price that would be most likely to be achieved for a property across a wide range of circumstances.

8.16. The AGW report also makes reference to Existing Use Value. The RICS defines Existing Use Value as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding all potential 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"

8.17. Existing Use Value is normally used for valuations for financial statements such as Company Accounts. The Practice Statement further clarifies that Existing Use Value should disregard potential alternative uses and that the Valuer must ignore any element of hope value for alternative uses which could prove more valuable.

8.18. The instruction to the DV was that "a separate comment on hope value (where applicable) will also be required".

- 8.19. We have not been provided with any indication that figures for hope value in the DV report have been provided separately. The WAO has only provided the combined figure, saying the market valuations “reflect any discernable ‘hope value’”.
- 8.20. Moreover, the Guidance Notes provided by the RICS clearly state that:
- “Hope value is the popular term for the element of the difference between existing use value and the price that the market might pay for the land with the hope of planning consent for a more valuable use. In the context of anticipated hope of consent for a more valuable use than the existing planning consent, such hope value may be defined as the difference between the value of the land with the benefit of the current planning consent and the value with an enhanced, assumed, consent that is reflected in the market value of the land. The proportion that can be properly reflected in the reported value is almost entirely subjective, being based upon comparables and the valuer’s experience and knowledge of the market. In common with all other valuation exercises, it is recommended that valuers be transparent about their approach and, particularly when reporting for loan security purposes, **this element of the reported value be identified as a separate figure.**”*
- 8.21. Importantly, the DV himself made a series of statements whilst providing verbal evidence to the Inspector at the Churchlands (Lisvane) Planning Inquiry, stating “No valuer who wants to keep their Professional Indemnity for very long is going to value a site at its full development value if it does not have planning.”
- 8.22. The principal point here is that the development sites were all regarded in the marketplace as very high risk, with the planning position very uncertain and subject to change on a regular basis. Any sale in the market would not have attracted hope value and it is therefore inappropriate to value on this basis. The mechanism used to protect vendors in these circumstances is Overage.
- 8.23. Overage must be regarded as a separate matter and, as explained above, is a mechanism whereby a vendor can share in the future increase in value of a site or property as a result of an agreed set of circumstances or eventualities.
- 8.24. The results from Overage provisions will always be uncertain and are rarely allowed for in a valuation.
- 8.25. Caution should be adopted in applying too much hope to emerging planning policy.
- 8.26. Para 2.6.2 of Planning Policy Wales 7 (PPW7) confirms that the weight to be attached to an emerging draft LDP will in general depend upon the stage it has reached but does not simply increase as the plan progresses towards adoption, and certainty regarding the content of the plan will only be achieved when the Inspector publishes the binding report.
- 8.27. Therefore, inclusion in the LDP does not crystallise value, this will only occur upon receipt of a detailed planning permission.
- 8.28. The market would therefore continue to operate on the basis of market value for the existing use with overage provisions to secure an equitable share of any increased value as a result of an enhanced planning permission, the level of overage being based on respective risk and reward.
- 8.29. A higher initial purchase price would result in a lower overage percentage, if any.

- 8.30. The DV's assessment of the total value of the portfolio of £36.375m is 56% more than the average of £23.281m of the other four consultants, each of whom have the benefit of in-house professional planning advisers, an important factor when valuing development land.
- 8.31. The variation in value does not make sense, particularly as the DV had sight of all the previous valuation reports and was therefore aware of the consensus opinion.
- 8.32. The schedule in Appendix 2 to this response identifies that the assets where the DV is most at variance with the majority opinion are as follows:

	DV Value	Average Value	Difference	% Difference
Lisvane	£10,500,000	£3,366,667	£7,133,333	212%
Monmouth	£3,850,000	£2,263,333	£1,586,667	70%
Towyn	£850,000	£344,500	£505,500	147%
St Asaph	£750,000	£315,000	£435,000	138%
Abergele	£1,300,000	£244,167	£1,055,833	432%

- 8.33. We are also intrigued that the DV has felt it necessary to value the portfolio at £31.775m as at October 2009 (the original King Sturge valuation date), £32.77m as at March 2010 (the transfer date) and £36.375m as at March 2013 (the sale completion date), without apparent justification.
- 8.34. The graph in Appendix 3 identifies that the economy was in recession during this period, with the Welsh economy underperforming the UK economy; and the Welsh economy experiencing particular volatility between 2010 and 2012.

