

Gary Stephens
Development Manager
Warwick District Council
PO Box 2178
Riverside House,
Milverton Hill,
Royal Leamington Spa,
CV32 5HZ

Our Ref: SAL/JM/7882
slayfield@wilks-head.co.uk
13th February 2012

Dear Gary,

Warwick Racecourse – Planning Appraisal

I write further to our recent e-mail correspondence regarding the proposals for Warwick Racecourse. You forwarded a number of documents which have been submitted by the Planning Agent, Barton Wilmore, acting for the current tenant and operator of Warwick Racecourse, The Jockey Club. These relate to a current planning application which proposes a 100 bed hotel, to be developed by the tenant at the Racecourse. The agent has set out a financial viability argument in support of the application and you have asked us to consider the following issues.

- Is the ongoing financial viability of the racecourse dependent on developments such as that proposed?
- Does the evidence submitted support that view?

Wilks Head & Eve LLP are independent valuers and have no ties or connections with Warwick District Council or the tenants of Warwick Racecourse, The Jockey Club. We are experienced in advising a wide range of public sector Authorities particularly in matters of property valuation. We also have considerable experience of valuing specialist properties including racecourses, on-course occupations, and other leisure sector uses including football and athletics stadia, golf clubs, swimming & leisure centres and conference facilities.

We recently represented your Authority in the matter of the rent review of the premises comprising Warwick Racecourse. The racecourse is let on a document dated 27th June 2005 between Warwick District Council and Racecourse Investments Ltd, for a term of 21 years, subject to rent reviews at 21st June 2009 and every 14 years throughout the term with an option to extend for a further 21 years from the expiry date. The racecourse demise is defined within the lease in the first schedule reproduced here as Appendix 1.

Wilks Head and Eve is a Limited Liability Partnership Registered in England. Registered Number OC315743. Registered Address as above.

Regulated by RICS



Partners:

I R J Dewar FRICS IRRV (Hons) MCI Arb*
R G Messenger BSc FRICS IRRV (Hons) MCI Arb REV*
S A Layfield FRICS IRRV (Hons) REV*
A M Williams Dip BSc (Hons) MRICS IRRV (Hons) REV*
W A Minting BA (Hons) MSc

Associates:

P S Harding Tech RICS Tech IRRV*

Partnership Secretary:

R C T Gunning MAAT

Consultants:

A G Leech FRICS
R F Kilsby Dip TP FRTPI
R J Guy FRICS (Dip Rating) IRRV (Hons)*
P Doherty CPFA IRRV (Hons)
B Morle FCSD
C A Zurowski BSc (Hons) MRICS

The second schedule in the lease defines areas which the tenant can use on race and race preparation days, principally for car parking and racecourse maintenance. The lease plan showing the two areas is attached at our Appendix 2.

The lease sets out that the property is to be used for a maximum of 28 race days per annum with the ability to apply for consent for an additional 4 meetings in each 12 month period. The demised premises are specialised in nature construction and layout as to imply the specific uses.

The race meeting programme is mixed – in that flat and jump meetings are promoted. The 2010 programme is reproduced at our Appendix 3.

The rent review at 21st June 2009 was negotiated on the basis of limited commercial information from the tenant.

Quite understandably, they were reluctant to reveal actual trading information.

In the absence of this material, we had to compare and contrast the operation of Warwick Racecourse, as prescribed within the lease terms, against that of other racecourses in the region, and on a national basis. An extract of the leading evidence is attached at our Appendix 4.

There are a large number of racecourses in the locality of the Warwick Racecourse. While we were able to determine comparable rental information of two racecourses, neither of these were in the close area. We therefore undertook a broad comparison with the nearest courses to compare race meetings and other leading statistics.

The rent at the review date was settled within the defined "Market Value" as set out in the Royal Institution of Chartered Surveyors Valuation Manual 7th Edition – reproduced as our Appendix 5.

The rent review was settled at the following levels in agreement between landlord and tenant and in the face of the full Authority scrutinee and public interest.

21st April 2009 to 20th April 2010 - £15,000
21st April 2010 to 20th April 2011 - £20,000
21st April 2011 to 20th April 2012 - £25,000
21st April 2012 to 20th April 2013 - £30,000
21st April 2013 to 20th April 2023 - £35,000

The rent was agreed on this basis to reflect;

- Racecourse Meetings
- Income from Caravan Site lettings on ground adjacent to the course

The landlord was aware that the tenant has constructed, with consent, a conference and meeting room facility adjacent to the grandstand and that this trades on an annual basis, unrelated to the nominated race days.

