

**VALUATION REPORT**  
**ON BEHALF OF**  
**THE SCOTTISH GOVERNMENT**  
**LAND REFORM (SCOTLAND) ACT 2003: PART 2**  
**MACHRIHANISH AIRBASE,**  
**Nr CAMPBELTOWN**

**Valuation Date – 22 December 2009**

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# **I. VALUATION CERTIFICATE**

## **1.0 The Purpose of Valuation**

As a result of the community body, Machrihanish Airbase Community Company (MACC), registering their interest and intending to exercise their right to buy the Machrihanish Airbase, near Campbeltown, The Scottish Government has requested a Market Value of the heritable interest of the subject property, in accordance with Land Reform (Scotland) Act 2003: Part 2 Community Right to Buy. A copy of the letter of instruction received from The Scottish Government, together with a copy of our acceptance response, is contained within Appendix 1.

## **2.0 Compliance**

The enclosed valuation has been carried out in accordance with the provisions of Chapter 5 of the Land Reform (Scotland) Act 2003 as set out in Appendix 2.

## **3.0 Definitions, Caveats and Savings Clauses**

The enclosed valuation is subject to the Supplementary Terms of Valuation contained within Appendix 3.

## **4.0 Bases of Valuation**

Our valuation has been carried out on the basis of Market Value as defined in Clause 59 (6) of Chapter 5 of the Land Reform (Scotland) Act 2003, as set out in Appendix 2.

## **5.0 Date of Valuation**

The date of valuation is 22 December 2009.

## **6.0 Market Value**

We are of the opinion that the Market Value of the heritable interest of the subject property, subject to the tenancies as further discussed within the attached Detailed Report, is

£1  
(One Pound)

This valuation is subject to, and should be read in conjunction with, the Detailed Report which follows this Valuation Certificate.

For the purpose of clarification of procedure under the Land Reform (Scotland) Act 2003, we confirm in accordance with Clause 59(5) of Chapter 5 that the valuation of the property does not include salmon fishing or mineral rights which need to be assessed separately.

In accordance with Clause 59(8) of Chapter 5, we confirm there is no moveable property included within this valuation.

Finally, given the nature of the subjects of valuation, we confirm that this document is for the intended recipients; namely The Scottish Government, Ministry of Defence and Machrihanish Airbase Community Company, for the specific purpose to which it refers. No responsibility whatsoever is accepted to any third party and neither the whole of the document, nor any part, nor reference thereto, may be published in any document, statement or circular, nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

I, Richard J Higgins BA (Hons), Dip LE, FRICS, confirm that the details contained in this Valuation Certificate are true and correct and I am authorised to sign this Certificate for and on behalf of CKD Galbraith, 59 George Street, Edinburgh, EH2 2JG.

Signed.....

Date.....

Richard J Higgins BA (Hons), Dip LE, FRICS  
For CKD Galbraith LLP

## 2.0 EXECUTIVE SUMMARY

<b>Client:</b>	The Scottish Government
<b>Property Address:</b>	Machrihanish Airbase
<b>Town:</b>	Near Campbeltown
<b>County:</b>	Argyll
<b>Location:</b>	<p>The subject property is remotely located at the west side of the Kintyre Peninsula which lies on the west coast mainland of Scotland. It lies approximately 8 km (5 miles) to the north west of Campbeltown in the Argyll and Bute Council Area. The nearest city to the subject property, Glasgow, lies due north-east over Arran and Firth of Clyde, however the indirect road link (A83/A82) extends to some 224 km (140 miles) and takes over 4 hours to drive.</p>
<b>Description:</b>	<p>The subject property comprises the former Machrihanish Airbase. After playing a strategic role in both WWI and WW2, it has been used by RAF, US Navy and NATO. The US Navy withdrew from the site in 1994 and the RAF permanently departed in 1996. In April 2000, the upkeep of the airbase became the responsibility of Defence Estates who operate a care and maintenance policy over the site.</p> <p>The site extends to approximately 409 hectares (1,011 acres) and forms a 'T' shape lying on its side. Bounded in its entirety by a 2m high fence, there are 2 principal access points; the primary located on the north-western boundary and the secondary on the southern boundary. The topography slopes gently down from north to south.</p>

This former airbase comprises principally of a runway and associated taxiways and aprons, a small civilian airport terminal and other associated aviation buildings, three jet fuel storage installations, a large aircraft hangar together with other associated airfield accommodation and a significant number of military related residential and support buildings. The site is split almost symmetrically by the main runway which extends to approximately 3,000 metres (9,842 ft) in length.

The subjects have their own private water supply piped from 2 sources; Killypole lying approximately 4km (3 miles) to the south of the site and Tober Macha lying approximately 1km (0.6 miles) to the north of the site. These sources were developed at the time of initial construction of the RAF station in the period 1939 to 1946. There is also a private foul sewerage system, which has been developed on an ad hoc basis to suit the expansion of the site, and a sewerage treatment works which was originally constructed in the early 1940s, with an upgrade carried out in the 1960s.

The site does not have a mains gas connection however it is supplied by an 11kV three phase electricity cable owned by Scottish and Southern Energy. The supply to the site is split into 7.6kV and 3.3kV spurs which loop around the site via 27 sub-stations.

The site has evidence of contamination, which is not unsurprising given its former use.

<b>Tenure:</b>	Heritable
<b>Date of Valuation:</b>	22 December 2009
<b>Market Value:</b>	£1 (One Pound)

**Use:**

With the exception of the leased areas, the site is currently held under a care and maintenance policy by Defence Estates, with the majority of the buildings currently unoccupied. The buildings on the site comprise generally residential, office and industrial accommodation.

The primary areas leased out include the airfield, currently used by the tenant to operate a daily return flight to Glasgow and an area of ground over which the tenant/sub-tenant is currently constructing a significant production facility for the manufacture of wind turbine towers.

**Pertinent Issues:**

1. The subject property comprises an extensive site situated in a remote location, with the majority of the buildings on the site nearing the end of their economic life.
2. The subject property has its own private water supply and infrastructure of services that require on-going maintenance and repair and also capital investment.
3. As a result of its former use as a military airbase, there is contamination within the site.
4. The subject property offers a longer term redevelopment opportunity, subject to obtaining necessary planning and other consents.
5. Argyll and Bute Council Planning Department has designated the site an 'Area for Action', recognising its strategic importance for economic investment for the local area. It is likely to give its support to redevelopment and inward investment.
6. As at the date of valuation, the anticipated annual running costs of the subject site exceed the income stream generated. However, there are reasonable prospects of positive return in the medium term.
7. It is likely that significant capital investment will be required in the short term to secure positive return over the medium to long term.

8. Current market conditions, including the restriction of funding for speculative development, are likely to significantly limit demand for this substantial development opportunity.

## **3.0 DETAILED REPORT**

### **1.0 MAIN VALUATION DETAIL**

#### **1.1 INSTRUCTIONS**

Our instructions were confirmed in The Scottish Government's letter of 17 February 2010, attached in Appendix I.

#### **1.2 VALUATION DATE**

22 December 2009

#### **1.3 INSPECTION**

Our Chartered Surveyor, Hilary J Matthews MA (Hons), MLE, MRICS, visited and carried out a full inspection of the subjects on Tuesday 9<sup>th</sup> and Wednesday 10<sup>th</sup> March 2010. She was accompanied on the inspection by Allan Muir, Senior Property Manager of Defence Estates. The weather remained sunny for the duration of the inspection.

With agreement from The Scottish Government, taking into account the nature of the subjects being valued, no measurement survey was undertaken of the buildings on the site. Instead, in reaching our opinion of Market Value, we have relied upon areas provided by Defence Estates on behalf of Ministry of Defence (MOD).

#### **1.4 VALUER STATUS**

In preparing this valuation, we are acting as external valuer, in accordance with the provisions of Clause 59(3) of Chapter 5 of the Land Reform (Scotland) Act 2003: Part 2. This valuation has been carried out by two suitably qualified surveyors: one, Hilary J Matthews, MA(Hons), MLE, MRICS and Richard J Higgins, BA(Hons), Dip.LE, FRICS.

## **I.5 INFORMATION**

When carrying out due diligence on any property prior to purchase, the proposed purchaser would not normally rely on information and reports provided by the seller. However, given the time constraints involved in this exercise, and as agreed with The Scottish Government, we have relied upon information and the content of reports supplied to us by Defence Estates.

Both parties were invited to submit written representations on value by close of business on 26 March 2010. Drivers Jonas Deloitte, acting on behalf of MOD, submitted such and this is commented upon later within this report. We received no written representation from MACC.

We have attended a number of meetings with various personnel within Defence Estates and their appointed representative, Iain Lochhead of Drivers Jonas Deloitte. We also took the opportunity to meet with MACC whilst visiting the subjects. Continuing discussions have taken place with both parties throughout the valuation process.

## **I.6 MOVEABLES**

Our valuation excludes any moveable property and we have assumed that, at the point of sale, the various elements of the subjects not leased are vacant and available for any appropriate lawful use.

