



SUPPORTING STATEMENT BOURNEMOUTH–SWANAGE CHAIN FERRY INQUIRY

On behalf of
The Bournemouth-Swanage Motor Road & Ferry Company Inc.

9 November 2020

1 INTRODUCTION

This supporting statement is prepared in advance of the Toll Application Public Inquiry in respect of The Bournemouth-Swanage Motor Road Ferry Company Inc. This statement provides further detail into the most recent, 2015, valuation of the Company's assets.

My name is Richard Philip Glenwright; I have a BSc honours degree from The University of Reading in Geography and an MSc degree from The University of Reading in Real Estate. I am a Member of the Royal Institution of Chartered Surveyors and an RICS registered valuer. I am a partner at Gerald Eve LLP Chartered Surveyors of 72 Welbeck Street, London, W1G 0AY. I specialise in work relating to industry, energy and infrastructure property valuation and have department responsibility for valuation matters.

Gerald Eve LLP have advised The Bournemouth-Swanage Motor Road & Ferry Company Inc and their holding company, Fairacres Group Limited for nearly 30 years on property matters.

2 EXPERTISE

I have specialised in the valuation of property for financial reporting, loan security, taxation and purchase & sale for over 10 years. I have specialist sector experience in the industrial, energy and infrastructure sectors advising a diverse and varied client base.

In terms of marine / waterside property experience I am a retained property advisor to the Canal & River Trust, I am advising the London Borough of Tower Hamlets on slipways on to the Thames in east London and advise Morden College on their extensive land holdings in Greenwich which comprise jetties, boat building facilities and river wharves.

In terms of infrastructure assets I advise the following clients: C.Ro Ports, EDF Energy, Essar Oil, Farnborough Airport, Heathrow Airport, Triton Power, Portsmouth Port, & Scottish Power.

3 BACKGROUND TO INSTRUCTION

Gerald Eve LLP have provided financial reporting valuations for The Bournemouth-Swanage Motor Road & Ferry Company Inc since 1996. I was involved with the 2010 and 2015 valuations. As at the date of valuation, the valuation was prepared under the terms of the Valuation – Professional Standards of the Royal Institution of Chartered Surveyors (RICS) January 2014 (the Standards in place as at the date of valuation).

4 BASIS OF VALUE

The valuation was prepared on the basis of Existing Use Value, defined as:

“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 acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost”.

5 METHOD OF VALUATION

There are 5 methods of valuation as set out by the RICS. They are

- Comparative Method
- Investment Method
- Residual Method
- Profits Method
- Depreciated Replacement Cost Method ('DRC')

DRC is used where there is no active market for the asset being valued – that is, where there is no useful or relevant evidence of recent sales transactions due to the specialised nature of the asset and it is impractical to produce a valuation using other methods.

The DRC method may be used for the valuation of specialised property, which is defined in the RICS Global Glossary as:

'A property that is rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from its specialised nature and design, its configuration, size, location or otherwise.'

6 DEPRECIATED REPLACEMENT COST

The DRC method is based on the economic theory of substitution. Like the other forms of valuation set out above, it involves comparing the asset being valued with another. However, DRC is used in situations where there is no directly comparable alternative. The comparison therefore has to be made with a hypothetical substitute, described as the modern equivalent asset (MEA). The underlying theory is that the potential buyer in the exchange would not pay more to acquire the asset being valued than the cost of acquiring an equivalent new one. The technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

The basic steps of a DRC valuation are as follows:

- Assessing replacement cost
- Calculating site / land value
- Assessing valuation depreciation
- Other considerations
- Final reconciliation
- Reporting

I summarise the three first and main steps, below:

Assessing replacement cost

The valuation adopts a build cost per sq m for the road, slipways, causeway and buildings. This is derived from the following well established published sources:

- The Building Cost Information Service – a provider of cost and price information for the UK construction industry. It is part of the RICS.
- Spon's – The architects and builders price book.

In addition I considered real world cost undertakings and quotes for work undertaken at the subject property.

Calculating site / land value

Comparable evidence is gathered. I considered the value of land with reference to surrounding uses, likely continued use and other marine uses across the south coast.

Assessing valuation depreciation

Applying valuation depreciation is primarily a process of replicating how the market would view the asset. Depreciation rates and estimates of the future economic life of an asset are influenced by market trends and/or an entity's intentions. There are three principal types of depreciation allowance:

- Physical deterioration
- Functional obsolescence
- Economic obsolescence

In order to calculate the above, we considered the lifespan of the asset and its remaining economic life and depreciate on a straight line basis.

7 THE VALUATION

As at 31 March 2015, the assets of the Ferry company were valued at £14,270,000. There are a number of assets which comprise the valuation that have been historically grouped as follows:

Site Works	£5,120,000
Causeway	£2,400,000
Buildings	£850,000
Land associated with the above	£200,000
Land, including the rights to operate the ferry & miscellaneous property income	£3,800,000
Ferry	£1,900,000
Total	£14,270,000

I have been asked, as part of this supporting statement to provide a further breakdown of each of these categories and a brief methodology of how each constituent part has been valued.

Site Works

The site works comprise the road and slipways. There is 3,144m of road.

This element was valued with reference to DRC methodology.

The resulting valuation for the road was £2,320,000.

The slipway was valued in the same way. This comprises an area of 0.32 acres (1,333 sq m). This was valued at £2,800,000.

The total for site works is £5,120,000

Causeway

The causeway is 938m in length. It was valued in the same way as the road and slipway. It was valued at £2,400,000

Buildings

The buildings were also valued on the basis of depreciated replacement cost on the same methodology. These were valued at £850,000

Land associated with the above

This element referred to the land on which the buildings sit. It was valued at £200,000.

Land, including the rights to operate the ferry & miscellaneous property income

This element of the valuation includes land beneath the road, causeway, slipways, as well as other operational land in use. This was valued at £1,520,000

What remains is the rights to operate the ferry and miscellaneous property income. This was valued at £2,280,000

The total for this element of the valuation was £3,800,000.

Ferry

The ferry and its associated plant & machinery, including chains is also valued on a DRC basis. This was valued at £1,900,000.

8 SUMMARY VALUATION

The table below sets out the breakdown of the valuation elements and is for discussion.

<u>Element</u>	<u>Structure</u>	<u>Land</u>	<u>Total</u>
Road	£2,320,000	£1,100,000	£3,420,000
Slipways	£2,800,000	£70,000	£2,870,000
Total	£5,120,000	£1,170,000	
Causeway	£2,400,000	£350,000	£2,750,000
Buildings	£850,000	£200,000	£1,050,000

9 TITLE

I understand that The Bournemouth-Swanage Motor Road and Ferry Company retains either the freehold title to the properties or has a perpetual interest or power over the properties vested in it by statute. I consider the perpetual interest vested in statute to be akin to a freehold.

