

# Viability Report

## Economic conditions surrounding commercial tenancy at Chatham Docks 2021



**CROSSLEY GROUP**  
CHARTERED ACCOUNTANTS

## Abstract

**Requirements** – investigate and report on the financial viability of operating the site of Chatham Docks as a commercial port.

**Purpose** – the owners of the port wish to develop the site for a residential-led development on the basis that the port is not viable as a commercial site. No figures have been provided and as such, an investigation is required to test this assertion. It is outside the scope of the present report to analyse the comparative advantage and disadvantage of alternative uses of the site.

**Ethical consideration** – the engaging party has a significant interest in the determination of viability. In order to remain objective, a broad view of the available information has been taken and internal critique of our own conclusions has been provided. Due to the lack of available information, both publicly and privately, various assumptions have been required in order to arrive at a conclusion. These assumptions are stated in all relevant areas in connection with the finding to which they relate.

Conversely, it is understood that the owners of the port wish to use the site to a build residential-led development meaning they would therefore have a vested interest in the statement that the port is not commercially sustainable. As stated above, it is outside the scope of the present report to analyse the comparative advantage and disadvantage of alternative uses of the site.

**Overview** – it has been possible to arrive at a conclusion regarding the viability of the port. In summary, we have determined the return on the investment to be above average for the sector and therefore adequate. For this reason, Chatham Docks can be seen as commercially viable in its current format. Based on the information available regarding the dock fees and the capacity of the port, it is also possible to conclude that Chatham docks is viable from the perspective of commercial income as well. It is clear that capital improvements are required to the site and while these are not necessarily readily covered by the present service charge level, the port is not unsustainable on this basis alone. In respect of the above consideration, this conclusion is restricted by the limited amount of information made available by the owner of the port.

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## **Terms of Reference:**

“Peel” – refers to both Peel Ports Ltd and Peel Land & Property Ltd and any other associated entities

“The owners” – refers to both Peel Ports Ltd and Peel Land & Property Ltd

“The landlord” – refers to Peel Land & Property Ltd

“Peel L&P” – refers to Peel Land & Property Ltd

“Peel Ports” – Refers to Peel Ports Ltd

“AMKWL” – refers to the engaging party, ArcelorMittal Kent Wire Ltd

“The engaging party” – refers to the engaging party, ArcelorMittal Kent Wire Ltd

“The tenants” – refers to the engaging party, ArcelorMittal Kent Wire Ltd, as well as the other tenants of the port (as listed in Appendix REF) interchangeably

“The council” – refers to Medway Council specially as the governing local authority of the site of Chatham Docks

“The port” and “the docks” – refers to Chatham Docks specifically. In any case where other port locations are referred to they are made specifically.



## Executive Summary

1. Chatham Docks is a commercial site of strategic and economic importance for the tenants currently trading there as well as the broader local business community.
2. Re-development of the site has been proposed for a residential-led development. The owners have made the assertion that the docks are not viable as a commercial port.
3. Limited information has been made available to support this assertion, raising the need for various assumptions to be made in arriving at an assessment of viability.
4. The service charges collected under the terms of the current leases have been found to be insufficient to meet the maintenance needs of the port.
5. The inability of the service charges to cover maintenance is largely driven by capital spending requirements. Estimates of these costs vary greatly, from just £2.5 million to £30 million. It is possible that a cycle deterioration created by poor maintenance has inflated these costs.
6. The return on the site is above industry expectation and is therefore economically viable from a capital perspective, irrespective of the proposed improvements. Rental income is therefore viable.
7. Other commercial income generated by the port via dock fees demonstrated a higher degree of economic viability. Indeed, the port appears to have unutilised capacity suggesting potential for growth in the income it can generate.
8. The extent of capital spending required in maintaining the commercial use of the port requires further investigation. The strategic and broader economic position of the port should also be considered in the context of the ports contribution to local area.
9. Based on the information available, it is fair to conclude the site of Chatham Docks is economically viable as a commercial port.



## Introduction

This report is going to look at whether Chatham Docks is financially viable as a working port and manufacturing site.

The owners of the port, Peel L&P, wish to develop the site for residential-led development on the basis that the port is not viable as a commercial site. No figures have been provided and as such, an investigation is required to test this assertion.

Peel L&P expect a certain return on their investment for their shareholders and if the return is not achieved, they will look for ways to improve their return.

Consideration of whether Chatham Docks is financially viability is important for many reasons and the conclusion; yes, it is financially viable or no, it is not financially viable, has significant implications for businesses and employees.

Closure will have significant impacts on the tenants at the site as they have made significant investment in their businesses at the docks over many years.

Relocating a business is not simple and is expensive. In some cases, this may even be impossible due to the highly specialised facilities available at a unique site that Chatham Docks offers its tenants, such as lock-enclosed non-tidal basins. Under the current economic climate, the relocation of such extensive and established manufacturing facilities at the scale found in Chatham Docks is likely to have devastating, and even terminal, financial implications for the businesses concerned.

Not forgetting the other local businesses that support the tenants, loss of a significant customer could be highly detrimental. Consideration must also be given to the broader supply chain that is underpinned by the importance of manufacturing and port related activities that takes place in Chatham Docks. Damage to this supply chain would result in detrimental impacts on the local economy and wider job losses that are unlikely to be readily replaced due to the specialised and high-skilled nature of the activities here.

The closure will equally affect employees, for example, if they cannot travel to their employer's new location. Job losses would be expected.



## Background Information

### Chatham Docks

Constructed in 1871 for the use by the Royal Navy, Chatham Docks became available for industrial use in 1984 through a 999 year Lease signed by The Secretary of State for Defence and Medway Chatham Dock Company. The site is comprised of a 70-acre commercial port and manufacturing hub with more than 10 businesses occupying the land and buildings, currently owned by Peel L&P.

