

TO TRANSFORM THE IMAGE OF THE AREA IN ORDER TO RECONNECT & RE-APPROPRIATE REBRANDING AND GIVE IMPACT TO ECONOMY.SOCIAL INTERACTION AND PHYSICAL TO CREATE A SENSE OF PLACE

HERITAGE HOTEL

RETAIL MALL

DEVELOPMENT APPRAISAL REPORT

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SCHOOL OF BUILT ENVIRONMENT (SBE)

HERIOT WATT UNIVERSITY

COURSE WORK 2 —SUSTAINABLE DESIGN AND DEVELOPMENT (D41DD)

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EXECUTIVE SUMMARY

PROPERTY DESCRIPTION

Owner: Edinburgh Local Council

Property Address: Argyle House, 3 Lady LAWSON Street, Edinburgh, EH3 9DR

Zoning: Edinburgh Old Town Conservation Site

Size and Shape:

The subject estimated up 245,000 sq ft according to the information that was provided for the appraiser to review. This building have 11 floor level which contain three self-contained where can sub divided with varying sizes from 3000 sq ft. Floor type is concrete

Topography and Soil Condition

The topography of the subject is flat area with a bit slope of hill. There is no complication and suitable for any proposed building that might be erected.

Utilities

Currently, the subject building is not served with all necessary public utilities. This will be refurbished to provide good quality of space for delivering a modern conducive space.

Public Improvement

Access to the subject building site is good. West Port Road provides direct access to the site. It runs from Main Point (the junction of Lady Lawson Road) down to the south west corner of the Grass market. Surrounding roads were provided street light, concrete curbs, or gutters and sidewalks in place.

Surrounding Land Uses

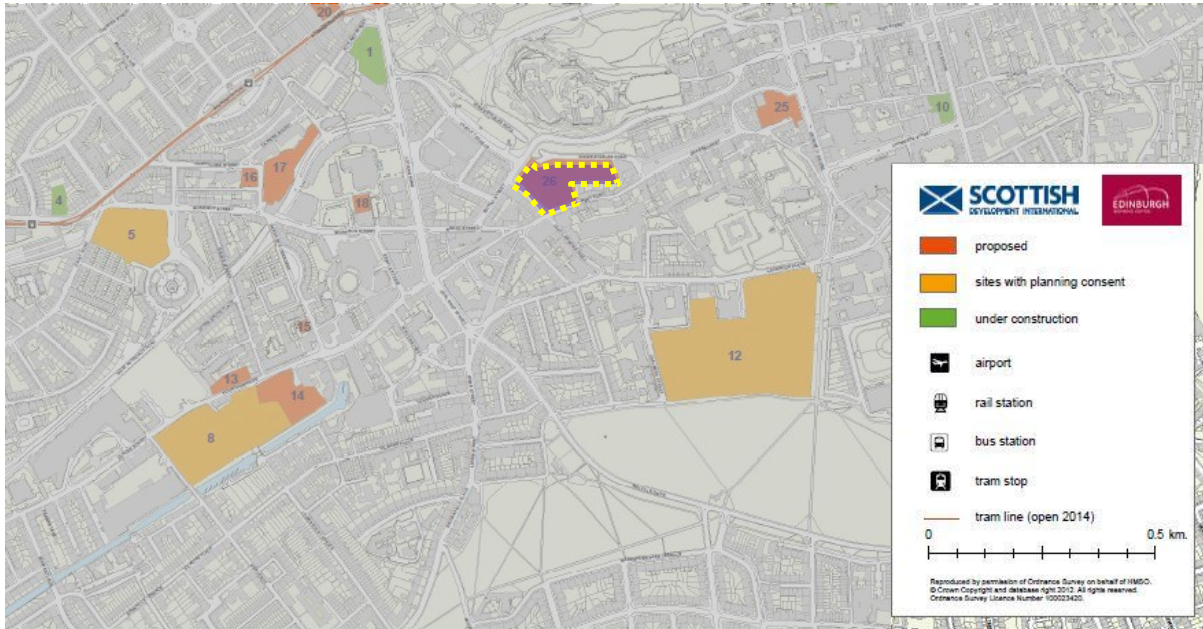
Mix used building (commercial and house), local council warehouse, and Castle.

