

The Grand Hotel

Ivey Place & No's 197-201 High Street
Swansea
Abertawe
SA1 1NG



Client: Proplend Security Limited and Cairn Global Funds Plc
acting for its sub-fund Cairn European Commercial Mortgage Fund

Proposed Borrower(s): The Abertawe Grand Limited

Valuation Date: 27 July 2017

Reference: 256744

Purpose and Limitations of Report

This report is provided to assist the instructing Client in consideration of the subject business/property in relation to the purpose stated opposite. Pinders accepts liability only to the Client and no other party, however involved. In this case, whilst the report will need to be viewed by its Lending members, only Proplend Security Limited and Cairn Global Funds PLC, acting for its sub-fund Cairn European Commercial Mortgage Fund, may rely on the report for mortgage purposes.

The report comprises a Business Appraisal & Valuation and expressly does not, in any way, constitute a building (structural) survey or a due diligence assessment. It remains the responsibility of the Client and, where appropriate, the borrower(s), to confirm the accuracy and validity of the information provided.

Pinders accepts no liability to the Client, or any other party, should information relied upon in arriving at our opinions of value prove to be misrepresented, either fraudulently or otherwise.

Whilst reference may be made within the report to aspects of tenure, title, planning and other statutory obligations, all such aspects should be verified by solicitors acting on behalf of the Client and/or the proposed borrower(s). The report is not intended as a substitute for the searches which would be expected in relation to any property/business acquisition or investment.

We can confirm that neither the valuer nor Pinders has any known conflict of interest in accepting your instructions, nor any previous knowledge of the business or the potential borrower other than as specifically stated within the report.

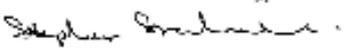
Unless specified elsewhere, this report has been prepared in accordance with our Conditions of Engagement and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards, for the sole purpose of assisting the Client and Proposed Borrower indicated above, in consideration of the subject business. The Explanatory Notes appended to this report also refer.

Whilst the valuations contained within this report are expressed in a way which is suitable for lending purposes, any party, other than the Client shown above, wishing to rely upon the contents of the report for such purposes, will need to instruct Pinders to prepare and provide a further report, which addresses the party's specific requirements.

We can confirm that Pinders has in place appropriate Professional Indemnity Insurance in respect of this valuation. A copy certificate to this effect can be provided to the Client upon request.

Terms of Reference

Client:	Proplend Security Limited and Cairn Global Funds PLC, acting for its sub-fund Cairn European Commercial Mortgage Fund
Proposed Borrower(s):	The Abertawe Grand Limited
Purpose of Report:	Loan security purposes in relation to re-financing
Business Owner(s):	Celtic Hospitality Limited - Director - Colin Moloney
Person(s) Interviewed:	Michelle O'Rourke- General Manager - The Abertawe Grand Hotel
Previous Visits:	We have made previous visits to this property and business, the most recent in December 2016
Inspection Date:	30 June 2017
Valuation Date:	27 July 2017

Undertaken by:	Stephen Greenhill MRICS (0056307) <i>Registered Valuer</i>	
Approved for Issue by:	Wendy Webber MRICS (1129236) <i>Director</i>	

We appreciate that there may be many parties involved in consideration of this proposal and this report (inclusive of photographs, maps and site plans) will be provided by electronic mail in pdf file format (requires Acrobat Reader software) to facilitate easy transfer of information. However, we recommend that our lending clients rely only upon an authenticated hard copy of the report, which has the Pinders' security seal attached below.



If you wish to discuss any aspect of this report, please contact our Operations team at:-

Pinder House
Central Milton Keynes MK9 1DS
Telephone: 01908 350500
Email: info@pinders.co.uk

Executive Summary

Introduction

In accordance with your instructions, we have visited the subject long leasehold property and business in order to provide an Appraisal and Valuation Report for loan security purposes in relation to a proposed re-finance.

This Executive Summary should be read in conjunction with our entire report and should not be relied upon in isolation.

Property Summary

- ❖ Hotel
- ❖ Original building - long leasehold - 125 years from September 2003, with a fixed rent of £2,000 per annum
- ❖ No's 197 – 201 High Street and adjoining former health suite building - freehold
- ❖ Located within an urban inner city area of Swansea in South Wales
- ❖ Circa 1930s six storey arte-deco stone clad and rendered brick steel framed original building
- ❖ Attached three storey former shops with accommodation above and recent single storey addition integrated into hotel
- ❖ Attached former health studio awaits statutory consents before conversion into two en suite letting bedrooms and store, or alternatively demolition and erection of a two storey extension with six en suite letting bedrooms and stores
- ❖ Reception lounge (22), Moloney's Sports Bar (100), restaurant (70), conference/banqueting suite - 240 theatre, 180 banquet styles, two other function/meeting rooms, and 53 en suite letting rooms
- ❖ Building generally well presented following recent external refurbishment and remodelling of first floor. Former health studio stripped pending conversion or demolition to make way for a two-storey extension to the original hotel.

Business Summary

- ❖ City centre Art-deco style hotel in prominent trading position immediately opposite Swansea Station
- ❖ Acquired by borrowers in 1999, with investment to date £3.7m - £3.75m, with business in trade development mode
- ❖ Custom mid-week predominantly corporate and contractors, with weekend leisure break visitors and party goers
- ❖ Income mix assessed as: 52% letting income; 27% wet sales; 18% dry sales; 3% room hire & sundries
- ❖ Competition considered to be reasonably strong, with several corporate hotel operators serving the city
- ❖ Competitive pricing policy for city and location; average room rate £75 mid-week, £90 weekends, per room per night
- ❖ Business operated under leadership of experienced general manager, supported by a full complement of staff

Accounts and Trade Assessments

- ❖ Unaudited accounts provided for borrower's trading companies Ivey Place Hotels Limited and Celtic Hospitality Limited, which relate only to the subject concern, record year on year increases in overall turnover since March 2011.
- ❖ Whilst financial statements year end February 2016 wholly accorded with VAT Return information of corresponding period, neither fully reflect revised layout, facilities, offering and improving tariff structure following recent investment.
- ❖ In last two years borrower invested £387,000 enlarging ground floor of hotel to create new restaurant, conference & banqueting suite, catering kitchen and customer toilets - completed mid-November 2015.
- ❖ Another £70,000 was spent remodelling first floor of original building as eight en suite letting bedrooms, which came on stream by the end of June 2016, after sacrificing a poorly patronised high class restaurant and relocating supporting facilities.
- ❖ Hotel now has a relatively consistent stock of 53 letting bedrooms, an impressive open plan reception lounge, a fully licensed sports bar that has traded consistently well in recent years and the above recently created public rooms.
- ❖ General Manager, Michelle O'Rourke, appointed January 2014, who continues to reposition the hotel in the local market, has presented trading forecasts for company's current financial year and years ended February 2019 and 2020.
- ❖ Our Current Trade Assessment has regard to these, historic trading records, average tariff of £83.40 per room, per night and 69.6% occupancy, the latter comparing with Visit Wales' latest statistics of 66% for East and West Wales.

	Current Trade Assessment	Fair Maintainable Trade
Total Turnover (£)	1,600,000	1,700,000
Gross Profit (£)	1,315,000	1,400,000
Gross Profit Margin	82.2%	82.4%
Net Profit (£)	390,000	395,000
Net Profit Margin	24.4%	23.2%

Executive Summary

Market Commentary

- ❖ Since the peak of the regional hotel market in 2007, sale prices and values have reduced due to the downturn in the economy, the lack of bank funding and the increased returns required by investors. In comparison to the London market, the regional hotel market has been the poor relation.
- ❖ However, hotels in regional locations that are performing well and can clearly demonstrate a robust cash flow and potential upside are attracting a good level of interest and are often achieving premium prices. This demonstrates the two-tier market that currently exists in the regional hotel sector
- ❖ Presently the market is said by hotel agents to be reasonably strong, with a number of sales of high value hotels occurring, albeit mostly on confidential terms, principally from group owners to individuals or to smaller group owners, and with these units requiring varying degrees of works.
- ❖ We consider that there would be reasonable demand for the subject concern.
- ❖ Any purchaser would be aware of the need for some capital expenditure in the future; to reopen the leisure facilities at basement level, as well as convert the former health studio building into productive use and reflect this into their purchasing decision.
- ❖ At this size and scale of business, we would consider it more suitable for experienced operators rather than first time buyers.

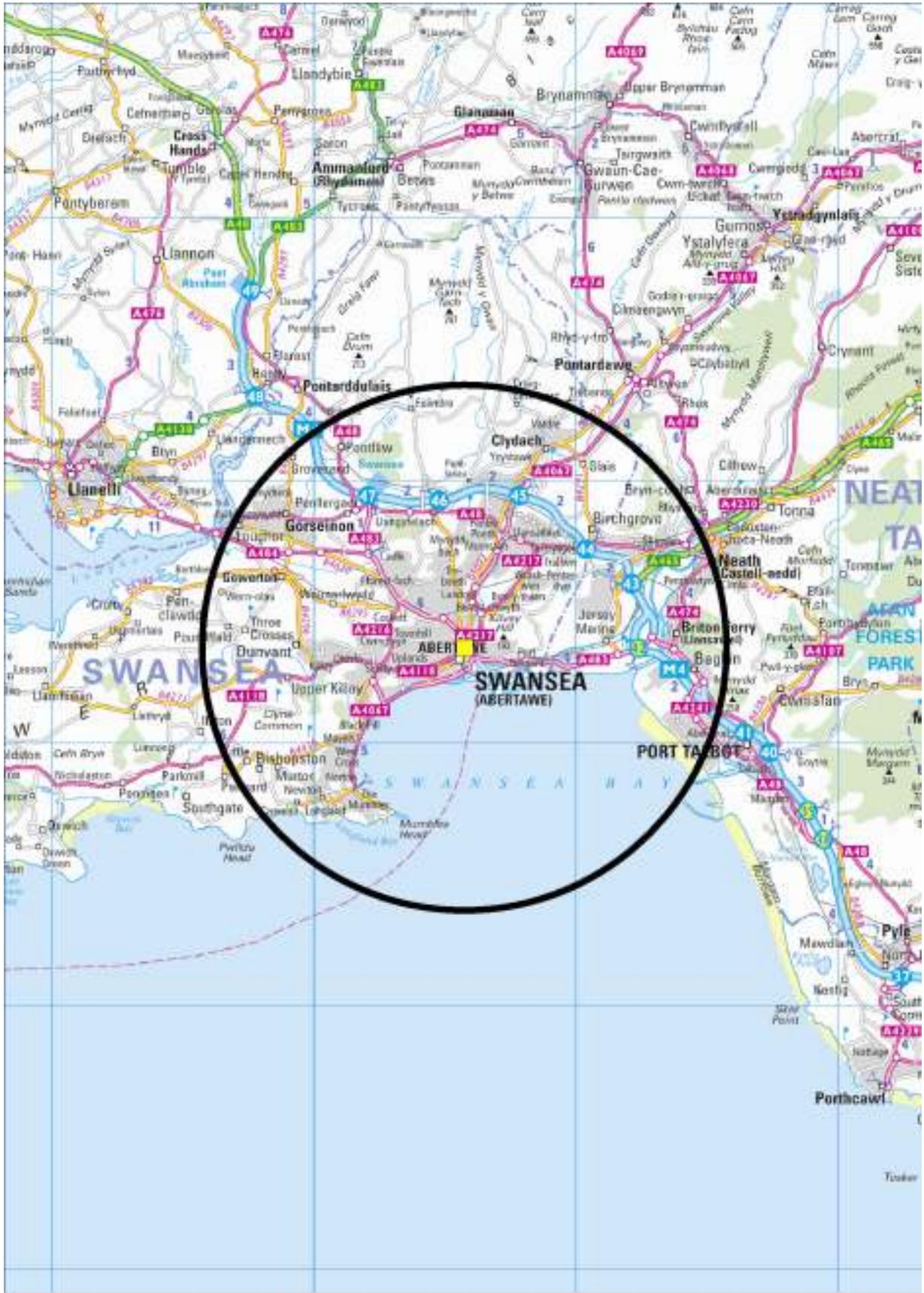
Methodology

- ❖ We have adopted the 'profits' method of valuation in this instance, whilst also having regard to an analysis of comparable market information.
- ❖ Based on our experience of valuing in this sector and the comparable evidence summarised towards the end of this report, we have adopted a multiplier of just over 7.0 (YP), which has been applied to our assessment of FMOP, to effectively produce a freehold trading entity, thereby according with the majority of comparable evidence held.
- ❖ We have placed a 'spot figure' on the former health suite building that extends to 72.8 m² (785 ft²) GIA, pending either conversion into two double/twin zip link double letting bedrooms and a furniture store, or demolition to make way for a two-storey extension to the original hotel, with six en suite letting bedrooms and both furniture and linen stores.
- ❖ We have then made two deductions: firstly, relating to the goodwill that is not currently being generated by the business; and secondly in respect of the capitalisation of the fixed ground rent on the original building, to provide the Market Value as existing of the mixed tenure trading entity.
- ❖ We refer to the Methodology and Comparable Evidence section towards the end of this report for further commentary.

	Current		Proposed	
Base Value	£2,800,000		n/a	
<i>equating to: Assessed Fair Maintainable Operating Profit</i>	<i>£395,000</i>	<i>7.1yp</i>	<i>n/a</i>	<i>n/a</i>
Value of Planning Permissions	£50,000		n/a	
Goodwill Adjustment	-£50,000		n/a	
Other Adjustments	-£50,000		n/a	
Market Value	£2,750,000		n/a	

Valuations Summary	Existing
Market Value	£2,750,000
Market Value <i>with assumptions</i>	£2,300,000 <i>(6 months to sell)</i>
Market Value <i>with assumptions</i>	£1,800,000 <i>(Business closed)</i>

Location Map



The circle above is of 10km (6 mile) radius centred on the subject business/property.

Digital Map Data © Bartholomew (2015)

Local Environment

Location

Swansea is Wales' second-largest city, with a population of approximately 230,000. Its location on Swansea Bay gives it a strong maritime character, which has been reinvigorated in recent years by the wholesale renovation of the old docklands and waterfront. The maritime quarter is now a haven for yachts, high-quality housing, and leisure related businesses.

The City of Swansea is situated on the south Wales coast, overlooking Swansea Bay and next to the Gower peninsular. The M4 motorway passes north of Swansea, which is served by junctions 42 to 47, and there are links via other road communications to the rest of Wales. The City is also served by a fast rail link, and there is a vehicle passenger ferry service to Ireland.

Swansea has a large university and is a popular holiday and day trip destination. The surrounding area has a number of attractive beaches, and the neighbouring Gower Peninsula is a popular tourist destination and was Britain's first Area of Outstanding Natural Beauty.

The City is West Wales' premier shopping centre and provides good facilities for arts and culture, which are being encouraged to locate into the secondary retail space within High Street. Employment is concentrated in the service sector, but there are some large industrial estates around the City's outskirts, with major employers including the DVLA and 3M.

The subject property is located in the city centre, immediately opposite Swansea Station and within close proximity to the castle ruins, Liberty Stadium and Swansea University

The property does not have on-site parking facilities for customers and there are double yellow lines on either side of High Street and on the junction with Ivey Place. However, there is a dropping off point in front of the hotel, three parking spaces for disabled drivers immediate opposite and a large multi-storey car park next to the station, which is used by customers and overnight guests of the hotel.

Whilst the municipal Mariner Street Car Park diagonally opposite the hotel to the west of the station, currently provides a surface pay and display facility, planning proposals are presently in hand for that site to be redeveloped with approximately 700 student flats above a ground floor complex of shops, a restaurant and café. The major project referred to as 'Icon 21', is anticipated to improve the look and feel of this part of the city, building on the work already undertaken by Coastal Housing Group's urban village scheme, in regenerating the northern end of High Street. If planning consent is forthcoming, the local press suggests that construction could start in the autumn of 2017, with completion for the summer of 2018.