9. MARKET EVIDENCE

- 9.1. Common anecdotal opinion that has been expressed indicates that the sale of the site at Lisvane was at under value and that the development value is close to £1m per acre. This view is flawed, on several grounds:
- Recent transactions (in a better market than in 2012) indicate a 'prime value' for residential development land in this area of circa £600k to £650k per acre. This is only achievable on the prime 'developable area'. LSH reported this as their opinion of likely value to the RIFW Board in a paper dated 02.06.2011.
 - The total area of the Lisvane site is circa 120 acres. Of this, only circa 60 acres may be developable, with the remainder either unsuitable for development or required for access, infrastructure, drainage and amenity areas or social benefit uses under planning obligations.
- 9.2. We refer the Public Accounts Committee to the following examples that show the reality and difficulty of selling and valuing development land and the risk that the landowner or developer is taking on, which should not be underestimated:

1. Idem Mill, Cardiff

- 9.3. A 64 acre site (initial marketing of 41 acres but extended during the marketing process to include adjacent land) originally marketed on behalf of Arjo Wiggins in 1999 by King Sturge and acquired by the Welsh Development Agency in competition with the private sector at a price of £12.5m (£195k per acre), with completion taking place in December 2000. At the time there was an estimated £5m remediation cost associated with the site.
- 9.4. King Sturge tried to sell the site in 2002/3 and the site was subsequently withdrawn from the market. Details of this campaign are unknown.
- 9.5. In 2007 Savills was appointed to sell the site with the benefit of a resolution to grant planning consent for a new community of up to 900 homes with a range of community facilities and public open space. Welsh Government was looking for innovative sustainable development, which was to include Code 6 provisions and substantial social housing provision. Bids were received in 2008 from three National House Builders and we understand the prohibitive sustainability and social requirements created negative to negligible land value and once again the site was withdrawn from the market.
- 9.6. In March 2012 a conditional land sale agreement was entered into between the Welsh Ministers and a "not for profit" organisation, Ely Bridge Development Company, for nil consideration and a remediation fund contribution understood to be circa £6m, although we do not have details of this. Planning consent was achieved in April 2014 and it is understood that 53 acres are to be developed for some 750 new homes, 60% of which are due to be affordable. DTZ (now Cushman & Wakefield) is appointed to market up to 14 acres of development land, the sale proceeds of which are to be used to part fund the construction of affordable homes.

2. Parc Derwen, Brackla, Bridgend

- 9.7. A 210 acre site on the outskirts of Bridgend (close to J35 of the M4) with planning for a total of 1,500 houses. Welsh Government had sold 112 acres to a number of parties, including Persimmon Homes, and has recently marketed and sold the remaining 98 acres with planning permission granted for 560 units.
- 9.8. There was a significant Section 106 obligation being placed on the purchaser, which we understand was in the order of £6.4m. Contracts were exchanged with Persimmon in April 2014 to purchase the 98 acres, plus the Section 106 liability, for £20m. The purchase price plus the liability gives a clean land value of just under £270k per acre gross and, assuming 12 plots per acre, this provides a net land take of 49 acres or £538k per acre net.
- 9.9. We understand there was an overage provision placed on the 4 acres of commercial land which was included at virtually no cost and also an overage based upon achieving additional development on the site over and above that already consented. We understand that payment to Welsh Government is deferred over a number of years following completion, which is not unusual in these circumstances.

3. Filton, Bristol

- 9.10. This development opportunity is being sold by BAE Systems, with exchange of Contracts having taken place recently. The site is the former Filton Airfield, where Concorde was developed, and is an established residential and commercial location close to Cribbs Causeway.

