

# ResearchNote

September 2003



## LANDMARK PLACE, CARDIFF

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# Executive Summary

September 2003

Ten units in Landmark Place, Cardiff at a 20% discount, pre-let for five years.

Landmark Place, Cardiff					
Prices Per Apartment	Discount for Letterstone Investors	Actual Prices Paid	Gross Rental Yield	Average Total Investment Inc. All Costs (assuming 85% borrowing)	Estimated Pre-Tax Net Profit After Five Years*
£194,500 to £249,500	20%	£155,600 to £199,600	5.62% - 6.14%	£33,000	£102,000

\*Note: Assumes 5% capital growth p.a. plus the 20% discount. For a full financial appraisal, please go to [www.letterstone.com](http://www.letterstone.com)

- Letterstone have negotiated a five year pre-let to Cardifflets Ltd., providing investors with a gross rental income of 5.62% – 6.14% per annum. The properties have been pre-let at market rents, on a five year term with no tenant break options and with annual rental increases.
- We believe this represents an excellent opportunity to acquire up to ten investment properties in the final block of a successful city centre development, at a substantial discount.
- The discounted prices include an upgraded specification, previously charged additionally as an option, and a car parking space with a value of £18,000.
- Cardiff is a vibrant, expanding location and investors will benefit from its growing success. The developer, St. David, is a member of the Berkeley Group plc and has completed a number of well known schemes in Wales since 1995.
- We have negotiated a discount of 20% on each unit price. Investors will benefit from immediate equity and above average rental and capital returns.
- This successful development is sold out and we have secured ten of the final apartments available. The development comprises 280 units on 15 floors, with retail and leisure on the ground and first two floors.

## 2.0 THE DEVELOPMENT

### Location

Landmark Place lies on the east side of Churchill Way, in the heart of Cardiff city centre. The site is bounded by Station Terrace to the east, North Edward Street to the north and an open courtyard and offices to the south.



### Previous Use

We have been informed by the developers that the site previously comprised an open air car-park.

### Timing

Work commenced on site in autumn 2000 and practical completion, when contractors move off site, is due early October 2003. With the exception of snagging, work has been completed on the subject apartments and the development is currently occupied.

### The Apartments

The ten units we have secured all benefit from an upgraded specification not automatically included. In addition to the general specification outlined below, the units come with integrated fridge/freezer, microwave, dishwasher, washer/drier and carpets.

Each apartment also has a car parking space included, valued at £18,000.

Carpets are fitted to the bedrooms and living room, with laminated wood flooring in the kitchens, hallways and bathrooms. Lighting is provided via halogen spotlights in the kitchens, bathrooms and hall and elsewhere, fittings are provided for the purchasers' own choice of lighting.

The apartments are handed over with painted walls, white painted ceilings, skirting and architraves and chrome plated switches and sockets. Windows are double glazed with aluminium frames. Heating is provided via a dual zoned electric system, and hot water through an off peak electric system.

### Lease Term

The individual apartments are available on a 999 year long leasehold, at a ground rent of £200 p.a. for two bedroom units and £250 p.a. for the three bed flat. A ground rent of £50 p.a. is payable for each car parking space.

## Service Charge

Estimated annual service charges are £1.60 – £1.80 per square foot (psf), which includes water rates. The development will be managed by Mainstay Residential Ltd, based at Worcester.

## Availability

Letterstone plc has acquired the final block of properties in cores 3 and 4. At the time of writing, only three of the two hundred and eighty apartments remain available in the entire development.

## Prices

The prices ranged from £194,500 to £249,500, equating to an average £229 psf. We have negotiated an overall discount of 20.2% with the developer and the resultant discounted prices can be seen in the summary table below.

Table 1

The Ten Apartments					
Plot	Floor	Beds	Apartment Type	Floor Area Sq.Ft	Discounted Price (Per Sq.Ft)
128	4	3	U	1,090	£199,600 (£183)
226	7	2	L	884	£170,000 (£190)
165	9	2	X	848	£155,600 (£183)
171	10	2	X	848	£155,200 (£183)
183	12	2	X	848	£159,600 (£188)
188	13	2	R	816	£159,600 (£196)
189	13	2	X	848	£159,600 (£188)
194	14	2	R	816	£159,600 (£196)
262	13	2	L	884	£170,000 (£190)
268	14	2	L	884	£170,000 (£190)
					<b>£1,658,800</b>

## Surrounding Area

Churchill Way is a mixed-use area, with a bias towards commercial premises. To the west, Landmark Place faces a row of semi-detached houses, the majority of which have been converted to provide retail or office space on the ground floor, with office suites or flats above.