Signage for the subject concern includes lettering for the Grand Hotel at high level on the apex of the art-deco northern facing elevation. However, larger such letters to the original veranda, both on the corner of the building over the main entrance and in the front of the building over the entrance to the fully licensed bar, have temporarily been removed pending completion of the veranda's restoration.

There is a vertical illuminated box sign for the Grand Hotel on the north-western corner of the building, together with others for both the hotel and Peco One Restaurant on the High Street frontage.

Environmental Matters

From our limited inspection of the property and using information available in the public domain, we have identified not unexpectedly for South Wales that the property is in a coal mining area.

From the information currently available to the Coal Authority, a mining report is recommended for this property.

Information in the public domain suggests that this neighbourhood is in a Radon Affected Area, as defined by the Health Protection Agency. Radon is a naturally occurring gas, which, in some areas, can be in higher concentrations and affect people's health. In this regard, we refer to the Health Protection Agency on the www.hpa.org.uk website for further details.

Subject to the limitations of our inspection we have detected no evidence to suggest that deleterious or hazardous materials or techniques have been used in the construction or subsequent modification of the building.

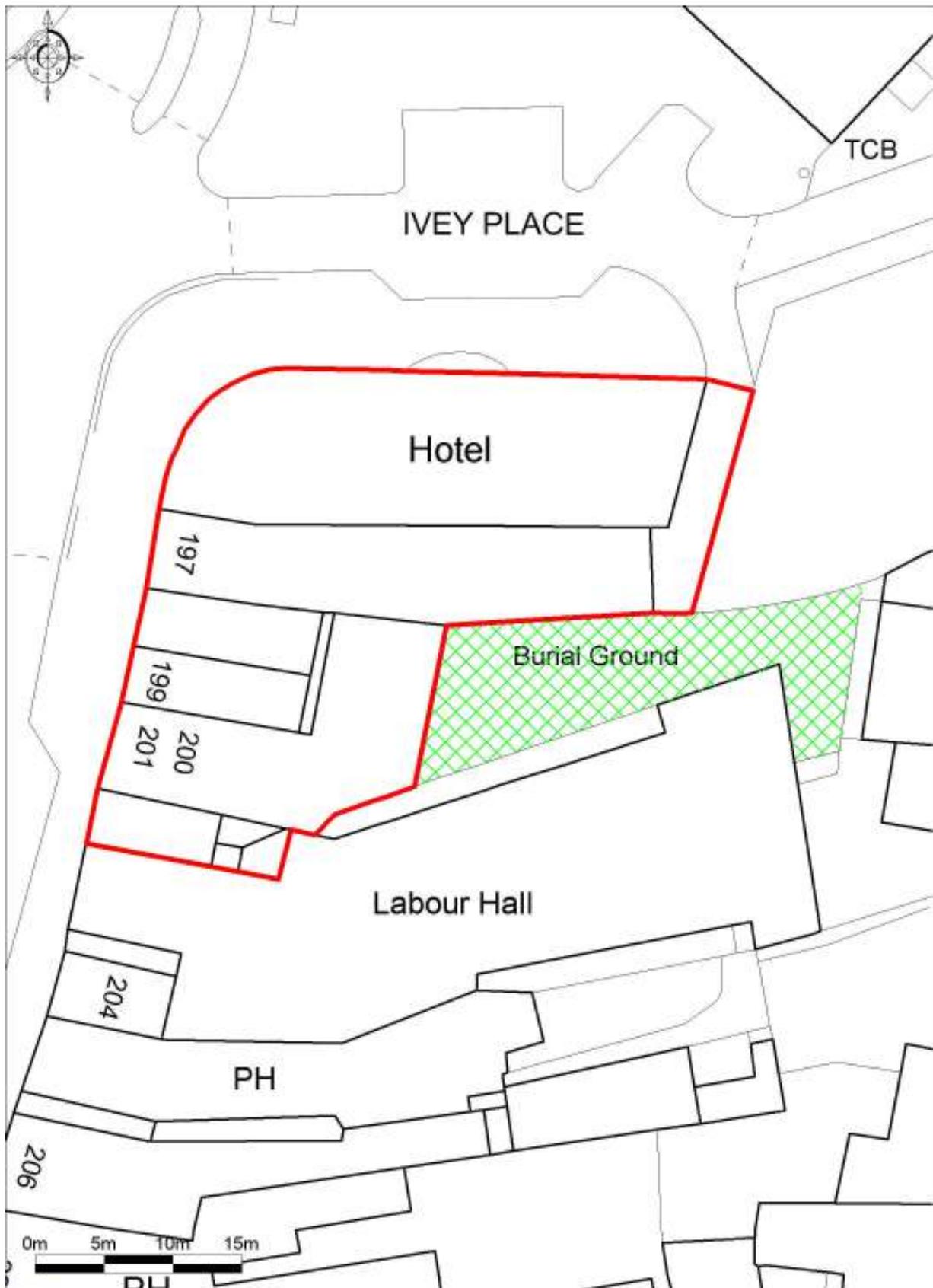
From our informal enquiries, there is no indication that the property or its immediate locality:

- ❖ is on or near landfills;
- ❖ is located within a tin mining area;
- ❖ is in an area that has been identified as having a risk of subsidence or landslip;
- ❖ is located within an area that is at risk of flooding;
- ❖ is subject to water or land pollution;
- ❖ has been used for the manufacture, storage or sale of hazardous/toxic materials such as chemicals, petroleum products, pesticides, fertilisers, acids, asbestos, explosives, paint or radioactive materials;
- ❖ is the site of below-ground storage tanks;
- ❖ is close to incinerators or chimneys giving off heavy emissions.

Subject to the limitations of our inspection we have detected no evidence to suggest that deleterious or hazardous materials or techniques have been used in the construction or subsequent modification of the building.

We refer you to the paragraph headed 'Environmental Matters' within the appended Explanatory Notes.

Site Plan



Ordnance Survey © Crown Copyright 2016. All rights reserved.
Licence number 100023432. Elected Scale - 1:500

Site & Aspects of Title

Site Plan

The plan shown opposite is taken from the Promap online facility and shows the subject property within its local environs. We advise that the area outlined in red corresponds with the property inspected.

The 'cross hatched area' of the former 'burial ground', relates to Title no's CYM184020 and CYM375704. This land is presently occupied by the subject concern with the consent of the existing owners Swansea Quakers and includes a raised timber decked walkway as part of a fire escape route from the rear of the buildings and air conditioning compressors that serve the restaurant and conference suite mounted on concrete bases.

The remainder of this land Mr Moloney advises is to be astro-turfed, which will also be used in conjunction with the business.

It should be noted that this plan and the markings thereon indicate the approximate extent of the site inspected and no guarantee can be given as to whether this corresponds to that over which title is held. It remains the responsibility of the Client to investigate and confirm the legal boundaries and title applying to the property.

Restrictive Covenants, Rights of Way and Easements

Based on our investigations, we are aware of the following:

Rights of Way	Restrictive Covenant	Easements
✓	✓	✓

We are advised by Mr Moloney that there is a long established pedestrian right of way in the case of fire from the rear of the building, through the adjoining former graveyard, of which he is seeking to acquire the freehold interest from the Swansea Quakers. Further, the previously referred to agreement with Swansea Quakers provides the right of their parishioners, families and friends to visit the former graveyard and view tomb stones now standing against the stone boundary wall with the adjoining former theatre, a right that Mr Moloney advises is being exercised.

H M Land Registry entries, last updated 31 July 2015, refers to the legal title of the original building of The Grand Hotel, as including any legal easements granted by the registered lease, but is subject to rights that it reserves. It also states that "The mines and minerals together with ancillary powers of working are excepted."

Furthermore, H M Land Registry entries refer to an agreement dated 23 February 1955, between H & F Gage Limited and The Grand Hotel (Swansea) Limited, relating to rights of light and air.

Mr Moloney advises that a restrictive covenant in the head lease seeks to prevent the use of the building as a nightclub and it is noted that the original sub-lease between Moloney Properties Limited and the associated initial trading company Ivey Place Hotels Limited, prohibited music that is audible from outside the premises.

We recommend that solicitors confirm the details in respect of the above in due course.

Tenure and Title

We are advised that the property has both freehold and leasehold elements.

The main building of 'The Grand Hotel', the original 'Station Hotel', is held subject to a renegotiated 125 year FRI lease from 24 September 2013, between The Council of the City and County of Swansea and Moloney Properties Limited, the lease having since passed to Abertawe Grand Limited, a property company that is wholly owned by Mr Cornelius Moloney.

We have not been provided with a copy of the lease, but would summarise the main terms as follows:

Landlord:	The Council of the City and County of Swansea
Tenant:	Moloney Properties Limited
Commencement Date:	24 September 2003
Term:	125 years
Rent:	£2,000 per annum

Site & Aspects of Title

Review Pattern:	None
Alienation:	Assignment/subletting of the whole assumed to be permitted, with Landlord's consent, which is not to be unreasonably withheld
Repairing/Insuring Obligations:	Full repairing; Landlord insures with the premium recovered from the Tenant
Special Conditions:	None advised

It is essential that solicitors inspect the lease to confirm that it provides satisfactory security for bank lending purposes and to confirm the lease terms, as indicated above. Should any of the latter vary from those indicated above, we reserve the right to reconsider our opinion of value.

Our valuations assume that any prospective purchaser would be granted full possession of the property, free of any restrictions on title and that all fixtures, fittings and items of equipment remaining would be provided on a fully unencumbered basis. Unless stated, we have not been provided with a report on title, but we would be pleased to co-operate with solicitors acting for the Client in respect of such a report should this be required.

No's 197 – 201 High Street and the adjoining former studio building are owned by The Abertawe Grand Limited under a recently consolidated freehold title.

The Abertawe Grand Limited are sub-leasing the buildings to the recently created associated trading company, Celtic Hospitality Limited, on a rental agreement, at a current passing rent of £161,200 per annum.

We have not been provided with a copy of the rental agreement, but for the purposes of our valuation, we are valuing the remaining 111 year ground leasehold interest of the main building and freehold interest of no's 197 – 201 High Street and former health studio building, on the assumption that the internal rental agreement is of no consequence.

We recommend that solicitors confirm the details in this respect.

As indicated previously, the borrowers additionally have use of the adjoining parcel of land to the east, a former graveyard, with the consent of the freeholders, who are understood to be 'Swansea Quakers'. This is presently occupied by a raised timber decked walkway as part of a fire escape from the rear of the buildings and air conditioning compressors mounted on concrete bases. The remainder of this land Mr Moloney advises is to be astro-turfed, which will in due course be used in conjunction with the subject concern.

In the meantime, we understand that he has made an offer of £15,000 to acquire the freehold interest in this parcel of land.

It should be noted that the external seating under the veranda and in front of Moloney's Sports Bar, lies outside the boundary shown on the registered 'Title Plan' for the main building. However, we are advised by the borrower that this is not subject to a 'pavement licence'.

External Property

Northern Front Elevation To Ivey Place



Rear Elevations Of Main Building & Former Massage Parlour



External Property

Site Description/Potential

The original building that occupies a site of approximately 0.041 of a hectare (0.101 of an acre), fronts directly onto the pavement in Ivey Place and the associated lean-to metal framed veranda, the latter as indicated previously, lies outside the registered title. However, the veranda and pavement in front of Moloney's Sports Bar; provide for tables, benches and chairs, which at the time of our recent visit, were arranged for 72 persons.

Attached to the original building and stretching down High Street are four former shop properties that abut the pavement, which have been integrated in recent years by the borrower for use in conjunction with the hotel. Adjoining the rear of the original building and the conference and banqueting suite that opened in December 2015, is a former health studio. The latter previously formed part of no 197 High Street and has recently been acquired by the borrower. Collectively these freehold buildings occupy a site of an approximate 0.069 of a hectare (0.171 of an acre).

On the eastern side of the original building is an access way to the former studio building, as well as providing part of the fire escape route from the rear of the hotel through the former graveyard belonging to Swansea Quakers. The latter that extends to an approximate 0.026 of a hectare (0.064 of an acre), is occupied by the borrower with their consent and upon which he has constructed a raised timber fire escape walk-way serving the Ivey Conference Suite and concrete bases for the associated air conditioning compressors.

Mr Moloney, subject to planning permission and other statutory consents, currently has proposals to demolish the former studio building to make way for the erection of a two-storey extension to the original main building, to create six en suite letting bedrooms, a ground floor furniture store and first floor linen store.

The borrower also has longer term proposals to add an extra 33 en suite letting bedrooms to the hotel, by constructing a further three floors over the single storey conference suite, albeit this will be subject to planning permission and other statutory consents, which may or may not be granted.

In the meantime, he has made an offer of £15,000 for the freehold acquisition of the graveyard, which in due course is to be astro-turfed as a garden and break-out area for use in conjunction with the conference and banqueting suite.

Buildings Description

The property comprises; an original circa 1930s six storey arte-deco stone clad and rendered brick Grade II listed steel framed building, with attached three storey former shop properties to High Street with a recent single storey rear extension having high performance fibreglass and powder coated metal profile sheeted roofs; whereas the attached former studio building is of single storey brick with whitened elevations under a slate roof.

The following table summarises the apparent construction of the major building elements.

Element	Description
Fire Escape	There are two fire exit doors from the Station Suite, which open onto the attached raised timber decked walk-way within the former graveyard, with four steps up to a landing before passing through a gate beside the massage parlour and on the eastern side of the building, to reach safety in Ivey Place. There are also three internal fire escape stairwells serving the upper floors of the hotel, which descend to street level. Double doors to the former massage building from the access way are presently the only means of access to and from those premises.
Flat Roofs	The reconstructed fourth floor of the main building and no's 197 - 201 High Street, have GRP high performance fibreglass covered roofs, whereas the ground floor rear extension is powder coated metal profile sheeted.
Pitched Roofs	Eastern portion of main building sheet lead/metal clad.
Rainwater Goods	Principally integrated, but sectional black plastic to rear two storey portion of main building.
Walls	Stone clad front elevation to original building, with rendered and whitened side and rear elevations. Former shops to High Street frontage have stone clad ground floor and colour washed rendered elevations, rendered and whitened at rear. The former massage parlour building has rendered and whitened elevations.
Window Frames	Aluminium framed replacement units to front elevations and to single storey rear extension, white PVCu framed and double glazed units elsewhere.

External Property

Services

We are advised that the property is connected to the following:

Mains Water	Electricity	Mains Drainage	Mains Gas	Central Heating
✓	✓	✓	✓	Gas; Electric; Air

The property has a three phase electricity supply and air conditioning in the Reception Lounge, Moloney's Sports Bar, Station Conference Room, Ivy Suite Conference Room and six letting bedrooms, served by externally mounted compressors, located either on the roof, or alternatively in the former graveyard.

The gas-fired central heating system for the main building, which also supplies domestic hot water to the property as a whole, is served by three wall mounted boilers located in the plant room at lower ground floor level. However, space heating for the 14 letting bedrooms on the first and second floors above no's 197 - 201 High Street, is provided by wall mounted electric convector heaters.

The main building has two OTIS GN02 hydraulic passenger lifts, the one used by guests connecting all floors, which has a capacity of 13 persons (1,000 kg) and the other by staff; this having a capacity of eight persons (630 kg).

The CCTV surveillance system has 20 internal and five externally mounted digital cameras, linked to split screen monitors in the reception office and IT cupboard, the latter where the computerised recording equipment is to be found.

The former health studio building had a gas-fired central heating and hot water system, with the wall mounted boiler still in place at the time of our previous visit in December 2016, although this has now been removed as a part of the original proposal to convert it into two additional en suite letting bedrooms for the hotel and a furniture store, works since suspended in favour of the larger such scheme.

Systems and Equipment

Whilst it is beyond the scope of our instructions to undertake tests of services, equipment, fixtures and fittings, we assume that all such items are operating safely and efficiently and are appropriate for the purposes to which they are put.

External Property

Western Side Elevations To High Street



Rear Elevations To High Street Premises



External Property

Condition

It should be noted that we have not undertaken any form of survey, structural or otherwise and the following comments are based on our brief inspection of the property. Our valuations have been prepared on the assumption that there are no inherent structural defects associated with the property or any wants of repair which would attract a significant cost.