Proposed

Estimate market value and feasibility of the development appraisal on the site

PURPOSE OF MARKET AND FEASIBILITY STUDY

The purpose of this report is to review and analysis on potential of development prospect of a lodging property on existing building (Argyle House) in order to refurbish the building for investment.



(Source: Edinburgh Local Council, 2012)

SCOPE OF PROJECT PERFORMED

All information was collected and analysed and this stage could be considered as a preliminary stage of potential development and from these recommendations and assumptions had been devised. The Argyle House has been reviewed for the future potential hotel based on the surrounding economic and demographic impact on future demand for hotel. Details of the projection on profit income and expenses (cost) had been calculated to see the economic benefits of the subject property. In addition to that, a feasibility study also had been run to look at the net present value of the forecast cash flows compared to an estimated development cost on the recommended hotel.

RECOMMENDATION OF PROPOSED FACILITY SCOPE

Recommendations on the proposed subject property building have been made to develop a luxury hotel (5 Stars) and a shopping mall. Primary aspects of the proposed development are analysed as follows:

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- Recommended Property Type: Service Lodging Facility Operating with Heritage Brand & Shopping Mall
- Approximate Required Site Size: 15,313 square feet & 2,505 square feet
- Recommendation Number of Rooms: 400 rooms (For Hotel Only)
- Other Facilities Recommendation: Pool, whirlpool, exercise room, guest laundry facility, business centre, lobby, workstation, sundries counter, and parking
- Parking Spaces Recommendation: 140 units

PLANNING POLICY

Argyle House building is not a listed building as under the local council policy control or conservation building. However this building is imminently suitable in order to re-use it (reimaging) rather than replace by demolish to make way for modern building. Argyle house could be considered as a good solid building (B. Andrea, 2012) where it supposed to creating and lighting the sense of the value at this moment. Hotel use would be appropriate for the site as it complied with the Council planning policies that contained in the Edinburgh City Local Plan (ECLP 2010) to promote the cultural, artistic, leisure and entertainment growth to location.

The redevelopment of Argyle House also needs to comply with ECLP Policy Des2 where need to refer a comprehensive approach to identify potential of creating good place. Besides that, this redevelopment should consider on adheres impact to townscape city for example, all new development should contribute positively with its surrounding and this regards to understanding of Outstanding Universal Value (OUV) as stated in Old and New Town of Edinburgh World Heritage Site Management Plan.

DEVELOPER CONTRIBUTION

Based on Policy DtS1 in Edinburgh Local Development Plan, developer required improving existing infrastructure by following guideline in movement and development. In scope of developer contribution, this will be expected to enter into legal agreements in order to secure an appropriate contribution towards identified requirements set by council.

SUMMARY OF FINDINGS

The bullet points below summarize feasibility aspects of the proposed subject property within the market:

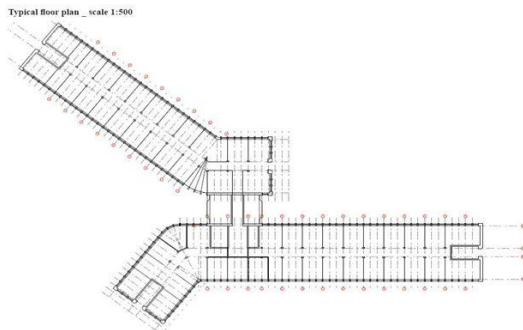
- Economic feasibility – This relates to the site location such as location interaction (road accessibility, utilities). The site seems could be consider feasible regarding to hotels in

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prime location along King Stable Road and near to city centre, Grassmarket, and regional roadways.

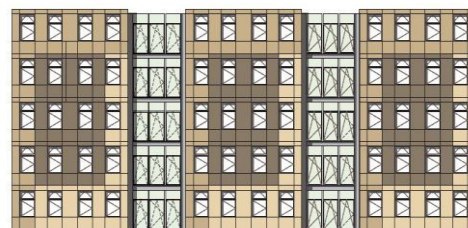
- **Market Feasibility** – This is evidenced by information by the sale organisation and market report from real estate firms and financial agency. The area of Edinburgh City is well known with spill over of tourist every year. This indirectly considered as generators for the tourism business and as well as the heritage brand affiliation is expected to appeal to users.
- **Technical Feasibility** – This address to the suitability of the site as well to achieve the level income as projected and the estimated operating costs. For this subject, this technical feasibility could be assumed as reasonable.
- **Financial Feasibility** – This relates to the reliability of the financial projections and the ability of the business to achieve target income and cash flows. For the overall, development construction is deemed to feasible as estimated income and expense levels show a profitable operation.