- 9.11. The site totals 350 acres and has outline planning permission for 2,675 residential units on circa 160 acres of land and approximately 1.2m sq ft of commercial space on 60 acres plus green space and community uses. The site has planning certainty and strong local support, although is a major project in terms of investment in infrastructure etc, similar to Lisvane, and will need to be developed over a long period of time.
- 9.12. The quoting price for the land was £70m (£200k per acre overall or £320k per acre for the developable area) and we understand that a price close to this amount was achieved. There was a formal bidding process, where a 'long list' of 10 parties was whittled down to a shortlist of four, including Gallagher, Barratt, Redrow and YTL (a Malaysian company that own Wessex Water).

4. Monmouth

- 9.13. Planning permission on the site in Monmouth was marginal and was eventually achieved by a single casting vote.
- 9.14. The site was openly marketed, with a formal bidding process and offers received from five national house builders. A price of £12m was agreed with Barratt Homes, reflecting £180k per acre overall or £520k per acre for the developable land.
- 9.15. In LSH's supplemental transaction report to the RIFW Board dated 2 June 2011, we provided an estimate of the overage that could be applicable to this site and suggested that the Monmouth land could be worth £13.8m net value, which equated to £600k per acre (developable) when planning permission had been achieved.
- 9.16. Site value is very sensitive to small changes in development cost and abnormal site conditions, which may only be determined after detailed investigation. Issues such as planning, ground conditions, utilities, infrastructure provision, build cost, Local Authority and statutory requirements, fees and profit levels all fall into this category and thorough knowledge is required to provide an accurate assessment of value.
- 9.17. [REDACTED]
- 9.18. This would suggest that the DV has assumed that the residential element of the Monmouth asset would secure in excess of £23m with the benefit of planning consent.
- 9.19. In December 2014 following an open market tendering exercise involving all the national house builders active in Wales, the residential element of the site sold for £12m. On this basis it would appear that the DV has over valued this asset by almost 100% compared with the open market transaction.
- 9.20. The whole approach adopted by the DV must therefore be highly questionable in terms of credibility.
- 9.21. In the same report, we provided an assessment of the value of the land at Lisvane to also be £600k per acre (developable). This has been borne out by the Brett Associates report and Cardiff Council Community Infrastructure Provision for Landowners, which suggested a value of £600k per acre in 2013, which has subsequently been reduced to £400k per acre, a figure which has been verified by the DV.
- 9.22. The Lisvane site has still not achieved a Local Development Plan allocation despite two planning applications being made and a current planning appeal having been heard, three and a half years after the date of the sale. There is a danger that a decision will be

postponed until after the local elections in May 2016 and, if there is a change in Administration, the Policy may be reversed and the application refused. This would mean that RIFW, and the Welsh Government, lose out on their overage opportunity, with a possible additional receipt of circa [REDACTED].

10. CONFLICTS OF INTEREST

- 10.1. It is stated in the AGW Report that there were two situations where LSH had a potential conflict of interest.
- 10.2. The first is with SWLDL where, in March 2012, LSH was appointed to act for the purchaser in relation to eight of the property assets located in South Wales. Savills was appointed to advise on the North Wales assets. This was after completion of the sale of 14 of the 15 assets and, importantly, exchange of contracts for the sale of the property in Brackla had occurred.
- 10.3. The Report identifies that “the same individual within LSH simultaneously represented both RIFW’s interests and also those of the purchaser”. By way of clarification, we confirm that this individual, who is a Chartered Town Planner, was only reporting to RIFW in this instance on planning matters in an advisory capacity in relation to the deferred completion of Brackla Industrial Estate, which was actually advantageous to RIFW as both parties’ interests were aligned. Both parties were aware of, and accepted, the position.
- 10.4. The completion of the sale of Brackla Industrial Estate to SWLDL was conditional on completion of an earlier subject to planning sale of part of the asset to Linc Cymru Housing Association, negotiated by Welsh Government.
- 10.5. The Linc transaction was to facilitate the development of the entire affordable housing allocation of the Brackla Industrial Estate Master Plan / Development Brief, which had the benefit of removing any cost burden of affordable housing provision from the asset transferred to RIFW (and any future purchaser/developer).
- 10.6. Given the risk of significant value impairment to the asset if the affordable housing requirement of the Master Plan had not been contained on the Linc land, the transfer to SWLDL was conditional on the Linc sale completing.
- 10.7. RIFW considered that it was more practical for SWLDL to deal with Linc to ensure that it could fulfil any planning conditionality of its outline consent, because Linc needed access to adjoining land forming part of the asset to be transferred to SWLDL, in order to discharge those conditions.
- 10.8. Clearly it is here that the interests of both RIFW and SWLDL were aligned, as in order for SWLDL to complete the transaction, it needed to be satisfied that the land was unencumbered from the burden of an affordable housing allocation and similarly RIFW did not want to be left with an impaired asset if Linc did not secure planning consent and consequently SWLDL did not complete on the purchase.
- 10.9. Therefore, following exchange of contracts on the portfolio sale, whilst engaged by SWLDL to monitor the Linc planning application, LSH’s planning director was requested by Amber and the RIFW Management Board to continue to provide updates in relation to the Conditions Precedent under the Brackla sale to SWLDL and the connected Linc Cymru transaction with Welsh Government.