Generally, the hotel is presented to a good standard and well decorated, with the recent programme of external refurbishment to the front and eastern side elevations of the original building having been finished within the last three months. This is apart from the imminent delivery and fitting of four plate glass roof panels to complete restoration of the veranda and a delay in the supply of both a replacement aluminium cladding for the pillar to the right of the main entrance and two plate glass panels to the balcony of the fourth floor Executive Bedroom 406.

Remodelling of first floor of the original main building to create eight en suite letting bedrooms and the management office was completed in June of last year and Ms O'Rourke advises that a £2,500 deposit has been paid towards the cost of the supply and installation of eleven PVCu double glazed replacement bedroom windows for the front elevation, which is due to be undertaken in September 2017.

At the time of previous visit in December 2016, the external elevations of the newly acquired single storey studio building had been redecorated and internally it has been stripped back to the bare floors, walls and roof trusses, pending statutory consent for conversion into two extra hotel letting bedrooms and a furniture store for the adjoining conference/banqueting suite.

Whilst a concrete block wall has since been erected at the western end of this building to form a temporary furniture store for the Station Suite, as indicated previously, the borrower's initial proposals have been suspended in favour of its demolition, subject to planning permission and other statutory consents, to make way for the erection of a two-storey extension to the original main building having six en suite letting bedrooms, a furniture store and linen store, the latter to be served by an externally fitted platform lift for the associated trolleys.

Understandably therefore, restoration of the rear elevation of the original main building has been delayed pending the outcome of this revised proposal, for which the borrower's architects are understood to be preparing a draft scheme, prior to the borrower's approval and making a formal submission to the Council for planning permission.

As a general comment, flat roof coverings have a more limited lifespan and will require ongoing maintenance, prior to renewal.

Mr Moloney informed us that an asbestos survey was previously undertaken, prior to remodelling and refurbishment of main building. This identified building components containing asbestos, which had been used to line lift shafts, which were removed under controlled conditions, costing an advised approximate £30,000.

Our valuations assume that there is now no asbestos on site, or asbestos related issues that would attract a significant cost. Furthermore, we refer you to the information below.

Asbestos

All owners/occupiers of non-domestic properties and communal areas of domestic properties are required, under the Control of Asbestos Regulations (2012), to provide a record of an inspection to verify whether any form of asbestos is present. If asbestos is detected, then an appropriate management plan must be implemented. We have not inspected for asbestos and, unless otherwise stated, our valuations exclude any costs relating to this management plan.

Energy Performance Certificate and Display Energy Certificates

All non-domestic properties over 50m² in size require an EPC when constructed, sold or let. There are certain exemptions, for example, if the building is to be demolished. The certificate includes an energy efficiency rating between A (most efficient) and G. It is valid for a period of 10 years assuming there are no changes to the building or its' use.

From 9 January 2013, a DEC is required to be prominently displayed in all buildings that are occupied in whole or part by a public authority or by institutions frequently visited, providing a public service to a large number of persons, and that have a useable space of 500 m² or more. They are valid for a period of one year. The accompanying advisory report is valid for a period of seven years, or 10 years if the building is less than 1,000 m² in size, assuming no changes to the property or use. If available, for example the building has been constructed, sold or let, the EPC for these buildings also needs to be prominently displayed, although there is currently no requirement to commission an EPC specifically for this purpose. From April 2018, it will become unlawful to let properties with the two lowest ratings of F and G.

Please contact us for further information about arranging an asbestos survey or EPC

Reinstatement Assessment

It should be appreciated that an assessment of the likely costs of fully reinstating a property is a complex and detailed exercise usually undertaken by a building or quantity surveyor. The following estimate is provided purely for guidance purposes to assist the named client in their consideration of the stated business proposal. It should not be relied upon by either the named client, or any other party, as a basis for assessing levels of insurance cover and Pinders accept no liability in this regard.

External Property

Whilst the estimate provided allows for the approximate costs of demolition, debris removal and professional fees, and assumes the use of modern materials, construction techniques and compliance with all current building regulations, it makes no allowance for any alterations to the layout or configuration of the property which may be required for the ongoing operation of the business.

The subject property is Listed and, as such, we recommend that this aspect be separately negotiated with insurers since the use of modern materials and construction techniques may not be permitted and the cost of reinstatement could, therefore, be substantially higher. As aforementioned, the following is provided for guidance purposes only and should not be relied upon.

On these specific assumptions, we suggest that the reinstatement figure for the existing structure (exclusive of VAT) should not be less than **£6,250,000**.

Internal Property

Reception Lobby



Moloney's Sports Bar



Station Suite Banqueting & Meeting Room



Standard Third Floor Bedroom



Executive First Floor Bedroom



Internal Description

Public Areas

Area	Size m ² (Approx)	Description
Reception Lounge	143.3	Ceramic tiled floor, cream painted walls and whitened ceiling with recess light fittings. Furnished with leather upholstered settees, chairs and stools - 22 seats.
Reception	16.1	With polished granite topped counter, teak finished base cupboards with granite effect melamine working surface, equipped with two computers, CCTV monitor, a printer/copier/scanner, fax machine and a paper shredder.
Moloney's Sports Bar	149.2	Strip boarded floor, timber clad walls below dados, otherwise cream painted and to ceiling with recessed light fittings. Equipped with retractable projection screen, wide screen and smaller TVs. Furnished with bar and posing tables, high bar stools, leather upholstered settees, tub chairs and a high backed booth for groups - 100 seats.
Sport's Bar Servery	-	Vinyl floor covering; fitted rear bottle displays, bottle shelving and two wash-ups. Equipped with six double refrigerated bottle display cabinets, an ice maker, commercial coffee machine, two glass washers, a touch screen till, CD player and amplifier. Access to staff lift.
Pico One Restaurant	94.2	Laminated floor covering, cream painted walls with dado rails and whitened ceiling with recessed light fittings. Equipped with an upright refrigerated wine bottle display cabinet, a refrigerated breakfast bar cabinet and furnished with tables and leather upholstered high backed chairs - 70 covers.
Wine Service Counter	0.0	Non-slip floor covering, cream painted walls and whitened ceiling with drop light fittings. Equipped with a double refrigerated bottle display cabinet, a coffee jug heater, cereal and fruit juice dispensers.
The Station Suite	158.0	Carpet covered floor, cream painted walls with dado rails and whitened ceiling with multi-branch light fittings. Furnished and equipped for banqueting and meetings, including a retractable screen - 120 Banquet, 180 Theatre Styles, but sub-divides into; Station Room 1 - 60 Banquet, 75 Theatre Styles and Station Room 2 - 60 Banquet, 75 Theatre Styles.
Station Suite Bar Servery	13.2	Non-slip floor covering, cream painted walls, fitted wash hand basin, wash-up, rear bottle displays and glasses shelving. Equipped with five double refrigerated bottle display cabinets, an electric water boiler and a touch screen till.
Ivey Room - 1	27.0	Laminated floor covering, cream painted walls with dado rails and whitened ceiling with recessed light fittings. Furnished and equipped for banqueting and meetings - 20 Theatre, 15 Boardroom Styles.
Ivey Room - 2	51.4	Laminated floor covering, cream painted walls with dado rails and whitened ceiling with recessed light fittings. Furnished and equipped for banqueting and meetings - 40 Banquet, 30 Theatre, 30 Boardroom Style.
Customer Toilets	-	Disabled person's facility approached directly from the reception lounge, with stairs leading down to ladies and gentlemen's toilets. A further set of such facilities on the ground floor serve the restaurant and conference/banqueting rooms.
Former Spa Suite - Entrance Lobby	3.0	Italian marble tiled floor, recessed lights to ceiling and Locker Room 2.25 m ² .
Leisure Area	16.2	Italian marble tiled floor, small format tiled walls, polythene sheeted ceiling, Sauna 4.6m ² - eight person, Steam Room 5.4 m ² - six person and two open showers.
Spa	39.5	Italian marble tiled floor, small format part tiled walls, polythene sheet ceiling, fitted Jacuzzi hot tub - eight person and hot stone bed.
Solarium	3.7	Vinyl floor covering, white PVCu lined walls and ceiling, fitted vertical tanning unit.
Plant Room	6.6	Approached from solarium with electrical water heating and filtration equipment for Jacuzzi hot tub.

Internal Description

Service Areas

Area	Size m ² (Approx)	Description
Restaurant Beer Cellar Room	5.7	Approached from restaurant.
Catering Kitchen	53.9	Non-slip floor covering, white PVCu lined walls, but steel clad behind cooking equipment, modern suspended ceiling with recessed strip lighting. Fitted two wash-ups, wash hand basin, fume extraction hood and walk-in cold room. Equipped with a food processor, toaster, potato peeler, double deep fat fryer, six burner and solid topped catering ranges, two microwave ovens, a convection oven, double refrigerated base cabinet, five pot refrigerated salad keeper, a 'pass', an upright deep freeze, a double commercial refrigerator and an in-line dish washer.
Main Beer Cellar	21.3	Located at lower ground floor level, with concrete floor, fitted Belfast sink, refrigerated cellar cooler and metal storage cabinet.
Bottle Store	17.7	Part non-slip concrete floor, equipped with two chest deep freezers.
Cleaning Materials Store	5.8	Laminated floor covering, metal wire and steel framed storage units.
Boiler Room	25.6	With concrete floor.
Maintenance Store	7.5	Laminated floor covering, strip light and timber framed storage racking.
Former Gym	23.1	Used as store and laundry room, equipped with domestic washing machine and tumble dryer.
Dry Goods Store	2.8	
Management Office	23.9	Laminated floor covering, white painted walls and ceiling with recessed strip light fittings.
Staff Room	8.2	Ceramic tiled floor, white painted walls and ceiling with surface mounted light fitting. Access to staff lift.
First Floor Linen Storage Cupboard	1.6	Fitted shelving.
Sluice Room	1.3	Modern ceramic tiled floor, white painted walls and ceiling. Fitted Belfast sink.
Second Floor Linen Storage Cupboards	1.7	Fitted shelving.
Housekeeper's Room	7.7	Fitted shelving.
Third Floor Linen Storage Cupboards	2.4	Fitted shelving.
Third Floor Linen Storage Cupboard	2.6	Fitted shelving.

Measurement of Accommodation

We endeavour to measure the accommodation at the time of our inspection but, where this is not possible, we will either rely upon measurements taken from plans provided, schedules of measurements or other information advised to us by the owner of the business.

Letting Accommodation

The building and refurbishment works in connection with remodelling the first floor of the original building, to create an additional eight letting bedrooms, have been finished, furnished and equipped to a high standard, with these each coming on stream by the end of June 2016.

The hotel has since been offering 53 en suite letting bedrooms with a total of 116 bed spaces. These are arranged over the four upper floors of the main building and first and second floors of the High Street wing and have the following configuration; 22 Standard Double, three Standard Twin, eight Zip-Link Double/Twin, four Large Double with balcony, 14 Triple, the Penthouse Suite and a Superior Suite.

Each of the letting units have en suite facilities, although newly created Bedrooms 108 and 109 have the bath actually in the room and the Penthouse Suite and both Bedrooms 402 and 406 have a hot tub on the roof-top balcony.

Internal Description

The 31 originally created bedrooms in the main building have a central heating radiator, the 14 bedrooms in the wing wall mounted electric convector heaters, whereas the eight recently created first floor bedrooms have air conditioning units.

Room facilities otherwise include; a TV with Freeview channels, a hospitality tray, direct dial telephone a hair dryer and Wi-Fi internet access. Six executive rooms also have a mini bar.

Access

Level access to premises	Level access to public areas	Disabled WC
✓	✓	✓

There is level access to the premises and the public areas, although the designated disabled WC facilities are accessed directly from the reception lounge. Whilst there is no ground floor letting bedrooms, the guest's passenger lift is large enough to accommodate wheelchairs and connects to all floors, albeit at fourth floor level there is a step up to the associated landing to reach Bedrooms 401 - 406.

The Equality Act 2010

The Equality Act came into force on 1 October 2010. The Act consolidates and brings together previous equality laws including the law on disability discrimination. Operators are under a duty to make reasonable adjustments to the provision of their services to accommodate people with disabilities. The duty is anticipatory - so adjustments must be made before a claim for disability discrimination is brought. What will constitute a reasonable adjustment very much depends on the size and nature of the service.

Decoration and Furnishing

We consider the subject premises to be generally presented to a good standard, with the most recent programme of works for the remodelling and refurbishment of the first floor having been completed in June of last year. Furthermore, the general manager advises that £22,000 has already been paid towards the £40,000 cost of refurbishing eight letting bedrooms, namely two on the first floor, one on each of the second and third floors and four on the fourth floor, the latter where Bedroom 402 will be supplied with a hot tub, to become a Premier Room.

The former spa leisure facility on the lower ground floor closed following vacation by the original licence operator, with the former changing rooms having since been adapted to provide customer's toilets for Moloney's Bar and the former gym as a temporary furniture store/laundry room. The latter would in due course appear suitable for the creation of alternative changing rooms to serve the leisure facility, when this is reopened as the management are in due course intending, with a view to capturing additional room bookings, from guests who might otherwise stay elsewhere, albeit they might not actually use those facilities.

Statutory Authorities

For the purpose of this report and our valuations, we have assumed that there are no matters outstanding or that would be of concern to any of the Statutory Authorities, or any matters that would have a detrimental impact on Market Value.

Planning and Highways

We are advised by Michelle O'Rourke of the following:

Listed Building	Conservation Area	Tree Preservation Orders	Section 106 Agreements	Adopted highway
x	x	x	x	✓

We have made enquiries of the local authority's online planning register and have detailed the recent planning history for this property below.

Reference	Date	Decision	Proposal
89/1876/03	14/02/1990	Approved	Alterations to form new reception area, removal of existing shop front and change of use of shop to form cocktail bar.
90/0688/03	12/09/1990	Approved	Demolition of fourth floor staff flat + formation of a new fourth floor with 16 new bedrooms with en suite bathroom or shower room.
93/0870	10/03/1994	Approved	New shopfront to corner elevation
2001/0980	09/08/2001	Granted Subject Conditions	Erection of glazed canopy across the frontage of the building between ground and first floor levels, demolition and reconstruction of fourth floor and refurbishment of existing windows
2004/1524	26/10/2004	Granted Subject Conditions	Retention of two externally illuminated entrance canopy signs, one externally illuminated double sided projecting sign and one externally illuminate individually lettered sign with the installation of spot/floodlighting units.
2005/0350	19/05/2005	Granted Subject Conditions	5th Dimension, 201 High Street, Swansea, SA1 Change of use of ground floor from a shop (Class A1) to a conference/meeting room (Class C1)
2004/0212	25/10/2007	Approved	Retention of alterations to ground floor facade, including new shop fronts and doors on front elevation
2008/1839	31/10/2008	Approved	198 High Street Swansea SA1 1NG One internally illuminated fascia sign and one internally illuminated projecting sign
2010/0083	12/03/2010	Granted Subject Conditions	High Street Station High Street Swansea SA1 1NG External alterations including replacement front and side canopies and external lighting (application for the Prior Approval of the Local Planning Authority)
2009/0319	24/03/2010	Granted Subject Conditions	197 - 201 High Street, Swansea SA1 1NG Change of use of first & second floors from part retail/part residential, two first and second floor rear extensions to facilitate enlargement of existing hotel and five new shop fronts.
2014/1244	30/12/2014	Granted Subject Conditions	197 - 201 High Street Swansea SA1 1NG Change of use of ground floor units from retail (Class A1) and tattoo parlour to (Class D2) to facilitate increase in size of hotel's existing conference and banqueting room and new shop front

Our valuations have been prepared on the specific assumption that planning permission exists for the property's existing use.

Rates, Water and Environmental Charges

The Rateable Value of the subject property is £93,500, with a Welsh Uniform Business Rate payable of 49.9p in the pound for 2017/2018 and the business also pays a 'Swansea Bid' marketing and promotion surcharge of £2,000 per annum.