To the north, there is a narrow office building with ground floor retail and to the south, an open courtyard that separates Landmark Place from a modern office building occupied by British Gas. Station Terrace lies to the east and behind that is Cardiff Queen Street Railway Station.

Approximately 200 metres to the north, Churchill Way joins Queen Street, which is Cardiff's main retail area and is pedestrianised. St. David's Shopping Centre is found off Queen Street, approximately quarter of a mile west of Landmark Place.

## Transport

Access to and from the M4 is good by car. Approaching from the east, junction 29 offers the quickest access via the A48 (M) and A48 / A470.

Cardiff's main railway station, Cardiff Central, lies 800 yards south-west of Landmark Place and connects Cardiff with Bristol, London, Birmingham and west Wales. The central coach station is located to the front of Cardiff Central and again, provides access to the rest of Wales and England. Cardiff Queen Street Station, linking Central Cardiff with the suburbs and valleys, is only 200 yards to the east.

Cardiff International Airport can be found 9.2 miles to the southwest, near Barry, and offers regular flights to mainland Europe and services to London have recently started.

### 3.0 COMPETING DEVELOPMENTS

Landmark Place is the only major new development in central Cardiff that is currently available for occupiers to move into. There are, however, two developments currently under construction that will compete with Landmark Place in terms of current investor purchases and owner-occupiers / tenants in the short term.

#### **Altolusso**

The first of these is Redrow's Altolusso scheme, launched in January 2003 and comprising 292 apartments. At the time of writing, some 42 units remain, ranging in price from £170,000 – £255,000 (£213 – £294 psf) for two bed apartments. First completions are due in July 2004, with the scheme being completed in May 2005.

The location of Altolusso is perceived to be inferior to that of Landmark Place, with Bute Street traditionally suffering from a mixed reputation. The development itself will compete directly with Landmark Place, with a 24-hour concierge, on site car parking and well-appointed apartments.

Current asking prices at Altolusso are considerably higher than the prices at which we have obtained the Landmark Place units and we consider this pricing differential will have a beneficial impact on the re-sale values at Landmark Place.

#### **Old Brewery Quarter**

Comprising 42 one, two and three bedroom units, with bars and restaurants at ground floor level, this development is now sold out. The scheme will, however, compete in the re-sale and lettings markets. Launched in October 2002, the last two units were sold last week and practical completion for the site is scheduled for summer 2003.

The Old Brewery Quarter is centrally located, to the south-west of Landmark Place, but lies within the noisy "nightclub quarter" of the city. The scheme is a mix of conversion and new build, arranged around four cores. Surprisingly, the lack of car parking on site has not appeared to unduly deter purchasers.

Apartments were sold at prices ranging from £150 – £280 per square foot, compared to the £183 – £190 psf values we have obtained at Landmark Place. A property club purchased 30 of the units and we believe some of the units will be put on the market as completion nears.

## 4.0 THE DEVELOPER

Landmark Place is being developed by St. David, the Welsh arm of Crosby Homes (Special Projects) and a member of The Berkeley Group plc. The construction has been contracted out to Mac Alpine. Established some seventy years ago in the northwest of England, Crosby Homes has evolved and is now headquartered in Birmingham.

In 1990, Crosby was acquired by The Berkeley Group plc, which was itself founded in 1976 and achieved full listing on the Stock Exchange in 1985. Other group companies include St. George plc, Berkeley Homes, St. James Homes and Thirlstone Homes.

Berkeley Group's key financials can be seen in the table below:

**Table 2**

<b>The Berkeley Group plc</b>		
	<b>April 2003</b>	<b>April 2002</b>
<b>Turnover</b>	£1,150.8m	£976.8m
<b>Operating Profit</b>	£215.7m	£189.5m
<b>Joint Ventures</b>	£16.5m	£23.5m
<b>Interest</b>	(£11.0m)	(£16.8m)
<b>Profit Before Tax</b>	£221.2m	£196.2m
<b>EPS</b>	116.0p	105.3p
<b>DPS</b>	19.2p	16.5p
<b>Nav Per Share</b>	829p	717p

Examples of successful, recently completed Crosby developments, outside of Wales, include No. 1 Deansgate in Manchester, which won Best Development and Best Apartment in the 2002 What House Awards and the Keg Store, Bristol. Crosby currently has schemes under construction in Manchester, Leeds, Bristol, Lancaster, Liverpool, Nottingham and Birmingham.

Within Wales, St. David has completed a mixture of schemes since 1996. These include detached houses at St. Nicholas (Vale of Glamorgan), a mix of houses at Llwndrwr Woods (Gower Peninsular), apartments at The Meridian (Penarth Haven) and apartments at Adventurers Quay (Cardiff Bay).