These businesses have created some 800 jobs in the area and are forecast to add to this number in 2021 and beyond. As many as 50 new jobs planned for 2021 and the development of HS2 is set to increase trade volume, and therefore employment levels, going forward. It should also be noted that these are predominantly skilled jobs with salary levels above both the local and national average. According to recent investigations, the estimated economic value of these jobs within the broader supply chain is up to £258 million per annum.

As a manufacturing hub, Chatham Docks supports the local industrial environment by concentrating technical expertise in the area. Further value is added to this concentration of expertise as a result of connections to local secondary and higher education.

The location of the port also has a significant strategic advantage for the import of materials from Europe coupled with access to UK motorway links and transport infrastructure. Given the nature of industry here and the demand within the economic environment, both in the South East and nationally, for construction materials for example, the importance of this location cannot be ignored.

The manufacturing facilities that exist here are the result of substantial and long-standing investment made by the respective businesses that are resident at the port. In order to operate, many decades of leasehold improvement have been undertaken, such as reinforced concreting of storage areas and the erection of buildings, in order to make the land useable for industrial purposes.

## Medway Council

While it is understood that the owner of the port wishes to build a residential-led development on the site. This use of the area is not currently permitted by the existing council policy. In accordance with local framework development plans, The Medway Plan 2003, policies ED1 through 9, any development of the land that results in the loss of the existing industry in place is not permitted. There is also an overreaching permission for further development and expansion of the commercial uses of the site.

The Medway Plan 2003 is due to be replaced by The Medway Plan 2019-2037. This replacement is due to take place in 2022 with a stage 4 publication intended to be published this year. Consultation on the replacement plan is currently ongoing and it is understood that the owners of the port have proposed the site of Chatham Docks as useable development land.

One of the stated objectives of the new plan is the regeneration of waterfront areas. We are of the opinion that both the opposing interests of the engaging party and the owners of the port would satisfy this objective. The building of a residential-led development on the site of the port would comprise an obvious regeneration. However, with long-term certainty, the current tenants of the port would engage in further capital investment, out of both motivation and necessity. This kind of industrial enhancement would equally comprise a regeneration of the area and further increase its contribution to the local community from an economic standpoint.

It also cannot be ignored that the redevelopment of the Rochester Riverside has taken more than a decade to get to a position of being redeveloped. This development is only at the first stage so it is questionable once all the houses have been developed whether further housing is required in the area if the industry and therefore jobs are removed.

The maintenance and creation of local skilled jobs is also a factor of importance stated within the current objectives of the new plan. Medway Council consider the need for residents to travel out of the area for skilled work as a downside. The closure of the port would exasperate this, where developing the area for industrial uses would result in an improvement.

The council have also declared a climate change emergency. The continued commercial use of the port is also likely to better serve this policy. Findings suggest that ports have lower carbon emission than residential land uses. Activities such as carbon shipping are also likely to be a feature of the future fight against climate change, in which Chatham Docks could play an integral role.



## Peel Ports / Peel L&P

The Peel Group (commonly known by its former name Peel Holdings) is an infrastructure, transport and real estate investment group. It owns holdings in land and property, transport, logistics, retail, energy and media.

Peel L&P acquired Chatham Docks in September 2006.

The day-to-day operations of the Chatham Docks are controlled and operated by Peel Ports while the ownership of the land and the collection of rent and service charges is controlled by Peel L&P. While it is duly noted that these activities are segregated for obvious reasons, they each contribute to the determination of commercial viability of the port as a whole.



## Basis of Viability Investigation

### Method

The various operating activities of Peel L&P and Peel Ports in relation to the London Medway port at the Chatham Docks site have been analysed in isolation and viability determined on a component basis.

The components of viability have been analysed on the following basis:

- **General running of the port:** an analysis of the estimated service charges has been undertaken and compared to estimated maintenance costs and capital expenditure
- **Commercial income of the port:** docks fees and port capacity as an income generating operation has been considered in their own right and as a separate income stream to the land generated elements discussed above
- **Return on the land as an asset:** a reasonable estimated range of rents has been analysed in relation to the market value of the land in its current format (commercial land)

An exploration benchmarking the current format at Chatham Docks in respect of the industry overall has also been considered where relevant in conjunction with the above components.

Beyond the core viability assessment, further investigation has also been undertaken concerning the longevity of the current commercial format by way of current lease terms and other legal considerations.

## Sources

The engaging party has made a wealth of information available. This is relied upon where appropriate, however, the underlying assumption have been scrutinised and caveated as needed. Additionally, a margin for error and estimate bias has been introduced to mitigate reliance on assumptions.

The engaging party has utilised their knowledge of the ports to acquire what is deemed accurate and fair estimates of financial data.

External information has also been used to verify the assumptions we have been provided with and those we have made ourselves on a qualitative basis.

Some publicly available quantitative data has been acquired for use in viability calculations from Peel Ports directly and is therefore assumed reliable. Overall, there is limited information available directly from Peel Ports. It is therefore necessary to make some assumptions in order to arrive at a conclusion. Industry information has been acquired from a variety of public and private sources.

All references are available within the present report. Please see Appendix K.

Estimates associated with the market value of the land have been generated by both ourselves and the engaging party based on our own professional expertise, as well as public information on national and local averages.

## Assumptions

All assumptions are highlighted and caveated alongside the relevant statements and in the presentation of information and conclusions.

Appendices have been used to highlight these in more detail.

In general, sources are assumed reliable. Information regarding the source has been disclosed in full so that the users of this report can form their own opinion on a source-by-source basis.

We have also offered our own critique on the same basis in order to provide an unbiased platform on which to interpret the conclusion contained within this report.

A full list of all pervasive assumptions within the report can found in Appendix J.



## Findings

### General Running of the Port

#### Service Charges

The engaging party has provided confirmed service charge information based on their own costs in addition to those of a second major tenant (as their 100% subsidiary). Overall, this accounts for 65% of the let area within the port. Based on these confirmed figures, the average rent per square metre is less than £10 with a service charge rate at 7% of rent on average.