Within our Current Trade Assessment calculations, we have made an allowance of £69,000 per annum for rates, water and environmental services.

Statutory Authorities

Fire Authority

The Fire Authority no longer routinely inspects premises and it is the responsibility of the occupier to undertake an appropriate Fire Risk Assessment.

We are advised that a Fire Risk Assessment has been prepared and this was updated on completion of the recent remodelling and refurbishment works on the first floor of the original building, which were monitored by the fire officer.

Fire fighting equipment is serviced and maintained by Hartson Fire from Swansea, whose last visit was in May 2017.

Regulatory Reform (Fire Safety) Order 2005

We have not undertaken any form of Fire Risk Assessment for the premises, nor can we confirm the adequacy, or otherwise of any Risk Assessments seen. We recommend that business proprietors fully acquaint themselves with the requirements of the Regulatory Reform (Fire Safety) Order 2005, which cover statutory fire prevention in almost every commercial property.

Environmental Health Authority

We understand that the subject concern is registered under the provisions of the Food Safety Act 1990 and it is assumed that the business meets fully with the requirements of this legislation.

The premises were inspected by the Environmental Health Officer in June 2015, when the business received a rating of 4 out of 5 under the Food Hygiene Rating System. Whilst this grading was an indicator that the premises were then considered 'Good', this related to the former first floor catering kitchen, which has since been replaced by the more recently created such facility on the ground floor, hence the management were anticipating that a 5 out of 5 rating would have been awarded at the time of environmental officer's next visit.

Alarmingly therefore, when the EHO revisited the property on 5 December 2016, a 1 out of 5 rating was given, seemingly on the basis the borrowers had failed to advise the Environmental Health Authority that the above works had been completed. However, Ms O'Rourke advises that the matter has since been regularised and Celtic Hospitality Limited registered at the Council as the replacement trading company for the business.

The Environmental Health Officer's next unannounced visit is therefore awaited.

Food Safety Act 1990

We recommend that business proprietors fully acquaint themselves with the terms and conditions of the Food Safety Act 1990 and its various subordinate regulations. These include the introduction of a scheme for compulsory registration of all food premises under The Food Premises (Registration) Regulations 1991, the latter relating to England, Scotland and Wales, and applying to most types of businesses, with few exemptions.

Licensing

The property operates with the benefit of a Premise License, originally issued by Swansea City and Borough Council on 5 October 2015, to Ivey Place Hotels Limited, under licence number SJ067648, albeit the latter is now held in the name of the replacement trading company, Celtic Hospitality Limited.

The licence permits the following activities;

- ❖ Sale of alcohol on the premises - Daily - 07:00 hrs to 02:00 hrs
- ❖ Sale of alcohol off the premises - Daily - 07:00 hrs to 02:00 hrs
- ❖ Late Night Refreshments - Daily - 23:00 hrs to 02:00 hrs
- ❖ Dancing - Daily - 07:00 hrs to 02:00 hrs
- ❖ Live Music - Daily - 07:00 hrs to 02:00 hrs
- ❖ Making of Music - Daily - 07:00 hrs to 02:00 hrs
- ❖ Recorded Music - Daily - 07:00 hrs to 02:00 hrs

General Manager' Michelle O'Rourke is the Designated Premises Supervisor, who holds a Personal Licence no 00ND-IND-02354.

In addition, the following licences are also held:

- ❖ Performing Right Society Licence
- ❖ Phonographic Performance Limited Licence
- ❖ Wedding Licence, the marriage rooms - Station Suite 120 persons, Ivy Suite 80 persons.

The Licensing Act 2003

The Licensing Act 2003 provides that premises where a licensable activity takes place require a Premises Licence. For the purpose of this report and our valuations, we have assumed that the business will have the necessary licences in place to continue to trade as existing and/or proposed.

Local Sector Profile

	Census	(Sub National Population Projections)		
	2011	2017	2022	2027
Overall Population	265,638	274,021	281,152	289,398
<i>Percentage change on 2017</i>	-	-	+2.6%	+2.9%
❖ age between 20 and 24 yrs		23,211	23,213	23,201
❖ age between 25 and 44 yrs		68,458	71,028	73,397
❖ age between 45 and 64 yrs		68,406	67,904	66,717
❖ of pensionable age		53,441	57,933	64,025

Customer Profile

The local demographic information available shows a population within a 10km radius of around 266,000 at the time of the previous census. Of these, there are 2.25% in the 18-24 year-old bracket and 1.32% of pensionable age, which are more than the UK average, whereas there are respectively 1.71% and 0.26% less of those between 25 and 44 years and in the 45 - 64 year old bracket.

In terms of social class distribution, there are about 5.4% and 0.9% respectively fewer within the Classes A/B and C2, when compared to the rest of the UK, whereas in contrast, there are 1.5% and 4.84% more in Classes C1 and D/E.

The trading pattern of the concern Monday to Thursday is principally from the corporate and tourist sectors, whereas at weekends, it tends to be more leisure break and function orientated, with the approximate income mix; 60% corporate and business; 40% leisure.

Competition

We consider competition in the city to be relatively strong, this principally from the larger corporate hotels, which are said to include;

The Dragon Hotel in The Kingsway is a former Holiday Inn with a 4 Star rating, having 106 letting bedrooms, an AA Rosette for its restaurant and a leisure club.

The Village Hotel in Fabian Way, opposite Kings Dock, has 114 letting bedrooms, a Starbucks Coffee shop, Verve Grill or traditional pub food,

The Mercure Hotel at Enterprise Park in a lakeside location has 119 letting bedrooms, a brasserie restaurant for 120 and a Feel Good health club.

Furthermore, other corporate units, but not exclusively, include;

The Ibis in Swansea Way in the SA1 Waterfront Development that has 99 letting bedrooms, this understood to have opened in 2004 at about the same time as The Grand Hotel was re-launched with 31 letting bedrooms, following its initial refurbishment;

Premier Inn – Swansea City Centre in Wind Street with 116 letting bedrooms, has a breakfast buffet restaurant, whereas this corporate provider has a further such unit; Premier Inn – Swansea adjacent to the Marina, that is operated in conjunction with an associated Beefeater Grill restaurant.

Travelodge Swansea Centre, opposite Bar 6 in Princess Way has 70 letting bedrooms; with this corporate budget operator having a further unit with about 100 letting bedrooms off Junction 47 of the M4 motorway.

Local Sector Profile

Using information available in the public domain we have identified the following applications and developments that are understood to be in the pipeline:

Reference	Date	Decision	Proposal
2014/0766	13/06/2014	Granted	<p>QUEENS BUILDING - BAR & HOTEL ACCOMMODATION Address: Queens Buildings, Cambrian Place, Maritime Quarter, Swansea, West Glamorgan, SA1 1TW.</p> <p>Conversion of the existing office building to provide a bar/restaurant with 1 hotel room on the ground floor, 8 hotel rooms on the first floor and a further 6 hotel rooms on the second floor.</p>
P2015/0890	10/05/2016	Pending	<p>PREMIER INN HOTEL - 22 BEDROOM EXTENSION Address: Premier Inn Hotel, Pentwyn Baglan Road, Port Talbot, West Glamorgan, SA12 8ES.</p> <p>Two storey detached extension to the existing hotel to provide an additional 22 bedrooms with associated plant room, linen store and landscaping.</p>
2016/0182	16/05/2016	Pending	<p>PREMIER INN, SWANSEA NORTH - 47 BEDROOM ANNEX Address: Premier Inn, Upper Forest Way, Swansea Enterprise Park, Swansea, West Glamorgan, SA6 8WB.</p> <p>47 bedroom annex with associated parking.</p>
2016/1148	23/11/2016	Granted	<p>OLDWALLS GOWER HOTEL 2 storey building to provide health spa, gym, kitchen and 14 bedroom hotel with associated parking and access following demolition of existing storage barn.</p>
2016/1681	06/03/2017	Granted	<p>MORGANS HOTEL LIMITED – HOTEL & BAR Alterations and conversion works to the existing office building to form a ground floor bar and 15 bedroom hotel on the first and second floor.</p>
2017/0757/FUL	03/05/2017	Pending	<p>FAIRY HILL COUNTRY HOUSE Two storey extension and new entrance works to existing building.</p>

The Business

Business History

The main building of the subject property appears to have been erected during the 1930s, in the art-deco style, as the Station Hotel. The remaining 33 year ground leasehold interest from Swansea City Council was acquired by the borrowers Mr C J and Mrs S Moloney in 1999, for an advised consideration of £220,000, after it having been offered for sale by tender.

Following purchase, the new owners renegotiated the existing 125 year lease with the Council, in exchange for an increased fixed ground rent of £2,000 per annum, prior to investing a further advised approximate £3m in a comprehensive refurbishment and remodelling of the building's interior, albeit a £680,000 grant was received against the cost of external works, due to the Grade II listing. This resulted in the initial creation of 31 en suite letting bedrooms, the fully licensed Moloney's Sports Bar, a Piano Bar, high class first floor restaurant, together with a spa leisure facility at lower ground floor level.

At the time of acquisition, the premises were subject to a 'brewer's tie' and the new owners therefore decided to allow this previous supply agreement with the former lessee operator to lapse, before commencing trading. The premises in their revised trading concept opened in July 2004, after a 16 month conversion period.

Two years later, Mr and Mrs Moloney acquired no's 198 – 201 as a freehold mixed commercial and residential investment for an advised consideration of £400,000. At the time of purchase, this included three ground floor shop units, which were occupied by a Co-operative pharmacy, a tattoo parlour and a discount retailer, whereas the upper floors were arranged as two residential maisonettes and some offices.

Following negotiation of a lease for no 197 High Street in 2012, sited between the original hotel building and the couple's previous freehold acquisition, they obtained vacant possession of the upper floors before converting these to 14 en suite letting bedrooms, costing a further £80,000 - £100,000. These came on stream in April 2013, thereby taking the stock to 45 bedrooms.

As the leases of the respective lock-up shop units 'fell in', the last being in December 2014, the borrowers took the opportunity to gain vacant possession. In the following year they remodelled the ground floor of these buildings and extended to the rear with a single storey addition.

The building works for this scheme cost an advised £187,000 using a direct labour force, with a further approximate £200,000 spent on trade fixtures, fittings, furnishings and equipment. This has created the 'Peco One' 70 cover restaurant, conference/banqueting suite, catering kitchen and customer's toilets, which became operational on 19 November 2015, thereby taking advantage of some late organised pre-Christmas parties and is also leading to additional business generated from conference and banqueting, including wedding receptions.

That scheme also enabled the closure of the former first floor poorly patronised high class restaurant, associated kitchens and customer's toilets in the main building, with the space they occupied remodelled to provide a centralised management office and a further eight en suite letting bedrooms, thereby taking the hotel's overall stock to 53 bedrooms. Those works, costing an advised £70,000, were nearing completion at the time of our previous visit in June 2016, all of which had come on stream during the course of that month.

The lower ground floor former Spa leisure facility, which included a gym, treatment rooms, sauna, steam room, hot tub and changing rooms, was initially let to a third party licensee, but with the hotel then with only 31 letting bedrooms, the leisure facility was deemed uneconomical to run and closed after four years. This space has largely since been un-utilised, although the former gym has been used as a furniture store and the changing rooms; as customer toilets for Moloney's Sports Bar.

In June 2016, Mr Moloney was approached by the owners of no 197 High Street, Rossgold Limited' to see whether he would be interested in acquiring their freehold investment interest. This not only included the former shop unit and accommodation above, since integrated into the hotel, but also the adjoining single storey building occupied by a tenant who had run a massage parlour from the premises. Following negotiation of a £235,000 purchase price for the freehold vacant possession of the property as a whole; the sale completed on 8 December 2016.

The borrower stripped out that building, initially with a view to its conversion, subject to statutory consents, into two en suite letting bedrooms and a furniture store for the adjoining conference suite. Whilst formation of the latter has since been undertaken, the remainder of that project was suspended in favour of a larger such scheme to demolish the building to make way for a two-storey extension to the original main building, to create six additional letting bedrooms, a ground floor furniture store and a first floor linen store.

Any such proposal will be subject to planning permission and other statutory consents, which may or may not be granted.

The above history of the subject property in the current owner's hands appears to suggest an overall investment to date in the order of £3.7M - £3.75M, excluding the previously referred to grant, although the Council more recently approved a further £50,000 towards the refurbishment of the original veranda, works for which had largely been completed by the time of our more recent visit.

The purpose of this report is for refinancing purposes in connection with a first charge loan of £1,350,000 with United Trust Bank, which on the basis of our reported valuations, appears to be well secured.

The Business

Historic Accounts

We have previously been provided with unaudited financial statements for Ivey Place Hotels Limited for the three years ended 29 February 2016, prepared by Bellamy, Morgan & Westwood from Morrision, Swansea and have now been supplied with draft management accounts for the year ended 28 February 2017. Those for the most recent three year period are summarised below.

Commenting on the accounts, it was previously firstly noted that the net turnover of the business in the year ended 28 February 2014 at £846,693, was 8.5% higher than the previous year of £780,410 per annum, although this was considered disappointing by the borrower, as 14 additional letting bedrooms had come on stream in April 2013.

However, following recruitment of Michelle O'Rourke as General Manager in January 2014, there was a notable 31.4% increase in net sales in the year to February 2015, mainly due to accommodation, food and room hire; and whilst growth in bar sales were less pronounced, the accounts for the year ended 29 February 2016, recorded another 7% increase in overall turnover.

Additionally, draft management accounts for the year ended 28 February 2017 recording net sales of £1,446,077 suggest a further 21.5% uplift, this primarily as a result of eight newly created first floor bedrooms on the first floor of the original main building having come on stream in June of last year.

The gross profit margin after food and beverage purchases only having been deducted from net sales, showed a marked improvement, from 76.2% in the year ended 28 February 2013 to 85.4%, in 2014/2015 and whilst seemingly easing to 83.3% in the year ended 29 February 2016, the more recently supplied draft management accounts suggest a recovery again to 85.4%.

With regard to operating expenses, the wage bill in the three years ended 28 February 2015, increased in real terms, but as a proportion of overall net sales eased from 29.6% to 27.6%. Whilst the accounts in the following year showed staffing cost as falling in real terms to £289,473 per annum (24.3%), this did not include Michelle O'Rourke's fees as a self-employed consultant, said to have amounted to £37,000 per annum, including an annual bonus, hence increasing the effective wage bill to £326,473 per annum (27.4%).

However, we understand that the general manager has since been an employee of the trading companies and following recruitment of additional staff to service that additional throughput of business, draft management accounts for the year ended 28 February 2017 record wages including employer's NI Contributions at £394,032 per annum (32.8%).

The amount devoted to repairs and maintenance in the four years ended 29 February 2016, averaging £36,128 per annum, equated to 3.4% of the turnover for the period. This is a similar proportion to that we generally recommend as being sufficient to adequately repair and maintain a property of this style and its trade furnishings and equipment in the medium to longer term.

It was evident from our recent visit that the premises are generally presented to a good standard, with the most recent scheme for remodelling of the first floor having been completed in June 2016. Furthermore, the hotel has an ongoing programme of refurbishment, with 15 of the original 31 bedrooms in the main building having been upgraded with new soft furnishings by the end of 2016, at a cost of about £1,500 per bedroom.

At the time of our recent visit, arrangements were in hand for another eight bedrooms to be upgraded, at a combined cost of £40,000, which will complete the fourth floor refurbishment to a standard very similar to that of the recently created first floor rooms. This will leave a balance of eight rooms to be undertaken at a later date.

The former leisure suite at basement level has remained largely unproductive since the third party licence holder vacated, albeit former changing rooms have been adapted for use as customer's toilets and gym as a temporary store/laundry room.

Draft management accounts for the year ended 28 February 2017 indicate the cost of 'heat and light' at £64,750, as compared with £71,278 per annum in the previous financial year, this reduction as a result of switching to an alternative energy supplier.