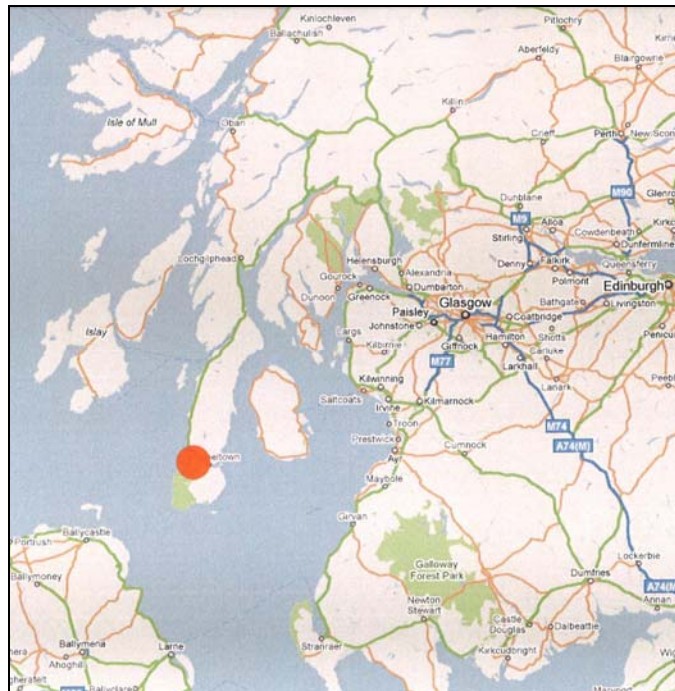
## **I.7 MINERALS**

For the purposes of this valuation exercise, we have assumed that there are no minerals within or beneath the property of any significant value.

## 2.0 LOCATION

The subject property, comprising the former RAF Machrihanish Airbase, is located on the west side of Kintyre Peninsula, approximately 8 km (5 miles) to the north-west of Campbeltown, in Argyll and Bute. The nearest city to the area is Glasgow which lies to the north-east of Campbeltown, across Arran and the Firth of Clyde. Via A83 and A82, Glasgow is approximately 224 km (140 miles) from Campbeltown. The population of Campbeltown is approximately 5,144 persons (2001 Census).

The location plan below shows the Kintyre Peninsula in the context of the wider area. The location of the subject property is indicated with a red dot.



The subject property itself lies on the western side of Kintyre Peninsula and extends to approximately 409 hectares (1,011 acres). The site generally forms a 'T' shape lying on its side and the topography slopes gently down from north to south. The public roads leading to the primary and secondary access gates to the site are included within the subject property, as are 2 drainage ditches linking the site to Machrihanish Water.

The site is bounded to the north, south and east generally by agricultural farmland and various farm buildings, and to the west by the Machrihanish Golf Club and the recently developed Machrihanish Dunes Golf Club. There is a small cluster of residential dwellings to the north-east of the site which comprise the former married quarters for the airbase. For the avoidance of doubt, these buildings are outwith the subject property site.

The site plan below shows what we understand to be the demised extent of the main subject property, edged in black. This plan is also included within Appendix 4 in A3, for ease of reference.



In addition, the subject property includes an underground fuel delivery pipeline leading from the easternmost boundary of the site to the harbour at Campbeltown (plan included within Appendix 4).

The subjects also include 2 water springs; one located approximately 1 km (0.6 miles) to the north of the main site and the other located approximately 4 km (3 miles) to the south of the main site. Both sources of water have pipelines linking the springs to the main site (plan included within Appendix 4).

## **3.0 DESCRIPTION**

### **3.1 SITE HISTORY**

The subject property comprises the former Machrihanish Airbase and has been associated with the Military Services and civil aviation since WWI. Between WWI and WW2, it was known as The Strath and was used by Scottish Air Ferries for their scheduled air flights to Glasgow. During WW2, the site was predominantly used as a training base but played a strategic role in several raids, including the raid on Tirpitz in Norway in 1944.

Following WW2, the site became base to British European Airways who provided an air ambulance service. This remains in service today.

In the late 1950s and early 1960s, the airfield was extended to the east to provide approx 929 sq.m. (10,000 sq.ft.) of runway (the longest in Europe at the time) and its facilities were used to support NATO operations.

In May 1963, the station was taken over by the Royal Air Force and, in 1968, the US Navy established the Naval Aviation Weapons Facility on the site which was designed and built to hold nuclear weapons.

Over the following years, the airfield and its facilities were used by most of NATO's maritime aircraft during exercises, with many NATO and Joint Military Commission (JMC) exercises being conducted there. In the mid 1970s, the base was also home to a US Navy SEAL Commando Unit, a 20 person team known as a Naval Special Warfare Detachment.

Major refurbishment of the base took place between 1988 and 1994, funded by NATO, HQSTC and in some instances by the US Navy. Total cost of this refurbishment was in excess of £100 million, with the major works undertaken including 3 Jet Fuel Storage Installations (JFSI), 2 blocks of Junior Ranks Single Living Accommodation, a block of Officers Living Accommodation, an new air traffic control tower, a Combined Mess facility, a 25m outdoor firing range and a US Navy SEALs operational headquarters providing offices, indoor 25m firing range, parachute tower, boat bay and maintenance and storage facilities.

In 1994 the US Navy withdrew from the site and it was placed into care and maintenance when the RAF permanently departed from the site in 1996. In April 2000, the upkeep of the airbase became the responsibility of Defence Estates who operate a care and maintenance policy over the site.

## 3.2 SITE OVERVIEW

The former RAF Machrihanish Airbase is extensive comprising principally of a runway and associated taxiways and aprons, a small civilian airport terminal and other associated aviation buildings, three jet fuel storage installations, a 6,807 sq.m. (73,271 sq.ft.) aircraft hangar and a number of military related residential and support buildings. The site is split almost symmetrically by the airfield and, more specifically, by the main runway which extends to approximately 3,000 metres (9,842 ft) in length.

The airfield itself, which comprises the central area of the site, provides the main runway (11/29), both northern and southern parallel taxiways, two Jet Fuel Storage Installations (JFSI1 & JFSI2), the civilian airport terminal building together with associated ancillary buildings including the ATC Tower and MT Hangar. In addition, there are four hardstanding aircraft parking areas (PANs 3 – 5 & 24), together with some 24 smaller aircraft parking platforms. The sewerage treatment works is also located within this part of the site.

The area to the south of the runway is dominated by the Gaydon aircraft hangar and its ancillary offices and engineering workshops, the purpose built US Navy SEALs administration and training complex, a jet fuel storage installation (JFSI 3) and two further hardstanding aircraft parking areas (PANs 1 & 2).

The area to the north of the airfield is dominated by a wind turbine manufacturing plant (currently being extended) occupied by Welcon Towers. To the west of this plant, there are 2 sites (known as Sites 1 & 2) which comprise former ammunition storage areas including numerous bomb storage igloos. This area was used by NATO and latterly by the US Navy SEALs.

The north-eastern corner of the site contains the main administrative buildings of the former base, staff and service personnel living accommodation and various welfare facilities, including a large Mess building.

The entire boundary of the site is formed by a 2m high chain link fence topped with scissor wire, with the primary access to the site being gained from a minor road leading off the main A83 road. This road leads to the airport terminal building in the eastern part of the site and the currently controlled main gate on the north-eastern boundary of the site. There is a further access to the site on the southern boundary.

The roads leading to the access gates are not adopted but form part of the subject property. At the southern access point, the road extends from the main gate of the site to, and including, the bridge crossing the Machrihanish Water. At the time of our inspection, the bridge was closed as it is deemed unsafe. However, for the purposes of this valuation, we have been instructed to assume that this bridge has been repaired to an acceptable, although not necessarily adoptable, standard.

### **3.3 SUMMARY OF EXISTING BUILDINGS**

The site houses a significant number of buildings which vary in age, type and use including original residential, storage and office accommodation from the 1940s, newer warehouse and administration accommodation built in the 1980s, together with the purpose-built US Navy SEALS complex, also built in the 1980s, further residential blocks dating to the end of the 1980s and a purpose-built mess facility built in 1990.

Appendix 5 provides a comprehensive Asset Register of all existing accommodation provided within the site, together with some basic information about each. This was provided by Defence Estates.

For the avoidance of doubt, we have not undertaken a measurement survey of the properties but instead, as agreed with The Scottish Government, we have relied on the gross internal areas provided within this Asset Register, with the exception of the Gaydon Hangar and the SEALS Complex. In these instances, Defence Estates have provided updated gross internal areas and we have adopted these updated areas.

At the time of inspection, we noted that the majority of buildings are now unused, with the exception of the Headquarters Building (No 71), and those let out to the various tenants. We also understand that some of the barrack accommodation is used on an informal and ad hoc basis.

### **3.4 MAIN ASSETS**

As noted in the Asset Register included within Appendix 5, there are a significant number of existing assets (the majority being buildings) within the subject site. However, we believe only a handful of these assets have any value or potential value to a prospective purchaser. Accordingly, we have provided the main detail for these elements only below. We have assumed the remainder to be surplus and likely earmarked for demolition/redevelopment at some point in the future.

*For ease of reference, where appropriate, we have utilised the same numbering as the Site Plan included attached within Appendix 4. We have also included photographs of the various elements discussed below within Appendix 6.*

### **Airfield**

The airfield comprises a fully operational runway (11/29), of concrete and blacktop construction, extending to approximately 3,000m (9,842 ft) in length and approximately 46m (151 ft) in width. In addition, there is a southern taxiway which lies parallel to the main runway and we understand can serve as a back-up runway. A further northern taxiway, also running parallel to the runway, was constructed in 1991, together with 24 aircraft parking platforms (APPs). We understand that all APPs are of concrete construction and incorporate oil interceptors. As previously discussed, there are also 6 larger concrete aircraft parking PANs strategically located throughout the airfield.

We are advised that the airfield navigational aids include a beacon and Precision Approach Pathway Indicator Lights (PAPIs). However, there is no radar or instrument landing system (ILS) at the airfield.

