ASHTENNE

ASHTENNE INDUSTRIAL FUND LIMITED PARTNERSHIP
FIRST FLOOR
8 VILLAGE WAY, GREENMEADOW SPRINGS,
CORYTON, CARDIFF CF15 7NE
TEL : 029 20 543570 FAX : 029 20 543571
www.ashtenne-online.co.uk

April 9, 2010

Chris Mcgough
Regional Planning Director
Ashtenne Industrial Fund Limited Partnership
Baird House
Liverpool Innovation Park
Edge Lane
Liverpool L7 9NJ

Dear Chris

Units 1-4 Caerphilly Road Industrial Estate, Ystrad Mynach
Viability Assessment for Refurbishment of Units

As requested, I have undertaken a review of the above project to establish whether there is potential for a viable refurbishment project at the above property.

Possession of the property was recovered from the former occupier during 2006 in a state of significantly dilapidated repair. The Landlord's options for refurbishment or redevelopment to encourage further viable economic occupation of the asset have been severely hampered by the cost of undertaking such an exercise having regard to the limited prospect of generating viable income returns from the asset as a result.

I attach as an appendix to this letter, correspondence dated 9 April received from Chris Watkins, who is the Regional Asset Manager within Ashtenne responsible for managing the asset. His letter sets out the difficulties experienced in marketing the property to prospective owners and occupiers by Ashtenne since February 2006, primarily due to the unsuitability of the Property's location to the requirements of modern commercial businesses and also as a result of the further investment which would be required to render the units capable of occupation.

I have prepared and also attach a development appraisal sheet, which demonstrates that even with various optimistic assumptions and excluded costs, refurbishment of the property would produce a significant loss to a developer. Logically, the substantially higher cost of demolition and redevelopment to deliver no greater prospects of income generation suggests that any proposal for redevelopment for commercial uses would deliver even greater losses on investment.

In considering the assumptions made within the attached appraisal sheet, I make the following comments:

Rental Values

The average rental value adopted across the 27,665 sq.ft refurbished units in the Appraisal of £2.82 per sq.ft directly compares with the recent letting of a 10,000 sq.ft, extensively refurbished unit on Bedwas Industrial Estate and also to an agreed letting (to be completed imminently) of a 9,000 sq.ft unit at Pen y Fan Industrial Estate in Crumlin.

However, please note that recent rental evidence, together with evidence of competing rentals being quoted for available space on new and refurbished accommodation at Duffryn Meadows Industrial Estate across the river from the subject property, are at reduced levels to those adopted in the appraisal, reflecting Ystrad Mynach's somewhat more secondary quality as an industrial location than the examples of rental evidence provided above for Bedwas and Crumlin. Moreover, the Caerphilly Road units are situated in a less ideal location than Duffryn Meadows being isolated and hidden from the main thoroughfare, less than suitable for modern industrial and commercial uses.

The rental value adopted for Unit 4 assumes an uplift to reflect inclusion of a yard area although in reality, given current market conditions and the location of the unit, the yard is likely to only improve the marketability of the unit rather than result in an uplift in rental value achievable.

Income Void Assumptions

The Appraisal assumes an average income void period of 18 months after completion of the refurbishment project. Given market conditions and incentives demanded by occupiers, one would reasonably expect an average void across the whole estate closer to 24 months if not greater.

Capitalisation

The capitalisation yield adopted in the appraisal of 9.5% is much more bullish than the average capitalisation yield for South Wales portfolio of 10.8% in the March 2010 Valuation prepared by King Sturge. Having regard to equivalent yields applied in the Valuation to comparable assets in the region, it is likely that once refurbished, the subject property would be valued at a capitalisation rate more in the region of 10-11%. If the attached appraisal adopted these more realistic yield profiles the development would show even greater losses than currently shown.

The site carrying cost adopted within the appraisal is based on King Sturge's open market valuation of the property in its current condition, as at March 2010. Any further investment into the property would need to show a viable development return over and above this carrying cost and that is the fundamental purpose of the attached viability study. We have excluded additional project costs associated with the original purchase of the property.

Refurbishment Costs

The adopted refurbishment cost within the appraisal is based on a Project Cost Plan Report prepared by King Sturge dated June 2006, for refurbishment of the property as part of a single phase project. We would reasonably expect refurbishment costs to have increased since the report date.

Refurbishment costs exclude probable additional costs associated with project phasing, asbestos removal and likely extensive roof repair / upgrade works, so the actual cost of the project is likely to increase over and above the figure incorporated into the appraisal.

Development Return

The Appraisal reports a developers return of -19.13%, representing a substantial loss on investment. Any reasonable developer would look to achieve a minimum 15-20% return on its investment to justify undertaking such a development. There is a risk under current market conditions that any bank funder could require an even greater probability of viability, before committing funds to support such a venture.

AIF would require a minimum 20% development return to undertake this development.