The cost of advertising and marketing in the year ended February 2016 had been £87,356, whereas these aspects are included within 'Booking Fees' in the draft management accounts at £140,526 per annum, an increase of £53,170 per annum. According to the general manager, breakdown of the latter includes; a standing charge of £18,200 per annum to Great National for managing the booking system, commission of £12,000 per annum for the additional room revenue, an average 1% increase to on-line bedroom providers of £8,000 per annum and marketing material of £14,900 per annum, the latter that should have instead been allocated to 'Printing, Postage, Stationery and Telephones.

There is no specific entry in the latest draft management accounts for entertainment, this expenditure having inadvertently been allocated to 'Equipment Hire', which otherwise includes payments for the direct dial telephone system and a company van. Although the cost of entertainment in the previous financial year had been £14,802, Ms O'Rourke advises that following the creation of letting bedrooms on the first floor of the original main building, live music in Moloney's Sports Bar has been reduced and 'tribute band nights' discontinued.

Other expenses are generally as we would expect for such a concern.

The Business

Whilst there was an absence of a specific entry in the historic accounts to the end of February 2016, for rents payable by the previous operating company Ivey Place Hotels Limited as sub-lessees of Moloney Properties Limited, owners of the head lease on the original building; former lessees of 197 High Street; and Mr and Mrs Moloney as freeholders of no's 198 – 201 High Street; we were advised that each of these had been included in the annual Management Charge. The latter according to the owner's accountants had been based upon 90% of the net profit, with the remaining 10% for the operating company.

However, draft management accounts for the year ended 28 February 2017, as opposed to a management charge, record rents payable by the operating company to Moloney Properties Limited of £176,796 per annum. Additionally, on the basis of Mr Moloney having acquired the freehold interest of no 197 High Street, inclusive of the former health suite building, budgets going forward allow for a rent £161,200 per annum.

In calculating the reconstituted net profit, we have added back these and other items of a personal, or 'one off', nature, as outlined in the table below.

For the purposes of our analysis of the accounts and trading assessments, we have therefore only allowed for the ground rent of £2,000 per annum on the head lease of the original building.

Accounts Analysis

Accounts Summary

	Accounts Year End 28/02/2015	Accounts Year End 29/02/2016	Accounts Year End 28/02/2017
Total Turnover (£)	1,112,480	1,190,460	1,446,077
Gross Profit (£)	950,298	991,861	1,235,087
Gross Profit Margin	85.4%	83.3%	85.4%
Profit/(Loss) as per accounts (£)	19,982	28,195	217,489
Adjustments to Expenses (£)			
Bank Charges	1,982	2,735	0
Depreciation	5,024	2,895	0
Hire Of Plant & Machinery	14,199	4,536	4,536
Management Charge	151,842	225,754	176,796
Legal & Professional Fees	18,623	0	0
Reconstituted Net Profit (£)	211,652	264,115	398,821
Net Profit Margin	19.0%	22.2%	27.6%

VAT Returns

We have previously been supplied with VAT Return information for Ivey Hotels Limited for the 22 months January 2015 - October 2016, with those for the 2015 calendar year recording Box 6 entries for the 'Total Value of Sales excluding VAT' amounting to a collective £1,220,232 per annum. Additionally it is noted that the VAT return information for the 12 months to February 2016, indicating Box 6 entries totalling £1,190,460 per annum, wholly accorded with the net turnover appearing in the un-audited accounts for the corresponding period.

However, Box 6 entries recorded for the 12 months May 2015 - April 2016, indicate a MAT - moving annual turnover of £1,193,257 excluding VAT. Whilst this pointed to a £26,975 or 2.2% reduction in the moving annual position during the intervening previous four months, this was understandable in view of the disruption caused by the building works being undertaken during this period to remodel the first floor and provide the hotel with a further eight en suite letting bedrooms, six of which came on stream on 6 June and the other two on 17 June 2016.

It was therefore reassuring that following this recent investment, VAT Returns for the 12 months November 2015 - October 2016, recorded Box 6 entries amounting to net sales of £1,331,254 per annum and we have before referred to draft management accounts for the year ended 28 February 2017 recording net sales of a further improved £1,446,077 excluding VAT.

Additionally encouraging is that latest management spreadsheet VAT information supplied for the replacement trading company Celtic Hospitality Limited, three months March - May 2017, recorded net sales of £379,890, as compared with a budget of £346,707. Furthermore, turnover in this most recent quarter was £70,358 excluding VAT greater than during the corresponding period a year earlier, thereby taking the MAT to £1,516,435 excluding VAT.

The latter is distinctly similar to the Current Trade Assessment in our previous report, which at that time had been based upon net sales of £1,500,000 per annum.

Month Ended	Net Outputs	Weekly Average
Jan 2015	102,556	23,685
Feb 2015	94,405	21,803
Mar 2015	92,006	21,248
Apr 2015	94,010	21,711
May 2015	102,622	23,700
Jun 2015	94,043	21,719
Jul 2015	94,043	21,719
Aug 2015	110,744	25,576
Sep 2015	109,951	25,393
Oct 2015	105,737	24,420
Nov 2015	80,142	18,509

Accounts Analysis

Month Ended	Net Outputs	Weekly Average
Dec 2015	139,973	32,326
Jan 2016	86,598	20,000
Feb 2016	80,591	18,612
Mar 2016	96,058	22,184
Apr 2016	92,755	21,421
May 2016	92,755	21,421
Jun 2016	119,652	27,633
Jul 2016	140,951	32,552
Aug 2016	129,882	29,996
Sep 2016	130,291	30,090
Oct 2016	141,606	32,703
Total	2,331,371	20,709

Trading Format

Trading Hours and Seasonality

The business is open seven days per week and Moloney's Sports Bar operates over the following hours:

Days of Week	Opening Hours
Monday to Sunday	10am to 2am and 0am to 0am

Hotel guests are able to book in from 2.00 pm on the day of arrival and are asked to vacate by 11.00 am on the day of departure. Breakfast is served in Peco One Restaurant, daily between 6.30 am and 10.30 am; and whilst closed at lunchtimes, reopens for evening meals at 5.00 pm, with last orders at 9.00 pm.

Pricing Policy

The hotel no longer has a published room tariff, seemingly due to the improving demand for accommodation in the city in recent times and the competitive nature of other local bedroom providers. The management are instead quoting rack rates for bed and breakfast that are pitched 25% above those actually being achieved,

Sources of Income

Income is derived from a combination of bar sales, food sales, accommodation, room hire and sundry other sales.

- Wet Sales

The bars were fully equipped and stocked at the time of our recent visit, these having a selection of beers, lagers, minerals, wines and spirits, as well as hot drinks.

Selected prices included; Carling lager £3.50 a pint, a bottle of Budweiser £3.40, J2O £2.00, Bells whisky £2.90 for a standard 25 ml measure, Pimms £2.50 for 50 ml and wines by the glass, including a Pinot Grigio at £3.75 for 175 ml. A regular cup of Cappuccino coffee was £2.30.

The 25-bin wine list offers a selection of red, rose' and white wines, as well as sparkling wines and Champagne, with Sauvignon Blanc £15.95, Chateau Moulin Bordeaux Superior £19.95 and Laurent-Perrier Brut Champagne £49 a bottle.

Un-audited accounting information for the year ended 29 February 2016, recorded bar sales of £303,231 excluding VAT and a GP margin of 61.6%, with the Stock Audit and Analysis report for 28 days to 13 April 2016 indicating a 63% GP margin having been achieved during that period. Encouragingly therefore, management accounts for the year ended February 2017 show beverage sales having in the meantime increased by 21.7% to £368,957 excluding VAT and also returning an improved 64.1% GP margin.

The principal suppliers of wet goods are Jack Sullivan, Hurns and the Gower Brewery, with wines and spirits also from Booker and Brakes.

- Dry Sales

The hotel has a selection of menus, the Bar Snacks Menu including a choice of sandwiches, paninis, baguettes, wraps, jacket potatoes, main meals and all day breakfast options.

Selected prices there-from include; a Club Sandwich £5.95, a ham salad baguette £3.95, a baked potato with a Coronation Chicken filling £5.95, a grilled sausage with mashed potato and onion gravy £7.95; and un-smoked bacon served in a warm brioche roll £2.95.

The Peco-One Restaurant menu, offers a selection of starters, sharing platters, main meals, salads, side orders and desserts. Selected items there-from include; soup of the day £4.95, baked Camembert and crudites to share £14.95, an 8 oz rump steak with all the trimmings £10.95, Moroccan lamb tagine with spiced cous cous £14.95, a chicken Caesar salad £9.95, garlic bread £2.50 and all desserts such as sticky toffee pudding, £4.95, or cheese and biscuits £5.95.

For functions, there are several food options, including a 'Fork Buffet Menu', inviting organisers to pick three hot or cold counter dishes, five sides and three desserts, from an extensive list of items; and a 'Hot & Cold Buffet Menu' offering a selection of sandwiches or wraps, together with a choice of other items, with prices ranging from £11.95 per person for five items, to £18.95 person for 12 items.

Un-audited accounting information for the year ended 29 February 2016, recorded food sales of £116,835 excluding VAT and a GP margin of just 29.5%, as compared with 59.5% in the previous year and an apparent gross loss of £2,981 in 2013/2014. We are advised that the likely cause of this was the EPOS system not correctly allocating the retail price of breakfast from the B&B tariff to dry sales, which has since been addressed.

Trading Format

Encouragingly therefore, draft management accounts for the year ended 28 February 2017 indicate a notable increase in net food sales at £223,315 and a 64.8% GP margin, the latter whilst falling within industry norms, is greater than we had expected for the style and trade mix of the present business.

The principal suppliers of dry goods are Brakes, Chef Choice and Bookers.

- Functions

Special promotions organised by the management for 2017 include a Beaujolais Day in November, with a two course lunch in Peco-One Restaurant priced at £32 per head, followed by a 'Parisian Party' until 9.00 pm, for £39 per head.

During December, festive lunches are available in the restaurant priced at £16.95 for three courses, an afternoon tea with Prosecco for £14.95, a children's afternoon tea with a visit from Santa, priced at £45 for two adults and two children, as well as pre-Christmas private parties. This programme will be followed by a New Year's Eve Grand Masquerade Ball with four course dinner and live music for £49.00 per person.

Function trade for the hotel includes private parties, Christenings, funeral wakes, 'baby showers' and wedding receptions, with eight of the latter events hosted during 2016, but with actual and advanced bookings for 27 in 2017. The 'Love Me Do' inclusive package, which includes complimentary ceremony room hire in the Station Suite, with drinks on arrival, a three course set menu with a glass of wine, for a maximum of 40 day guests and DJ entertainment for an evening buffet for 60, is priced at a competitive £2,017 for the coming year.

- Accommodation Income

The present quoted room tariff for bed and breakfast on a per room, per night, including VAT basis, is currently as follows;

- Double Room: £120
- Family Room: £150
- Large Double Room with Balcony: £130
- Penthouse Suite: £295
- Superior Suite: £235
- Triple Room: £150
- Twin Room: £120

These rates are often subject to negotiation, which in conjunction with various special promotions and discounted rates during quiet periods, has according to General Manager Michelle O'Rourke resulted in achieved room rates for B&B of approximately £75, Monday to Thursday and £90 at weekends, each per room, per night, including VAT.

Un-audited accounting information for the year ended 29 February 2016, recorded accommodation sales at £695,981 excluding VAT.

The Grand Hotel is clearly accommodation led, the management spreadsheet analysis of income from the previous stock of 45 letting bedrooms during the 10 months to December 2015, indicating an average achieved B&B room rate of £83.39 including VAT, equating to £69.50 per room, excluding VAT and an average 69.6% bedroom occupancy.

The latter is distinctly similar to the latest published occupancy figures produced by TRS - the research solution for Visit Wales, entitled Wales Tourism Accommodation Occupancy Survey Wales – April 2016 – March 2017 (provisional). This refers to hotel room occupancy across the whole of Wales being 67%, which was 1% lower than in the previous year, following a 2% increase from 2014/2015. That trend was being mirrored in South East Wales that returned 72%, 73% and 71% respectively, whereas for South West Wales, it was 60%, 63% and 64% respectively, suggesting a four percentage points fall in hotel occupancy levels during the last two years.

Weather clearly has an impact upon the level of last minute bookings made by leisure break and destination city visitors and Met Office data showed that 2016 was generally warmer than in 2015, with May having more sunshine and less rain in 2016. Additionally, the first three months of 2017 had slightly warmer weather than in the first quarter of 2016, with less sunshine overall.

Easter falling in March in both 2015 and 2016, might be expected to have had a positive effect on the latest occupancy statistics. Furthermore, the relative weakness of the pound against other currencies both in the 12 months to March 2016 and again in the 12 months to March 2017, has made foreign holidays more expensive for UK residents, but cheaper for overseas visitors to come here, each therefore tending to be advantageous to domestic tourism.

Additionally, the fear of a terrorist attack such as occurred at a tourist resort in Tunisia in 2015, possibly also on an airliner flying from a resort in Egypt, together with attacks in Paris, Copenhagen and more recently in March 2016 at Brussels airport and on the metro, as well as others in Nice during September and Berlin in December, has dissuaded many UK residents from travelling abroad, who are instead having 'staycations'. Nevertheless, the UK has since also experienced tourist related incidents, one in March of this year at Westminster and most recently during May at Manchester Arena, when 22 people lost their lives and 59 were injured in the suicide bomb attack.

Trading Format

The ongoing refugee crisis may also have had an impact on tourism to some areas of the Mediterranean. All of these could have an effect on the likelihood of UK residents to travel abroad; but concerns about terrorism, particularly terrorism linked to international flights, might also dissuade international visitors from visiting Wales.

The subject property now has a stock of 53 letting bedrooms and following the introduction of the eight newly created letting bedrooms on the first floor in June of last year, the average B&B room rate in the second half of 2016 increased from the above referred £83.39 including VAT, equating to £69.50 excluding VAT, per room, per night; to £103.85 including VAT, equating to £86.54 excluding VAT, per room per night. Whilst this was expected to have improved when the hotel had the benefit of these new rooms for a full 12 months, Ms O'Rourke advises that there has since been no appreciable difference in the average room rate, suggesting some resistance to increased prices in a competitive local market.

Nevertheless, draft management accounts for the year ended 28 February 2017 record net accommodation sales as £805,832, after the retail price of breakfast having been allocated to food sales and the MAT for this profit centre during the 12 months to the end of May 2017 was a calculated £830,684 excluding VAT.

Therefore, adopting an average B&B room rate of say £78 per room, per night, excluding VAT and applying the latest Visit Wales hotel room occupancy average of 66% for South East and South West Wales, might suggest income potentially to be derived from accommodation on a bed and breakfast basis, of a calculated £995,880 per annum, rounded to £1,000,000 per annum, excluding VAT.

On the basis that room sales Monday to Thursday are generally for single occupancy and at weekends, double occupancy, it points to 18,327 sleepers. Therefore, as the retail price of breakfast is £10 per person including VAT, namely £8 excluding VAT; and approximately two thirds of overnight guests partake of breakfast, it suggests that £98,232 per annum, a rounded £100,000 per annum (10.8%) would be allocated to food sales.

Entertainment

Apart from TVs with Freeview channels in guest's bedrooms, Sky channels are provided for the two large and six small screen TVs in Moloney's Sports Bar.

Entertainment including live music is occasionally provided by the management for special events, who also promote ticket entry tribute nights as part of their function programme.

Advertising and Promotion

Marketing material is produced for conferences, special events, weddings and other private functions, with local advertising undertaken to promote special events and the pre-Christmas party season.

The hotel operates with a web-site www.thegrandhotelswansea.com, which includes a direct booking system through Aviiivo, costing an advised £150 per calendar month. This programme is managed by Great National Hotel Sales, a marketing consortium of 64 mainly Irish based hotels, but with 22 now in the UK, The Grand Hotel being by far the largest in this group. They field all incoming calls and email responses through a centralised call centre in Ireland, as well as making the bookings, with the hotel management providing them with updated information relating to availability, tariff charges and promotional offers, this service involving a further advised £350 per week, including VAT.

