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1-1-182 Report - final



South Cowal Community Development Company
50 Wellington Street,
Dunoon,
Argyll & Bute
PA23 7LA

Sian Robinson
E: srobinson@savills.com
DL: +44 (0) 141 222 4107
F: +44 (0) 141 248 7343

163 West George Street
Glasgow G2 2JJ
T: +44 (0) 141 222 4107
savills.com

Dear Sirs

Castle Toward, Dunoon PA23 7UG

1. Introduction

Savills have been instructed by South Cowal Community Development Company to review the valuation report relating to the above property produced by the District Valuer Services (DVS) on behalf of the Scottish Government dated 29 April 2014.

In accordance with our standard practice, may we point out that this letter is provided as advice to SCCDC as part of negotiations with the Council and DVS prior to a possible purchase. It does not constitute a formal valuation and therefore has not been prepared in accordance with the RICS Red Book and should not be relied upon for statutory or loan security purposes. We cannot accept responsibility to any third party for the whole or any part of its contents.

2. Description

Castle Toward comprises a large former mansion house, various walled gardens, a gate lodge complex, a pair of semi-detached cottages, old Toward Castle dating back to the 15th Century and grounds extending to approximately 142.7 acres. The property is described in greater within the DVS report.

3. General Comments

We have reviewed the report from the DVS and unless otherwise stated, we agree with the description of the property and the facts therein. That said, we do not agree with the valuation figure reported. We therefore set out below comments on the DVS report, the market comment pertinent to the property and our opinion of the market value of the property as at February 2014.

We note that whilst the DVS report includes a number of comparables, we do not consider that all of these comparables are relevant and no analysis of these comparables is included in the report, which would normally be expected. Please refer to section 4 below for further comment on this.

4. Specific Reference/Comments on DVS Valuation Report

Section 3.8 Defects and Repair

As described by the DVS, the property as a whole is generally in poor condition and requires significant investment to be put in to a future use. We feel that the market value reported by the DV does not reflect the





investment required, and would refer back to the phase 1 report produced by ARUP and the indicative costs to bring the properties condition and services to a reasonable standard.

Section 4.1 Valuation Representations

1. We note from the above noted section within the DVS report that DMH Baird Lumsden valued the property at £1,800,000 and provide commentary on the marketing process which took place in 2010. We note the range of offers from £550,000 to £2,300,000. We note the majority of these offers were heavily caveated and dependent on realising significant development value from the grounds. It would be interesting to review the comparable evidence that has been provided by DMH Baird Lumsden to justify their figure of £1,800,000.

Section 4.2 Valuation Methodology / Approach and Reasoning

2. Whilst we agree that the marketing process carried out in 2010 should be factored into considerations relating to value, we do note that funding was the main issue for the deal falling through. The financial climate is similar today with restrictive lending criteria and a many banks looking to mitigate risk. We therefore believe that any buyer will be subjected to the same scrutiny in securing funding, both for the purchase of the property, the capital expenditure required to bring the property to a habitable standard and if run as a business enterprise the trading business performance thereafter.
3. Contrary to the comment by the DV, our research has shown no improvement in the market between 2010 and date of the DVS valuation, being February 2014.
4. Savills Research shows a small recovery of the Scottish prime residential market in 2009 / 2010 however this was short-lived, and by 2011 the market was once again very subdued. Our stats show that in the 4 years since Castle Toward was brought to the open market, there has been a reduction of 16% in prime property prices within the Argyll & Bute region.
5. As referred to above, we note the comment "...the property is in need of substantial upgrading which will undoubtedly involve great expense given the nature of the buildings." – we do not believe this has been reflected within the market value which ultimately would be reflected by any incoming purchaser.

Section 4.3 Comparable Evidence

We have reviewed the comparables outlined within the report however we note that limited commentary has been provided and no comment made on adjustments to the sale price. As a result, we would comment as follows:

1. Knockdow House – referred to below
2. Duncraig House, Plockton – Comparable to Castle Toward in terms of size, style, remote location and institutionalised history however we note from the brochure that Duncraig House was in better condition than Castle Toward at time of sale. Savills prime property indices have shown a decrease of up to 10% in this type of property value in the last 5 years.
3. Balmory Hall, Isle of Bute – Not comparable to Castle Toward in terms of size, style or condition.
4. Auchendennan House, Loch Lomond – referred to below
5. Birkwood Hopstia – No details available however it would appear to be relatively comparable in terms of style and assumed size of property.
6. Ardyne Point – Not Comparable, as related to a specific development opportunity and it would appear a special purchaser existed for the balance of the farm.

5. Market Commentary

We comment below on the current state of the national residential market and highlight specifically how the market for residential property nationally and locally is performing:

5.1 Scottish Prime Residential Market

Ronachan House is in a similar location to Castle Toward, although further west, on the Kintyre Peninsula. It is a similar style of property although significantly smaller and is in better condition. We would conclude that the sale price should be adjusted upwards.

6. Commercial Comment

We have analysed the value of Castle Toward against residential comparables with vacant possession. In light of this evidence and current market sentiment, we are of the opinion that Castle Toward is unlikely to be appealing to a private residential buyer due to the various issues as outlined above.

It is therefore more likely to be of interest to commercial operators (and as evidenced by the marketing process in 2010) however without a specific business model for the property from a commercial operator, it is likely that a wide range of value figures could be achieved. Bank financing or appropriate investment returns are likely to be critical to such an investor and it is therefore revealing that the previous offer fell through as a result of lack of bank financing. This could have been for a variety of reasons, but lack of a commercially viable business plan may have been one issue. From the ARUP report we are advised that the Property requires a minimum expenditure of over £5,000,000 (Developer plus Community investment), current running costs to the council are in the region of £300,000 per annum and at least 18 months to 2 years will be required to complete works before any substantial income can be produced. As a result we consider it unlikely that a commercial interest would be currently interested at a purchase price of £1,750,000.

7. Market Value Advice

Taking into account the advice provided within the DVS report, our review of the local and national £1,000,000 + market conditions, the potential investment required to bring the property in to a habitable standard and our own comparable evidence, we would conclude that the market value is between £750,000 to £850,000.

In accordance with our standard practice, may we point out that this letter is provided as informal advice during the course of negotiations. It does not comply with the standards of the RICS Red Book and therefore does not constitute a formal valuation and should not be relied upon for statutory or loan security purposes. We cannot accept responsibility to any third party for the whole or any part of its contents.

Yours faithfully
For and on behalf of Savills UK Ltd.



Sian Robinson MRICS
RICS Registered Valuer
Associate