The appraisal does not account for Developer's liabilities for vacant business rates prior to and post refurbishment, which would further hit development return.

Conclusion

I have no doubt at all that the asset's disadvantaged location is the most significant factor in rendering the Property unsuitable for commercial end uses in the long term and of no interest to prospective commercial occupiers or developers. This has been undoubtedly proven over the course of four years proactive marketing with extremely limited results as summarised in the attached correspondence.

Further, the cost of bringing the existing property into physical condition capable of viable commercial occupation is a significant handicap.

Fundamentally, I consider the most viable course of action for the existing owner is to mothball and sterilize the existing dilapidated development until such time as material changes in the surrounding area should render the asset more attractive to commercial occupiers or alternatively, until such time as more viable uses may be considered.

I trust this letter addresses the issues you are concerned with.

Yours sincerely

Wayne Locke
Regional Director

Development *Appraisal*

09-Apr-10 09:50

VALUE/ COST HEADINGS		VAR NO.	VARIABLE	SUB SUB TOTAL	SUB TOTAL	TOTAL
Area (GIA)	Sq.ft					
Unit 1	8896		£ 2.50	£ 22,240		
Unit 2	7783		£ 2.70	£ 21,014		
Unit 3	6081		£ 2.90	£ 17,635		
Unit 4	4905		£ 3.50	£ 17,168		
	27665					
average rent *(psf)*		2	2.82			
TOTAL RENTAL INCOME				**78,057**		
deductions *(ie. ground rent)*		4	0.00%	0		
NETT RENTAL INCOME				**78,057**		
capitalisation rate % & YP		5	10.53	9.50%	821,647	
CV psf					30	
GROSS CAPITAL VALUE					**821,647**	
SALE COSTS						
stamp at end		7	4.00%	31,079		
fund agent		8	1.00%	7,770		
fund legals		9	0.75%	5,827		
vendors agent		10	0.00%	0		
vendors legal		11	0.00%	0		
sale costs of purchase			5.75%			
TOTAL SALE COSTS				**44,676**		
amount of costs paid at start		12	0.00%	0		
amount of cost paid at end				44,676		
other sale costs at end		13	0	0		
TOTAL SALE DEDUCTIONS					**44,676**	
NETT DEVELOPMENT VALUE						**776,972**

PROJECT TITLE	Trade / Industrial
PROJECT MANAGER	WPL
DEVELOPMENT PROFIT	**(£183,807)**
RETURN ON COST	**-19.13%**

VALUE/ COST HEADINGS	VAR NO.	VARIABLE	SUB SUB TOTAL	SUB TOTAL	TOTAL
land cost element *(no.1)*	14	0	615,000		
land cost element *(no.2)*	15				
Infrastructure costs	16				
TOTAL LAND COST				**615,000**	
stamp duty	17	0.00%	0		
agent fees	18	0.00%	0		
legal fees	19	0.00%	0		
initial funding costs		0.00%	0		
other acquisition costs	20	0	0		
				0	
int. rate on land & acq. costs	21	0.00%	0.00%		
period of land holding *(months)*	22				
int. cost of land/ acq. cost				0	
TOTAL LAND + COSTS + INT.				**615,000**	
construction cost *(sqft GEA)*	23	34,488			
construction cost *(psf)*	24	5.72			
TOTAL CONSTRUCTION COST			**197,271**		
Tanks	25	0	0		
statutory costs / Planning	26	0	5,000		
Substation	27	0	0		
Environmental Surveys	28	0	20,000		
contingency on works	29	5.00%	9,864		
fees on construction/ cont.	30	12.00%	23,673		
CDM / M&E	31	0.00%	0		
promotion costs	32				
TOTAL CONST. & OTHERS			**255,807**		
interest rate on constr./ other	33	6.00%	1.50%		
period of constr. *(months)*	34	6	2		
weighting of constr. finance	35	45.00%			
interest cost on construction			3,479		
TOTAL COSTS EX. VOID/ LET				**259,287**	
void period interest cost	36	6.00%			
average void period *(months)*	37	18			
void costs			78,686		
letting fees	38	10.00%	7,806		
				86,491	
FINAL DEVELOPED COST					**(960,778)**
FINAL DEVELOPMENT PROFIT					**(183,807)**
RETURN ON COST					**-19.13%**
YIELD ON COST					**8.12%**
RENTAL COVER *(years)*					**-2.35**

ASHTENNE INDUSTRIAL FUND LIMITED PARTNERSHIP
FIRST FLOOR
8 VILLAGE WAY, GREENMEADOW SPRINGS,
CORYTON, CARDIFF CF15 7NE
TEL : 029 20 543570 FAX : 029 20 543571
www.ashtenne-online.co.uk

9th April 2010

Wayne Locke
Regional Director
Ashtenne Industrial Fund
1st Floor 8 Village Way
Greenmeadow Springs
Coryton
Cardiff
CF15 7NE

Dear Wayne

UNITS 1-4 CAERPHILLY ROAD INDUSTRIAL ESTATE, YSTRAD MYNACH

I write to in regard of the above property and to provide you with a brief outline of the marketing that has been undertaken on the property.