The rent specifically excludes income from;

- Diversification into non-race day trading
- The golf course (outside demised area)
- Car Boot Sales (applied for but rejected for review purposes)

It should also be noted that the current lease, granted in 2005, came about when a previous lease was surrendered and a revised document issued.

This lease came about as the result of the Authority taking part of the previous demise to allow development to take place. In return for the surrender, a brand new stables, stable lad's accommodation and car park was constructed. These facilities are still in good condition and fit for purpose. No evidence has been put forward by the tenant to the contrary.

The tenant was separately represented by Chartered Surveyor acting on their behalf. Although the matter was referred to a third party under the Royal Institution of Chartered Surveyors mediation Service, the matter was subsequently settled by negotiation between the parties. As a consequence of that instruction, we are aware of the subject premises and also the commercial reality of ongoing viability of a racecourse operation at Warwick given the current economic climate, the state of the horseracing industry and also the proximity of competing racecourses in the area.

The purpose of setting out the detail regarding the tenure and lease restrictions affecting the course is emphasise that the tenant will need to address not only planning policy, but also the required lease consents and user clause variations required to enable hotel development to take place. These will have a financial effect as the rent will have to be reviewed to take effect of the broading of user clauses.

Although as a Planning Officer, the landlord and tenant relationship is not relevant, the planning agent has sought to question the sustainability of the current racecourse, this being the basis of the landlord and tenant relationship at present.

We have reviewed the documents passed to us and can comment as follows.

You have provided three documents for our appraisal.

- Confidential Outline of Financial Viability of Warwick Racecourse
– D. Hill, Chairman, dated 16th November 2011
- Non-Confidential Summary of Warwick Racecourse Future Commercial Viability
– D. Hill, Chairman, dated 21st December 2011
- Financial Justification – Barton Willmore, dated 23rd December 2011

We find the papers prepared by Mr Hill well set out and reflect the current pressure on racecourses to maintain their current financial position.

In the case of Warwick, there has already been substantial previous investment in terms of modern stable facilities funded by the landlord, and conference and grandstand funded by the tenant.

It is undoubtedly in the interests of both landlord and tenant and by implication, the local community, to see successful onward trading and viability at Warwick Racecourse.

The outlook for Warwick Racecourse seems to reflect that adopted in the whole industry and which is explained in the papers from Mr Hill.

If the operator fails to make improvements to visitor facilities and diversification into non-race day income generation, often relating to the same investment, then that racecourse will fall behind the competition in the light of reducing funding allocation by the industry.

Most racecourses in the region have seen improvements in grandstand facilities in recent years. The revenue income attributed to the non-race day activities at Warwick Racecourse are indicative that this type of investment can be worthwhile.

The report reveals more information than was available in earlier negotiations. It doesn't reveal a business case for the development of a hotel at the course, and in particular the amount of trade which it is expected to generate either as a standalone facility or, as is mentioned in the earlier documents, the ability for the conference centre to increase its share of the market by attracting 2 or 3 day conferences.

The Barton Willmore document doesn't contain any substantive financial information or quantitative information on which to base the financial justification of the proposals.

Conclusion

We have reviewed the documents submitted in support of this planning application. We feel that the background and reasons for seeking to justify the diversification of income at Warwick Racecourse are set out in a reasoned and realistic way. They reflect the situation facing the industry in this region and on a national basis.

In order to support the proposals, we would expect to have a financial appraisal showing not only the current position, but a development appraisal to justify the hotel development.

The elements of that proposal would specifically include;

- Revenue effect on the lease rental of negotiating license and user clause variations
- Cost of development
- Revenue projections
- Effect on non-race day income contributions to racecourse viability
- Effect on race day income
- Viability over the lease term

We would expect that the applicant will already have prepared these documents in order to justify the proposals.

We trust that these comments will be sufficient at this stage but I look forward to a further discussion once the information is available.

Yours sincerely

A handwritten signature in black ink, appearing to read "S. A. Layfield". The signature is fluid and cursive, with a long horizontal stroke at the end.