## 5.0 MARKET REPORT – CARDIFF

Located in South East Wales, Cardiff is the capital city and as at the 2001 census, had a population of 305,340 (10.5% of the Welsh population).

The city lies on the northern edge of the Bristol Channel, some 150 miles west of London. It is connected to the east and west of Britain via the M4 motorway and to the north and midlands via the M50.

Over the past five years, Cardiff has benefited from the exposure of hosting global sporting events such as the 1999 Rugby World Cup and Britain's round of the World Rally Championship and from the developments in facilities and infra-structure that result from them.

The opening of the Welsh National Assembly has helped Cardiff to retain its status as Wales' most important business location and business tourism is a growing activity. In particular, the growing number of conferences held in Cardiff has seen the city become one of the top UK conference destinations.

### Population

Of the total Cardiff population of 305,340, some 73,754 live in Cardiff Central (48.3% male and 51.7% female). The average age across the city is 36.57 years, compared to a national average of 39.50 and 34.68 in the centre.

Within Cardiff Central, the largest age group (19.55%) is 20-24 years, followed by 30-44 years (18.38%). The equivalent figures for the city are 9.30% and 21.70%.

SOURCE: 2001 CENSUS

### Country Of Birth

Of the total population of Cardiff, 75.39% were born in Wales, followed by 20.32% having being born in England. In the centre, there is a higher percentage of non-Welsh born, with 63% Welsh and 24.54% English.

### Migration

In the twelve months leading up to the 2001 Census, 15.59% of the Cardiff population had moved in that time, of which 4.54% had moved into Cardiff from the UK and 9.2% moved within Cardiff.

### Economic Activity

Of all active persons aged 16 – 74, 61.09% of the Cardiff population work full time, 17.47% work part time, 6.26% are self-employed, 4.09% are full time students and 3.09% are unemployed.

SOURCE: 2001 CENSUS

### Employment

As at 2000, an estimated 168,100 employees were working in Cardiff. The three main employment sectors were public administration, education and health (31.7%), distribution, hotels and restaurants (21.2%) and banking, finance and insurance (19.7%).

### Major Employers

Cardiff County Council, employing over 15,000 people in 2000, is the largest employer in Cardiff and Wales. Employers with over 2,500 employees as at 2000 included University of Wales NHS Trust and Legal & General. Some 13 employers each employed over 1,000 employees, including BT, Companies House, Tesco Stores, British Gas, Admiral Insurance and the Inland Revenue.

### Recent Developments

The first of the two main developments over the last five years that have generated the greatest impact for the city, was the construction of the Millennium Stadium for the 1999 Rugby World Cup. This stadium now hosts major sporting events, concerts and conferences. In addition to boosting visitor numbers to the city, it has helped to underpin infrastructure such as hotels and restaurants.

Secondly, the regeneration and opening up of the bay area has seen the recent development of some 2,000 residential units in this former dockside area. However, the infrastructure and supply of retail and leisure facilities has yet to keep pace with these new schemes.

<b>Future Plans</b>	Cardiff County Council and The Cardiff Initiative are striving to establish the city as one of Europe's leading retail, leisure and tourist destinations. Although Cardiff's bid to be nominated European Capital of Culture 2008 was unsuccessful, the major redevelopments planned will still go ahead.
<b>Retail</b>	Over the next eight years, developments on Queen Street and The Hayes, both in the city centre, are expected to generate inward investment of £550 million. Commentary on these plans can be seen in the CF10 Market Report section of this research note. In addition, a number of major retailers, such as Marks and Spencer, Zara and Matalan currently have sizeable requirements for opening new stores in Cardiff.
<b>Football Stadium</b>	Following promotion to Division 1, the owner of Cardiff City Football Club is planning to open a new 30,000-seat stadium in Leckwith, to the southwest of the centre. The stadium would incorporate retail units and, it is hoped, would boost attendance and hence expenditure within the city. Cardiff council has granted outline planning consent and the national assembly has not called the application in.
<b>International Sports Village</b>	Work started in September on this £700 million development scheme on this 80 acre waterfront scheme. The project is Cardiff's top urban regeneration priority and is expected to take up to ten years to complete. It will comprise an indoor arena with ice-rink, international standard swimming facilities, hotel, conference facilities and a casino, indoor ski runs, a heritage centre and new residential units.
<b>Transport</b>	The ability to bring in, distribute and disburse large numbers of people into and around Cardiff remains an ongoing issue, particularly for major events involving large numbers of cars. With this in mind, a new link road from the bay area to the east of the M4 is planned for the next 5-10 years.