Argyle House Building Floor Plan



(Source: Laird, 1966)

Proposed Building Refurbishment



(Source: Sketch up Illustration)

Proposed Development Illustration



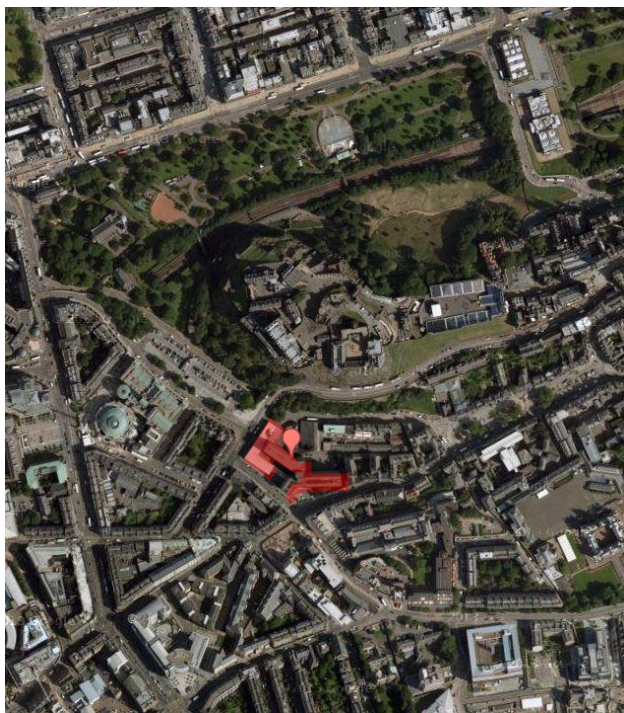
SECTION 2: NEIGHBORHOOD & MARKET AREA ANALYSIS

LOCATION

The subject property is located in the City of Edinburgh. Argyle house is positioned on the south of Johnston Terrace and west of the Grass market. It has its boundaries as the King's Stables road to the north and east, West Port to the south and Spital Street and Lady Lawson Street to the west. The site is surrounded by Castle Terrace, West Port and Lady Wynd, with King's Stables Ln laid through the area.

NEIGHBOURHOODS

Argyle House's cherished neighbourhoods provide an intimated scale and sense of community. This area possesses a great prospect in the relation to commuting around the city of Edinburgh. It shares close proximity with the city centre, Princess Street and other commercial hubs of the city of Edinburgh. Besides it strong selling point is the close view of the Edinburgh Castle, a world heritage site which brings visitors from all over the world to Edinburgh. Rich in character, diversity and commercial vitality, this area located between new and old town of Edinburgh with its vibrant retail, leisure focus centred on Grass market.



(Aerial view of Argyle House building location)

Argyle House have outstanding potential economic growth as business district where offers inspiring working and leisure environment. There are various mix-use characters around the site; residential, commercial, educational, tourism and retail can be spotted. Generally speaking, this area is easy accessible for staff and visitors as well served by the transportation system.

MARKET AREA ANALYSIS

The potential on suitability of the site for develop of a hotel and retail mall need to take consideration of economic viability effect and how the feasibility could be ultimate. Factor such as topography, size, visibilities and utilities available should have a direct impact on the desirable of the particular site. This indirectly, important to analyse the market according to accessibility with regional and local transportation routes and demand generators.

Map of Access Routes

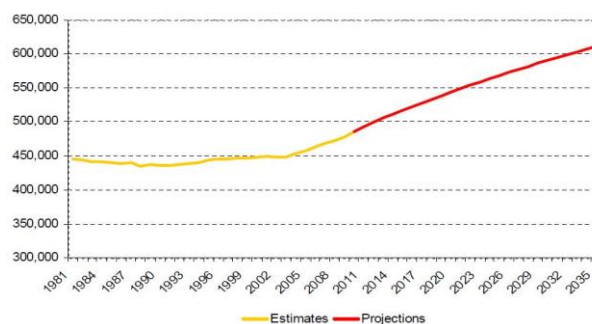


(Source: Argyle House, 2012)

DEMOGRAPHIC STATISTIC

Population

Data abstracted from Planning Information, City of Edinburgh shown that, the Edinburgh projection on population growth until the 2035 and shows the uptrend of number of people.