To the north of the runway and taxiways, at their western end, there is a fully operational ATC Tower (No 148), which we understand was constructed in 1993 and fully commissioned in 1994 and comprises the tower, together with some basic office and ancillary accommodation at ground floor level. This building has a gross internal area of approximately 279 sq.m. (3,000 sq.ft.).

Building 120, otherwise known as the MT Hangar, is situated in close proximity to the north east of the ATC Tower. Extending to a gross internal area of approximately 2,850 sq.m. (30,677 sq.ft.), this is currently used by the fire operation associated with the civilian airline operated by Highlands and Islands Airports Limited (HIAL) as storage and workshop accommodation.

A small single-storey terminal building (No 299) is located at the eastern end of the main runway, and benefits from airside access and separate civilian access. It provides relatively open accommodation with adequate WC provision. We understand that this building extends to a gross internal area of approximately 300 sq.m. (3,229 sq.ft.).

### **Highlands and Islands Enterprise (HIE) Site (Site 3)**

Situated to the north of the ATC Tower, an area of ground, extending to approximately 26.87 hectares (66.40 acres), has been let on a long ground lease to HIE. Included within this leasing arrangement is a hangar which, we have been advised, extends to a gross internal area of approximately 3,716 sq.m (40,000 sq.ft.). For identification purposes, we have named this Site 3.

Whilst we have not had site of any legal documentation, we understand that this site is currently occupied by Welcon Towers Limited, who hold a sub-lease over the entire subjects.

At the time of inspection there was significant construction ongoing of a large manufacturing complex which we understand received detailed planning consent. Appendix 7 includes the construction plans which were attached to the most recent planning consent.

At the time of inspection, we also noted some aviation lighting outwith the demise of the subject site. We have not had sight of any documentation relating to such however, for the purposes of our valuation, we have assumed that these are held by adequate wayleave agreements and that these are transferable to a willing purchaser of the subject site.

### ***Former Ammunition Storage Areas (Sites 1 & 2)***

Situated at the north-west of the site, there are 2 sites, extending to approximately 26.87 hectares (66.40 acres), that comprise former ammunition storage areas.

Site 1, on the western extremity of the subject site boundary and adjacent to Machrihanish Golf Courses, comprises 32 individual buildings which varied in use from basic ammunition storage to workshops and assembly facilities. There is a 3m high perimeter security fence around this site.

Site 2, situated to the east of Site 1, comprises 5 general purpose buildings and numerous bomb storage igloos. There is a double security fence around the perimeter of the site, together with two watchtowers.

### ***Gaydon Hangar (No 292)***

Located to the south of the runway at its western end, the Gaydon Hangar extends to a gross internal area of approximately 6,807 sq.m. (73,260 sq.ft.). We have been advised that it was originally constructed in 1940, but in 1988 a significant refurbishment programme was undertaken including re-roofing, partial rewiring and upgrading of the heating systems.

The hangar has various annexes which have historically provided engineering and maintenance workshops, store, office and ancillary accommodation.

PAN 1 and PAN 2 are located immediately adjacent to the Gaydon Hangar. We understand that these areas are equipped with aircraft tie down anchors, oil interceptors and power supplies.

### ***Jet Fuel Storage Installations (JFSIs)***

Located both north and south of the runway, there are 3 separate fuelling installations, with a total capacity of 6.25M litres. Each JFSI is equipped with a control room from which the distribution of fuel throughout the airfield can be controlled. Each installation also has back-up generator plant, oil interceptors, slops tank etc. The JFSIs are linked, via a pipeline, to a fuel import facility at Campbeltown (NATO POL Depot).

Built in the early 1990s to serve the NATO fleet, we understand that JFSI 1 and 3, together with all interconnecting pipelines, are empty and have been cleaned, whilst JFSI 2 contains some American fuel which requires to be emptied. We have been advised by Defence Estates that JFSI 2 will be emptied and cleaned prior to any sale of the subject property. Our valuation assumes this to be the case.

Whilst leading to the NATO POL Depot in Campbeltown, the subject property being valued does not include connection to or use of the actual pumping facility within the Depot. We have been advised that the pipeline leading to the fuel import facility has been 'pigged' and cleaned and contains nitrogen. Again our valuation assumes this to be the case.

### ***Combined Mess Facility (No 25)***

We have been advised that the Combined Mess facility was constructed in 1990/1991. It comprises a single-storey, brick built building under a curved profile roof. The accommodation includes 3 dining rooms situated around a fully equipped commercial kitchen, together with several bar facilities, communal areas, reception rooms and WC facilities.

The building extends to a gross internal area of approximately 2,078 sq.m. (22,368 sq.ft.) and has patio/bbq areas to the rear of the building.

### ***Operations and Maintenance Complex (Nos 175A and 175B)***

Originally purpose built for the US Special Forces (Navy SEALs) in 1992 for a reported £7M, this specialised complex is located to the south of the main runway and is in close proximity to the Gaydon Hangar. There is a full perimeter security fence around the complex.

The buildings within the complex extend to a total gross internal area of approximately 3,963 sq.m. (42,658 sq.ft.) with the accommodation provided including a 25m indoor firing range, a parachute tower, an armoury, 3 maintenance bays with up and over vehicle doors and various rooms formerly used for operations, briefing, isolations, communications and the drying of equipment.

### ***Kilkenzie House (No 26)***

Located within the north-eastern area of the site, adjacent to the Combined Mess facility, Kilkenzie House was constructed in 1992 and comprises a 2-storey brick built building, under a pitched slated roof. It previously served as a single officers living accommodation and provides 28 bedrooms, all with en-suite facilities. A kitchen and laundry are provided at both ground and first floor levels.

### ***Campbell and McDonald Accommodation Blocks (Nos 61 & 62)***

Situated in close proximity to the Combined Mess facility and Kilkenzie House, these two separate blocks were constructed in c.1988. Brick built, under a pitched, slated roof, each building is 2-storeys high and formerly served as 'junior ranks single living accommodation'. Each provides 36 rooms which are equipped with built-in wardrobes and a wash hand basin. Facilities including toilets, showers and baths, kitchen and drying rooms are shared at a ratio of one set per 6 rooms.

We have been advised that each block extends to a gross internal area of approximately 884 sq.m. (9,515 sq.ft.).

### ***Headquarters Building (No 71)***

The current headquarters building was originally constructed and designed in c. 1992 for the US Navy SEALs and, on withdrawal of the US Forces from Machrihanish, the building was adapted by the Royal Air Force as their Station Headquarters. It comprises a 2-storey, brick built, 'L' shaped building under a pitched slated roof and currently provides basic office accommodation for personnel of Defence Estates and their contractors. We understand that the building extends to a gross internal area of approximately 2,632 sq.m. (28,331 sq.ft.).

## **3.5 STATE OF REPAIR**

We have not undertaken structural or condition surveys of any of the buildings, nor have we had sight of any such reports. However, during our inspection, it was noted that the original buildings on the site are reaching the end of their economic lives. The newer buildings (i.e. generally those discussed within Section 3.7.3 of this report) appear to be in reasonable condition. Whilst we understand that Defence Estates have an ongoing maintenance programme to keep the buildings generally wind and watertight, it was noted that most would require some degree of internal maintenance and repair to restore them to lettable condition.

For the avoidance of doubt, for the purposes of this valuation exercise, we have assumed that all buildings that have been attributed value or potential value are wind and watertight and structurally sound.

Whilst we are aware that buildings constructed by MOD are unlikely to have the benefit of planning or building warrant consents, in the absence of further information we have assumed, for the purposes of this valuation, that the buildings would comply with all necessary statutory regulations.

## **3.6 SERVICES**

The site benefits from private water, sewerage and electricity provisions. There is no mains gas supply to the site.

In summary, the main details of the infrastructure provisions are detailed below.

### **3.6.1 Water Supply Facilities**

The present water supplies to the site were developed at the time of the initial construction of the airbase in the period 1939 to 1946.

The current primary supply of water is from the Killypole source which is located to the south and comprises a series of collector drains that intercept the flow of near surface springs across a 400m (1,312 ft) section of the steep north slopes of Slate Hill. Collected water is pumped through a pipe, approximately 4km (3 miles) in length to the pipework within the subject site.

A secondary back-up water source is provided by the Tober Macha supply. This supply is sourced from the interception of shallow groundwater springs approximately 1km (0.6 miles) north of the site. The water is collected and gravity feeds an underground storage tank (250m<sup>3</sup> capacity) from where it is pumped to the main service reservoir (550m<sup>3</sup> capacity) supplying the subjects.

Water supply and fire main pipework are interconnected at various points and fed from the same supply. We understand that much of this pipework is of asbestos cement, dating from the time the Base was constructed, however, we further understand and assume that this poses no health and safety risk in the installed state.

We have not had sight of any documentation relating to such, however we assume that appropriate wayleave agreements are in place in respect of the pipelines linking the water sources to the subject site, that negligible rents are payable and that they are transferable to a purchaser of the subjects.

We are further advised that the MOD hold right of access agreements to both water source supplies and that these are at negligible rents. No documents have been provided in this regard, however we have assumed this information to be correct.

### **3.6.2 Foul Sewerage Facilities**

The foul sewerage system has been developed on an ad hoc basis to suit the expansion of the subject site. Most of the buildings are connected to the system either via a gravity fed system or via a pumped/ejector system.

There is a treatment sewerage works (No 151) located on the north side of the main airfield which was originally constructed in the early 1940s, with an upgrade carried out in the 1960s. The works comprise screening chambers, settling tanks, percolator filters, humus tanks and sludge drying beds.