It is fair to assume that this coverage contains a significant degree of economy of scale and that the smaller units have a higher rent per square metre as well as a higher service charge percentage. The original calculation provided by the engaging party contained an assumed rent per square metre of £20-25 with service charges estimated at 10%.

This yielded a total service charge estimate of £227,401.

This price range is deemed to be reasonable as the 7% service charge rate applicable to the engaging party is considered to be discounted, an opinion based on the experience of their internal consultant. Additionally, the rent estimate of £20-25 per square metre is considered an appropriate market rate based on the fact that the engaging party sublets portions of their own leased areas at this rate.

However, given the significantly lower costs per square metre associated with the confirmed rents, the influence of economy of scale was reduced to just £15 per square metre when testing this assumption and a revised estimate arrived at. The purpose of this was to give a significantly more prudent rent on the potential service charge applicable to the site as a whole.

This yielded a total service charge estimate of £189,894.

We have therefore arrived at a range of estimates in relation to service charges of £190,000 to £230,000 for use in the economic assessment of this component. Please see Appendix D for further details.

## Maintenance Costs

For the purpose of this component of the viability analysis, the costs associated with the general running of the port have been isolated to those intended for coverage by way of service charges. The engaging party has explored this avenue with an employee who previously was employed by Peel as the Manager in charge of Chatham Docks for more than 10 years, and arrived at the following figures:

|             |                    |
|-------------|--------------------|
| Security    | £130,000.00        |
| Maintenance | £350,000.00        |
|             | <u>£480,000.00</u> |

The engaging party has provided us with these basic estimates directly. There is no public information available from Peel L&P by way of accounts or otherwise. We have therefore relied upon the estimates as they stand and subject them to our scepticism.

Security charges included the operation of CCTV equipment and security system across the site and the employment of security staff.

Maintenance costs included work on the site itself in order to keep it safe and operational. This includes the access roads across the site and the port berths and lock gates.

On further discussion in respect of maintenance charges, we have found that limited maintenance has been carried out in recent years. The estimate of £350,000 stated above is the expected spend over the next year and may actually be more representative of three years costs, as it has been suggested that much of the routine maintenance required has been neglected in recent years and that the higher costs expected in the next 12 months is in fact inflated.

It is possible that a fairer annual cost for maintenance could be from £100,000 to £200,000, on the assumption that adequate and regular maintenance is undertaken each year.

We have therefore arrived at a range of estimates in relation to maintenance costs of £230,000 to £480,000 for use in the economic assessment of this component.

## Capital Expenditure

The most recent and notable capital expenditure within the port is that of the refurbishment of the lock gates, with an estimated cost of £6,000,000.

Typically, such spending would be attributable to a sinking fund, however, the terms of the leases have meant Peel as the landlord are unable to recoup these costs via service charges. Peel have also allegedly reported that a further £30,000,000 is required to fully refurbish the lock gates. This is based on suggestions made to the engaging party in correspondence with the local authority, relaying the claims of Peel.

The engaging party has explored this topic with an industry expert and concluded that annual maintenance costs of £500,000 for a period of three to five years would be sufficient to achieve a serviceable condition on the lock gates. This equates to a maximum of £2,500,000. In the absence of any other information, the engaging party therefore views this additional capital expenditure to be a maximum of £5,000,000. This is deemed a reasonable and conservative estimate as they have been advised of estimates at half this level to achieve the same results.

Given that significant work has already been undertaken on the lock gates in recent years, it is reasonable to assume that a similar exercise would yield reasonably serviceable results in producing a well-functioning lock gate that could adequately service the port for up to 30 years. We are given to understand that a 30-year specification is typical for these kind of improvements but that in the case of recent work on the lock gate, the specification was only set to a 15-year duration.

This information supports to assertion that further capital spending is required but we have not been able to establish if the significantly higher estimate of £30,000,000 is reasonable or not. As it is clearly the intention of Peel to develop the site for residential use, it is possible that this figure included extensive improvements to sea defences that are beyond the requirement of the current commercial use.

We have therefore deemed a reasonable estimate for further capital expenditure on the lock gates to be between £2,500,000 and £5,000,000.

## Economic Assessment

It appears that the general running of the port is unlikely to be economically viable based on service charges alone. At best, this could be considered at a break-even level but this does not take into account the commitment for capital expenditure.

It is likely that it is obstructive to charge higher amounts and recoup further costs, particularly on the front of capital expenditure. The reported insufficient maintenance of the site appears to have worsened this situation. Common sense dictates that tenants would be unprepared to pay increased service charges for a site that is poorly maintained. Furthermore, in a scenario where maintenance has been remiss, the cost to cover and correct the associated issue is likely to exceed that which can be collected from the tenants, thus creating a cycle of deterioration – perhaps by design.

The engaging party has also advised that the terms of the lease have meant that it is not possible for the landlord to issue additional one-off charges or increase the rate of services charges as a portion of rent based on variation in maintenance requirements. This factor is also considered later in light of the remaining terms of the leases.

Conversely, it could be argued that the landlord would bare of portion of this responsibility, which may mitigate this assessment to some extent.

It should also be noted that there is an expectation of long term usefulness when considering capital expenditure. While it is possible there is no sinking fund and the service charges as they stand do not cover further improvement to the lock gates and so forth, it is entirely reasonable to assume that they would do after a period of 15 to 30 years.

In summary, the service charges are not profitable. However, it is not reasonable to conclude that the port is not commercially viable on this basis as the function of service charge is not to generate a return. It is also reasonable to expect the overages on running and capital costs above and beyond service charges should be covered by return/rent.



## Commercial Income of the Port

### Rent

The engaging party has provided confirmed rent information based on their own costs in addition to those of a second major tenant (as their 100% subsidiary). Overall, this accounts for 65% of the let area within the port. Based on these confirmed figures, the average rent per square metre is less than £10.

It is fair to assume that this coverage contains a significant degree of economy of scale and that the smaller units have a higher rent per square metre. The original calculation provided by the engaging party contained an assumed rent per square metre of £20-25. The engaging party sublets portions of their own leased areas of the site and has provided this estimate in this basis, so this is assumed a reasonable market rate.