(Source: Planning Information, City Of Edinburgh)

Income

Average income of household for Edinburgh is currently reported that at £27,800 per annum and it among the highest compared to other countries in United Kingdom.

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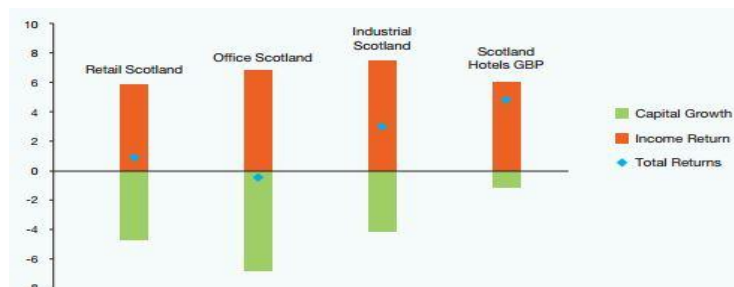
(Source: Office National of Statistics)

CONCLUSION

From the review, what could be revealed, the area has been impacted by growing business level, a depressing population and the greater market benefit from diversified economy activities. Edinburgh well known as tourism market stability and these relates to the site historical value and expected growth trends based on the order reflect in lodging demand changes.

SECTION 3: HOTEL & RETAIL MARKET TREND

Scottish Total Returns by Sector



(Source: IPD Databank)

Tourism Visits

TOURISM IN EDINBURGH (2010)			
	UK visitors	Overseas visitors	All visitors
Total visits to Edinburgh ('000s)	1,962	1,305	3,267
Total nights stayed in Edinburgh ('000s)	5,473	6,860	12,033
Average nights stayed in Edinburgh	3	5	4
Total expenditure (£million)	£491	£524	£1,015
Average expenditure per visit	£250	£402	£311

(Source: Office of National Statistic)

Demand Occupancy and Average Rate Trends

Annual hotel statistics			
	Occupancy	ADR	RevPAR
2010	77.7%	76.38	59.34
2011	79.9%	77.13	61.65
2012F	77.0%	77.42	59.59
2013F	77.2%	80.26	61.99
% growth on previous year			
	Occupancy	ADR	RevPAR
2011	2.9%	1.0%	3.9%
2012F	(3.7%)	0.4%	(3.3%)
2013F	0.3%	3.7%	4.0%

(Source: PKF, Hotel Occupancy)

Edinburgh Hotel Market Review

The hotel sector in Edinburgh continues to display signs of growth. There was planning consent for 5,330 rooms at the end of 2011. Occupancy levels for the year grew by 2.3% to 79.9%. Based on the report from the Visit UK 2012; this places Edinburgh second only to London at 82.3%. Average daily rates (ADR) also rose in 2013, reflecting a strengthening market. Edinburgh's ADR 2013 is £80.26 per room (Planning Information Bulletin, Edinburgh Council 2/2012)

Hotel Supply (Selected Competitive Hotels Operating)

From the report in Planning Information Bulletin by Edinburgh Council, the major hotel chains continue the development of lodging service where Premier Inn opened another hotel from the existing in the city (7 operating over 700 rooms). Premier Inn also built 2 new hotels on Princess Street & Queen Street. The major hotel chains comprise a significant proportion of the total Edinburgh hotel stock as at the end of 2011.

- Holiday Inn/Holiday Inn Express 802
- Travelodge 1,008
- Premier Inn 726

SECTION 4: FINANCIAL ASSESEMENT AND FEASIBILITY STUDY

INTRODUCTION

This section is the detail analysis based on the subject of specific real estate economic characteristics. Typically, the property will be studied from the approaches to value the analysis for example cost, yield, income and comparison between other property regarding sales and land value. Apart from this, the recommendation on development that feasible for this site were interpreted based on the profit and cost valuation.