The hotel management produce a newsletter, as well as taking part in social media, such as facebook, twitter and instagram.

Credit Card Charges

The hotel takes most credit and debit cards, the current provider of those services being Worldpay, the cost of which in the management accounts for the year ended 28 February 2017 are shown as £17,463 per annum.

Hire Purchase, Leasing and Rental Agreements

We are advised that the direct dial telephone system and a company van are subject to lease purchase agreements. However, as our opinions of valuation assume the business would be sold free of any hire purchase, leasing or rental agreements, these have been excluded, where applicable, from our trade assessments.

Trading Format

Management

Since acquisition, we understand that Mr and Mrs Moloney have not had any direct involvement in the day to day management and operation of the hotel, the business instead run under management with a full complement of staff. The former does however deal with property acquisition and development, utilising a direct workforce through an associated building company.

The present General Manager, Michelle O'Rourke, who we are advised previously worked for Mercure Hotels, was appointed in January 2014. As a self-employed consultant, in the year ended 29 February 2016 she receives a salary of £30,000 per annum for a 40 hour week, plus an incentivised bonus said to have amounted to £7,000, a collective £37,000 per annum.

Whilst her salary has since been increased to £35,000 per annum, the incentivised bonus has yet to be calculated for the last financial year.

However, we understand the general manager is now directly employed by the replacement trading company Celtic Hospitality Limited.

Staffing

The current trading company, Celtic Hospitality Limited, continues to employ 31 other members of staff, 21 full time and 10 part time, as well as 10 seasonal workers aged 18 - 21 years on work experience, either from local schools or through a fully subsidised scheme with Remploy.

Six members of staff are salaried, namely; the Sales Manager £27,500 per annum, Head Chef £27,500 per annum, Conference and Events Manager £18,000 per annum, Guest Care Manager £16,500 per annum, Maintenance Person £15,000 per annum and Night Porter £13,000 per annum.

The remaining staff working various hours are paid on an hourly rate, namely; three receptionists at £7.50 an hour, a night porter £7.50 an hour, a maintenance person £8.00 an hour, eight housekeepers £7.50 an hour, bar supervisor £7.50 an hour, two kitchen assistants £7.50 an hour, eight food and beverage persons £6.50 - £7.50 an hour and a guest care manager £7.50 an hour.

The cost of salaries and wages in the year ended 29 February 2016, were £289,473 including NI Contributions, which excluded Michelle O'Rourke's fees as a self-employed consultant, whereas draft management accounts for the year ended 28 February 2017 record wages including employer's NI Contributions at £394,032 per annum (32.8%).

Auto-Enrolment Pensions

Members of staff over 22 years of age will now be eligible for auto-enrolment into the Government's imposed compulsory pension provisions, after the management registered the business for this purpose and were supplied with a 'Staging Date' in October 2017. The pension scheme is therefore due to commence on 1 December 2017, hence will initially affect staffing costs in the fourth quarter of the current trading company's first financial year.

The pension provider is Provident Life, but eight only of the 26 qualifying staff is understood to have expressed an interest in joining the workplace pension scheme.

The employer's initial minimum contribution from commencement will be 2% of the employee's income, but this is due to rise to 3% in October 2018. We have therefore sought to include the immediate effects thereof in our CTA and FMT assessments.

Based on the information provided, in our Current Trade Assessment, we have allowed a combined £460,000 per annum to cover the present management and support staff wage costs.

National Living Wage

From April 2017, the National Living Wage (NLW) increased to £7.50 per hour for all employees aged 25 years or over. This will be reviewed annually by the Low Pay Commission and is expected to reach £9.00 per hour by 2020. The lower National Minimum Wage (NMW) will continue to apply for employees younger than 25.

Pension Auto-enrolment

It is compulsory for all employers to offer a work-based pension scheme for all employees aged between 22 and normal retirement age who earn more than £10,000 per annum. The introduction is phased, with each employer being advised of their specific 'staging date'. Minimum employer and employee contributions will rise from an initial 1% each up to 3% and 5% respectively from 1 October 2018 onwards.

Current and Fair Maintainable Trade

Basis for Current Trade Assessment

As mentioned earlier, latest provided VAT Returns for the 12 months ended 31 October record takings of £1,331,254 excluding VAT, whilst turnover in the most recent draft management accounts for the year ended 28 February 2017 show net sales of £1,446,077, an increase of £114,823 excluding VAT or 8.6% during the intervening four month period.

Furthermore, draft management spreadsheet information for the following quarter, March to May 2017, record net sales of £379,890, as compared with £309,532 excluding VAT in the corresponding period of 2016, from which we have calculated the MAT – Moving Annual Turnover as £1,516,435 excluding VAT and the trade mix as 25.7% wet sales, 15.6% dry sales, 55.4% accommodation and 3.3% room hire including other sundries.

The latter result includes the majority of benefit likely to be derived from the additional eight en suite letting bedrooms on the first floor of the original main building, which came on stream during June of last year. In contrast, Pico Restaurant has thus far only been used for the service of breakfast and a limited number of evening meals to overnight guests, although the management recognise an opportunity to open it to outside diners during the day and in the evening.

This change is due to be implemented within the next month, when the offering will be seeking to accommodate those seeking 'brunch', lunches, afternoon teas and evening meals, albeit the majority of such business is likely to be undertaken on Friday, Saturday and Sunday. In due course, gross food takings of between £5,000 and £10,000 per calendar month are envisaged to be generated from the restaurant, together with additional associated wet sales.

The improved conference and banqueting facilities have already been actively promoted, resulting in an increase in room hire from meetings and receptions, together with private functions with associated food and beverage, including wedding receptions, where eight of the latter were hosted during 2016, but 27 either already held or are due to take place in the present calendar year. We also understand that approximately 1,000 more pre-Christmas lunches have been booked than last year for 2017, priced at £30 a head.

Moloney's Sports Bar has continued to trade consistently well in recent months and the associated external seating capacity in front of the hotel was trebled from 24 to 72 seats in April of this year, following restoration of the veranda. This may be expected to have a beneficial effect on the throughput of this profit centre, particularly in respect of wet sales.

Furthermore, we refer to our previous comments regarding the general improvement in the overall gross profit margin, after food and beverage purchases only having been deducted from net turnover, this rising from 76.2% in the year ended 28 February 2013, to an average 84.7% in the three years ended 28 February 2017.

As indicated previously, we calculated the MAT to the end of May 2017 as £1,516,435 excluding VAT from the trading information provided, whereas the management's budget for the year ended February 2018 is based upon anticipated net sales of £1,605,253, which based upon the existing layout and facilities, but a broader food and beverage offering, appears to be a reasoned expectation.

We have therefore had regard to the above observations and comments, in basing our Current Trade Assessment on net sales of £1,600,000 per annum.

However, should additional trading information become available, which supports a different level of turnover and profitability to that outlined herein, we reserve the right to amend our assessment of trade and opinions of value accordingly.

Basis for Fair Maintainable Trade Assessment

The recommended method of valuation of trading businesses is the profits method of valuation, with an appropriate yield/multiplier applied to the assessed Fair Maintainable Operating Profit (FMOP). The FMOP is the level of profit which can reasonably be expected to be sustained by the business when operated by a normally efficient operator. It should exclude any influence on trade, positive or negative, which may result from an exceptional operator.

We have shown our opinion of Fair Maintainable Trade (FMT) in the table opposite. For the sake of transparency, we have shown a comparison with the levels of income and expenditure which we have assessed as currently being demonstrated by the business. We have commented below on the reasons for any differences between these two trading assessments.

Our Current Trade Assessment seeks to reflect the operating format of the business as at the date of our inspection on an annualised basis. For the purposes of making meaningful valuation comparisons with other similar businesses, we have given consideration as to whether this assessment is a fair reflection of the maintainable trade that might be expected by a REO - Reasonably Efficient Operator.

As indicated previously, the borrower had during the 12 months to June 2016 invested an advised £450,000 - £460,000 in enlarging the ground floor of the hotel to create a new 70 cover restaurant and a conference/function suite for 240 theatre, 180 banquet styles, followed by conversion of the first floor of the original building to eight en suite letting bedrooms.

The subject concern that now has a relatively consistent stock of 53 letting bedrooms continues to be in trade development mode, with General Manager Michelle O'Rourke repositioning the hotel in the market.

Current and Fair Maintainable Trade

The management team are strongly promoting the concern to the corporate sector, which locally includes the DVLA, IBM, Virgin Atlantic and BT, who are generally prepared to pay a much higher room rate, as compared with contractors, who may in the past have accounted for half of the mid-week occupancy.

The strategy of quoting rack rates 25% higher than that anticipated, had in the six months to December 2016 resulted through negotiation with clients of increasing the achieved average room rate for B&B; from the previously referred £83.40 (£69.50 excluding VAT) per room, per night to £103.85 (£86.54) excluding VAT, per room, per night, towards the desired average £109 (£91 excluding VAT) per room, per night. Ms O'Rourke advises that in the meantime there has since been no appreciable variance.

For the purposes of our assessment for the hotel on maturity, we have therefore applied the advised achieved room rate of £86.54 excluding VAT, per room, per night on a bed and breakfast basis to the 53 letting bedrooms and the previously referred to average 66% hotel bedroom occupancy for South East and South West Wales, to produce anticipated accommodation income of £1,104,917 per annum, rounded to £1.1M per annum excluding VAT.

Similarly on the basis of this relating to 18,930 sleepers and two-thirds of them having breakfast, it suggests that £100,000 per annum, excluding VAT should be allocated to food sales and a prospective accommodation income on maturity of £1.0M per annum.

We have before referred to the Budgeted Profit and Loss Account of Celtic Hospitality Limited for the replacement trading company's current financial year ending 28 February 2018, forecasting overall net sales of £1,605,253 per annum and whilst the MAT to the end of May 2017 was £1,516,435 excluding VAT, in view of the changes that have already put in place or are due to be implemented shortly, we based our Current Trade Assessment on a turnover of £1.6m per annum, excluding VAT.

In the meantime, we have also been supplied with Budgeted Profit and Loss Accounts for the years ended February 2019 and 2010, these forecasting overall net sales increasing to £1,679,159 and £1,764,435 per annum respectively, the latter with a trade mix of wet sales 23.3%, dry sales 20.4%, accommodation 52.9%; room hire and sundries 3.4%.

In view of £932,851 per annum in the latter trading forecast anticipated to be derived from accommodation after breakfasts having been allocated to dry sales, increased food and beverage sales due to the external seating capacity having been trebled, the pending proposal to change the wet products supplier to Coors Brewing Company with the associated improved marketing and promotions; and as trade matures in the Pico Restaurant after opening to the general public next month, the trading forecast again appears a reasoned expectation.

Nevertheless, we have formed the opinion that the property with its current layout and facilities has a FMT - Fair Maintainable Turnover in the region of £1,700,000 per annum, excluding VAT and a revised trade mix of wet sales 26%, dry sales 19%, accommodation 52%, room hire including sundries 3%. We have therefore also had regard to this in our valuation assessments.

Trade Assessments

Current Trade			Fair Maintainable Trade	
1,600,000		Total Turnover	1,700,000	
1,315,000	82.2%	Gross Profit	1,400,000	82.4%
1,315,000		Total Income	1,400,000	
		Less Expenses		
2,000	0.1%	Rent	2,000	0.1%
69,000	4.3%	Rates & Water Charges	70,000	4.1%
65,000	4.1%	Heat & Light	70,000	4.1%
460,000	28.8%	Wages	510,000	30.0%
22,500	1.4%	Print, Post & Phone	25,000	1.5%
125,000	7.8%	Advertising	130,000	7.6%
11,200	0.7%	Insurance	11,200	0.7%
7,500	0.5%	Accountancy	8,500	0.5%
65,000	4.1%	Laundry & Cleaning	70,000	4.1%
50,000	3.1%	Repairs & Maintenance	60,000	3.5%
5,000	0.3%	Transport	6,000	0.4%
12,500	0.8%	Entertainment	12,500	0.7%
19,000	1.2%	Credit Card Commission	20,000	1.2%
4,400	0.3%	Licences	4,400	0.3%
1,750	0.1%	It	1,750	0.1%
5,150	0.3%	Sundries	3,650	0.2%
925,000		Total Expenses	1,005,000	
390,000	24.4%	Operating Profit (£)	395,000	23.2%

Operating Profit is expressed before interest, taxation, depreciation, amortisation and hire purchase and leasing costs

Methodology and Comparable Evidence

When preparing our valuations, we have had principal regard to the 'profits' method of valuation, together with an analysis of comparable market information and regard to our own extensive database.

Comparable Evidence

Relevant comparable evidence includes the following, but due to the confidential basis on which much of our comparable information is obtained and held, we are often only able to divulge information which is already within the public domain:

There have been a number of sales of hotels in Wales during the last two years, both in the lead-up to and following the outcome of the vote to leave the European Union in June 2016.

Our discussions with selling agents active in this sector indicate that there had been strong demand from the larger corporate operators as well as smaller group for good quality branded hotels, with some purchasers seeking to de-brand and operate them independently, together with renewed confidence in recent months being demonstrated by private buyers.

Comparable Evidence – Business Value

It should be appreciated that the analysis of comparable evidence has limitations, particularly when we have not been directly involved in appraising and valuing the comparable business. In particular, accounting information provided by agents, as part of the sales particulars to a deal, can often be dated and undertaking an assessment of Fair Maintainable Trade (FMT) without fully appraising a business is more subjective.

In addition, adjustments may be required for works, potential or the benefit of other aspects, such as residential accommodation. Whilst we have sought to obtain sufficient information in order to undertake a reasonable analysis of the comparable evidence outlined below, this has also been based on our expectations for such a business and our wider market knowledge.

We are aware of the following;

- ❖ A late 19th century detached heavily timbered country house hotel and sporting estate of 18.3 acres, located in an Area of Outstanding Natural Beauty on the edge of a busy market town in Powys, host to the annual Royal Welsh Show. Former home of Lord Swansea and in the recent ownership for over 30 years, the property offered a 30 seat bar, 40 cover restaurant and a function suite for 100, together with 23 en suite letting bedrooms.

Latest management accounts provided were for the year ended April 2016, which recorded net sales of £714,382, a 78.6% gross profit margin and an adjusted net profit of £73,243, albeit our assessment of the FMOP from the same level of turnover was £150,000 (21.0%).

The property was marketed as a freehold trading entity at an asking price of £1.0M and sold in June 2017 for an advised £930,000, equating to £40,434 per letting bedroom, a 1.3 multiple of turnover and 12.7 Years Purchase, but 6.2 YP against the FMOP.

- ❖ Two adjacent former family houses of two storey construction, linked at the turn of the 21st century to create a 20 bedroom hotel and restaurant, with two bars, breakfast room, restaurant and conservatory, located in a residential area close to both Llanelli town centre and the Millennium Coastal Park.

Trading with a combination of mid-week commercial and weekend leisure based business, latest management accounts for the year ended April 2016, recorded net sales of £285,750, a 74.2% gross profit margin and an adjusted net profit of £89,380, albeit our assessment of the FMOP from the same level of turnover was £180,000 (28.1%).

The property was marketed as a freehold trading entity at an asking price of £499,950 and sold in June 2017 for an advised £460,000, equating to £23,000 per letting bedroom, a 1.6 multiple of turnover and 5.1 Years Purchase, but 5.75 YP against the FMOP.

- ❖ A detached grade II Listed Gothic style three-storey former manor house, fronting the A4 Bristol - Bath road, approximately two miles from both Broadmead Shopping Centre and the M32 motorway. The property that comprises; The Chapel Lounge, conservatory, Cloisters Restaurant, four conference/meeting rooms and 73 en suite letting bedrooms, apart from hosting business meetings and conferences, is also a popular venue for wedding receptions and private parties.

Operating with a combination of mid-week commercial and weekend leisure based trade; net turnover for the year ended December 2015 is understood to have been £1,445,338 per annum, returning a net operating profit of £220,932 (15.39%).