This yielded a total rent estimate for the site of £2,744,615.

However, given the significantly lower costs per square metre associated with the confirmed rents, the influence of economy of scale was reduced to just £15 per square metre when testing this assumption and a revised estimate arrived at. The purpose of this was to give a significantly more prudent rent on the potential service charge applicable to the site as a whole.

This yielded a total rent estimate for the site of £2,225,615.

We have therefore arrived at a range of estimates in relation to rent of £2,225,000 to £2,745,000 for use in the economic assessment of this component. Please see appendix D for further details.

The engaging party has provided verifiable information showing £2,700,000 payments were made in 2012 & 2014 to previous occupiers to reassign Leases to the engaging party. This sum should be considered when calculating the rent per square metre attributable to the engaging party.

The lower rent cost for the engaging party also reflects the condition of the site when occupation began. Open storage area was the main site and all the buildings erected were at the cost of the engaging party or the companies preceding them. Ownership of the buildings remain with the occupiers and not the landlord.

## Dock Fees

**Conservancy Charge made by the Port:** There is a conservancy charge for every vessel that enters the port that either loads or discharges cargo or passengers. The charge is based on the ITC (International Tonnage Certificate) of the vessel.

From 11,000 GT (Gross Tonnage) through to 80,000 GT the fees are a range between £0.32 - £0.49 per GT, all other large vessels are at £1.03 per GT. At the lower end, there are charges on barges, lighters and tugs, which are ancillary to the Ports trade.

There are additional charges made for specific situations that are covered in the Appendix K-1.

**Dock Fees made by the Port:** For all vessels entering No 3 Basin which has 8 berths depending on the size of the vessel, charges are made either on the tonnage of the cargo loads or discharges or on the gross tonnage of the vessel subject to a minimum of £677.35 per loading. The cargo charge is £1.64 per tonne.

There are additional charges made for specific situations that are covered in the Appendix K-1.

**Pilotage made by the Port:** The pilotage charge for ships using an authorised Medway Port Pilot relates to pilotage between any part of the relevant defined area to a person who is qualified and usually licensed to conduct a ship into and out of a port or in specified waters.

There is a minimum charge of £431.13 to all services or aborted services provided by a Medway pilot with an additional charge of Pension Levy at 24%.

There are additional charges made for specific situations that are covered in the Appendix K-1.

**Other charges made by the port:** Charge for boatmen and Estuary charges are also level, presumable on a fixed fee basis as opposed to a per tonnage basis as with the above.

The projections provided by the engaging party estimate a total annual income from these sources of £1,088,600, based on their own confirmed fees and the general usage of the port by the other business currently situated at the site.

## Port Capacity

Chatham Docks is comprised of an 8 metre depth basis and 8 berths, occupied as follows:

| Berth | Length | Occupation                                    |
|-------|--------|---|
| 1     | 168    | No longer used – previously occupied by AMKWL |
| 2     | 150    | Paragon, Projects & Cruise Terminal           |
| 3     | 150    | AMKWL   |
| 4     | 150    | AMKWL   |
| 5     | 130    | EAPL Ship Repairs                             |
| 6     | 125    | AMKWL   |
| 7     | 125    | AMKWL   |
| 8     | 170    | General Use by the Tenants                    |

According to public sources, the approximate annual tonnage capacity of the port at Chatham Docks is circa 1,000,000 tonnes.

When the current estimate of port income is worked back through fixed unloading fees and average fees per tonnes, it demonstrated that the port is currently being used at just a third of its potential capacity.

As one of the 8 berths above is no longer available because of the Chatham Waters development (berth 1), it is reasonable to assume that the port should be used at a range of 65-70% of its tonnage capacity, when considered it is unlikely that each berth will be utilised for its maximum tonnage each year.

Additionally, another berth is unoccupied by any tenant but remains usable (berth 8 – a private historic yacht has been berthing there for approximately a year). This suggests further unutilised capacity as well as potential for increased rental income.

With greater certainty surrounding the leases, it is highly likely this would be achieved and double the current projections as a minimum.

It is therefore reasonable to conclude that a suitable estimate for the range of income from dock fees is £1,000,000 to £2,000,000 annually. Please see Appendix H for further details.

## Costs and Cross Charges - Peel Ports and Peel L&P

In regards to costs, the engaging party has explored this avenue with their internal consultant, who is deemed to have reliable expertise and experience with Peel Ports, has arrived at the following figures:

|             |                    |
|-------------|--------------------|
| Security    | £280,000.00        |
| Maintenance | £100,000.00        |
|             | <u>£380,000.00</u> |

It is not clear if there is a rent or service charge made from Peel L&P to Peel Ports. Peel Ports uses the site and is able to generate income and dock fees and so forth as a result. It is therefore reasonable to expect that Peel L&P would be in receipt of a representative reimbursement.

This factor potentially improves the viability of the port, particularly from a maintenance affordability perspective. However, in the absence of any further information it has not been factored in to the underlying calculations.

Conversely, it could be argued that income from docks fees and surrounding charges is primarily attributable to use of the waterways only, and is not related to the maintenance of the land occupied by the business that make up the port.

## Economic Assessment

The amount of income is not maximised as the port is not being used to its maximum in respect of tonnes handled each year.

That being said, it could still be argued that the current underutilisation of the port remains profitable regardless, the absence of any further information regarding cross charges, as the estimated costs are greatly exceeded by the income.

Given there has currently been no certainty offered by Peel to the current tenants, it is likely this has caused a decline in the volume of trade at the port. Should this situation change by way of a council decision to retain the current commercial use of the site, utilisation could and most likely would improve, as this would stimulate the commercial environment within and surrounding the port

Given the significant demand in the area for technical expertise, material and so forth, we feel it is safe to assume that it is highly possible for the port to be used at full capacity.

It is therefore reasonable to conclude that the port is economically viable from the perspective of commercial income.