- 10.10. It should be noted that the apportioned sale price ascribed to Brackla Industrial Estate as part of the portfolio sale was £6,018,029, representing circa 28% of the total price. Meeting the match funding requirements of the Fund without the sale of this asset (unimpaired) was clearly at risk.
- 10.11. AGW specifically note that “We have not seen any evidence of improper conduct or of RIFW’s interests being compromised due to the existence of this conflict on the part of LSH”.
- 10.12. The second is in relation to a potential investment opportunity in Mumbles where LSH did not declare any potential conflict of interest to the Board but where AGW state that they have established that “LSH had acted for third parties in relation to proposed developments at the Mumbles site”
- 10.13. We did not have a contractual or fee generating relationship with the parties involved and there was no conflict of interest. LSH know many developers in the Wales market, which is one of the reasons we were appointed as Investment Manager, and always disclosed where a potential conflict of interest may exist.

APPENDIX 1

REGENERATION INVESTMENT FUND FOR WALES

PORTFOLIO SALE - APPORTIONMENTS

No	Asset	Transfer Value	Revised Book	Apportioned Price	Notes
1	Imperial House, Newport Imperial Courtyard, Newport	5,200,000	5,100,000	3,351,954 2,400,574	Land removed from Portfolio (£100k) Combined Apportionment - £5,752,528
2	Lisvane, Cardiff	1,835,000	1,835,000	1,835,000	Plus Overage
3	Wrexham Industrial Estate	390,000	390,000	390,000	
4	Llantrisant Business Park	330,000	330,000	330,000	
5	Upper House Farm, Rhoose	2,700,000	2,700,000	2,986,889	
6	Cogan Hall Farm, Penarth		-	-	Removed from portfolio
7	Garth Park, Talbot Green		-	-	Removed from portfolio
8	Goetra Uchaf Farm, Bangor	1,500,000	1,500,000	1,659,383	
9	Ty Mawr, Llanfairpwllgwyll, Anglesey	150,000	150,000	150,000	
10	Ty Draw Farm, Pyle, Bridgend	100,000	100,000	110,626	
11	Mayhew Foods, Aberdare	300,000	300,000	300,000	
12	Anchor Way, Penarth		-	-	Removed from portfolio
13	Wonaston Farm, Monmouth	990,000	990,000	1,114,319	Plus Overage
14	Towyn Way East, Towyn	155,000	155,000	171,470	
15	Pen y Bryn, St Asaph	230,000	230,000	254,439	
16	St Georges Road, Abergele	90,000	90,000	99,563	
17	Waenfynydd Farm, Llandudno Junction	520,000	520,000	575,253	
18	Brackla Industrial Estate	5,500,000	5,440,000	6,018,029	Part sold (£60k) - Sale of remainder deferred
		20,650,000	19,830,000	21,747,499	