## 6.0 MARKET REPORT – CENTRAL CARDIFF AND CF10 POSTCODE AREA

<b>Local Authority</b>	Landmark Place lies within the Cathays ward of Cardiff County Council, which is controlled by four Liberal Democrat councillors. The constituency MP for Cardiff Central is Mr. Jon Owens (Labour Co-op).
<b>Council Tax</b>	For a Band D property, the amount payable is £840.70 per annum, compared to the Welsh average of £837.23.
<b>Average Pay</b>	Across all areas controlled by Cardiff County Council, the average weekly pay is £442.10, compared to the national Welsh average of £399.70.
<b>Amenities</b>	<p>Retail, leisure, transport and hotel facilities are well provided for within walking distance of Landmark Place. Banks, clothes shops and general retailers are located along Queen Street and St. David Shopping Centre both of which are less than five minutes walk away.</p> <p>A metro style supermarket can be found at the junction of Queen Street and Dumfries Place, enabling tenants to shop for food without relying on car transport.</p> <p>Cardiff International Arena, a major entertainment complex with cinemas, is located at the southern end of Churchill Way.</p> <p>A range of hotels, including the modern "boutique" Big Sleep Hotel and Jury's Inn are found within approximately ten minutes walk of Landmark Place.</p> <p>Other leisure and tourist destinations, within walking distance, include Cardiff Castle, The Millennium Stadium and The National Museum of Wales.</p>
<b>Potential Hazards</b>	We are not aware of any noxious industries or pylons in the immediate surrounding area. Cardiff Queen Street railway station lies to the east of Landmark Place and noise may be expected from the arrival and departure of trains at this station.
<b>Current &amp; Future Projects</b>	<p>The main project that will have an influence on Landmark Place is the Land Securities scheme for the St. David Shopping Centre and surrounding area. This centre lies just a few minutes walk to the west of Landmark and planning permission has been granted for a 750,000 sq. ft. mixed use scheme. Predominantly retail orientated, the plans include office space, leisure facilities and possibly new apartments.</p> <p>Whilst any new apartment schemes will increase competition in the re-sale market, we believe on balance that the enhanced retail and leisure facilities provided by this new scheme will boost the city centre, add vitality and hence increase interest in living there.</p> <p>Further developments in nearby Queen Street include the redevelopment of former cinemas for retail use and a proposal by Cardiff County Council to provide Queen Street with a facelift.</p> <p>In our opinion, the building to the north of Landmark Place may be redeveloped in the next few years. We are currently researching the planning history of this site and full information will be provided at the earliest possible opportunity.</p>

## 7.0 THE HOUSING MARKET – OVERVIEW

### Overview

Much comment has been made of late regarding the perceived oversupply of both rented accommodation and properties for sale in Cardiff. There is no doubt that as new product has been bought by investors and large numbers of apartments have often been released simultaneously onto the rental market, rental levels and yields have fallen. This decline in rental yields has been exasperated by the rapid increase in capital values over the last few years.

There have also been reports of falling capital values and of investors being unable to sell units purchased within the last couple of years. At the same time, all the main property indices point to continued capital growth in Wales and Cardiff, albeit at a reduced rate.

In reality, the performance of a property investment will depend, inter alia, on the price paid, the location, specification, rental demand and the rationality of the vendor or landlord. It is difficult to make an overall comment on a city's property market with so many variables and in this section we will examine the main determining factors.

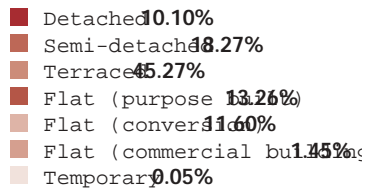
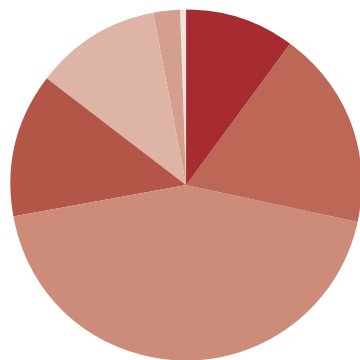
## 8.0 THE HOUSING MARKET – SUPPLY

### 2001 Census

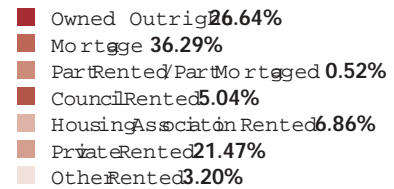
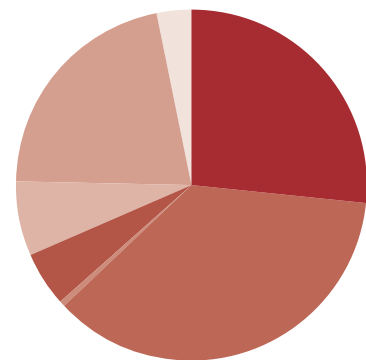
The latest figures available (2001 Census) show a total number of 127,476 households in Cardiff, of which 29,700 are located in the centre. Of these, 28,460 (95.8%) were occupied, 1,157 (3.9%) vacant and 83 were holiday or second homes. These result in an average household size of 2.41 for Cardiff and 2.48 for Cardiff Central.