The waste water treatment works accept gravity fed waste from the north-east area of the base. Waste from the south of the runway, and the north-west and central areas of the site is pumped to a gravity sewer. There are 3 pump houses within the site. The sewers are of mixed construction – asbestos/cement, pvc, clay and concrete. We are advised that the waste water treatment works has a population capability in the order of 2000.

It is reported that since the closure of the base, the through-flow of waste water is not sufficient for all 4 filter beds to operate efficiently and therefore only one is currently operational. Indeed, currently the waste water treatment works act as no more than a septic tank, collecting waste which is then trucked to Glasgow for waste.

### **3.6.3 Electricity**

The site is supplied by an 11kV three phase electricity cable owned by Scottish and Southern Energy. The cable is routed overhead to a sub-station to West Portfergus, south of the base and then underground into the first sub-station within the site. The supply is then split into 7.6kV and 3.3kV spurs, which loop around the site via 27 sub-stations.

### **Comments**

- When providing and managing all the above private facilities, there are a significant number of governing regulations that require to be adhered to. For the purposes of this valuation, we have assumed that all statutory regulations are being complied with and that all licences required are held. We further assume that the regulation governing these services will be the same for any future owner.

- We have been advised that the management and maintenance of the water supply and foul sewerage facilities are outsourced to a specialist contractor under the contract named 'Project Aquatrine' which expires in 2030. We understand that at the end of the contract the infrastructure is to be returned to the same condition as it was at the outset in 2005. We have further been advised by Defence Estates that the contract can be ended prematurely by MOD, however, if this occurs, the aforementioned renewing/repairing obligations are not in place.

Accordingly, for the purposes of our valuation, we have assumed that Project Aquatrine can and will be ended by the MOD at the date of transfer of any change in ownership. We have further assumed that the infrastructure is returned in its existing condition i.e. as described within the Scott Wilson reports, included within Appendix 8.

- Whilst not having been provided with a full list of recipients, we have been verbally advised by Defence Estates that the privately owned residential dwellings to the north-east of the site are currently being provided with water and sewerage services by MOD. In addition, we understand that a number of surrounding farms, together with the Machrihanish Dunes Golf Resort, are also provided with the same services. We understand that no monies are currently being collected for these services used.

We have not had sight of any documentation relating to the above but are advised by Defence Estates that there is no legal obligation for the owners of the subject site to provide the services to these off-site properties. We believe there was an agreement between Defence Estates and a company called Anglohouse which obliged MOD to provide these services to the former married dwellings on the north-east boundary of the site. However, Anglohouse no longer exists and, accordingly, we have assumed that this obligation no longer prevails.

For the purposes of this valuation, we have assumed that there is no legal obligation to provide services to properties located outwith the subject site. This does not, however, preclude the existing (or any future) owner of the site from agreeing contracts to provide water and sewerage services with any or all of the surrounding residents, on commercial terms in the future.

### **3.6.4 Condition of Services Infrastructure**

We have been provided with copies of various reports prepared for Defence Estates which relate to the services provided within the subject site. These include 2 reports prepared by Scott Wilson dated April 2008. The first provides a Systems Assessment of the Water and Sewerage Services within the site and the other provides a Risk Register of the Infrastructure Facilities. The former provides detail and general condition of the water and sewerage systems on the site, whilst the latter provides estimated costings to maintain the infrastructure to current operational standards, and further estimated costings to bring the system up to 'adoptable' standard.

We have also been provided with a report prepared by Wardell Armstrong LLP, dated 13 March 2009 and titled 'Utility Infrastructure and Ground Conditions', which provides a desktop review of the ground conditions and utility infrastructure of the former airbase. Copies of these 3 reports are included within Appendix 8.

## **3.7 CONTAMINATION**

We have been provided with a copy of a Phase 2 Land Quality Assessment report and Technical Note, prepared by Entec, and dated 28 June 2000. This was prepared for Defence Estates following a Phase 1 (desk based) Land Quality Assessment of the subject site, at which time Entec recommended that a Phase 2 intrusive investigation, along with a walkover radiological survey, was necessary.

The report is attached as Appendix 9, and the conclusions of the report can be summarised as follows:-

- Chemical contamination of soils are described as localised and are of limited extent associated with landfill, fuel handling/storage and workshop activities.
- 4 very localised areas of increased concentrations of radioactivity were identified at levels considered to be radioactive as defined by the Radioactive Substances Act 1993. It is recommended that these areas are removed.
- Aside from the radioactive contamination, soil chemical contamination is essentially considered to be low.
- No evidence of asbestos materials was recorded in the soil matrix.

When considering potential redevelopment of the site, the report states as follows:-

*'Since localised elevated levels of some contaminants have been recorded, it is conceivable that other areas may exist elsewhere on site. It is also possible that instances of elevated radioactivity could be present arising from buried instruments in past aircraft maintenance areas of the site. This will be an important consideration in any development works.'*

*The concentration of contaminants is, in most cases, unlikely to pose any significant hazard to building structures or underground services. The possible exception to this is localised fuel/diesel contamination which could degrade plastic construction materials, particularly water supply pipework and taint drinking water. Elevated sulphates within fill materials and drains are also of concern. In addition, landfill gases are present at the former petrol BFI site which could present risks particularly if confined in excavations.'*

Estimated remediation costs are provided within this report and these are commented upon later.

We have also been provided with a copy of MOD's Phase I, II and III Explosive Ordnance Risk Assessment report dated February 2010 which was carried out to Sites 1 & 2 at the north-west corner of the subject site. A copy of this report is included within Appendix 10.

The report concludes that there are 4 areas of potential concern, all of which are given a low risk rating. In addition, it is concluded that the risk of injury or damage caused by the initiation of explosive ordnance within the storage area at the site is low.

The report further recommends that, should the site be redeveloped, construction industry guidelines (CIRIA report number: C681, Unexploded Ordnance (UXO); a guide to the construction industry) should be followed. If the site is redeveloped for residential use, it recommends that a surface scrape is carried out to remove all remains of training or pest control ordnance.

## **4.0 LEGAL AND STATUTORY ENQUIRIES**

### **4.1 TENURE AND TITLE**

We have been provided with a copy of a Report on Title prepared by Morton Fraser WS on behalf of Defence Estates and dated 12 March 2010.

Section 11 of this report concludes that 'Based on the documentation provided to us, we confirm that MOD has a valid marketable [heritable] title, subject to the possible application of Crichel Down Rules to small areas of undeveloped land.' The report summarises what they believe to be the main title conditions and issues likely to affect marketability, together with the main conditions and reservations attached to the Title.

Whilst we have not had sight of any documentation stating such, we understand that the solicitors for Defence Estates confirm there are no former owner rights under the Crichel Down Rules.

For the avoidance of doubt, in the absence of further legal consideration of this report, in reaching our opinion of Market Value, we have made an assumption that the subject property has a good and marketable title and that there are no encumbrances, restrictions, easements or other outgoings of an onerous nature, which would have a material effect on the Market Value of the interest. Should this assumption prove to be incorrect, we reserve the right to amend our valuation accordingly.

### **4.2 TENANCIES**

We have been advised that there are a number of existing tenancies within the subject site which require to be considered.

We have been provided with copies of the three longer term leases. The salient details of these tenancies are provided below:-

#### 4.2.1 Site 3

- Tenant:** Highlands and Islands Enterprise
- Demise:** All and whole the area of land (including the Road) extending to 28.65 hectares (70.8 acres) or thereby forming part of the Establishment shown coloured pink and partly hatched blue and partly hatched red, coloured light blue, coloured yellow and partly hatched red and coloured green and partly hatched red on Plan included within Appendix 11, together with Building 121, and an renewal or replacement thereof, and all Pipes within or exclusively serving the said subjects or any part thereof.
- Term:** 21 December 2009 until 27 May 2051
- Rent:** £171,737.46 per annum (exclusive of VAT)
- Rent Review:** 28 May 2011 and 5 yearly thereafter
- Rent Review Basis:** Upward only to greater of (a) the open market rent of the demise (assuming Building 121 extends to 20,000 sq.ft. with hardstanding area extending to 20,000 sq.ft.) and (b) a formula linked to increase in RPI Index.
- User Clause:** Not to use other than for a wind turbine manufacturing facility incorporating tower production, assembly production, administration and storage and for associated activities incidental there to or for such other use falling within classes 4, 5 or 6 of the Schedule to the Town and Country Planning (Use Classes) (Scotland) Order 1997 as may be approved in writing by the Landlord such approval not to be unreasonably withheld or delayed.
- Alienation:** The tenant is permitted to assign the subjects in whole with landlord's consent not to be unreasonably withheld or delayed.
- The tenant is permitted to sub-let the subjects on whole or in part (no greater than 4 partial sub-lets permitted) with landlord's consent, not to be unreasonably withheld or delayed.

### **Repairing and Insuring Obligations:**

Effectively a full repairing and insuring lease. There are schedules of condition attached to both Building 121 and to the Access Road.

### **Utilities Agreement:**

There is a Utilities Agreement annexed to the Lease which, in summary, places an obligation on the Authority (currently MOD) to provide electricity, fresh water and a sewerage service to the subject property, as required by the Operator (currently Highlands and Islands Enterprise).

The Operator is required to pay a fair and equitable proportion (relative to consumption) of the repair, maintenance and renewal costs of the electricity, water and sewerage systems, together with an additional 15% administration charge.

The Operator shall further pay for consumption of services as per a Price Scheme attached to the Agreement.