## **Return on the Land as an Asset**

### **Market Value Estimate Range**

For the purpose of this report, we have analysed the value of the land as a working port, irrespective of any other potential usage of the land or the re-sale of the land as a development site. This is outside the scope of the present report, which is primarily focused on the economic viability of the site as a working commercial port.

The engaging party has provided a potential range of values for site at £300,000 to £500,000 per acre. Per government published land valuation estimated for the financial year to April 2019, industrial land in the Medway area was valued at £625,000 per acre. This demonstrates the engaging party's estimate is reasonable, given the potential for appreciation in value over the intermittent time period against the proposed capital investment required on the Chatham Dock site, and offer a suitable top end estimate for the value of the site.

Therefore, we have arrived at a value estimate range of £21,000,000 to £43,750,000.

When the average of the estimate range has a discount of 25% applied to it in order to account for bias and apply prudence, a value of £21,000,000 is arrived at which is equal to lower end of the estimate range.

As discussed in the previous section, there is a likelihood that further capital expenditure is required to the lock gates up to the potential value of £5,000,000. As this may or may not be a factor in the current valuation, this reduced the bottom end estimate of the land value to £16,000,000 but has not been factored in to the top end estimates.

Full figures can be found in Appendix F.

### Ground Rent Estimate Range and Additional Land Costs

We have arrived at a range of estimates in relation to rent of £2,225,000 to £2,745,000 for use in the economic assessment of this component. Please see the analysis of rent in the previous section for details on how this range has been established.

We are also aware that “extra land costs” are in place for the unloading of vessels. These charges are part of the terms of the lease and considered separately to the other dock fees discussed in the previous section. As these charges arise as a result of the terms within the lease and are in additions to other docks fees levied on a per tonne basis, it is fair to consider these a component in the return on the land as an asset.

The engaging party has confirmed annual costs for “extra land costs” of approximately £214,200.

There are also additional costs across all the tenants for tonnes over berth, estimated at £139,629 per year. This gives total land-based income in addition to rent of £353,829.

We have therefore arrived an estimate range of land-based income of £2,579,000 to £3,099,000. Please see Appendix E for further details.

## Economic Assessment: Return on Capital Employed (ROCE)

Based on the calculated range of ground rent estimate and market value estimate for the whole site, a ROCE based on land value alone from 6% to 19% is achieved. Please see Appendix G for further detail on these figures.

Our exploration of industry average yield has demonstrated that industrial space is broadly thought to have a maximum yield of 6.25% with the typically expected return between 4% and 5% (please see appendix K-9 for further information). It is also worth noting that a site as large as Chatham Docks is likely to have a smaller return expected, again due to scale.

While our research has demonstrated the value of the land as a development site is potentially double (up to £1.4m per acre per the movement published April 2019 land value estimates) we are unable to compare the return. Additionally, it is outside the scope of this report to draw such comparisons.

Overall, we have taken a prudent and conservative approach to values and estimate of returns. The range of yields we have arrived at are all well within the industry expectation and indeed exceed them in some cases. It is therefore safe to conclude that the site is economically viable from a return perspective.





## Conclusions

### Summary of Findings and their Implications

**General running:** Based on service charges alone in respect of the general maintenance and capital investment needs to run the port on an ongoing industrial basis, it appears that Chatham Docks are not commercially viable. However, the service charges cannot necessarily be looked at in isolation. It should also be noted that it is not known whether the service charges are commercially appropriate and in line with the sector in general. It seems likely that the current lease terms are not representative as they are not sufficient to cover the general running costs of the port.

**Commercial income:** Given the capacity and usage of the port, coupled with the potential for increased investment from the existing businesses on the site, it is fair to conclude that the port is viable as a commercial port from an income perspective. While it is generally accepted that the income of Peel Ports should not subsidise the profit or loss of Peel L&P, it is reasonable to assume that some sort of cross charge should exist. In the absence of any further information from Peel, this factor could significantly mitigate the negative viability conclusion above.

**Land asset:** the return on value for the site as an industrial port appears viable based on the finding within the present report. The return was found to be above industry average. It is therefore reasonable to conclude that the port is viable based on the measure. Further consideration should also be given to the potential usages of the site that would not result in the eviction of the existing tenants, as this would further improve the return possible.

## Internal Critique

The scope of the present investigation has been severely limited by the lack of publicly available information in support of the assertion made by Peel L&P that the Chatham Docks is not financially viable.

As a result, there have been various assumption made in order to arrive at a conclusion. The information provided by the engaging party has been relied upon heavily and we are aware of the self-interest inherent from their perspective. It should also be noted that the information provided by the engaging party is also reliant on second hand information that we have not had the opportunity to analyse at source, most frequently because no published source underlies such second-hand information.

The report has sought to prevent bias by identifying and clarifying all relevant assumption alongside the respective finding in order for them to be interpreted by the reader fairly and with balance.

The conclusions are thought to be reasonable and this exploration has additionally identified a number of areas for further investigation as well as the need for confirmed figures to be provided to support claims of unsustainability surrounding the port.

## Avenues for Further Investigation

There is an obvious need for Peel to supply information as to their assessment of financial viability. A useful avenue for further exploration of this topic would be an audit of these figures.

One area of most extreme contention found during this investigation was the wide range reported on the required capital investment needed for the port to reach a serviceable standard – from just £2.5 million all the way up to £30 million. Separately from a report supplied by either party, an independent survey conducted by an industry specialist could substantiate this point. Further specialised analysis of the ports structure and facilities could offer useful discernment between potential alternative sites when attempting to engage in a cost-benefit analysis. It is the assertion of the engaging party that their use of the site cannot simply be moved due to unique factors inherent within the site as well as the significant capital investment that has been undertaken over the years.

Given the fierce debate among numerous interested parties, an exploration of the local economic factors surrounding the port is essential. Should it be possible to replicate our conclusion that the port is viable, it will also be important to demonstrate the place the activities here hold in the broader local economy in regards to supply chain, concentration of technical expertise, education and job creation. There is also strong potential that the port has implications for national economic factors due to its strategic location and potential importance post-Brexit.