Ashtenne first commenced marketing the property in February 2006 upon the news that the current tenant Cambria Mobel Limited, who had been in occupation since 1st April 1975, would be vacating the premises on the 4th July of that same year.

Throughout the 4 year period that the property has been vacant Ashtenne has undertaken substantial marketing strategies and initiatives in an attempt to successfully let the property or alternatively complete a freehold sale. Such marketing has included the prominent placing of 'To Let' boards, both on the property and within the site boundary. The property has also been continually marketed on the Ashtenne website, along with being a permanent fixture in the Ashtenne South Wales and the West vacant property register that is distributed monthly amongst the contacts from our extensive enquiry database, which include all local authorities within South Wales (including Caerphilly County Borough Council). Due to the continued lack of interest in the property it was decided to appoint an external agent to market the property in conjunction with Ashtenne and as such, Brinsons of Caerphilly were formally instructed in May 2008.

Regrettably, throughout this period of active marketing Ashtenne has received little interest in both the leasehold and freehold of the property. From reviewing our enquiry database I can confirm that since the property has been vacant we have received only 21 enquires out of which, only one has led to a viewing of the property. This viewing was for the purchase of the freehold, whereupon the prospective purchaser sought to occupy part of the unit for his own purposes with a view to letting the remainder of the property. After taking into consideration the physical condition of the unit and the capital expenditure that would be required in order to bring it up to a lettable and operational standard, it was decided that it was not financially viable to proceed.

Unfortunately I can confirm that Brinsons have also experienced a similar lack of interest, of which is documented in their recent marketing update, which I have attached for your attention.

ASHTENNE INDUSTRIAL FUND LIMITED PARTNERSHIP
FIRST FLOOR
8 VILLAGE WAY, GREENMEADOW SPRINGS,
CORYTON, CARDIFF CF15 7NE
TEL : 029 20 543570 FAX : 029 20 543571
www.ashtenne-online.co.uk

I trust this is sufficient for your current purposes. However, should you wish to discuss or query any of the above please do not hesitate to contact me.

Kind regards

CHRIS WATKINS
Email : watkins.c@ashtenne.co.uk
Mobile : 07912 540865

Established 1900

BRINSONS

CHARTERED SURVEYORS & ESTATE AGENTS

'Eastgate' Market Street Caerphilly CF83 1NX
Tel (029) 20 867711 Fax (029) 20 864028
Email sales@brinsons.co.uk
www.brinsons.co.uk

Our ref: JC/JLC/I.1637

8th April 2010

Mr C Watkins
Ashtenne Industrial Fund Ltd Partnership
First Floor
8 Village Way
Greenmeadow Springs
Coryton
Cardiff
CF15 7NE

Dear Chris

RE: UNITS 1-4 CAERPHILLY ROAD, YSTRAD MYNACH

We write with reference to the above property which we are currently marketing on behalf of Ashtenne Industrial Fund.

We have now been marketing the premises for almost 2 years, having received your initial instructions in May 2008. Regrettably, during this long period of active marketing we have received very little interest and have conducted only 3 viewings of the property, none of which have come to fruition.

We can confirm that our marketing initiatives have included extensive mailing to applicants within our database, mailing to Commercial Agents active in the South Wales area, the erection of our agents board at the property, advertisements within the Western Mail and web-site advertising.

Further marketing measures include advertising within Focus, which is the UK's number one on-line commercial property database. Thousands of commercial agents and businesses throughout the UK have access to this website. We, as members, also have access to industrial requirements and are continually checking the site for any requirements for the Caerphilly area and South Wales in general. The site is updated regularly and marketing details are sent out to all companies having requirements which meet the particulars of the subject property. We also have regularly undertaken speculative mailing to companies occupying surrounding industrial estates, all of which has been to no avail.

Having sought feedback from the people who have actually viewed the premises and from people who have made verbal enquiries, the general consensus is that the properties are situated within an area which is considered not to be a prominent or established business / industrial location. Furthermore, the units are in extremely poor condition and do require substantial capital expenditure. Tenants would either require the landlord to undertake such works or want an extensive rent free period to do such works themselves. We can advise that in this current market climate, where landlords have become increasingly competitive, even if the properties were refurbished, we anticipate that a realistic rental for the property lies in the region of £2.50 per sq ft per annum.

We trust that this form of marketing update will suffice for your purposes, however should you wish to discuss any of the above in further detail please so not hesitate to contact us.

Kind regards

Yours sincerely

JODIE CLAYTON BSc (Hons) MRICS
BRINSONS
CHARTERED SURVEYORS