*There appears to be a contradiction within this Agreement which raises concerns as to whether the Agreement is assignable by the Authority. For the avoidance of doubt, we have assumed that this Agreement can and would be assigned to a potential purchaser of the subject site.*

## **4.2.2 Airfield and Associated Buildings**

A lease held over the various parts of the subjects, delineated in the plan attached within Appendix 12, were let, as at the assumed date of valuation, by Highlands and Islands Airport Limited (HIAL) on a peppercorn rent. Held for a period of 14 years, the lease expired on 31 March 2010. Under this lease, the landlord was liable, at their own costs, for the maintenance and repair of the various elements of the property (including the runway). In addition, the landlord was obliged to provide electricity, water and sewerage provision at no charge to the tenant.

Whilst we have not had sight of any documentation, we are advised that proper legal documentation was served by Defence Estates, on behalf of The Secretary of State for the Defence to end this tenancy as at the expiry date of 31 March 2010.

We have been further advised that the parties have agreed, in principle, to a new occupational lease of approximately 2/3 of the runway and the terminal building (a proposed lease plan is attached within Appendix 13). We understand that the lease will take effect from 1 April 2010 at an initial annual rental of £40,000 per annum (exc of VAT), subject to an upward/downwards review on the 1 April 2015.

The draft documentation is currently under discussion between the parties legal representatives, however, we have been provided with a copy of the Agreed Heads of Terms document being utilised to draft the lease. (See Appendix 13). We have subsequently been advised that the only change to these Heads of Terms is the deletion of the tenant's option to purchase the subjects at the expiry of the lease.

The Heads of Terms provide that the existing fire tender hangar (No 120), ATC tower and airfield approach lights situated outwith the main leased subjects will be let from 1 April 2010 for a period of 2 years at nil rent, allowing sufficient time for the tenant to construct replacement accommodation within the main leased area.

We have agreed with The Scottish Government, for the purposes of our valuation, that we assume that a lease, reflecting these agreed Heads of Terms (including the advised change) is concluded and effective from the date of entry of 1 April 2010.

### **4.2.3 Sites 1 & 2**

<b>Tenant:</b>	KPT Limited
<b>Guarantor:</b>	Gerard Anthony Brian Keating
<b>Demise:</b>	The area of ground situated within DE Machrihanish and extending to 26.872 hectares as more particularly coloured yellow on the plan included as Appendix 14, together also with all buildings, hardstandings, storage compounds and others erected or constructed thereon but excluding Building 235.
<b>Term:</b>	1 June 2007 until 31 May 2017
<b>Break Option:</b>	The Landlord can terminate the lease if required for military/defence purposes only, on not less than 1 year prior written notice to the tenant.
<b>Current Rent:</b>	£10,000 per annum (exclusive of VAT)
<b>Use:</b>	Not to be used other than for the purposes of storage of equipment in connection with the tenant's business.
<b>Alienation:</b>	The tenant is not permitted to assign the subjects in whole, or sublet the subjects in whole or part, without the prior written consent of the landlord. The landlord is not required to act reasonably in the granting of such consent.
<b>Repairing Obligations:</b>	The tenant is required to keep the premises in the same condition as at the outset of the lease, fair wear and tear excepted, at all times and where, if necessary, to renew, reinstate and rebuild the same, irrespective of the cause of damage.
<b>Insurance Obligations:</b>	The tenant is required to insure the premises throughout the term of the lease.

#### **Additional Relevant Provisions:**

- The tenant is not permitted to build on the subjects without prior written consent of the landlord, such consent not to be unreasonably withheld.
- Unless otherwise agreed, the tenant shall not be entitled to benefit from any service that serves the Premises as a result of being part of a system of services which provides for the landlord's other properties.

#### **4.2.4 Shorter Term Leases**

In addition to the three main leases, there are various shorter term leases and informal agreements over property on the subject site. We have not had sight of any documentation in relation to these but have been provided with the following detail of these arrangements from Defence Estates.

<b>Subjects</b>	<b>Tenant</b>	<b>Lease Start</b>	<b>Lease Expiry</b>	<b>Current Rent</b>	<b>Comments</b>
Building 235	Vestas Celtic Wind Technology Limited	1 July 2003		£5,000 pa	Held on tenancy determinable by either party on 1 January, 1 April, 1 July and 1 October, subject to one month's prior written notice
ATC Building plus land	ROK	1 October 2009	31 September 2010	£79,992 pa	Rolling tenant break option, exercisable on one months prior written notice
Field (4.77 Ha)	D Graham	1 September 2009	31 March 2010	£600 pa	We have been advised that D Graham has occupied the field for over 20 years on short term tenancy agreements.
PAN 1 & PAN 24	W Towers DE Machrihanish			Variable based on £50 per tower per month. Rent for period 31 March 2009 to 24 January 2010 was £37,895.	Informal agreement based loosely on terms of an expired agreement. Defence Estates have advised that discussions are ongoing to formalise the tenancy.

Subjects	Tenant	Lease Start	Lease Expiry	Current Rent	Comments
Gaydon Hangar	W Towers DE Machrihanish	23 November 2009	31 March 2010	£200 per day	We have been provided with a draft lease proposing continuing occupation of this hangar until 31 March 2011 with rolling mutual break option exercisable on no less than 3 months prior written notice. The rent proposed is £58,400pa.

#### 4.2.5 Proposed Leases

We have been advised by Defence Estates that they have conducted initial discussions with 2 parties for ground leases over parts of the subject site. The information provided is as follows:-

Subjects	Tenant	Proposed Term	Proposed Rent	Comment
Land near rifle range	Argyll and Bute Council Roads Department	2 years	£20,000 p.a.	Potential for longer term lease and for accommodation within HQ building.
Land near rifle range	Northern Energy	20 – 50 years	£20,000 p.a. to £30,000 p.a.	2 year option to being triggered by planning consent for biomass operation.

Site plans indicating the proposed areas of lease for the above are provided within Appendix 15.

### 4.3 PLANNING

#### General

The Scottish Government's planning policies are set out in the National Planning Framework. In this regard, in February 2010, the Scottish Government published the new Scottish Planning Policy (SPP) document which is a statement of Scottish Government's policy on land use planning and replaces the previous range of SPP's that were topic specific.

This national planning framework provides guidelines for the more locationally specific Structure Plans and Local Plans. The subject property lies within the area covered by the Argyll and Bute Structure Plan which was approved in November 2002. The structure plan sets out a framework for investment action and contains general land use locational strategies which frames the more detailed Local Plans within the area. The subject site is covered by the Argyll and Bute Local Plan which was adopted as recently as August 2009.

All these documents are material considerations when assessing proposed development throughout Scotland.

### **Scottish Planning Policy (SPP) (February 2010)**

This document contains various subject policies which reflect and update the content of earlier SPPs. A summary of those which are relevant to the subject property are as follows:-

#### **Economic Development**

Authorities should respond to the diverse needs and locational requirements of different sectors and sizes of businesses and take a flexible approach to ensure that changing circumstances can be accommodated and new economic opportunities realised. Removing unnecessary planning barriers to business development and providing scope for expansion and growth is essential. The planning system should support economic development in all areas by:

- Taking account of the economic benefits of proposed development in development plans and development management decisions
- Promoting development in sustainable locations
- Promoting regeneration and the full and appropriate use of land, buildings and infrastructure
- Supporting development which will provide new employment opportunities and enhance local competitiveness, and
- Promoting the integration of employment generation opportunities with supporting infrastructure and housing development.

Specifically related to tourism, planning authorities should support high quality tourism related development, including the provision of appropriate facilities in key locations across rural Scotland.

The Guidance identifies that high environmental quality can be an important component in attracting investment into an area and can provide important economic opportunities. Accordingly, it states that planning authorities should ensure that new development safeguards and enhances an area's environmental quality and, where relevant, should promote and support opportunities for environmental enhancement and regeneration.

Of particular relevance to the future redevelopment of the subject property, the SSP identifies that previously developed land is a potential source of sites for new development and planning authorities should support and promote proposals to bring vacant or derelict land back into productive use for development or to create more attractive environments. Further, vacant and derelict land and obsolete commercial and industrial property can act as a constraint on the economic growth of towns. Accordingly, it further encourages planning authorities to adopt a pro-active approach to encouraging re-use of previously developed land.

### **Housing**

In general, the Scottish government is committed to increasing the supply of new homes and provides that the planning system should allocate a generous supply of land to meet identified housing requirements. It further states that housing need and demand assessment provides the evidence base for defining housing supply targets in local housing strategies.

When specifically considering the location and design of new development, planning authorities should set out a strategy in the development plan to provide long term context for development. It identifies the key consideration in the settlement strategy as being:-

- The efficient use of existing buildings, land and structure,
- Accessibility of homes, services, open space and employment opportunities by a range of transport options,
- Co-ordination of housing land release with investment in infrastructure including transport and educational investment and with other major proposals,
- The deliverability of the strategy, and
- The protection and enhancement of landscape, natural, built and cultural heritage, biodiversity and the wider environment, including consideration of flood risk.

New housing developments should be integrated with public transport and active travel networks, rather than encouraging dependence on the car.

The SSP directs planning authorities to promote the efficient use of land and buildings, directing development towards sites within existing settlements where possible to make effective use of existing infrastructure and service capacity and to reduce energy consumption. Redevelopment of urban and rural brownfield sites is preferred to development on greenfield sites.

When identifying locations for housing, the following factors should be taken into account:-

- The potential contribution to the strategy and policies of the development plan and other national and local policy objectives,
- The relative accessibility to sites by a choice of transport options,
- The availability of infrastructure, including waste management infrastructure, and education and community facilities,
- Whether development can be achieved within the required time frame,
- The provision of choice across the housing market area,
- The design, quality and density of development that can be achieved, and
- The individual and cumulative effects of the proposed development.