Methodology and Comparable Evidence

The property was marketed as a freehold trading entity and is understood to have sold at the asking price of £2.75M in November 2016, equating to £23,000 per letting bedroom, a 1.9 multiple of turnover and 12.45 YP, based upon the latest trading figures, although we have not appraised this business.

- ❖ A 19th century four storey hotel with bar and tearooms, located in a rural Wales opposite Devils Bridge Falls, 12 miles south-east of Aberystwyth. Comprising; entrance hall, drawing room, breakfast room, tearooms and bar, together with 16 en-suite letting bedrooms. However, there were four further former letting bedrooms on the upper floors, two occupied by the owners and others used as store rooms, if the proprietors instead lived away from the premises, they could instead be brought back into productive use.

Operating with a predominantly tourist trade, latest accounts for the year ended September 2015 recorded net sales of £232,991, a 65.8% GP margin and a £42,417 adjusted net profit, but our trading assessment was based upon a fair maintainable turnover of £425,000 per annum and a £115,000 FMOP.

The property was initially marketed as a freehold trading entity by local agents at an asking price of £600,000, but the latter was subsequently reduced to £500,000 prior to being sold for an advised £442,000 in June 2016, equating to £227,625 per letting bedroom, a 1.36 multiple of turnover and 10.4 Years Purchase, but 3.85 YP against our assessment of FMOP.

- ❖ The fifth comparable relates to a 110 bedroom Holiday Inn with conference facilities for 220 and a health spa, which was sold out of administration in April 2014 for £4.25 million. Whilst turnover was reported to be approximately £2.8 million, staff costs were very high at around 40% of turnover and EBITDA was only £260,000. We understand that the purchaser immediately set about restructuring staff to bring the business back into line with normal operating parameters. The price equated to £38,636 per bedroom.
- ❖ The final and most relevant comparable relates to a AA 4 Star (1 Rosette) modern seven storey purpose built hotel with 106 letting bedrooms and leisure club in key landmark position in Swansea City Centre. Public rooms included; ground floor 70 cover brasserie restaurant, conference room (20), boardroom (20), first floor reception, lounge, piano bar (30) and a 120 cover restaurant, together with a conference/banqueting suite for 230.

Operated under a management agreement by MacDonald Hotels prior to the sale, with a 67.5% average room occupancy and achieved average room rate of £61.43 per night, net sales were a reported £2.76M returning an EBITDA of £585,000 (21.2%) in 2014, whereas the forecast for 2015 was £2.717M and an EBITDA of £640,000 (23.6%).

The property was held subject to a 150 year lease at a commencing rent of £75,000 per annum, increasing at five yearly intervals to £100,000 per annum over the term, albeit this was partly offset by rental income from three retail units at that time producing £36,500 per annum.; The long leasehold interest in the hotel came to the market as a trading entity in 2014 with a price guide of £4.75M, but there was resistance amongst would-be buyers relating to the structured fixed rental increases over the term and it was reputedly sold for £3.65M in January 2016, equating to £34,434 per letting bedroom, a 1.35 multiple of turnover and a 6.25 Years Purchase.

Methodology

In recent year the market for the sale of provincial hotels has shown a wide range of multiples from 5.5 YP for those sold during the depths of the most recent recession, to 10.8 YP for a purpose built Holiday Inn on a freehold basis, whereas multiples for long leasehold properties tend to be well below this latter level, with evidence from elsewhere of offers at 7.4 YP times operating profit.

Whilst the borrower's replacement operating company Celtic Hospitality Limited are paying a collective 'rack rent' of an advised £161,200 per annum going forward, we have not valued the properties as an investment. Our instructions are instead to value the remaining 111 year ground lease of the original building and the freehold interests in no's 197 – 201 High Street and adjoining former health suite building, the latter having recently been consolidated into a single title held by Mr Cornelius's property company The Abertawe Grand Limited.

The valuation approach to be adopted in this instance is initially to value the property as a whole, assuming it were a freehold trading entity, thereby according with the majority of available comparable evidence, before making adjustments for goodwill yet to be realised; capitalisation of the ground rent paid to Swansea City Council in respect of the original building and a 'spot figure' for the value of the adjoining former massage parlour building.

Based on our experience of valuing in this sector and the comparable evidence summarised above, we have adopted a mid-range multiplier in this instance, which has been applied to our assessment of FMOP, to arrive at a rounded Base Value for the property on the assumption it were a freehold trading entity, of £2.8m.

In respect of the goodwill yet to be realised, we adopted a rounded £50,000 adjustment as the higher levels of profitability are not yet evidenced within the trading accounts.

Methodology and Comparable Evidence

With regard to the capitalisation of the fixed ground rent of £2,000 per annum, under the remaining 111 year head lease of the original building now owned by The Abertawe Grand Limited; we have applied a 4% gross yield (or 25 Years Purchase), to produce £50,000.

We have placed a 'spot figure' on the former health suite building that extends to 72.8 m² (785 ft²) GIA, pending either conversion into two double/twin zip link double letting bedrooms and a furniture store, or demolition to make way for a two-storey extension to the original hotel with six en suite letting bedrooms and both furniture and linen stores.

The result is a reported Market Value of £2.75m for the mixed title of the property as a trading entity.

	Current		Proposed	
Base Value	£2,800,000		n/a	
<i>equating to: Assessed Fair Maintainable Operating Profit</i>	<i>£395,000</i>	<i>7.1yp</i>	<i>n/a</i>	<i>n/a</i>
Value of Planning Permissions	£50,000		n/a	
Goodwill Adjustment	-£50,000		n/a	
Other Adjustments	-£50,000		n/a	
Market Value	£2,750,000		n/a	

Market Value with specified assumptions

In arriving at our opinions of Market Value with specified assumptions (these being provided in accordance with the client's requirements), we have sought to reflect the anticipated impact each specific assumption could have on value.

We consider the requirement to achieve a sale within a period of six months to have quite an adverse impact on value in the current market, which we have reflected in the reduction of circa 15-10% applied in this scenario.

Assuming the subject concern were closed, then a purchaser would need to re-establish the trade and the reputation of the business, which would take time and effort. Therefore, in this scenario, a purchaser is likely to require a reasonable discount from the value as a fully operational trading entity, supported by accounts, to reflect the 'risks' and 'reward' of taking on the asset.

Additional Commentary

Market Rent

We would comment that the market for mixed tenure properties and businesses of this nature is limited, with comparable evidence in support of Market Rents being commensurately rare. The subject property is large enough that it could be of interest to a hotel group, who might acquire hotels on a leasehold basis, although the rents agreed most frequently remain confidential.

However, for guidance purposes only, having regard to our assessment of Fair Maintainable Trade for the business, and on the assumption of normal commercial terms, we have assessed Market Rental Value at approximately 40% of FMOP, which provides a reasonable division of profits between the freeholder and operator, namely of £160,000 per annum.

Marketability

We consider that there would be reasonable demand for the subject concern, primarily from those seeking to acquire the business and operate it under management.

The iconic Art-deco style building occupies a prominent location in Swansea, immediately opposite the railway station and in recent years the city has become an increasingly popular commercial and entertainment centre, as well as a tourist destination and for cultural arts.

This is clearly a business in trade development mode, the recently created ground floor 70 cover restaurant, conference suite, catering kitchens and customer toilets coming on stream in November 2015, following conversion of three former lock-up shop units fronting High Street. Furthermore, the first floor of the main building has now been converted into eight additional en suite letting bedrooms and a centralised management office, from space previously occupied by a poorly patronised high class restaurant, associated kitchens and customer toilets.

The hotel is now being marketed with conference and banqueting facilities in association with 53 en suite letting bedrooms, with mid-week bookings primarily from the commercial sector, whereas week-ends are a combination of leisure break visitors and private functions, including wedding receptions, thereby creating a more 'rounded' business going forward.

Following acquisition of the freehold interest in no 197 High Street, which included the adjoining former health suite, at the time of our previous visit in December 2016, the borrower had early proposals, to convert it into two additional zip-link twin/double bedrooms with en suite bathrooms and a furniture store for the adjoining conference suite. However, whilst formation of the latter was undertaken, the remainder of that project was suspended pending an alternative scheme to demolish the single storey building and in its place erect a two-storey extension to the original main building to create six additional en suite letting bedrooms, a ground floor furniture store and first floor linen room.

The property also appears to have scope for further development, Mr Moloney advising that he has a longer term proposal to add a further 33 en suite letting bedrooms, by building another three floors above the existing ground floor conference suite, thereby taking the overall stock to 92 en suite letting bedrooms.

Any such proposals would of course be subject to planning permission and other statutory consents, which may or may not be granted.

We therefore consider that the property would be welcomed to the market and in future be operated as existing on a fully managed basis. However, at this level, there would be more limited interest from the owner operator sector.

The market for the sale of hotels was relatively strong until the first half of 2016, this having improved significantly in the previous approximate 18 months, with support provided by the majority of the banks on well-run businesses of all sizes. Indeed, a national price index showed an overall increase in values of 9% over 2015.

However, following the UK vote in the EU Referendum on 23 June 2016, to leave the European Union, there was some business uncertainty and this may be expected to continue in the forthcoming months ahead, following Prime Minister Theresa May triggering Article 50 on 29 March 2017, which means Britain should officially leave the EU no later than April 2019.

Loan Security

Clearly, the value of a trading business is subject to fluctuation over time, resulting from the trading performance of the business, changes in local market forces, legislation and national economic conditions. Whilst it is for the lender to assess the risk attached to such fluctuations over the period of any loan, and to determine an appropriate level of security, we are unaware of any foreseeable events or circumstances, other than those detailed within this report, which would suggest that the subject property is unsuitable security for loan purposes and we would expect this business to be able to maintain its value in relation to the general economic and market conditions.

Additionally we would expect the property to have a useful economic life over a typical loan term for a business of this nature. This assumes that the necessary maintenance and upgrades are made to the property to ensure that it continues to meet legislative and market requirements.

Additional Commentary

Whilst it is possible for sales to complete quickly, in the current market we would not consider it unusual for a marketing period of over 12 months to be required. However, if the property were disposed of in the event of foreclosure, or if a restrictive time period were imposed then we would expect a reduction in realisable value. It is impossible to be definitive as to the extent of this as it would be dependent upon the particular circumstances, but the valuations subject to assumptions contained herein provide some illustration of this scenario.

It will be appreciated that this report has been issued after the UK Referendum decision to leave the European Union, which has resulted in political and economic uncertainty. This has, in turn, led to volatility in the currency and stock markets as investors seek to assess the short-term and longer-term impact of this decision. These are unprecedented times and we are now in a period of uncertainty in relation to many factors which impact on the property markets. However, based on the evidence currently available, our view is that for many UK businesses, which are not directly involved in import/export, the fundamentals of trade should remain largely unaltered. Against this background, we would expect potential purchasers of such businesses to remain confident, although this could change, as the situation evolves.

The ability to fund property transactions may, however, be affected by any changes in bank lending policies or activity. Should loan finance become less readily available or more costly, this could ultimately impact upon transactional activity and possibly market values. With the Government and Bank of England committed to supporting the UK economy through this period, interest rates are not expected to rise and we would not anticipate, therefore, any such significant changes, but we will, of course, continue to monitor market evidence. In this respect, it will be appreciated that since the date of the Referendum, it has not been possible to gauge any effect on the market through transactional evidence/activity within the market place. Therefore, the probability of our opinion of value exactly coinciding with the achievable price, were there to be a sale, has reduced and we would recommend that the valuation is kept under regular review.

Valuations

Within the opinions of valuation stated:-

- ❖ The term ‘**asset**’ refers to the property and/or business inspected and as described within our report, subject to any stated assumptions. Where appropriate, opinions of Proposed Valuation are provided on the assumption that any changes to the property and/or business, as outlined herein, have been completed, the business is trading in line with our Projection and formal trading information can be made available in support of such.
- ❖ All opinions of valuation provided assume that **full and unrestricted title** would be transferred to a prospective purchaser with the current owner permanently vacating all rights to the property and removing all of their personal belongings (“*chattels*”).
- ❖ Where the term ‘**Trade Inventory**’ is used, it is assumed to include all items of relocatable furniture and equipment (beds, chairs, tables, crockery, etc) but not permanently installed fixtures and fittings, sanitary ware, floor-coverings, etc.
- ❖ In view of the unpredictability of the conveyancing process, valuations which are expressed subject to a **specified time restriction** are provided on the basis that a sale has been agreed within that timescale, subject to contract, rather than legally completed.

MARKET VALUE subject to:-

- (i) the asset is a fully equipped and operational entity, valued with regard to trading potential;
- (ii) accounts or records of trade would be available to a prospective purchaser;
- (iii) no time restrictions have been placed on the marketing of the asset.

(a) The Market Value of the current asset subject to the assumptions above is **£2,750,000**
(two million, seven hundred and fifty thousand pounds)

MARKET VALUE subject to:-

- (i) the asset is a fully equipped and operational entity, valued with regard to trading potential;
- (ii) accounts or records of trade would be available to a prospective purchaser;
- (iii) a sale of the asset has been required within a 6 month period.

(b) The Market Value of the current asset subject to the assumptions above is **£2,300,000**
(two million and three hundred thousand pounds)

MARKET VALUE subject to:-

- (i) the asset is empty but is valued with regard to trading potential;
- (ii) accounts or records of trade would not be available to a prospective purchaser;
- (iii) no time restrictions have been placed on the marketing of the asset;
- (iv) the inventory has been removed;
- (v) the licences have been lost or breached.

(c) The Market Value of the current asset subject to the assumptions above is **£1,800,000**
(one million and eight hundred thousand pounds)

Valuations

Basis of Valuation

The bases of value above are as defined by The Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards, and are subject to the qualifications and limitations referred to within this report. Full definitions of the valuations are outlined below.

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

Market Rental Value - The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Market Value – Special Assumptions

Unless otherwise specified, this valuation assumes that the asset is to be offered for sale free of any perceived blight resulting from factors such as the threat of action by statutory authorities or the appointment of Receivers. It should be appreciated that the impact of the specified restricted sale period will be more significant during periods where transactions are prolonged due to uncertain market conditions.

Market Value – Business Closed

We have provided our opinion of the value of the asset should it cease to trade and be offered for sale as an empty unit. Unless otherwise specified, this valuation assumes that the vacant asset is to be offered for sale free of any perceived blight resulting from factors such as the threat of action by statutory authorities or the appointment of Receivers, but it should be appreciated that the value of empty asset may vary considerably depending on the circumstances of the business closure. It is also important to recognise that this valuation assumes continuation of the existing use and excludes the possibility of any change of use being permitted.

Appendix 1 - National Sector Profile

The UK hospitality market covers a huge range of establishments, from 5*+ corporate hotels, through medium quality smaller hotels, to budget hotels and bed-and-breakfast businesses. The British Hospitality Association estimates that there are 45,800 hotels, and over 730,000 bed spaces, in the UK, generating an annual turnover of £40bn, but there are also some 25,000 owner managed B&Bs generating a further £2.4bn per annum, with hospitality and tourism representing the fourth largest employment group in the UK.

The sector suffered in the recession from 2008 to 2013, seeing a revival from early 2014, which continued in 2015 and 2016, albeit at a slower rate in the most recent year. Despite this, there have been between 100 and 150 new hotel openings every year for the last five years, mainly in the corporate budget and mid market sector, which represent around 38% of the UK hotel stock.

Hotels vary dependent on the needs and preferences of the target customer group. Seaside hotels will attract holidaymakers, whilst those in towns and cities will generally service business people in need of overnight or all week accommodation. There are also hotels offering weekend breaks and city breaks, particularly in places of historical or cultural interest. Many 'country house' hotels are located in Areas of Outstanding Natural Beauty, perhaps near to National Parks or other scenic attractions.

The general perception is that the hotel market is dominated either by the big players, such as Travelodge or Premier Inn, or the branded outlets, such as Holiday Inn or marketing groups such as Best Western, and often trading under franchise or management agreements. However, over 60% of hotels in the UK remain independent, especially in the more traditional seaside towns and villages.