The breakdown of dwelling types and tenure for properties in Cardiff Central is shown in the pie charts below:

**Table 3**  
Central Cardiff  
properties by dwelling type



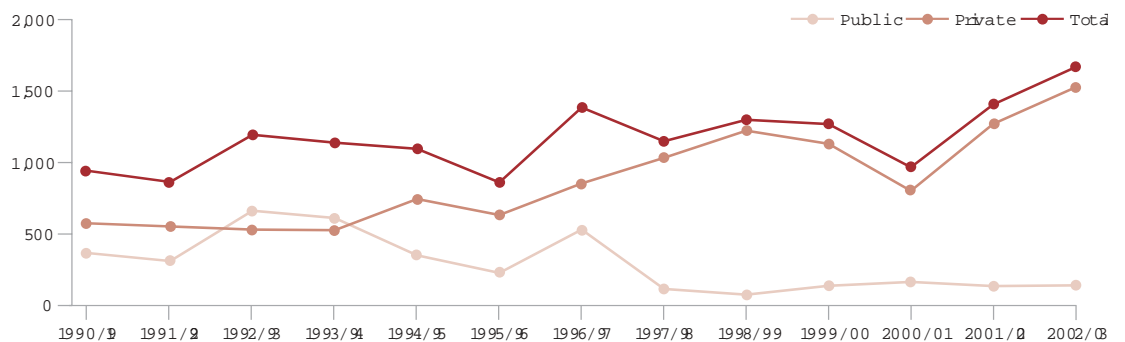
**Table 4**  
Central Cardiff  
properties by tenure



### Housing Completions

The table below shows the total number of housing completions in Cardiff between 1981 and 2003. The average number completed over the last 10 years is 1,223. In the last year for which figures are available, 2002/03, the number was 1,667. As at the end of March 2003, 1,161 residential units were under construction in Cardiff, compared to an average of 791 from 1990 – 2003.

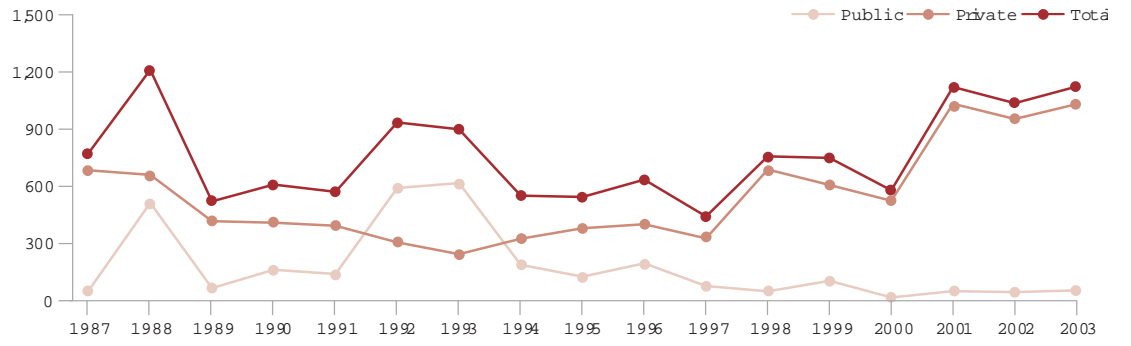
**Table 5** Housing Completions In Cardiff 1990 – 2003



N.B. 1990/91 figures do not include Gwyn and Penrynch Ward completions  
SOURCE Cardiff County Council Housing Monitoring Schedule 31st March 2003

Table 6

Housing Under Construction In Cardiff 1987 – 2003



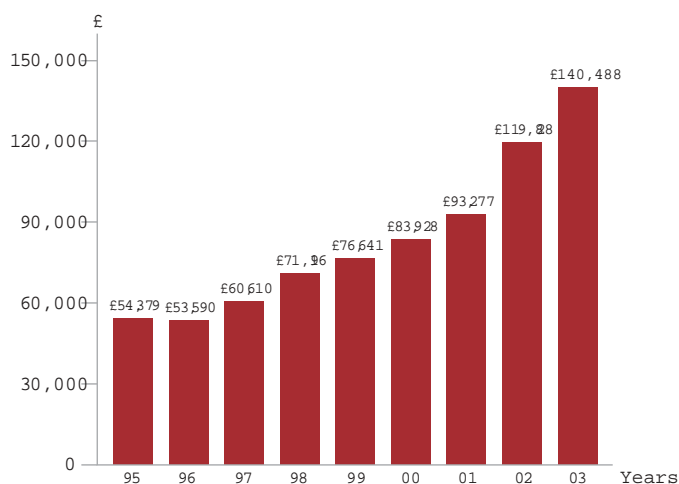
N.B. data 1987-1994 figures do not include Cejjau and Penryn Ward completions  
 SOURCE Cardiff County Council Housing Monitoring Schedule 31st March 2003

