

Public Accounts Committee

Inquiry into Regeneration Investment Fund for Wales

Response from Mr Langley Davies (12 November 2015) to Darren Millar AM, Chair of Public Accounts Committee, letter of 5 November 2015

I have addressed my responses to you in the hope that they will be passed on to the Minister and other members of the PAC.

In terms of responses to date I was asked some time ago if I wished to comment in writing on the findings of the WAO in their report on RIFW and latterly on the PAC hearings to date. I have not read the WAO report in any great detail and have not had the time to devote to watching the sessions of the PAC so I am not in a position to provide general comments on these matters.

I am, however, happy to comment upon specific matters if I am able.

In response to the Chair's questions:-

1. I first became aware that the asset portfolio was to be offered for sale in 2010. There were press announcements around the transfer into RIFW of approximately £20m in WG assets, which were to be converted to cash, and £10m in cash as part of a matched funding process.

My interest in the portfolio came about in late 2010 because I had previously sought to purchase some land in Imperial Way, Newport, which formed part of the Imperial Courtyard site from WG. The land was to provide further car parking spaces for some 95000 sq ft of office space that I had developed from 2004-2006 on Imperial Way. I had dealt previously with King Sturge who were the agents on the Imperial House and Courtyard sites at that time. King Sturge informed me that they were no longer agents on these assets and referred me to LSH as the new agents.

I had dealt previously with LSH as they were joint letting agents with Fletcher Morgan on our existing office space and I was directed to Mr Lee Mogridge to discuss the Imperial House and Courtyard properties. This was my first professional association with Mr Mogridge.

I met with Mr Mogridge in January, 2011, and I was informed that the Imperial House and Courtyard assets were part of a portfolio of assets being brought to the market by RIFW and I expressed an interest in the assets (and the wider portfolio) when further information was available through the LSH sales process. I was informed that LSH would be running a competitive

process for the sale of the assets.

2. LSH had acted for me on bank valuation work, office agency work and possibly some rates related work in respect of the Imperial Way properties probably from 2006/7 onwards. I would have to ask them for specific engagements and dates but it would have been around that time.

The nature of my relationship with LSH is (and always has been) a purely professional relationship. My dealings have been on standard professional terms and I have not had any separate engagements or dealings with any LSH employees in a personal capacity. I have been engaged in property development in South Wales for some 25 years and have engaged many other property professionals on the same basis during that time.

3. This statement suggesting that SWLDL would not wish to undertake a "formal valuation" of the assets in isolation could be subject to misinterpretation.

It was not the case that SWLDL did not wish to undertake a formal valuation of the assets prior to completion of the purchase. In fact the contrary is true and SWLDL did undertake a formal valuation process. I understand that the Savills valuation commissioned by SWLDL and disclosed to WAO is the only contemporaneous valuation of the assets. This valuation confirmed to the Directors of SWLDL at that time that the price offered (and Paid) by SWLDL was in Savill's opinion a fair market price and was in fact at the higher end of the price range that they would have expected at that time for a portfolio transaction.

The specific issue that this quote relates to was the requirement for RIFW to ensure that they had adequate security for any outstanding payments due over the two year period after the deal completed.

As part of our on-going price negotiations with Mr Leo Bedford of RIFW we had agreed a higher price than originally offered for the assets on the basis of an instalment related payment deal. At this time the deal was £22.5m (some assets were removed by the time we completed 12 months later) which was to be paid as £12.5m on completion and two further annual instalments of £5m.

When we eventually moved to detailed contracts RIFW required that, if we were to sell any of the portfolio assets, the entire portfolio would have to be revalued on each sale event to ensure that RIFW's security position for the outstanding monies was not adversely affected by such a sale.

Whole portfolio valuations on every sale would have been expensive, circa

£10,000 per valuation. In addition, the sales process would have been time consuming if RIFW had to agree every sale and subsequent valuation (effectively a veto over our selling of any portfolio assets for two years) and this might have prejudiced our ability to complete sales of individual properties.

Given that the portfolio deal on day one was satisfactory in terms of value to both sides and that there was a high level of equity cover (headroom) for RIFW (£22.5m of asset cover against £10m of outstanding monies) SWLDL was of the view that revaluations to verify security cover on each sale were unnecessary. The future payments were already being guaranteed by Barclays Wealth Trustees in Guernsey in any event.

We eventually resolved this valuation issue by agreeing to remit 50% of any proceeds received on any asset sales to RIFW whilst monies remained outstanding to them over the two year period and Savills, at SWLDL's cost, would also provide a brief update to their initial report to ensure that RIFW's security position remained at an acceptable level.

Taking this approach was recognised by all parties as providing a secure structure to RIFW and one where formal valuations on an on-going basis would not be required.

4. Monmouth.

a. The current position in respect of Monmouth is that we have not yet completed on the sale of the land earmarked for residential development. In order to complete on the purchase RIFW need to remove their charge on the land relating to the overage. The overage payable is as yet not agreed between the parties but is progressing and given the formula and procedure contained within the legal agreements will be resolved. We have requested RIFW to remove their charge on the land the subject of the sale and complete and for them to hold all monies received in Escrow until any overage issues are resolved. That would obviously be in the interests of all parties and carries no risk for RIFW. The planned completion date was in early October.

b. This disposal is for the residential element of the site and comprises some 35 acres with a further 3 acres required for access roads. There is further amenity land for drainage and ancillary residential uses as part of the planning consent which will be transferred as part of the sale at nil value as it has no commercial value. There will be some remaining agricultural land which has no planning consent and has a nominal value and there is remaining employment land of some 13 acres as part of a mixed use planning consent which will remain with SWLDL.

In value terms it is our assessment that that around 85% of the site's total value is made up of the residential development land which is subject to the overage provisions and the sale to BDW Trading Limited.

c. The sales proceeds are payable £5,750,000 on agreement of the overage following completion, £3,125,000 on the first payment anniversary and £3,125,000 on the second anniversary.

d. Overage will be calculated at 50% of the sales proceeds less allowable costs and an agreed base value. The overage will be paid on a pro rata basis on the same payment profiles as the consideration received (outlined above). Therefore the first overage payment will be remitted to RIFW following receipt of monies from BDW post completion and agreement of the overage.

I hope this is useful and would be happy to provide further information if I am able. As I hope you will gather from the fullness of my answers I wish to assist with the Committee's inquiry as the facts demonstrate that the transaction was one that took place on commercial terms and at a fair market price at the time of the deal. As you will appreciate from my comments on the overage provisions above, there is potential for significant additional value to accrue to RIFW on both the Monmouth and Lisvane sites.

Regards

Langley Davies

Director – South Wales Land Developments Limited