Numerous external factors affect the market, including national and global economic fluctuations. Major sporting events, such as the 2012 Olympics and the 2015 Rugby World Cup, provide a positive boost for UK tourism, and the reviving national economy is expected to result in hotels seeing improved occupancy levels and REVPAR (revenue per available room). Weather is another significant factor, although mainly affecting the seaside hotels. The excellent summer of 2014 provided a real boost for stay-at-home holidays, resulting in strong bookings for 2015 and 2016. The EU Referendum in 2016 and General Election in 2017 are both factors for which the long term impact on the economy in general and hospitality trade in particular has yet to be established.

Many buyers of smaller and medium sized leisure businesses fund their deposit through the sale or re-mortgaging of their own residential properties. The revival of the housing market has enabled many purchasers to release the required funds and this has fed through to a more active hotel market from mid 2014. This has been helped by the banks treating the sector much more positively. After several years of falling prices, Christie & Co reported that 2014 saw the highest increase in hotel prices for around ten years, with 2015 and 2016 still showing strong levels of growth in average prices.

Location continues to be a very important factor for hotels, but industry analysts report that the revitalised market has moved beyond the London area, with a demand for units throughout all UK regions. REVPAR and occupancy rates are also still showing small but consistent increases across the country, albeit with London finding both being squeezed slightly, mainly believed to be due to new openings rather than any significant lack of demand. The 'Airbnb' style of room lettings, whilst increasing, has yet to be shown to be a major player in the fully serviced hotel market.

One of the issues facing the sector, in particular potential purchasers, is deferred maintenance. During the recession, many hotel owners did not have the funds to carry out ongoing refurbishment, and in some cases basic maintenance. It will take considerable investment to bring many units up to the required quality, and purchasers are advised to commission specialist reports relating to the condition of the building and infrastructure.

Guest expectations are continually rising. The ubiquitous use of websites such as TripAdvisor quickly highlights shortcomings in a hotel's standards, whether they relate to the accommodation or level of service. Quality is the key to achieving not only best prices in room rates, but also in maximising the eventual sale price. It is also vital that a hotel or guest accommodation provider has a strong digital presence, and links, where appropriate, to on line travel sites such as Late Rooms and Booking.com.

Explanatory Notes

(Effective from 19 May 2014)

This Appendix forms part of the Report, and it is assumed that the Client is fully conversant with its contents.

(a) Definitions

Unless the context otherwise requires, the following terms have the meanings ascribed (where appropriate, references in the singular will also apply in the plural):-

"Pinders"	means Pinders Professional & Consultancy Services Limited whose registered office is at Pinder House, Central Milton Keynes, MK9 1DS.
"the Client"	means the person(s) or body from whom the instructions to prepare the Report have been received. Reference to the Client, who shall be identified on the front page of the Report, shall in all cases be interpreted to mean only this person(s) or body.
"Proposed Borrowers"	means the individual(s) or company whose proposal is the subject of the Report. Any reference to Proposed Borrowers within these Explanatory Notes also applies to alternative forms such as "Proposed Purchasers", "Proposed Vendors", etc.
"the Property"	means all those freehold/leasehold premises which have been inspected by Pinders and reported upon.
"the Business"	means the business trade or profession carried on or to be carried on by the Proposed Borrower in respect of which Pinders has been requested to prepare the Report.
"the Report"	means a Report on the Property and/or Business prepared by Pinders.
"date of Inspection"	the date on which Pinders' representative carried out the inspection of the premises.
"date of Valuation"	the date on which the opinion of value applies.

(b) Limitations of Report

Pinders has prepared this Report for use only by the Client to assist them in the consideration of the proposal stated and in respect of the subject business and/or premises, and for no other purpose whatever. It is confidential to the Client and other than for information purposes it is not for use by the Proposed Borrowers or any other party in any way.

Pinders accepts responsibility to the Client alone that the Report will be prepared with the skill, care and diligence to be expected of a competent business valuer and appraiser, but accepts no responsibility whatsoever to any person other than the Client. No person or body other than the Client may rely on the Report and neither the whole, nor any part of the Report, nor any reference thereto, is to be included in any published document, circular or statement, nor published in any way without the written approval of Pinders as to the form and context in which it may appear.

The Report may include an appraisal of a business concern together with comments as to its trading potential. In making such assessments Pinders accept no responsibility for loss of whatever nature which may result directly or indirectly from:

- ❖ the suppression, deception or falsification of material facts by the Vendor, Proprietor, and/or Proposed Borrowers;
- ❖ any mismanagement of the business;
- ❖ insufficient capitalisation, stock and staffing levels;
- ❖ changes in the financial and market situation compared to those prevailing at the date of the Report;
- ❖ material alterations to the nature, character, extent and pricing structure of the business;
- ❖ failure to maintain all proper and prudent insurance cover.

This Report is not intended to replace any of the investigations or enquiries normally undertaken in connection with the purchase or mortgage of a property/business and we do not accept responsibility for loss of whatever nature directly or indirectly arising out of failure to make such enquiries. Such enquiries include, but are not limited to, the taking of independent professional advice from solicitors and accountants, the entering into of a professionally drawn acquisition agreement with the appropriate warranties being taken from the Vendor or Proprietor, the taking up of all necessary trade and bank references, the inspection of the Vendor's or Proprietor's or Proposed Borrowers' accounts, examinations of all necessary consents, regulations, permissions, licences and bylaws.

Furthermore it is the Client's responsibility to ensure that all trading information provided to Pinders is substantiated by audited/certified accounts and, where appropriate, an Accountant's Certificate. Any discrepancy arising from such documentation should be reported to Pinders as soon as practicable in order that any necessary adjustments may be made to the Report. The Report may point to further enquiries being necessary and failure to make such enquires will be taken as evidence of non-reliance upon the Report and valuations therein.

It must be remembered that the Report does not contain a decision as to whether the stated proposal should proceed. It should also be noted that we do not supply "investment advice" either for the purposes of the Financial Services Act 1986 or at all. We do not offer advice as to whether shareholdings or debentures should be taken in the case of an incorporated business or equity acquired in the case of an unincorporated business or partnership. Should the Client and/or the Proposed Borrowers require such advice, they should seek assistance from their independent financial adviser.

Unless otherwise stated, the Report is not a Report of a survey, whether "Building Survey", "Structural Survey" or otherwise and no such building or structural survey has been carried out. In making the Report regard will be had to the apparent state of repair, construction and condition of the Property, taking into consideration major defects which are obvious in the course of a visual inspection of so much of the exterior and interior of the Property as is accessible at the time of inspection with safety, and without undue difficulty. The inspection will view those parts of the Property as can be seen whilst standing at ground level within the boundaries of the site and adjacent public/communal areas and whilst standing at the various floor levels, which Pinders considers reasonably necessary to provide the service, having regard to its purpose.

Pinders shall be under no duty to examine those parts of the Property which are covered, unexposed or inaccessible, or to raise boards, inspect woodwork, move anything, or use a moisture detecting meter. Neither shall Pinders have a duty to arrange for the testing of electrical, heating or other services which, unless indicated to the contrary, shall be assumed to be in a working and serviceable condition. If Pinders' inspection suggests that there may be material hidden defects Pinders will so advise and may exceptionally defer submitting a final Report until the results of further investigations are available.

It is assumed that those parts of any building erected on the Property which have not been inspected or made available for inspection would not reveal material defects of such a nature as to cause Pinders to alter the Report and Valuation.

In making the Report Pinders has made the following assumptions:

- (i) We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of this property, or has since been incorporated, and we are therefore unable to report that the property is free from risk in this respect. For the purpose of this Report we have assumed that such investigation would not disclose the presence of any such material to any significant extent.*
- (ii) Pinders cannot give any opinion whatsoever regarding the structural design of any construction upon the property nor as to the suitability of any foundations to such constructions.*
- (iii) That the plant, machinery, equipment, fixtures and fittings are in serviceable order, adequate for the effective trading of the business, and will remain so for the foreseeable future.*

(c) Aspects of Title

In making the Report Pinders has made the following assumptions:

- ❖ That the Property is not subject to any unusual or especially onerous covenants, restrictions, encumbrances or outgoing which might affect Pinders' valuation or which might prevent all or part of the Property from being properly used in connection with the Business.
- ❖ That the Title is as described to Pinders and as referred to in this Report and that there is good and marketable Title to the Estate or Interest which Pinders has valued. Unless indicated to the contrary, title deeds and/or lease documents have not been inspected. Any interpretation of leases and other legal documents and legal assumptions given in our capacity as Business Valuers and Appraisers must be verified by a suitably qualified lawyer if it is to be relied upon.
- ❖ That the valuation of the Property/Business is unaffected by any matters which would be revealed by any searches and replies to such enquiries as are raised or should properly be raised by the Client/Proposed Borrower and/or by Solicitors acting on his/their behalf or by any statutory notice, restriction or liability; Pinders must be advised of any variations as to this assumption.
- ❖ That the Property and/or Business, its use or intended use, or its condition is not in any way unlawful or in breach of any provisions of the Town and Country Planning Acts, Building Control, Licensing Acts, Registered Homes Act, Environmental Health Acts, or other statutory requirements, and that the Property has direct access from a publicly maintained highway.
- ❖ Pinders' understanding of the boundaries is noted, but Pinders has no knowledge (expressed or implied) of the responsibilities for fencing and legal advice should be sought in this respect, if required. Pinders assumes that such boundaries show the true extent of the property and that there are no potential or existing boundaries or other disputes or claims outstanding. Where indicated site areas are obtained from published plans or as advised to Pinders. They are not derived from a physical site survey and are approximate unless otherwise indicated. Unless otherwise stated, any measurements noted are carried out in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors.

Pinders shall be under no obligation to verify any of these assumptions. It remains the responsibility of the Client to ensure that all appropriate enquiries and investigations are made and the report is not intended to replace any of those enquiries/investigations.

(d) Environmental Matters

Pinders has not carried out, nor has it commissioned, a site investigation, geographical or geophysical survey and therefore can give no opinion or assurance or guarantee that the ground has sufficient load bearing strength to support the existing constructions or any other construction that may be erected upon it in the future. Pinders cannot give any opinion or assurance or guarantee that there are no underground mineral or other workings beneath the site or in the vicinity nor that there is any fault or disability underground. It is not possible for Pinders, therefore, to certify that any land is capable of further development or redevelopment at a reasonable cost for the use for which there is permission.

Unless otherwise stated, we are not aware of the content of any environmental audit or any other environmental investigation or soil survey which may have been carried out on the property and which may draw any attention to contamination or the possibility of any subsequent contamination. In our undertaking we will assume that no contaminative or potentially contaminative uses have ever been carried out in the property. We have not carried out an investigation into past or present uses, either of the property or of any neighbouring land, to establish whether there is any potential for contamination to the subject property from these uses or sites, and have therefore assumed that none exist. Should it be established subsequently that any contamination exists at the property or on any neighbouring land, or that the premises have been or are being put to a contaminated use, this might reduce the values now reported.

(e) Generally

This Report has been prepared in good faith on the basis of enquiries made and information supplied to us. We reserve the right to claim qualified privilege in respect of any part of this Report should the contents be subsequently challenged by a party claiming to be aggrieved at anything stated herein. Sections 12 to 16 of the Supply of Goods and Services Act 1982 (or any statutory enactment thereof for the time being in force) are hereby excluded.

Valuations may be relied upon for the stated purpose as at the date specified. It is for the Client alone to make judgement as to their reliance upon the contents of the Report thereafter. In normal market conditions the value may not change materially in the short term (approximately 3-6 months). However, the property market is constantly changing and is susceptible to many external factors which can affect investor confidence and corresponding values.

Value added tax, taxation, grants and allowances are not included in capital and rental values as, unless otherwise specified in the report, these are always stated on a basis exclusive of any VAT liability even though VAT will in certain circumstances be payable. Unless otherwise specified no account is taken of any existing or potential liabilities arising for Capital Gains or other taxation or as a result of grants or capital allowances.

In the event of a dispute arising in connection with a valuation or the contents of the Report, unless expressly agreed otherwise in writing, Pinders Professional & Consultancy Services Limited and the Client will submit to the jurisdiction of the British Courts only. This will apply wherever the property or Client is located, or the advice provided.

Pinders are deemed to be "External Valuers" with no other current or presently foreseeable fee earning relationship concerning the subject property and/or business apart from the valuation fee. Pinders will disclose to the best of its knowledge previous inspections undertaken. Pinders is not however able to disclose any present or previous relationship with any of the interested parties, contrary to the requirements of the Valuation - Professional Standards of the Royal Institution of Chartered Surveyors.

None of our employees, partners or consultants individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.

If you suffer loss as a result of our breach of contract or negligence, our liability shall be limited to a just and equitable proportion of your loss having regard to the extent of responsibility of any other party. Our liability shall not increase by reason of a shortfall in recovery from any other party, whether that shortfall arises from an agreement between you and them, your difficulty in enforcement, or any other cause.

Our contract with you for the provision of this valuation is subject to English/Scots Law (as appropriate to the location of the subject property). Any dispute in relation to this contract, or any aspect of the valuation, shall be subject to the exclusive jurisdiction of the Courts of England and Wales/Scotland, and shall be determined by the application of English/Scots Law regardless of who initiates proceedings in relation to the valuation.

(f) Valuations

The valuations provided will be made on the assumptions stated within the Report and/or these Explanatory Notes in respect of the individual subject business/property, unless otherwise agreed, on whichever of the following or other bases as have been agreed between Pinders and the Client, such bases where applicable to be as defined or referred to in the Valuation - Professional Standards of the Royal Institution of Chartered Surveyors.

The valuations provided are for the value of the business/property as described. No account has been taken of any special tax or other inducement or liability which may arise as a result of any transaction in contemplation nor of normal costs involved in the execution of such a transaction. The full definitions of the valuations provided in the Report are set out below: If the Report contains other valuation bases, these are as specifically requested by the Client with our advice identified within the Report to be on a basis not recommended by the Royal Institution of Chartered Surveyors, and provided for guidance purposes only.

DEFINITIONS OF VALUATION

Market Value (MV)	The estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.
Market Value with special assumptions	Opinions of Market Valuation can be provided in accordance with special assumptions which are indicated by the client. These assumptions will be clearly stated within the body of the report.
Market Rental Value (MRV)	The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.

Interpretive Commentary, as published the RICS Valuation – Professional Standards January 2014.

(a) 'The estimated amount ...'

Refers to a price expressed in terms of money (normally in the local currency) payable for the asset in an arm's-length market transaction. Market Value is the most probable price reasonably obtainable in the market on the date valuation date in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.

(b) '... an asset should exchange ...'

Refers to the fact that the value of an asset is an estimated amount rather than a predetermined or actual sale price. It is the price in a transaction that meets all the elements of the Market Value definition at the valuation date.

(c) '... on the valuation date ...'

Requires that the value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

(d) '... between a willing buyer ...'

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present owner is included among those who constitute 'the market'.

(e) '... a willing seller ...'

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be. The factual circumstances of the actual owner are not a part of this consideration because the willing seller is a hypothetical owner.

(f) '... in an arm's-length transaction ...'

Is one between parties who do not have a particular or special relationship eg parent and subsidiary companies or landlord and tenant, that may make the price level uncharacteristic of the market or inflated because of an element of Special Value. The Market Value transaction is presumed to be between unrelated parties each acting independently.

(g) '... after proper marketing ...'

Means that the asset would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The method of sale is deemed to be the most appropriate to obtain the best price in the market to which the seller has access. The length of exposure time is not a fixed period but will vary according to the type of asset and market conditions. The only criterion is that there must have been sufficient time to allow the asset to be brought to the attention of an adequate number of market participants. The exposure period occurs prior to the valuation date.

(h) '... and where the parties had each acted knowledgeably and prudently ...'

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses and the state of the market as of the valuation date. Each is further presumed to use that knowledge prudently to seek the price that is most favourable for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the valuation date, not with benefit of hindsight at some later date. For example, it is not necessarily imprudent for a seller to sell assets in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other exchanges in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

(i) '... and without compulsion'

Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase, and without offset for any associated taxes.