## 9.0 THE HOUSING MARKET – PRICES

### Historic Trends

From the table below, which is based on Land Registry statistics, it can be seen that average house prices in Cardiff have risen by 258% since 1995. Since 2000, prices have risen by 67%. The same index shows an increase of 36% in the average flat price in Cardiff from £87,607 in June 2002 to £119,208 in June 2003.

**Table 7** Average House Prices in Cardiff



SOURCE: Proviser / H.M. La:

According to The Halifax Welsh House Price Index, house prices across Wales have risen by nearly 30% over the past twelve months, but in Cardiff, the index shows a smaller increase of 13%.

Over the most recent time period, of June 2003 to July 2003, Hometrack is reporting an average price increase of 0.2% in South Wales, making it the joint third best performer across Britain.

### Current Prices

Across Cardiff as a whole, the Land Registry shows the average flat price to be £119,208 as at the end of June 2003. Within postcode CF10, which includes Landmark Place, the average price of flats sold during Q2 of 2003 was substantially higher, at £184,500.

It is important to reiterate that average prices include all flats sold, irrespective of age, location and condition. Comparative prices for Landmark Place and other new developments will always be higher than the average figures referred to above.

This can be seen in the asking prices at Altolusso, which range from £170,000 to £255,000 for 2 bed units. Furthermore, it should be noted that prices obtained do not enter the indices until completion occurs and therefore, recently reserved properties do not appear in the latest figures.

### Future Trends

It is hard to predict future price movements with any certainty and the major indices regularly amend their forecasts, which are based on average prices and wide geographical areas.

However, we have spoken to the main agents in Cardiff to gauge their perceptions and views of where the market is going. Whilst there has been limited evidence of some price falls in the Cardiff Bay area, the feeling is that demand remains steady for sensibly priced units in the central areas.

It is anticipated that the prices being obtained at developments such as Altolusso will have a positive effect on re-sale values at landmark Place. In the short term, with a number of investors seeking to turn their apartments as new schemes near completion, price increases in those schemes will be limited.

However, once those apartments have been absorbed by the market and Landmark Place matures as a lived in destination, the potential for uplift will increase significantly.

For the purposes of our financial forecasts, we have assumed a growth rate of 5% per annum over the next five years. The agents we have spoken to consider this to be a conservative estimate and whilst they forecast a slowdown in the rate of growth, the perception is that a rate greater than 5% should be achievable in some if not all of the next five years.

A useful summary is provided by Martin Ellis, Halifax's Chief Economist, who has recently said:

"The Welsh housing market remains firm and prices continue to out-strip the UK average. There has been a gradual slowdown in activity in the market, particularly in Cardiff where the market seems to be pausing for breath, following a period of rapid house price growth."

## 10.0 THE HOUSING MARKET – BUY TO LET

### Overview

Investors in the buy to let market usually look at two main factors when deciding whether to invest. The first is the rental yield achievable on the property and the second is to look for a positive monthly cash flow, net of all costs. Both of these are functions of the price paid and the strength of the rental market.

Due to rapidly increasing capital values, an increase in the supply of apartments to let and a limited market at the rents being asked, yields have fallen and void periods have increased in some areas.

In large new developments, there is usually an established trend whereby the first units that become available attract a premium rent. As additional units come on to the market, tenants have a greater choice and the rental "tone" can be affected by landlords accepting lower rents to produce an income at the earliest opportunity. Once the latter apartments have been absorbed by the market, the rents settle into an established pattern.

### Yields & Rents

The view of all agents we spoke to is that overall, rental yields for more expensive apartments in the Bay area have softened over the past few years and rents have fallen by approximately 10%, for the reasons outlined above. Within the centre, yields have also fallen as values have increased, but not as sharply as in the Bay.

Again, rental demand is considered to be generally healthy provided the asking rent is realistic. There is a limited demand for apartments costing more than £700 pcm to rent and according to some estimates; the level of supply of such apartments has doubled over the last five years.