LAND VALUE ESTIMATE

The site value was estimated by comparison method and market review from EGI website where based on the other similar properties adapts to similar uses and located in surrounding area (market area). The chart at below shows on summarizes verifiable sales from which land value could be taken as references for estimation

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Schedule of office recent sale in Edinburgh City

Data	Date Purchase	Location	Zoning/Entitlement	Sale Price	Sq. Feet Area	£ per square feet	Yield (%)
A	01/12/2012	Apex 123, Haymarket Terrace	City	£16,830,000	93,990	179.06	11.5
B	N/A	Edinburgh House, North Street	City	£11,500,000	39,830	288.72	7.5
C	18/01/2001	1/2 Castle Terrace, Edinburgh, EH1 2DP	Old Town	£6,475,000	28,618	226.25	6.48
D	13/06/2013	Carlton Square, 1 Greenside Row, Edinburgh, EH1 3AN	New Town	£56,750,000	149,995	378.34	7.25
E	13/02/2013	Waverley Gate, Waterloo Place, Edinburgh, EH1 3BG	New Town	£46,000,000	213,510	215.44	7.00
	Subject	Argyle House	N/A	245,000	N/A	N/A	N/A

(Source: Property Data, CoStar, BNP Paribas Market Report 2011)

ANALYSIS OF SUBJECT SITE ADJUSTMENT

From the list of properties being compared, the range of land value market sale is from the £170 sq f to £290 sq f. Any differences were adjusted for and discussed below.

- a) Location Influence
- b) Physical Characteristics (Size/Shape/Topography)
- c) Property Rent

Besides that, the Property Market Report 2011 by Valuation Office Agency (VOA) stated rents for Edinburgh office is £290 per square meter.

Scotland	Aberdeen	270
	Glasgow	305
	Edinburgh	290

(Source: Valuation Office Agency)

SUMMARY OF ADJUSTMENTS

The land sales comparison analysis on the availability of market information resulting value most weight was given to **Comparable Data B** due to similarities in term of physical characteristic, and location. Considering all the attributes, the estimated value of the subject site is around range of £280/SF with investment yield 7.5% based on the Knight Frank (UK Market Report Outlook, September 2013).

Feasibility Study

The feasibility study will determine the average cost that is needed for the proposed business and also will be able to act as an indicator to distinguish whether this proposed business is economically viable or not. All this will be achieved by the analysis of forecasted revenue, gross profit, the project return in terms of net present value, internal rate of return as well as the break-even-point of this proposed business. Following are the assumptions of business proposal appraisal:

- a) Discounted Cash Flow

Discounted Cash Flow (DCF) technique is used as a tool to assess the overall profitability of this proposed business. The future cash flows will recalculate (discounted) to represent their present values. On this project, the total Net Present Value (NPV) technique had been used

for calculation. The analysis of Discounted Cash Flow (DCF) is estimated at 2 years as assumption on development process duration start from beginning. The calculation of DCF is shown in Addendum page 16.

b) Net Present Value

The Net Present Value is the total net income of present value of the proposed rebranding after taking into consideration the total income inflows and total cash outflow. For single sums, the Present Value if £1 Table can be used, or it can calculated by using the formula:-

$$\text{PV OF } \pounds 1 = \frac{1}{(1+i)^n}$$

HOTEL ROOM DETERMINATION

No of rooms determine by the room standard size (13' x 20') which is estimated for 290 sq.f per room. So, for this project, the total let able are proposed for hotel construction is 148350 sq.f, and from this 450 to 500 units room could be built on this site. To maximize the profit, 500 units room had been proposed for this project.

INFLATION ASSUMPTION

Average estimate of inflation rate was 2.7% in May based on the report by the Herald Scotland after rose 2.4% from April 2013 according to squeeze on household spending.

INTEREST RATE

The annual interest was taken based on the rate given by the UK central bank which is Bank of England. The rate for 2013 annual forecast is 0.5%. However, this rate is could be consider low compared to others financial institution annual interest rate. So for this project, 0.5% rate had been used for the interest rate for estimate financial cost for appraisal calculation.