S. A. LAYFIELD FRICS IRRV (Hons) REV
REGISTERED VALUER

APPENDIX 1
WARWICK RACECOURSE LEASE

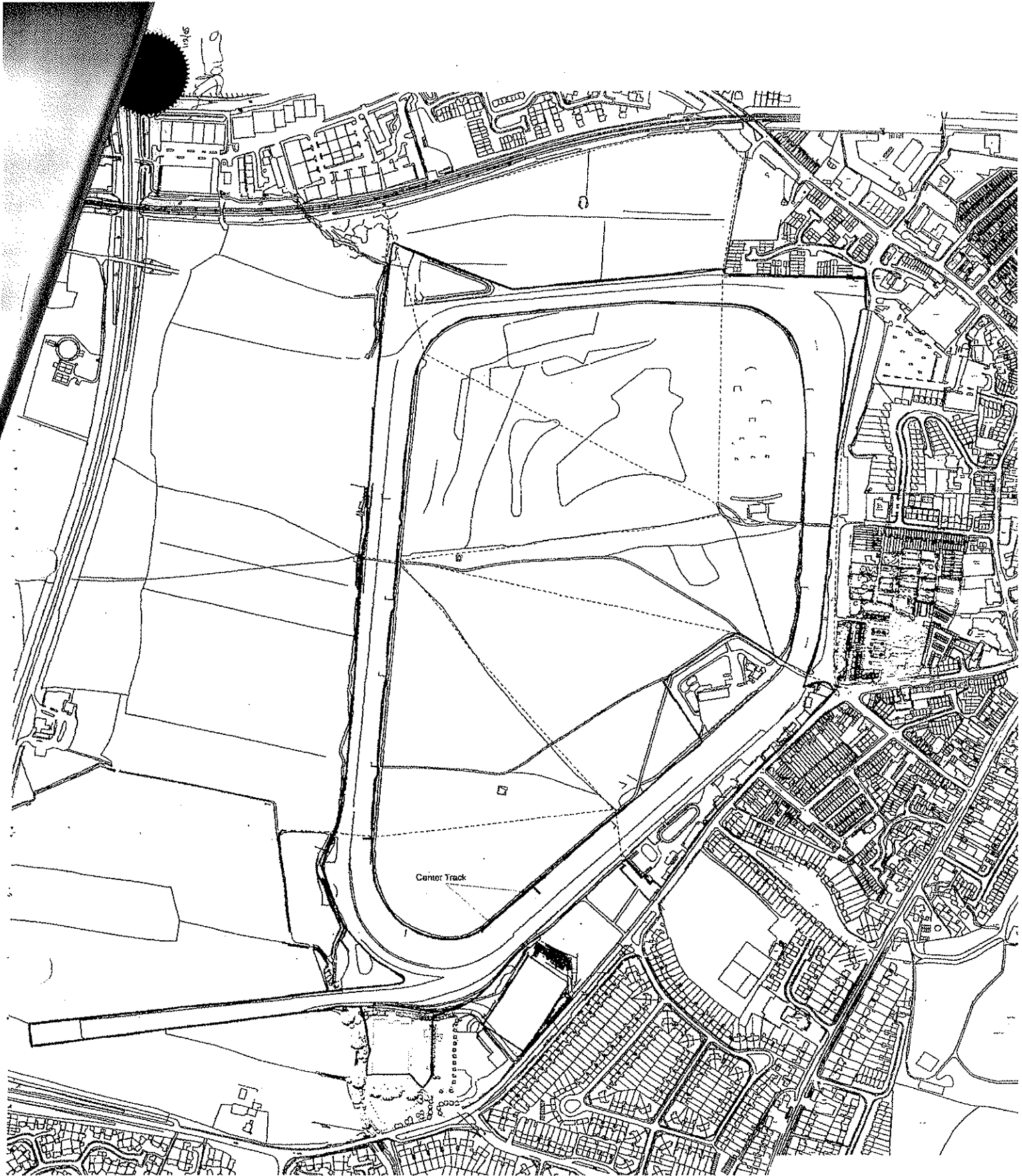
FIRST SCHEDULE
(The Demised Premises)

1. The racing tracks comprising flat and steeplechase courses and including the five furlongs flat course as at the date hereof all of which are more particularly delineated on Plan B annexed and thereon coloured light green subject to:-
 - 1.1. A crossing at all times for vehicles of all types cattle horses and other animals agricultural equipment and the like at the points marked on Plan B.
 - 1.2. The public rights of way and along the racing tracks as marked on Plan B.