APPENDIX 2

REGENERATION INVESTMENT FUND FOR WALES

WAO REVIEW - 15 July 2015

SUMMARY OF VALUATIONS

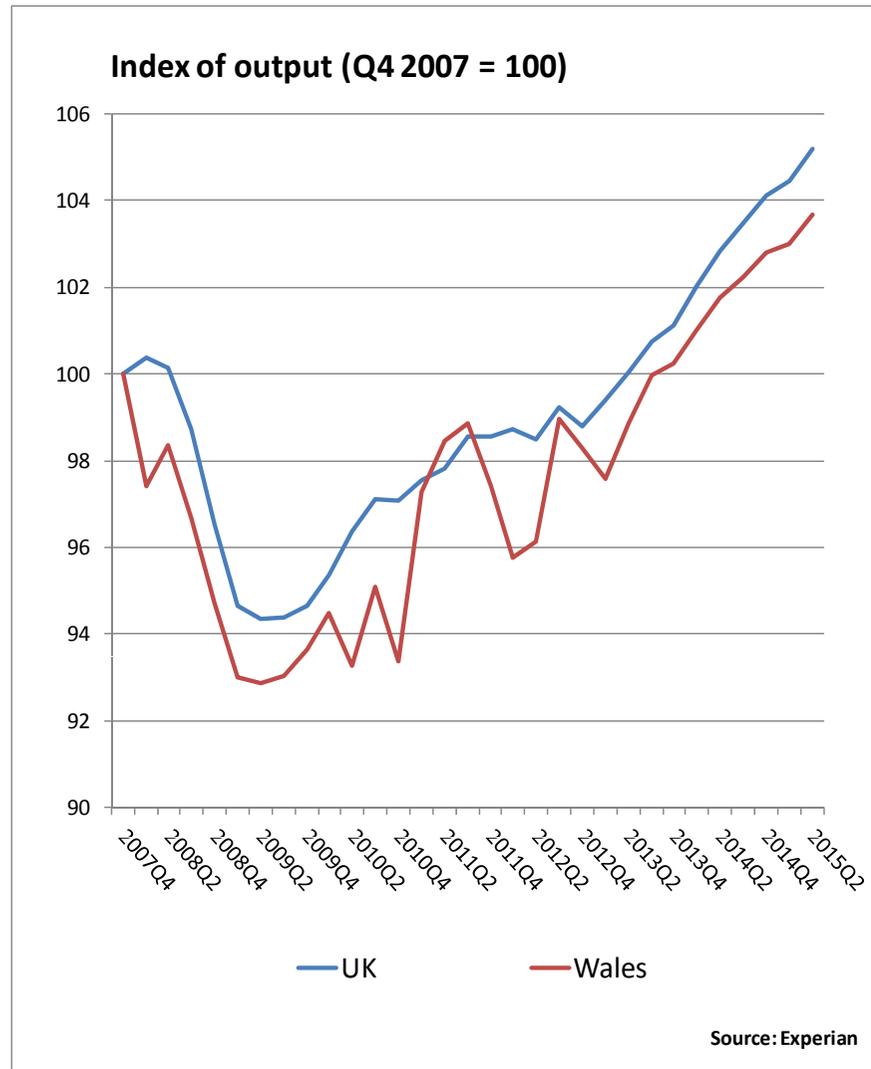
No	Asset	Transfer Value	LSH ARP Value Mar-11	Notional Disposal Proceeds 18-Feb-12	King Sturge EUV 1-Oct-09	King Sturge MV (incl Hope Value) 1-Oct-09	Savills (incl Hope Value) Low Jan-12	Savills (incl Hope Value) High Jan-12	Colliers 18-Feb-12	Delta	Highest	Average	District Valuer 2-Mar-12	£ Difference	% Difference
1	Imperial House, Newport	5,100,000	4,000,000	5,752,528	5,100,000	5,100,000	3,500,000	4,000,000	3,625,000	1,600,000	King Sturge	4,220,833	3,700,000	- 520,833	-12%
2	Lisvane, Cardiff	1,835,000	2,500,000	1,835,000	1,835,000	6,100,000	3,500,000	4,000,000	2,265,000	3,835,000	King Sturge	3,366,667	10,500,000	7,133,333	212%
3	Wrexham Industrial Estate	390,000	600,000	390,000	390,000	390,000	219,000	310,250	750,000	531,000	Colliers	443,208	435,000	- 8,208	-2%
4	Llantrisant Business Park	330,000	200,000	330,000	330,000	330,000	300,000	320,000	350,000	150,000	Colliers	305,000	285,000	- 20,000	-7%
5	Upper House Farm, Rhoose	2,700,000	3,000,000	2,986,889	2,700,000	2,700,000	3,440,000	3,950,000	2,200,000	1,750,000	Savills	2,998,333	3,250,000	251,667	8%
8	Goetra Uchaf Farm, Bangor	1,500,000	3,000,000	1,659,383	1,500,000	1,500,000	1,850,000	2,000,000	2,200,000	1,500,000	LSH	2,008,333	3,400,000	1,391,667	69%
9	Ty Mawr, Llanfairpwllgwyll, Anglesey	150,000	200,000	150,000	150,000	150,000	100,000	125,000	300,000	200,000	Colliers	170,833	175,000	4,167	2%
10	Ty Draw Farm, Pyle, Bridgend	100,000	100,000	110,625	100,000	450,000	170,000	210,000	1,300,000	1,200,000	Colliers	388,333	450,000	61,667	16%
11	Mayhew Foods, Aberdare	300,000	300,000	300,000	300,000	300,000	300,000	350,000	295,000	55,000	Savills	307,500	430,000	122,500	40%
13	Wonastow Farm, Monmouth	990,000	1,500,000	1,114,319	990,000	990,000	3,600,000	4,000,000	2,500,000	3,010,000	Savills	2,263,333	3,850,000	1,586,667	70%