FEASIBILITY CONCLUSION AND ESTIMATE OF REFURBISHMENT COST

As shown in the appendix, the indicated site value of the subject when complete is £ 6,627,635. Feasibility determined by deducted of building cost with the net present value of the cash flow. The cost of development were recorded roughly £32,108,048. After the all costs combined and total less with the forecast profit, it is my opinion that, this project could be considered feasible and also notes that the forecast income which is £4,766,540 and expenses levels would be positive and profitable for the redevelopment of Argyle House building.

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Website Link

www.argylehouseedinburgh.com (accessed on 10/11/2013)

www.dtz.com (access on 11/11/2013)

www.visitscotland.com (accessed on 18/11/2013)

www.statistics.gov.uk/ (accessed on 21/11/2013)

www.heraldscotland.com/ (accessed on 30/11/2013)

ADDENDUM
KEY DATA SHEET

PROJECT DETAIL				Start	End
	Hotel	Retail			
Rental value/m2	£290	£400			
Investment yield	7.5%	8.0%			
BUILDING COST					
Area G.I.A. (sqm)	15,313	2,506			
Gross to net	90%	85%			
Capital value/unit (res)					
Construction costs £/m2	£1,314	£1,185		Jan-13	Nov-14
Construction costs	£20,121,282	£2,969,610			
Total construction costs	£23,090,892				
Site costs including landscaping	10%	of building costs			
Prof. fees (constr)	9.25%	of building costs & site cost		Feb-13	Jun-13
Purchasers costs	5.8%	of building costs			
Letting fees	10%	of Gross Income (Rent)			
Sale fees	4.0%	of GDV			
DEVELOPMENT TIME FRAME					
Pre build	6	months			
Build	12	months			
Void	6	months			
Total development period	24	months			
FINANCIAL					
Annual int rate	0.5%	monthly=	0.042%		
Annual inflation rate	2.7%	monthly=	0.222%		
Profit requirement	7.9%	of NDV			
CLEARED SITE VALUE	£6,627,635				
Contingency Cost	£1,861,093			Nov-14	Nov-14
RESIDUAL SITE VALUE	£4,766,540				

- Contingency cost estimated on this project 5% from the Building Cost + Professional Cost + Site Servicing (includes the interest at 0.5%)