Chatham Docks is a vast area and with further certainty about the future, the businesses operating here are highly likely to thrive and invest further in the area. Further consideration should also be given to how enhancing the industrial usage of the site would affect its value and financial viability. Should the site remain industrial there is significant scope for recycling and manufacturing activities to be expanded and room for more businesses to operate from here.

Finally, while the current report has not sought to draw comparison with alternative uses of the land, it is understood that the intention of Peel L&P is to develop the land for a residential-led development. Other sites adjacent to The River Medway have already been converted into luxury housing and yet more are already proposed and moving forward. The justification for additional housing in order to combat the housing crisis needs to be explored fully and these assertions tested accordingly. Factors such as demand and affordability will be of great importance going forward in the current economic climate.

## Overall Opinion

It is our opinion that the return on capital employed is more than adequate to meet the requirements of any property owner involved in commercial property. Indeed, the level of return observed for this site is above the expected average, without giving any consideration to the expectation that reduced returns are likely to be evident for a site of this size and scale. Please see Appendix I for a full summary of surplus/deficit estimates.

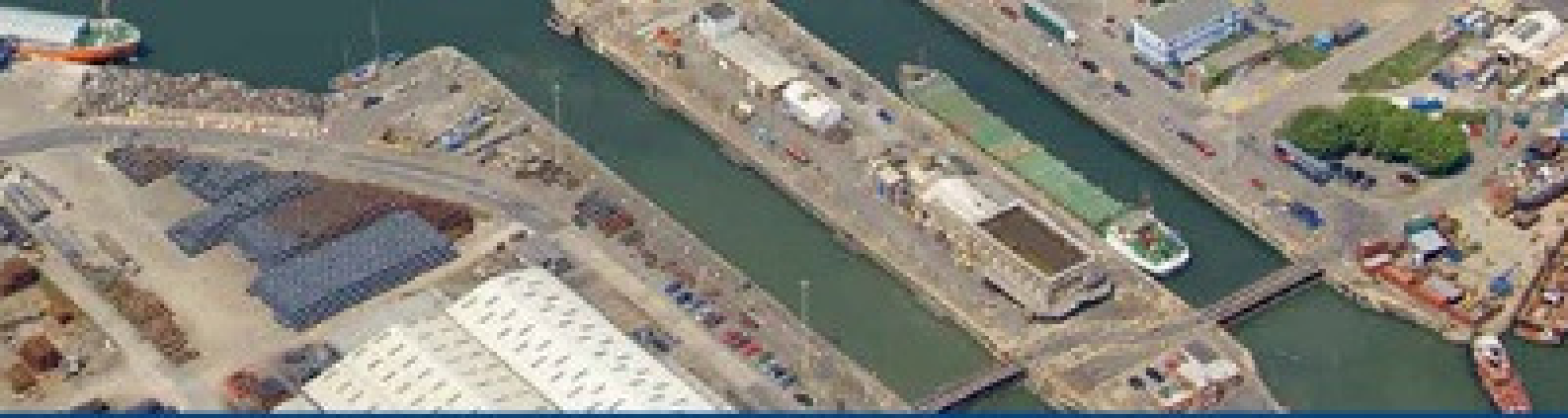
The service charge for the site is not adequate and at best are collected on a break-even basis for the general maintenance of the site. However, the apparent lack of investment over many years, in general site maintenance has not helped in keeping the site in a reasonable condition. Additionally, service charges by design should not generate a profit so a break-even position could in fact be considered an indicator of viability.

The question of more structural maintenance, especially relating to the lock gates, is one that appears not to have been adequately addressed over time by the owner, as evidenced by the extent of recent spending on the lock gates up to £6 million. This is perhaps indicative of the seemingly widespread neglect of maintenance, to the point where it is believed a significant level of investment is required to ensure the lock gates remain serviceable. It is possible that if regular annual maintenance had been carried out, the potentially significant sums required to be spent in the coming years would not be necessary.

That being said, the overall return and level of rental income should be sufficient to rectify this situation, particularly if considered as a staged approach. While this could possibly create a deficit in the short-term, the long-term nature of such spending would eventually mean Peel L&P would see a surplus return on the asset after just a limited period of time. The proposed time frame of three to five years should be considered a reasonable trajectory, given the currently low state of maintenance the site is in.

The potential for further opportunities to increase return is unquestionable, on the basis the Docks is underutilised, therefore providing opportunities to attract further businesses to the site.

**Based on the information available, it is fair to conclude the site of Chatham Docks is economically viable as a commercial port.**



## Appendix

### Appendix A – Port Plan



| Area | Company                  |
|------|--------------------------|
| 1    | Transport operator       |
| 2    | Paragon                  |
| 3    | Kent Wire                |
| 4    | EAPL                     |
| 5    | TSS                      |
| 6    | HyTen                    |
| 7    | Street Fuels             |
| 8    | Various small businesses |

## Appendix B – List of tenants

| Site Plan No. | Company                 | Area M <sup>2</sup> | Proportion  |
|---------------|-------------------------|---------------------|-------------|
| 1             | Transport Operator      | 2,400               | 1%          |
| 2             | Paragon                 | 9,700               | 5%          |
| 3             | ArcelorMittal Kent Wire | 41,515              | 21%         |
| 4             | EAPL                    | 4,800               | 2%          |
| 5             | TSS                     | 45,000              | 23%         |
| 6             | HyTen                   | 12,000              | 6%          |
| 7             | Street Fuels            | 40,500              | 20%         |
| 8             | Various small business  | 43,000              | 22%         |
|               |                         | <b>198,915</b>      | <b>100%</b> |