Provided that all such pedestrian and vehicle crossings shall be closed on days when racing takes place (hereinafter called the "Race Days") and during such period permitted by Warwick District Council Act 1984 as may be agreed by the Council from time to time (such agreement not to be unreasonably withheld).

2. The stand buildings and enclosures adjoining Hampton Road shown coloured pink on Plan B.
3. The Course Enclosure on the course side shown hatched green on Plan B but subject to such rights of access by members of the public as may be inherent in the Warwick District Council Act 1984 the National Parks and Access to the Countryside Act 1949 and any other statute.
4. The stable block and stable lad's accommodation block together with associated parking and the fencing between such parking and the Council's adjacent parking area all shown coloured grey on Plan B.
5. All landlord's fittings and fixtures chattels and other items now situated in or upon any of the land and buildings previously referred to in this schedule.

APPENDIX 2
LEASE PLAN



Center Track

PLINCKE LANDSCAPE ARCHITECTS, INC.
 401 WEST 10TH STREET, SUITE 200
 NEW YORK, NY 10014
 TEL: 212-255-1234
 FAX: 212-255-1235



PLINCKE
 LANDSCAPE




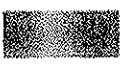






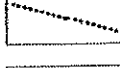





Site: St. Mary's Lands
 Drawing: Legend - Part A
 Date: 7/20/02

Scale: 1" = 12500'
 Date: May 04
 00130 215 ALLEN NY

PLINCKE LANDSCAPE ARCHITECTS, INC.
 401 WEST 10TH STREET, SUITE 200
 NEW YORK, NY 10014
 TEL: 212-255-1234
 FAX: 212-255-1235



Key

- | | | | | | |
|---|-----------------------------|---|---------------------------------|--|---------------------------------------|
|  | Public Parking on race days |  | Stand buildings and enclosure |  | Course Enclosure |
|  | Racing Tracks |  | Stables complex |  | Stable Block Road Access |
|  | Member's Car Park |  | Stable Block Parking |  | Crossing points Vehicles of all types |
|  | Racecourse entrance land |  | Access to Hill Close Gardens |  | Public Rights of Way |
|  | Lammas Walk Parking |  | Members car park-additional use | | |

PLINCKE LANDSCAPE
 1078

PLINCKE LANDSCAPE



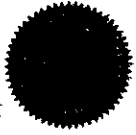
St Mary's Lands
 LANDSCAPE PLAN B
 1078

SCALE 1:2500 DATE June 04
 DRAWN BY [Name] CHECKED BY [Name]

PLINCKE LANDSCAPE ARCHITECTS
 1078



Handwritten signature
 11/06



Plan B

APPENDIX 3
2010 RACE MEETING PROGRAMME

**WARICK RACECOURSE
2010 FIXTURES**

| | | | Jump / Flat | |
|------------------|------------|-----------------|--------------------|-------------|
| <i>Saturday</i> | | <i>January</i> | <i>16</i> | <i>Jump</i> |
| <i>Thursday</i> | | <i>January</i> | <i>28</i> | <i>Jump</i> |
| <i>Saturday</i> | | <i>February</i> | <i>13</i> | <i>Jump</i> |
| <i>Friday</i> | | <i>February</i> | <i>26</i> | <i>Jump</i> |
| <i>Sunday</i> | | <i>March</i> | <i>14</i> | <i>Jump</i> |
| <i>Wednesday</i> | | <i>March</i> | <i>24</i> | <i>Jump</i> |
| Monday | BH | April | 5 | Flat |
| Monday | BH | May | 3 | Flat |
| Saturday | Eve | May | 8 | Flat |
| Tuesday | | May | 11 | Flat |
| Monday | Eve | June | 14 | Flat |
| Thursday | | June | 17 | Flat |
| Thursday | | June | 24 | Flat |
| Friday | | July | 2 | Flat |
| Thursday | | July | 8 | Flat |
| Monday | BH | August | 30 | Flat |
| Tuesday | | Septembe | 28 | Flat |
| Monday | | October | 4 | Flat |
| <i>Wednesday</i> | | <i>November</i> | <i>3</i> | <i>Jump</i> |
| <i>Wednesday</i> | | <i>November</i> | <i>17</i> | <i>Jump</i> |
| <i>Sunday</i> | | <i>December</i> | <i>5</i> | <i>Jump</i> |
| <i>Friday</i> | | <i>December</i> | <i>31</i> | <i>Jump</i> |