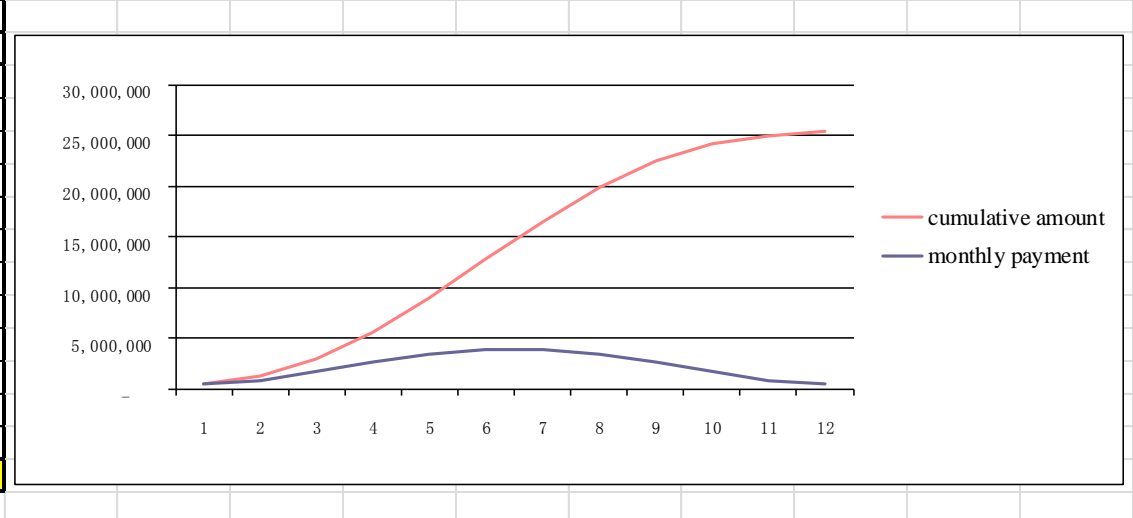
A VALUE

A VALUE			
1. Retail	Portion (%)	Value	
Gross area (sq.m)		2,506	
Gross to net		85%	
Net lettable area (sq.m)		2130.1	
Rate/m2		£400.00	
Gross income		£ 852,040.00	
Investment yield	8.0%	12.50	
GDV			£10,650,500
2. Hotel	Portion (%)	Value	
Gross area (sq.m)		15313	
Gross to net		90%	
Net lettable area (sq.m)		13781.7	
Rate/m2		290	
Gross income		£ 3,996,693.00	
Investment yield	7.5%	13.33	
Number of rooms		500	
Room rate		£80.26	
Occupancy rate		77.2%	
Turnover net		£11,307,831.40	
Profit ratio	30%	£3,392,349.42	
<u>capitalisation@</u>	10%	10	
GDV			£33,923,494.20
Total Gross Development Value			£44,573,994
Less costs	5.8%		£2,443,565
			£42,130,429

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S CURVE

Construction payments table				
Month	Proportion	Cum	£Cum	Monthly Payment
1	1	1	423,333	423,333
2	2	3	1,269,999	846,666
3	4	7	2,963,331	1,693,332
4	6	13	5,503,329	2,539,998
5	8	21	8,889,993	3,386,664
6	9	30	12,699,991	3,809,997
7	9	39	16,509,988	3,809,997
8	8	47	19,896,652	3,386,664
9	6	53	22,436,650	2,539,998
10	4	57	24,129,982	1,693,332
11	2	59	24,976,648	846,666
12	1	60	25,399,981	423,333
			£25,399,981	£25,399,981.20



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CASH FLOW

Key data		0.222%	9.3%	10%	4%	8%				0.500%	
Month	Costs (£)	Inflation (%)	Professional Fees	Letting (£)	Sale (£)	Profit (£)	Total Inflated Outlay	proceeds (student to adjust)	Cap Outstanding From Prev	Interest	Capital Outstanding
1							-		-	-	-
2							-		-	-	-
3							-		-	-	-
4							-		-	-	-
5							-		-	-	-
6							-		-	-	-
7	423,333	429,963	1,207,825				- 1,637,788		-	-	- 1,637,788
8	846,666	861,838					- 861,838		- 1,637,788	- 8,189	- 2,507,816
9	1,693,332	1,727,508					- 1,727,508		- 2,507,816	- 12,539	- 4,247,862
10	2,539,998	2,597,021	301,956				- 2,898,977		- 4,247,862	- 21,239	- 7,168,079
11	3,386,664	3,470,391					- 3,470,391		- 7,168,079	- 35,840	- 10,674,310
12	3,809,997	3,912,867					- 3,912,867		- 10,674,310	- 53,372	- 14,640,548
13	3,809,997	3,921,564	301,956				- 4,223,520		- 14,640,548	- 73,203	- 18,937,271
14	3,386,664	3,493,582					- 3,493,582		- 18,937,271	- 94,686	- 22,525,540
15	2,539,998	2,626,010					- 2,626,010		- 22,525,540	- 112,628	- 25,264,178
16	1,693,332	1,754,565	301,956				- 2,056,521		- 25,264,178	- 126,321	- 27,447,020
17	846,666	879,232					- 879,232		- 27,447,020	- 137,235	- 28,463,487
18	423,333	440,593	301,956				- 742,549		- 28,463,487	- 142,317	- 29,348,354
19							-		- 29,348,354	- 146,742	- 29,495,096
20							-		- 29,495,096	- 147,475	- 29,642,572
21							-		- 29,642,572	- 148,213	- 29,790,784
22							-		- 29,790,784	- 148,954	- 29,939,738
23							-		- 29,939,738	- 149,699	- 30,089,437
24				85,204	1,782,960	3,328,304	- 5,196,468	42,130,429	- 30,089,437	- 150,447	- 6,694,077
GROSS	25,399,981	26,115,135	2,415,650	85,204	1,782,960	3,328,304	- 33,727,253	42,130,429		- 1,709,099	
		CHECK	VALUE		£42,130,429.30	A			Future site value		£ 6,694,077
			Less costs		-£32,108,048.05	B		PV of £1 in	(months)		0.99
			Less profit		-£3,328,303.91	C			Cleared Site Value		£6,627,635.29
			Site value		£6,694,077.33	D			Contingency cost		£1,861,095.16
									Present site value		£4,766,540.13