For properties on the periphery of the city centre, where rents are typically currently in the region of £600 - £650 pcm, gross rental yields of approximately 6.0% - 6.25% are being achieved on single properties. The sub £600 pcm market is strong at present, driven by professionals that cannot afford to live in the city centre but who want to live close by.

### Landmark Place

As mentioned previously in this report, many apartments have been completed and let at Landmark Place and from this, we can establish meaningful rental evidence.

When first released to the market, the best two bed apartments made up to a maximum of £850 pcm, with the majority being let at between £750 and £800. Now that more units have become available, rents have slipped back and some landlords have accepted rents of £600 pcm for the smallest size two bedroom flats.

For average to large size two bedroom units, the rent currently achievable depends to an extent on the time the landlord is prepared to wait to secure the best rent. In local agents' opinions, rents of £750 are still achievable, but there are landlords offering similar flats at £700 pcm and logically, these flats will be the first to let.

### Future Trends

The general perception amongst agents is that rents will remain static over the next 12 – 24 months, until the current oversupply, particularly at the higher end of the market, is absorbed.

## 11.0 TENANCY AGREEMENT WITH CARDIFFLETS LTD

**Term** The ten subject apartments in Landmark Place are subject to a five year pre-let to Cardifflets Ltd. We have received a written offer, subject to contract, on the terms outlined below and our solicitor is currently reviewing the draft tenancy agreements which will be signed simultaneously on exchange of the units.

**Table 8**

<b>Heads Of Terms</b>	
<b>Tenant</b>	Cardiff Lets Ltd
<b>Rent</b>	£750 pcm for two bed units, £925 pcm for the three bed unit.
<b>Term</b>	60 months
<b>Lease Start Date</b>	1st november
<b>Rent Reviews</b>	Rent to be reviewed annually in line with the RPI, subject to a minimum uplift of 3.0% and maximum of 8.0%
<b>Deposit/Surety</b>	Personal guarantee of company directors
<b>Rent Free</b>	Up to a maximum of one month for furnishing

**The Company** Established by Michael Parker, previously of American Express, and his partner four years ago, Cardiff Lets provides serviced apartments for temporary corporate and leisure lets. The company is registered in England and Wales No. 4495805 and their website address is [www.cardifflets.com](http://www.cardifflets.com)

With the increasing number of conferences and events taking place in Cardiff, the company has identified a growing need for high quality, temporary furnished accommodation. In addition to the ten subject units, Cardiff Lets has previously leased 66 apartments in Landmark Place.

**Letting Manager** The units will be let and managed by RPI Ltd, a well established residential management company. RPI will carry out day to day management services, in addition to collecting and transferring the rent and arranging inventories.

**Finance** The provision of funding for this investment is complicated by the five year lease term agreed on the units. Most lenders will only lend against a maximum one year assured tenancy agreement on property.

Letterstone has a strong relationship with Chelsea Mortgage Management and by using this, we have secured attractive loan facilities at a rate of approximately 4.15% on an 85% loan to value ratio.

**Furnishings** Cardiff Lets has a specified furnishing schedule that all apartments must comply with as a condition of the lease. RPI Ltd. have previously provided Cardiff Lets with the furniture packages required and to save time and to benefit from economies of scale, will be furnishing the subject apartments.

## 12.0 FINANCIAL ANALYSIS

### Introduction

We have analysed this investment on four bases, in order to show investors the impact on returns of variable inputs such as capital growth and letting voids. They are as follows:

1. 5% p.a. capital growth rate base case.
2. 7.5% p.a. capital growth rate scenario.
3. 0% p.a. capital growth rate scenario.
4. 5% p.a. capital growth with letting void.

### Base Case

When analysing the potential future performance of the investments we offer, we adopt a conservative base case scenario taking into account the latest economic forecasts, independent agents' opinions and the major house price indices. Whilst each investor will have his own criteria and personal preferences.

<b>Original Price</b>	£199,500
<b>Discount</b>	£39,900
<b>Purchase Price</b>	£159,600
<b>Acquisition &amp; Letting Fee @ 4% of discounted Price</b>	£6,384
<b>Price Paid Inc. Fees</b>	£165,984
<b>Borrowing (Gearing)</b>	85% on purchase price and Letterstone fee
<b>Rental Growth</b>	3% p.a.
<b>Capital Growth</b>	5% p.a.
<b>20% Discount</b>	Price differential closed over 5 years @ 20% p.a.
<b>Monthly Rent</b>	£750
<b>Management Fee</b>	11%
<b>Furnishing</b>	£5,000
<b>Equity Invested</b>	15% of purchase price, 15% of Letterstone fee, stamp duty and cost of furnishing
<b>Interest Rate</b>	4.15%

### Net Cash Flow

The table below shows the net cash flow an investor can expect for this investment, based on the above assumptions. This is net of service charges, ground rent, mortgage interest payment, management fees, the cost of furnishing, stamp duty and all other fees. It should be noted that all figures are pre-tax.