Conversion – 70-acres > M<sup>2</sup> = 283,280

Total leased area = 198,915

Site utilisation = 70%

## Appendix C – Remaining Lease Terms

| Site Plan No. | Company                 | LTA*    | Lease Expiry   | Estimated remaining years |
|---------------|-------------------------|---------|--|---------------------------|
| 1             | Transport Operator      | Unknown | Unknown - assumed to be no later than 2025 as with the other | 5                         |
| 2             | Paragon                 | Unknown | 2027   | 7                         |
| 3             | ArcelorMittal Kent Wire | Yes     | 2025   | 5                         |
| 4             | EAPL                    | No      | 2023   | 3                         |
| 5             | TSS                     | No      | 2025   | 5                         |
| 6             | Hyten                   | Unknown | 2027   | 7                         |
| 7             | Street Fuels            | No      | No later than 2025   | 5                         |
| 8             | Various small business  | Unknown | No later than 2025   | 5                         |
|               |                         |         | <b>Average</b>   | <b>5.25</b>               |

*\*Some of the current leases are covered by leases under the Landlords and Tenants Act (LTA) and others are not. The above details have been provide by the engaging party.*

## Appendix D – Rent and Service Charge Estimates

| Site Plan No. | Company                 | Area M <sup>2</sup> | Per M <sup>2</sup> | Rent                 | Service charge     |
|---------------|-------------------------|---------------------|--------------------|----------------------|--------------------|
| 1             | Transport Operator      | 2,400               | £25.00             | £60,000.00           | £7,200.00          |
| 2             | Paragon                 | 9,700               | £25.00             | £242,500.00          | £8,657.00          |
| 3             | ArcelorMittal Kent Wire | 41,515              | £8.92              | £370,497.00          | £13,516.00         |
| 4             | EAPL                    | 4,800               | £25.00             | £120,000.00          | £12,000.00         |
| 5             | TSS                     | 45,000              | £17.26             | £776,618.00          | £68,528.00         |
| 6             | Hyten                   | 12,000              | £25.00             | £300,000.00          | £30,000.00         |
| 7             | Street Fuels            | 40,500              | ***                | ***                  | ***                |
| 8             | Various small business  | 43,000              | £20.00*            | £875,000.00          | £87,500.00         |
|               |                         |                     | <b>Total</b>       | <b>£2,744,615.00</b> | <b>£227,401.00</b> |

*Initial estimates provided by the engaging party*

*\*Figure includes 3,000 M<sup>2</sup> charged at £25.00*

| Company                 | Area M <sup>2</sup> | Status    | Revised rent/ M <sup>2</sup> | Revised rent         | Revised service charge |
|-------------------------|---------------------|-----------|------------------------------|----------------------|------------------------|
| Transport Operator      | 2,400               | Assumed   | £15.00                       | £36,000.00           | £3,600.00              |
| Paragon                 | 9,700               | Assumed   | £15.00                       | £145,500.00          | £14,550.00             |
| ArcelorMittal Kent Wire | 41,515              | Confirmed | ***                          | £370,497.00          | £13,516.00             |
| EAPL                    | 4,800               | Assumed   | £15.00                       | £72,000.00           | £7,200.00              |
| TSS                     | 45,000              | Confirmed | ***                          | £776,618.00          | £68,528.00             |
| Hyten                   | 12,000              | Assumed   | £15.00                       | £180,000.00          | £18,000.00             |
| Street Fuels            | 40,500              | Confirmed | ***                          | ***                  | ***                    |
| Various small business  | 43,000              | Assumed   | £15.00                       | £645,000.00          | £64,500.00             |
|                         |                     |           | <b>Total</b>                 | <b>£2,225,615.00</b> | <b>£189,894.00</b>     |

*Revised figures to establish a prudent range of estimates*



## Appendix E – Other land-based returns

| Site Plan No. | Company                 | Tonnes over berth  | Extra Land Cost    |
|---------------|-------------------------|--------------------|--------------------|
| 1             | Transport Operator      | ---                | ---                |
| 2             | Paragon                 | £20,000.00         | ---                |
| 3             | ArcelorMittal Kent Wire | £10,278.00         | £128,520.00        |
| 4             | EAPL                    | £40,000.00         | ---                |
| 5             | TSS                     | £69,351.00         | £85,680.00         |
| 6             | Hytex                   | ---                | ---                |
| 7             | Street Fuels            | ---                | ---                |
| 8             | Various small business  | ---                | ---                |
|               | <b>Total</b>            | <b>£139,629.00</b> | <b>£214,200.00</b> |
|               | <b>Overall total</b>    | <b>£353,829.00</b> |                    |

*Summary of additional land costs*

|              | Lower                | Upper                |
|--------------|----------------------|----------------------|
| Rent         | £2,225,000.00        | £2,745,000.00        |
| Extras       | £354,000.00          | £354,000.00          |
| <b>Total</b> | <b>£2,579,000.00</b> | <b>£3,099,000.00</b> |

*Total land-based income estimate range*

## Appendix F – Land Value estimate

|  | Lower                 | Upper                 |
|--|-----------------------|-----------------------|
| Price per acre                         | £300,000.00*          | £625,000.00**         |
| Total area (acres)                     | 70                    | 70                    |
| Maximum reduction for capital spending | £5,000,000            | ***                   |
| <b>Valuation</b>                       | <b>£16,000,000.00</b> | <b>£43,750,000.00</b> |

\*Lower range estimate per the engaging party

\*\*Upper range estimate per HMRC published averages for the Medway area

\*\*\*No adjustment has been made for capital expenditure on the upper valuation range as the extent remains uncertain. The maximum estimate for capital spending considered in the assessment overall adjusted within the lower range estimate. The higher estimates (up to £30m) have been excluded due to the limited information available.