The density of new development should be determined in relation to the character of the place and its relative accessibility, with higher densities appropriate at central and accessible locations. The majority of housing land requirements will be met within or adjacent to existing settlements with this approach helping to minimise servicing costs and sustain local schools, shops and services.

On the issue of affordable housing (defined broadly as housing of a reasonable quality that is affordable to people on modest incomes), planning authorities are directed to seek a percentage affordable housing contribution from developers of new housing developments where it is justified by the housing need and demand assessment and is included in the local housing strategy and development plan.

### ***Rural Development***

The SPP highlights that the planning system has a significant role to play in supporting sustainable economic growth in rural areas. By taking a positive approach to new development, planning authorities can help to create the right conditions for rural businesses and communities to flourish. The overall aim should be to enable development in rural areas which supports prosperous and sustainable communities whilst protecting and enhancing environmental quality.

The strategy for rural development should respond to the specific circumstances in an area whilst reflecting the overarching aim of supporting diversification in all small towns and rural areas, whilst ensuring that the distinctiveness of rural area, the service function of small towns and the natural and cultural heritage are protected and enhanced. Planning authorities are directed to support and promote regeneration in rural areas, particularly areas of previous industrial activity.

The aim of the Scottish planning policy framework is not to see small settlements lose their identity nor to suburbanise the Scottish countryside but to maintain and improve the viability of communities and to support rural business.

### ***Coastal Planning***

The SPP identifies that coastal areas which are suitable for development include existing settlements and substantial free standing industrial and energy developments, particularly where development is linked to regeneration or the re-use of brownfield land.

Coastal areas where there are internationally and nationally designated conservation areas should be protected from inappropriate development. In addition, the risks associated with rising sea levels and coastal flooding should be taken into account when identifying areas that are suitable for development.

### ***Renewable Energy***

There is a clear commitment within the national planning policy framework to increase the amount of electricity generated from renewable sources.

Planning authorities should support the development of a diverse range of renewable energy technologies and guide development to appropriate locations.

Providing guidance on off-shore renewable energy generation, the SSP states that development plans should identify appropriate locations for facilities linked to the manufacture, installation, operation and maintenance of off-shore wind farms and wave and tidal devices.

### ***Argyll and Bute Structure Plan (November 2002)***

Setting the scene for the more detailed Argyll and Bute Local Plan, this document provides a strategic land use plan for the 10 year plan period up to 2012. Its main aim is to assist in promoting appropriate planning responses to the strategic, economic, environmental and land use issues facing Argyll and Bute.

The economic and social objectives of the structure plan (SI 1) are set out as follows:-

- to improve economic competitiveness and the relatively poor economic performance of Argyll and Bute as a whole,
- to enhance the economic and social prospects of the geographically diverse communities in Argyll and Bute,

- to promote appropriate responses to the variety of challenging economic, transport-related and planning circumstances facing these local communities, and
- to treat the rich natural and historic environment of Argyll and Bute as not fully realised economic asset which, if safeguarded and enhanced, can stimulate further investment and economic activity.

The structure plan clearly identifies renewable energy investment as a clear policy objective to improve the economic and social fabric of Argyll and Bute.

It provides a recommendation within REC SI 4 – Renewable Energy Investment as follows:-

- It is recommended that Argyll and Bute Council, in partnership with interested agencies and with the renewable energy industry and in liaison with the Scottish Executive (known the Scottish Government), pursue renewable energy investment opportunities, particularly wind- and wave-power potential in the west of Argyll and Bute.

Schedule 4 of the Structure Plan specifically identifies and recommends promotion of RAF Machrihanish as a development opportunity site which can attract inward employment led investment, including the possible manufacture of wind farm equipment.

Section 4 of the Structure Plan specifically relates to, and sets out policy on, renewable energy. It sets out various objectives and policies in relation to this and generally encouraging the exploitation of the potential of renewable energy. In essence, development related to renewable energy is encouraged.

Also of relevance to the subject property, Section 5 of the Structure Plan focuses on Utilities, Communication and Waste Management. Specifically in relation to utility related development, Policy PROP UTW I directs the Local Plan to include policies relating to:

- The provision of sustainable urban drainage systems,
- Circumstances where development may be resisted on the grounds that it will impose unreasonable and significant burdens on public utility systems and investment,
- Circumstances when development will be expected to connect to available utility systems.

### **Argyll and Bute Local Plan (August 2009)**

For ease of reference, the plan identifying the relevant policies which relate to the subject site is included within Appendix 16 of this valuation report.

The subject site is designated as falling within a 'Sensitive Countryside' zoning. The area to the north-east corner of the site where there is existing residential development is designated as a 'Settlement Zone' and acknowledges it as an established residential use. The area around this established settlement is designated as 'Countryside Around Settlement' where development potential is limited.

The Local Plan identifies the subject site as an 'Area for Action' (AFA 14/7), recognising that the site is of strategic importance and that it will support redevelopment and inward investment.

Identifying this area as an Area of Action, the planning authority issued a Development Brief in spring 2009, with a view to developing this brief into Supplementary Planning Guidance that will, in turn, provide a more definitive policy framework moving forward. A copy of the Development Brief is included within Appendix 17.

Outwith the subject property, but also of relevance to any future development of the site, is the area of land between the western boundary of the site and the coast which is designated as a Site of Special Scientific Interest. This will be a material consideration, together with other socio-economic policy, for any future development proposals on the subject site.

### **Argyll and Bute Local Development Plan**

The Planning etc (Scotland) Act 2006 requires existing Argyll and Bute Structure Plan and Local Plan to be replaced with a single new plan, the Local Development Plan (LDP). The LDP should set out the long-term vision for future development and land use across Argyll and Bute.

The new Development Plan Scheme, provided on the Argyll and Bute Council website, outlines the proposed process involved in its preparation and confirms that the current stages are fact finding, research and initial analysis, as well as consultation with stakeholders. The Main Issues Report will be published in December 2010.

We have been advised that Drivers Jonas Deloitte have submitted representations to Argyll and Bute Council on behalf of Defence Estates in respect of the public consultation, making particular reference to the development potential for the site. A copy of this representation is included within Appendix 18.

#### 4.4 RATING ASSESSMENT

We have been advised by Dumbartonshire and Argyll & Bute Valuation Joint Board that the subject property has the following rateable values:-

<b>Address</b>	<b>Occupier</b>	<b>Description</b>	<b>Rateable Value 2005 (2010*)</b>
Airport, Machrihanish Campbeltown	DE Operations North	Airport (part)	£55,000 (£80,500)*
RAF Machrihanish Machrihanish Campbeltown	Welcon Towers Ltd	Workshop etc	£222,500 (£360,000)*
Airport Machrihanish Campbeltown	Highlands and Islands Airports Ltd	Airport	£37,500 (£50,000)*
Airport Machrihanish Campbeltown	Loganair Limited	Office	£2,000 (£3,100)*
RAF Machrihanish Machrihanish Campbeltown	Kintyre Development Co Ltd	Workshop etc	£9,000 (£9,000)*
Vestas Service Depot Machrihanish	Vestas Celtic Wind Technology Ltd	Workshop	£3,900 (£3,700)*

The rate poundage for the financial year 2009/2010 was 48.5 pence for properties with a rateable value over £29,000 and a reduced rate of 48.1 pence for properties with a rateable value of £29,000 or less.

\*One should note, however, that a Rating Revaluation has taken effect from 1 April 2010. We have therefore provided the new rateable value for each property in brackets within the above table.

The rate poundage for the financial year 2010/2011 is 41.4 pence for properties with a rateable value over £35,000 and a reduced rate of 40.7 pence for properties with a rateable value of £35,000 or less.

We assume that the occupiers within the above table are liable to pay the rates for each of the separate entities within the subject site.

## **5.0 VALUATION**

### **5.1 REPRESENTATIONS**

In reaching our opinion of Market Value of the subjects, and preparing this valuation report, we have considered all information provided by Defence Estates, acting on behalf of Ministry of Defence, the current owners of the subject property, and also all information provided by MACC.

In the case of Defence Estates, this information included an asset register, various reports relating to infrastructure and contamination, details of annual running costs, copies of existing leases and further tenancy information.

In the case of MACC, this included detail of the history of the property, together with various issues/concerns regarding the potential liabilities of the site. MACC have also provided details of the proposed use of the property by the community group.

It is noted that, subject to securing required licences and consents, MACC intend to 'market the base in conjunction with Scottish Government, Argyll and Bute Council, HIE, HIAL and all existing tenants to lease all areas for the greater good of the community'. This includes extending the use of the airfield and increase business relating to the aviation industry, utilising the various existing buildings and land to expand commercial activity undertaken on this site, together with offering amenity facilities as appropriate and providing a commitment to reducing the carbon footprint.

Detail of the MACC, itself, was obtained from the Scottish Government Register of Community Interests in Land (RCIL) website, including a copy of the application to register an interest including Memorandum of Articles of Association and correspondence in relation to the application.

In accordance with Land Reform (Scotland) Act 2003: Part 2, we invited the interested parties to provide written representations by close of business on Friday 26 March 2010. We received a written representation from Drivers Jonas Deloitte, prepared and submitted on behalf of Ministry of Defence. MACC did not provide a written submission.