14	Towyn Way East, Towyn	155,000	155,000	171,470	155,000	735,000	362,000	400,000	260,000	245,000	Savills	344,500	850,000	505,500	147%
15	Pen y Bryn, St Asaph	230,000	230,000	254,439	230,000	700,000	200,000	250,000	280,000	80,000	Colliers	315,000	750,000	435,000	138%
16	St Georges Road, Abergele	90,000	150,000	99,563	90,000	175,000	300,000	400,000	350,000	310,000	Savills	244,167	1,300,000	1,055,833	432%
17	Waenfynydd Farm, Llandudno Junction	520,000	1,000,000	575,253	520,000	520,000	735,000	825,000	475,000	525,000	LSH	679,167	1,000,000	320,833	47%
18	Brackla Industrial Estate	5,440,000	7,500,000	6,018,029	5,440,000	5,440,000	3,600,000	4,300,000	5,075,000	3,900,000	LSH	5,225,833	6,000,000	774,167	15%
		19,830,000	24,435,000	21,747,498	19,830,000	25,580,000	22,176,000	25,440,250	22,225,000			23,281,042	36,375,000	13,093,958	56%

1	Imperial House, Newport	100,000				Part not transferred
6	Cogan Hall Farm, Penarth					Removed from Portfolio
7	Garth Park, Talbot Green					Removed from Portfolio
12	Anchor Way, Penarth					Removed from Portfolio
18	Brackla Industrial Estate	60,000				Part sold separately

820,000	500,000	-
20,650,000	24,935,000	21,747,498

APPENDIX 3

Comparison of economic output, 2008 to present



- Since 2008, which marked the beginning of the great recession, the Welsh economy has underperformed the UK as whole.
- Over the entire period to Q2 2015, average quarterly growth in Wales has amounted to 0.12%, compared with 0.17% for the UK.
- However, the differential in output growth has fluctuated during the period, with the Welsh economy experiencing volatility between 2010 and 2012.
- Between 2008 and the end of 2010, Wales significantly underperformed the UK, with average quarterly growth of -0.57% , compared with -0.25% for the UK.
- The Welsh economy has rebounded in the years since. Real terms output in the UK is c.5% ahead of the last peak in 2008, while Wales stands circa 3.5% ahead.