<b>Year 1 Inc. Purchase</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5 Inc. Sale</b>
(£35,017)	£720	£931	£1,148	£103,159

## 12.1 5% P.A. CAPITAL GROWTH BASE CASE

**Total Return** Under this scenario, the investment shows a total return of £140,673. This figure comprises the original equity stake (assuming 85% borrowing), net rental returns and capital growth.

**Return On Equity** Subtracting the original equity stake of £34,866 results in a return on equity of 303% over the five-year period.

## 12.2 7.5% CAPITAL GROWTH RATE

**What If Growth Rates Slow But Remain Moderate?** As outlined above, our base case analysis is based on a conservative capital growth forecast over the next five years. Whilst we do not believe Cardiff will repeat the rapid house price growth of the last five years over the next five, there is the potential for growth to settle into a sustainable pattern at a rate higher than 5% p.a.

**7.5% p.a. Growth** In this analysis, we have repeated all of the base case assumptions, with the exception of capital growth. Here, we assume that capital growth will average 7.5% over the five-year term.

**Net Cash Flow** The table below shows the net cash flow produced by this investment over the five-year term:

Year 1 Inc. Purchase	Year 2	Year 3	Year 4	Year 5 Inc. Sale
(£35,017)	£720	£931	£1,148	£128,082

**Total Return** Adopting this growth pattern, the investment would produce a total return of £165,596.

**Return On Equity** Subtracting the original equity stake of £34,866 results in a return on equity of 375% over the five-year period.

**House Prices Stagnate** Whilst most commentators are forecasting a slowdown in house price inflation, the general perception is that values will continue to increase at a more sustainable level.

We again feel it is prudent to show investors the impact on returns in the event that house prices do not grow over the next five years. This analysis only differs from the base case in assuming this 0% p.a. capital growth. It should be remembered that the 20% discount obtained at Landmark Place is reduced in equal amounts over the five year period.

**Net Cash Flow** Based on the above, the investment produces the following net cash flow:

Year 1 Inc. Purchase	Year 2	Year 3	Year 4	Year 5 Inc. Sale
(£35,017)	£720	£931	£1,148	£59,946

## 12.3 ZERO CAPITAL GROWTH ANALYSIS

**Total Return** Adopting this growth pattern, the investment would produce a total return of £97,460.

**Return On Equity** Subtracting the original equity stake of £34,866 results in a return on equity of 180% over the five-year period.

## 12.4 LETTING VOID AND 5% P.A. CAPITAL GROWTH

**What If The Tenant Defaults?** We are confident that Cardifflets will prove to be a reliable, good class of tenant that may well renew their leases at the end of the first term, in 2008.

However, we consider it prudent to consider all potential scenarios, regardless of how unlikely they are to occur. In this analysis, we have made the following assumptions:

- Cardifflets fail to honour their contractual obligations and the unit becomes vacant at the end of year 2.
- There is a six week void period at the start of year 3 for re-letting.
- The new rent agreed is £750 pcm, i.e. the same as at the start of the original term.
- There is a six-week void period for re-letting in years 4 and 5.
- Rental increase of 3% p.a. in years 3, 4 and 5.
- All other assumptions as per the base case.

**Net Cash Flow** In the unlikely event of the above scenario occurring, the investment would produce the following net cash flow over the five-year period:

Year 1 Inc. Purchase	Year 2	Year 3	Year 4	Year 5 Inc. Sale
(£35,017)	£720	£558	£385	£101,788

**Total Return** If this were to happen, the investment would still show a total return of £136,070.

**Return On Equity** Subtracting the original equity stake of £34,866 results in a return on equity of 290% over the five-year period.

## 13.0 LETTERSTONE CONCLUSIONS

- 13.1.1** Investors benefit from surety of income over a five year term, based on a competitive gross rental yield.
- 13.1.2** The pre-letting of the apartments to Cardiff Lets Ltd. will protect against any buy to let market uncertainty in the short term.
- 13.1.3** We have secured units at a substantial genuine discount.
- 13.1.4** Landmark Place is one of the first city centre living schemes in Cardiff and benefits from an improving, central location.
- 13.1.5** Adopting our base case assumptions, the investment is self-financing after year 1.
- 13.1.6** Investors will benefit from the greatest returns by gearing their investment at up to 85%. Even assuming zero capital growth, high returns on equity are achievable.
- 13.1.7** Investors should register at [www.letterstone.com](http://www.letterstone.com) to view a full research note and to receive further information on this investment.

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