4 February 2005

Dear Mr Campbell

PROPOSED TRAINING FACILITY - UPPER SITE, LENNOXTOWN HOSPITAL

I refer to our recent discussions in relation to the above; the draft offer received from Messrs McGrigors last week, (with purchase price left blank) and my discussions with the appointed Independent Expert for this transaction last Friday.

As discussed by telephone, given the unique nature of the proposal, I have debated at length with the Expert the appropriate methodology to adopt for considering values. We have concluded that the interested party has to be treated as a special purchaser and it is extremely difficult and inappropriate to adopt a direct comparative approach to valuation in this instance. In this regard, the single alternative scheme of a similar nature in the vicinity we consider also has to be treated as a “one off” and, given the issues surrounding the site purchase for that transaction, we do not consider it is a comparable which can be utilised.

The question then arises as to what is the appropriate method of valuation. On one extreme one could argue that having regard to the planning of restrictions, the sum reported should be based on a little more than an agricultural value. My own view however is that if the site in question was offered to the market today even with all the planning restrictions, (which are known well to both of us,) market interest would still be secure from residential developers who would be prepared to pay a restricted sum to acquire the site clean on a speculative basis with a view to securing a residential release at some point in the future.

In the circumstances indicated above, the standard developers approach of offering a gross price with a series of suspense conditions would not apply given in essence the successful purchaser in such circumstances would be taking a view/gamble on the basis that should a residential consent be subsequently secured a high profit level would be realised in return for having taken a risk on the site and acquiring clean.

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This then raises the question of how the forgoing scenario should be tied into the present proposal. The draft offer is subject to a number of conditions and I consider detailed negotiations will be required to translate this into a format which can be recommended. Fundamentally however the following points I believe critical:

1. There requires to be clarity as to what will be treated as deductible items and on what basis.

2. A minimum price needs to be incorporated.

3. The framework for the transaction requires to ensure that the proposal sits comfortably with other developments proposed for the Lennox Castle Hospital Site.

4. I recommend that there are milestone dates / long stops to be achieved failing which the NHS have the opportunity to terminate discussions.

Finally, in more general terms with the benefit of having been involved at Lennox Castle Hospital for a number of years, I would comment that the proposal under consideration is a positive step forward for the objective of achieving a fully redeveloped former hospital site. If taken through to fruition, there is in my view little doubt the scheme will have a positive effect on other parts of the masterplan for the site. This is likely to result in higher land values being achieved from the residential elements. In addition, with careful site planning, the potential scheme will open up the opportunity of a further residential site release at a later date. Given the foregoing I have concluded that the scheme under consideration should be considered both in terms of the receipts generated and also the added value brought to the wider site.

Yours sincerely,

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Director