This submission from Drivers Jonas Deloitte provided information on the history of the site, details of the main assets on the site, an opinion as to the potential areas of future development, detail and opinion on planning policy framework relating to the site, opinion as to the liabilities and related costs associated with the site and an opinion as to the Market Value of the site, together with the methodology which led to this opinion of value. Due consideration has been given to this written representation.

## 5.2 VALUATION CONSIDERATIONS

In arriving at our valuation figure, we have considered the approach a prospective purchaser is likely to make in assessing any offer. This approach would involve investigation of existing assets, together with consideration of the rental income generated through the existing leases and the potential future rental income generation and/or capital receipts received for partial disposal. Further investigation would also be undertaken as to the existing liabilities of the site and consideration given to future liabilities and risks and the potential to reduce these.

### 5.2.1 Consideration of Current Income Producing Assets

Subjects	Tenant	Rent	Lease Expiry	Comments
Ground	HIE	£171,737.46 pa	27 May 2051	Rent reviews effectively subject to minimum uplift linked to RPI. Average annual increase in RPI over last 5 and 10 years is approx 3% per annum. Next review due 28 May 2011.
Airfield	HIAL	£40,000 pa	31 March 2020	Date of Entry 1 April 2010. Upward/downward rent review due 1 April 2015.
Sites 1 & 2	KPT Ltd	£10,000 pa	31 May 2017	
Part ATC Building plus land	ROK	£79,992 pa	31 September 2010	Rolling tenant break option, exercisable on 1 month's written notice. Short term lease with limited prospect of lease extension.
Gaydon Hangar	W Towers DE Machrihanish	£200 per day	31 March 2010	Potential for short term continuing occupation at proposed rent of £58,400pa.
Field	D Graham	£600 pa	31 March 2010	Short term tenancy, although tenant has occupied field for over 20 years.
Building 235	Vestas Celtic Wind Technology Limited	£5,000 pa	Determinable on 1 Jan and quarterly thereafter.	Limited prospect of long term occupancy.

Subjects	Tenant	Rent	Lease Expiry	Comments
PAN 1 & PAN 24	W Towers DE Machrihanish	£50 per tower per month (year 31 Mar 2009/2010 – c.40,000 pa)	£50 per tower per month	Casual agreement. There are ongoing discussions to formalise tenancy.
	<b>Total Gross Income</b>	<b>£405,729.46</b>		<b>Note – assumes new lease to HIAL is in effect and that Gaydon Hangar rent is £58,400 pa</b>

### Comment

As at the date HIAL commences paying rent of £40,000 per annum, the total annual income received by MOD is £405,729.46. Of this total, £221,737.46 per annum provides secure income for more than a year (indeed for more than five years), reflecting approximately 55% of the total current income. There is, however, reasonable prospect of W Towers DE Machrihanish continuing their occupation of both the Gaydon Hangar and PAN 1 & PAN 24. This would generate a further income of approximately £100,000 per annum, bringing the medium term income prospects to approx £320,000 per annum.

### **5.2.2 Potential Future Income/Capital Receipts**

As discussed earlier within this report, we understand that there is serious interest from two parties for leases over ground near the rifle range, with a total potential additional income within the short term of between £40,000 and £50,000 per annum.

Recognising the designation of the site as an ‘Area for Action’ by Argyll and Bute Council which reflects its strategic importance and one which the Council will support to redevelop and attract inward investment, it is anticipated that future income will be further generated through granting longer term ground leases throughout the subjects. However, without a detailed master plan in place and with limited marketing undertaken by MOD to date, it is difficult to quantify this at the current time. Notwithstanding, a prospective purchaser of this site is likely to attach positive value to this potential to generate income.

We also believe further income could be generated by letting out various existing buildings on the site. These include the Headquarters Building (No 71), the three residential blocks (Nos 26, 61 & 62) and the MT Hangar (No 120) after the expiry of the existing lease to HIAL as at 31 March 2011. Any lettings secured over this accommodation, however, is likely to be short term in nature and sporadic.

In addition to the potential commercial/renewable energy uses on the site, the longer term prospects for development may include an increase in aviation business, housing and tourism and leisure. Whilst the extension of the HIAL lease has somewhat restricted the medium term prospects for an increase in aviation business, there is opportunity to consider longer term plans for aircraft maintenance and refuelling, aircraft parking and storage, jet fuel storage (subject to negotiation regarding use of the pumping house in the Campbeltown depot) and also the creation of an HMRC designated Free Zone.

With an increase in commercial activity, demand for housing may improve. Whilst recognising that mainstream housing sites are available for development in Campbeltown, there may be potential for additional housing at Machrihanish, together with supporting community facilities, however, the infrastructure issues will be a key driver in accommodating this potential demand.

There may also be some future potential for luxury housing development on Sites 1&2 which lie adjacent to the Machrihanish Dunes Golf Course and Resort.

All potential development will obviously be subject to achieving appropriate planning consents and being adequately serviced.

It is difficult to quantify the extent of 'added value' over and above the existing income due to market conditions, planning, infrastructure and other factors, all of which are interrelated and subjects to changes. However, we consider that there is potential to generate further value and we have reflected this potential within our valuation.

### ***5.2.3 Consideration of Liabilities and Future Risks***

#### ***5.2.3.1 Services***

The service infrastructure within the site provides for the majority of the liabilities of the subject site. This includes ongoing running costs and day to day maintenance and repair, but also significant future capital investment. However, a proportion of these costs can be recharged to existing occupiers, and it is anticipated that any future owner would insist on such recovery provision in any future leases agreed within the site, which would result in the non-recoverable costs of the owner reducing over time.

We have been provided with information on current and projected maintenance and running costs of the various services and have relied upon this information when considering such.

Dealing with each service separately:-

***Management of the site (including maintenance and security)***

We have been provided with an Indicative Annual Running Cost Schedule by Defence Estates, which provides detail and a breakdown of total expenditure of the last financial year (2008/2009). A copy of this Schedule is provided within Appendix 19. Please note that the Annual Costs provided include VAT.

We are of the view that a purchaser of the site would significantly rationalise the management services currently undertaken on behalf of the MOD. This would include a more limited management contract of the site and more limited maintenance and repair, carrying out only what was absolutely necessary. In consideration of this, we assumed an annual cost of approximately £100,000 to reflect this limited service. From the lease information we have been provided, there is no provision within the leases to recover this cost from the tenants.

In respect of security, from the lease information we have been provided with, we note that there is no obligation on the owner of the site to provide the tenants with a security service and are of the view that any new owner is unlikely to provide this service unless requested. Further, there is provision within the HIE lease for recovery of common costs used by the tenant. We assume there will be a similar provision included within the HIAL lease. Accordingly, we have assumed that there will be no direct costs to the owner, should they provide a security service to the occupiers.

***Rates***

As at the date of valuation, the rateable value of the subjects occupied by MOD was £55,000, with the rate poundage for the financial year 2009/2010 of 48.9 pence, resulting in rates payable by the owner of the site being £26,675.

This will rise for the financial year 2010/2011 to £33,327. As a result of the Rating Revaluation, the rateable value of the subject site occupied by MOD increase to £80,500, with the rate poundage for this financial year being 41.4 pence.

***Electricity Consumption***

Again included within the Indicative Annual Running Cost Schedule provided by Defence Estate, we note that the expenditure for electricity consumption in the financial year 2008/2009 was approximately £336,600 (exc VAT). We are further advised from Defence Estates that the total expenditure for electricity consumption in the financial year 2009/2010 was £355,573 (exc VAT).

The Utilities Agreement between MOD and HIE provides recovery of the costs of electricity consumption of HIE by MOD, which we understand was £232,000 (65%) for the financial year 2009/2010. Further, there is a partial recovery provision within the new lease to HIAL which we have been advised by Defence Estates would have amounted to £45,000 (12%), had they been able to recover such costs within their previous lease.

Using 2009/2010 level of cost consumption as a benchmark, this leaves a potential shortfall of non-recoverable cost for energy consumption of £78,000 per annum (23%). Whilst it is recognised that there will inevitably be electricity consumption costs that will burden a future owner of this site, we believe that a new owner would endeavour to limit this consumption. However, this must be balanced against the fact that MOD, through collective buying power, purchase HV electricity at a level which a future owner may not be able to secure.

In consideration of the above, we assume that a non-recoverable cost of approximately £80,000 per annum for electricity consumption.

### **Electricity Distribution**

We have been provided with management and routine maintenance costs for the financial year 2009/2010 by Defence Estates. The cost attributed to maintenance was £18,000 per annum, with routine maintenance (switchgear testing/bi-annual servicing/testing/regarding of protection devices) increasing this figure to £47,000 per annum. We have been further advised by Defence Estates that there is only nominal cost of immediate works required of less than £10,000.

These costs, however, do not reflect any ad hoc maintenance required. To reflect such, we have adopted a contingency cost of £50,000 per annum, resulting in a total expenditure for electricity distribution of £97,000 per annum.

Within the leases to HIE and HIAL, there is a recovery provision for maintenance costs incurred in relation to the electricity system, proportionate to their usage of the system i.e. 65% and 12% recovery of costs for HIE and HIAL respectively.

In consideration, we have assumed the shortfall of non-recoverable costs related to electricity distribution to be approximately £22,000 per annum.

### **Water and Sewerage**

We have considered costing information provided by Defence Estates, together with the Scott Wilson report, titled Infrastructure Facilities Risk Register and dated April 2008 which outlines the risks of failure and costs involved in maintaining the water and sewerage system for 10 years.