APPENDIX 4
COMPARABLE DATA

| | Number of Race Meets | Ratable Value | |
|-------------------|--------------------------|---------------|---------|
| | Type | Racecourse | Tote |
| Warwick | Mixed (28) | £80,000 | £10,000 |
| Salisbury | Flat (15) | £74,000 | £10,250 |
| Chester | Flat (13) | £412,500 | £53,500 |
| Leicester | Mixed (30) | £87,500 | £7,500 |
| Southwell | Mixed - All Weather (30) | £162,500 | £12,500 |
| Nottingham | Flat (20) | £59,000 | £5,600 |
| Uttoxeter | Jump (25) | £157,500 | £19,250 |
| Wolverhampton | Flat | £480,000 | £16,250 |
| Towcester | Jump (19) | £91,000 | £7,500 |
| Stratford on Avon | Jump (18) | £56,250 | £8,700 |
| Worcester | Jump (17) | £54,000 | £6,200 |
| Hereford | Jump (14) | £37,000 | £4,750 |
| Ludlow | (16) | £16,000 | £5000 |

APPENDIX 5
DEFINITION OF MARKET VALUE

DEFINITION OF MARKET VALUE (PS 3.2)

The property is to be valued on a Market Value basis which is defined as:-

Definition

“The estimated amount for which a property 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.”

Commentary

a) **“The Estimated Amount”**

This refers to a price expressed in terms of money payable for the property in an arm’s-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation 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) **“A Property Should Exchange”**

Refers to the fact that the value of a property is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.

c) **“On the Date of Valuation”**

Requires that the estimated Market 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”**

This 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 an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires.

e) **“A Willing Seller”**

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to sell the property 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 property 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 (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of Special Value (defined in IVSC Standard 2, para 3.11). The Market Value transaction is presumed to be between unrelated parties each acting independently.

g) **“After Proper Marketing”**

Means that the property 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 length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

h) **“Wherein The Parties Had Each Acted Knowledgeably, Prudently”**

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for the other purchase and sale situations 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.

The basis of Market Value is an internationally recognised definition. It represents the figure that would appear in a hypothetical contract of sale at the valuation date. Valuers need to ensure that in all cases the basis is set out clearly in both the instructions and the report.

Market Value ignores any existing mortgage, debenture or other charge over property.

In the conceptual framework in IVS quoted above it is clear that any element of special value that would be paid by an actual special purchaser at the date of valuation must be disregarded in an estimate of Market Value. Special value includes synergistic value, also known as marriage value.

IVS describes special value and synergistic value as follows:

Special Value can arise where an asset has attributes that make it more attractive to a particular buyer, or to a limited category of buyers, than to the general body of buyers in a market. These attributes can include the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any element of Special Value because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.

Synergistic Value can be a type of Special Value that specifically arises from the combination of two or more assets to create a new asset that has a higher value than the sum of the individual assets.

When Special Value is reported, it should always be clearly distinguished from Market Value.

Notwithstanding this general exclusion of special value where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future, this element of 'hope value' is reflected in Market Value. Examples of where the hope of additional value being created or obtained in the future may impact on the Market Value include:

- The prospect of development where there is no current permission for that development; and
- The prospect of 'synergistic value' arising from merger with another property or interests within the same property at a future date.

When Market Value is applied to plant & equipment, the word 'asset' may be substituted for the word 'property'. The valuer must also state, in conjunction with the definition, which of the following additional assumptions have been made:

- That the plant & equipment has been valued as a whole in its working place; or
- That the plant & equipment has been valued for removal from the premises at the expense of the purchaser.

Further information on plant & equipment valuation, including typical further assumptions that may be appropriate in certain circumstances, can be found in GN 2 and in IVS GN 3 – Plant & equipment.

Where the property includes land which is mineral bearing, or is suitable for use for waste management purposes, it may be necessary to make assumptions to reflect either the potential for such uses or, where the land is already in such use, to reflect any potential future uses that may be relevant. Further information on the valuation approach in these cases can be found in GN 4.

Where the property is personal property it may be necessary to interpret Market Value as it applies to different sectors of the market. Further information on this type of valuation can be found in IVSC GN 4 and 5.