We have taken the view that any future owner of the subjects would only invest capital funding so as to acquire a connection to the public mains, however, discussion to date would suggest that this is unlikely. Accordingly, a new owner will maintain the system at a certain level i.e. no further dilapidation while meeting the required quality and statutory requirements.

In considering the annual maintenance/management costs of this infrastructure, the Scott Wilson report estimates that an annual maintenance charge, including labour, to maintain the current provision of service will likely be in the region of £350,000 per annum.

Defence Estates, however, argue that these costs are excessive and have provided their own estimates of maintenance and management of the water and sewerage system, suggesting that maintenance costs, including labour, would amount to approximately £90,000 per annum (including a £12,000 per annum average risk pot for ad hoc costs/works). In addition, they believe a further cost for capital expenditure of £200,000 per annum 'would stop the deterioration of the systems, with this figure dramatically reducing over time as high and medium risk areas are addressed'.

The £90,000 per annum maintenance cost is unavoidable. However, we understand that the majority of the water supply to the site currently runs to waste, with only approx 10% being utilised by HIE and nominal usage by other occupiers of the subject site. This suggests the capacity of the current water infrastructure system is well beyond what is required, even with the potential increased commercial activity on the site. It is likely, therefore, that any new owner of the site, facing such a significant annual cost, will seriously consider a potential alternative provision of potable water (e.g. bore holes) which could reduce ongoing costs significantly.

The Utilities Agreement between MOD and HIE obliges MOD to supply water to Site 3 and requires HIE to pay a fair and equitable proportion of repair, maintenance and renewal costs of the water infrastructure, relative to proportional usage of the system. A similar provision to recover a proportion of cost of repair, maintenance and renewal of the water and waste infrastructure is included within the new HIAL lease. Accordingly, non-recoverable costs for the water and sewerage systems amount to approximately 90% of the total costs at the current time.

We consider it reasonable to assume approximately £90,000 per annum maintenance costs of which approximately £80,000 per annum will be non-recoverable. Further, we consider it reasonable to assume a capital expenditure for repair and ultimately provision of a new water supply of approximately £1,000,000 of which approximately £900,000 will be non-recoverable.

We further understand there may be the possibility of the waste water treatment plant on the site being used, and perhaps even adopted, by Scottish Water which could reduce future liability on the owner of the site. However, this would require re-commissioning of the plant. Detailed costings of this would be required, however, we have been advised by Defence Estates that a capital cost in the region of £100,000 would cover this with approximately £90,000 being non-recoverable.

#### **5.2.3.2 Contamination**

Bearing in mind the history of use for the subject site, a significant risk facing a prospective purchaser of this site is the presence of contaminated land.

In this regard, the technical note attached to the report prepared by Entec and titled 'Remediation and Development Considerations (Phase 2)', provides estimated costings (both average and maximum risk figures) for remediation of the entire subject site assuming various potential redevelopment uses.

We have wholly relied on the costing provided within this report, however, it must be noted that this report was prepared in 2000 and, thus, the costing provided reflected 2000 prices. In the absence of a more recent report on costings, we have considered the percentage increase over this period of time provided within the BCIS All in Tender Price Index which reflects an increase of approximately 35%.

Assuming that the 'do minimum' costings is considered appropriate for the HIAL and airfield areas, with the commercial re-development costings being appropriate for all other areas, the total cost of remediation of the site, according to the Entec report is approximately £400,000 for the average risk and approximately £500,000 for the maximum risk.

For the purposes of our consideration of value of the subject property, we have reasonably adopted the average risk figure and added 35% to reflect the increase in costs since 2000. This results in a total capital expenditure of approximately £540,000 to remediate the site for future development.

### 5.2.3.3 Summary of Existing Liabilities

#### Annual Costs

Liability	Annual Cost (non-recoverable) (from 1 April 2010)
Management/Repair and Maintenance	£100,000
Rates	£33,327
Electricity Consumption	£80,000
Electricity Distribution	£22,000
Liability	Annual Cost (non-recoverable) (from 1 April 2010)
Water and Sewerage Maintenance	£80,000
<b>Total</b>	<b>£315,327</b>

#### Capital Expenditure

Liability	Capital Expenditure (non-recoverable)
Water and Sewerage Investment	£900,000
Re-commission waste water treatment works	£90,000
Contamination	£540,000
<b>Total</b>	<b>£1,530,000</b>

#### Comment

In the absence of a master plan for the property and its future potential, it is difficult to outline when and, indeed, if some of the capital expenditure will be required. It is reasonable to assume that not all of this would be required to be carried out in the short to medium term, but rather driven by development or occupational opportunity.

### 5.2.3.4 Future Risks

There are a number of future risks facing the owner of this site, most relating the current or future redundant pipework infrastructure and any future requirement to remove such from the ground. We understand that there is no current statutory regulation requiring such, however this risk remains.

### 5.2.3.5 Potential Reduction in Liabilities

With a view to maximising the revenue potential of the subjects, in addition to increasing future income, any future owner of the site will seek to reduce their considerable ongoing liabilities.

Whilst specifics are difficult to quantify at the current time, we consider that there is scope to secure such a reduction, identifying the following areas:-

- Potential to increase the percentage recovery of costs relating to service infrastructure and management from increased tenant occupancy
- Potential to generate income by providing water and sewerage services to off-site users within the current vicinity and charging commercial usage rates
- Potential to grant a lease of the waste water treatment works, or even agree for its adoption by Scottish Water, which could reduce/negate the repair and maintenance costs related to this plant

#### **5.2.3.6 Conclusion**

When considering the existing assets and liabilities on the site, there is presently a shortfall liability, together with significant capital expenditure required sometime in the future. However, with the potential to increase income generated, together with the potential to limit the owner's costs in running the site, we consider that there is a real prospect of income exceeding running costs in the medium term. Further, whilst significant capital expenditure will be required, this will be driven by, and in all likelihood partially funded, by development or occupational opportunity.

### **5.3 MARKET COMMENTARY**

Over the last two of years, the property market in general has been significantly influenced by the uncertainty in national and global financial markets and falling confidence. This has resulted in a widespread decline in demand and, ultimately, values for both commercial and residential property. The lack of availability and high cost of bank funding have also had a significant negative impact on the property market. This is of particular relevance to the subject property as the market conditions described above have significantly reduced the general appetite for development and higher risk opportunities.

On behalf of Ministry of Defence, Drivers Jonas Deloitte (formerly Drivers Jonas) undertook a marketing campaign to sell the subject property in the latter half of 2009. They have advised that several notes of serious interest have been received, albeit these have been stalled as a result of the registered interest in the site by MACC in December 2009.

Drivers Jonas Deloitte has indicated that, at the time of marketing, neither the significantly extended HIE ground lease (Site 3), nor the new HIAL lease (airfield) were in place, making the prospect of this development opportunity far less attractive. In addition, at the time of marketing, there was a change taking place whereby the previous largest occupier on the site Vestas (previous sub-tenant of HIE) was exiting from this location, with Welcon Towers reaching agreement to take over and extend the facility. Drivers Jonas Deloitte felt the complete lack of certainty of these 3 issues, together with the pending registration of interest by MACC under Land Reform (Scotland) Act 2003, made it difficult to progress any serious interest to the point of sale.

Having regard to the very specific nature of the subject property, we are of the view that most honourable interest is likely to come from parties who focus on strategically important larger development opportunities that require detailed master planning and technical assessment. Given the significant potential liabilities attached to the site, it should also be noted that such prospective purchasers will generally rely on existing cash reserves to fund the acquisition and substantial investment required in the initial years of a longer term development prospect. As is widely reported, the availability of bank funding for speculative development schemes is limited and this is likely to significantly restrict serious interest in the subjects. Any purchaser of the subject site will not be risk averse.

Of particular attraction to a potential purchaser is the designation of the property within an 'Area for Action' by Argyll and Bute Council, being recognised for its strategic importance and one which it will support to redevelop and attract inward investment. Any future owner of the site is likely to want to work with Argyll and Bute Planning Authority and other local parties with an interest in South Kintyre, including Highlands and Islands Enterprise, to maximise the assets on the base as part of a co-ordinated approach.

There is potential for adding value to the property over the medium to long term. The subjects provide a longer term development/investment opportunity with the benefit of an income stream which must be considered in conjunction with the infrastructure, running costs and risk for the whole property.

It is very possible that interest may be received from 'asset strippers' who may offer a considerable sum of money for the subjects with a view to selling off assets and offloading liabilities. In reaching our opinion of value, however, we have assumed a willing purchaser who has a longer term view for redevelopment and who is prepared to act conscientiously with regard to the existing obligations to third parties who rely upon services originating from this site, together with fulfilling all legal obligations.

## 5.4 CONCLUSION

The subject property comprises a substantial site extending to approximately 409 hectares (1,011 acres) which was a former military airbase. It provides a strategic longer term investment and redevelopment opportunity with an operating airfield, which has significant liability and risk attached to it primarily relating to the private water and sewerage infrastructure, electricity distribution and contamination.

There is a current shortfall between rental income and expenditure and we believe it could take a number of years to reverse this situation. There is also the potential requirement for, and risk of, considerable capital expenditure by an owner of the site. Notwithstanding this, we are of the view that the potential to add value will attract interested parties who have monies to invest and are prepared to factor in this risk, however the market will be limited.

The market for this nature of opportunity is likely to be very restricted, not only as a result of the site's complexity but also compounded by the current market conditions and restricted bank lending environment.

All things considered, balancing the potential future income generation of this redevelopment and investment opportunity against the current and ongoing required capital investment and risks faced by a willing purchaser, we are of the view that this will significantly restrict any offer made for the initial purchase of the subjects.