## Appendix G – Return on Capital Employed (ROCE)

|                              |           | <u>Land Value estimate range*</u> |            |
|------------------------------|-----------|-----------------------------------|------------|
|                              |           | Lower                             | Upper      |
|                              |           | 16,000,000                        | 43,750,000 |
| <u>Rent estimate range**</u> |           |                                   |            |
| Lower                        | 2,579,000 | 16%                               | 6%         |
| Upper                        | 3,099,000 | 19%                               | 7%         |

\*See appendix F

\*\*See appendix E

## Appendix H – Dock Utilisation Table

| Company                               | Area<br>M <sup>2</sup> | Dock dues   | Pilotage    | Conservancy | Estuary    | Boatmen   | Total               |
|---------------------------------------|------------------------|-------------|-------------|-------------|------------|-----------|---------------------|
| Transport Operator                    | 2,400                  |             |             |             |            |           | £<br>-              |
| Paragon                               | 9,700                  | £241,500.00 | £135,000.00 | £51,000.00  | £5,100.00  | £2,000.00 | £434,600.00         |
| ArcelorMittal Kent Wire               | 41,515                 | £41,600.00  |             |             |            |           | £41,600.00          |
| EAPL                                  | 4,800                  | £50,000.00  | £27,000.00  | £10,000.00  | £1,000.00  | £1,000.00 | £89,000.00          |
| TSS                                   | 45,000                 | £258,400.00 | £185,000.00 | £70,000.00  | £7,000.00  | £3,000.00 | £523,400.00         |
| Hyten                                 | 12,000                 |             |             |             |            |           | £0.00               |
| Street Fuels                          | 40,500                 |             |             |             |            |           | £0.00               |
| Various small business                | 43,000                 |             |             |             |            |           | £0.00               |
|                                       | 198,915                | £591,500.00 | £347,000.00 | £131,000.00 | £13,100.00 | £6,000.00 | £1,088,600.00       |
| Presumed underlying charge per vessel |                        | £0.00       | £431.13     | £0.00       | £0.00      | £0.00     | £431.13             |
| Presumed underlying vessels           |                        | £0.00       | £611.69     | £0.00       | £0.00      | £0.00     | £611.69             |
| Presumed underlying charge per vessel |                        | £677.35     | £0.00       | £0.00       | £0.00      | £0.00     | £677.35             |
| Annual income                         |                        | £414,331.51 | £0.00       | £0.00       | £0.00      | £0.00     | £414,331.51         |
| Presumed underlying tonnage charge    |                        | £1.64       | £0.00       | £0.61       | £0.00      | £0.00     | £2.25               |
| Remaining income per tonne            |                        | £177,168.49 | £0.00       | £131,000.00 | £0.00      | £0.00     | £308,168.49         |
| Estimated annual tonnage              |                        | £108,029.57 | £0.00       | £213,586.96 | £0.00      | £0.00     | £321,616.53         |
| <b>Maximum capacity</b>               |                        |             |             |             |            |           | <b>1,000,000.00</b> |
| <b>Utilisation</b>                    |                        |             |             |             |            |           | <b>32%</b>          |

## Appendix I – Surplus/Deficit Summary

| Income                          | Lower                | Upper                | Costs                           | Lower              | Upper              |
|---------------------------------|----------------------|----------------------|---------------------------------|--------------------|--------------------|
| <b>Peel Land &amp; Property</b> |                      |                      | <b>Peel Land &amp; Property</b> |                    |                    |
| Rent                            | £2,225,000.00        | £2,745,000.00        | Security                        | £130,000.00        | £130,000.00        |
| Additional land-based income    | £354,000.00          | £354,000.00          | Maintenance                     | £100,000.00        | £350,000.00        |
| Service charges                 | £189,894.00          | £227,401.00          |                                 |                    |                    |
|                                 | <b>£2,768,894.00</b> | <b>£3,326,401.00</b> |                                 | <b>£230,000.00</b> | <b>£480,000.00</b> |
| <b>Peel Ports</b>               |                      |                      | <b>Peel Ports</b>               |                    |                    |
| Port Income                     | £1,000,000.00        | £2,000,000.00        | Staff                           | £280,000.00        | £280,000.00        |
|                                 |                      |                      | Maintenance                     | £100,000.00        | £100,000.00        |
|                                 | <b>£1,000,000.00</b> | <b>£2,000,000.00</b> |                                 | <b>£380,000.00</b> | <b>£380,000.00</b> |
|                                 | <b>£3,768,894.00</b> | <b>£5,326,401.00</b> |                                 | <b>£610,000.00</b> | <b>£860,000.00</b> |

Summary of estimate ranges used throughout the report

| <b>SUMMARY: Surplus/Deficit</b> | <b>Lower Costs</b> | <b>Upper Costs</b> |
|---------------------------------|--------------------|--------------------|
| Lower Income                    | £3,158,894.00      | £2,908,894.00      |
| Upper Income                    | £4,716,401.00      | £4,466,401.00      |

| <b>PEEL L&amp;P: Surplus/Deficit</b> | <b>Lower Costs</b> | <b>Upper Costs</b> |
|--------------------------------------|--------------------|--------------------|
| Lower Income                         | £2,538,894.00      | £2,288,894.00      |
| Upper Income                         | £3,096,401.00      | £2,846,401.00      |

\*\*Estimates for capital spending requirements range from £2,500,000 to £5,000,000.

| <b>PEEL PORTS: Surplus/Deficit</b> | <b>Lower Costs</b> | <b>Upper Costs</b> |
|------------------------------------|--------------------|--------------------|
| Lower Income                       | £620,000.00        | £620,000.00        |
| Upper Income                       | £1,620,000.00      | £1,620,000.00      |

## Appendix J – List of Assumptions

1. The rent and service charges payable by the engaging party are significantly discounted to the ordinary market rate. This is thought to be due to the condition of the land at the time the leases were assigned.
2. £25 per square meter is assumed to be a fair market rate based on the subletting activities of the engaging party.
3. This has been further discounted to £15 to reflect the scale of the site and offer a conservative estimate for the purpose of these calculations. This is assumed to be sufficiently prudent.
4. Market rate services charges are assumed to be in the region of 10% (with the 7% rate payable by the engaging party being discounted).
5. Maintenance costs estimated of £350,000 are thought to be inflated as they represent a back log of overdue maintenance. It is assumed that if regular maintenance was undertaken this would range from £100,000 to £200,000 per year.
6. The capital spending estimate of up to £30,000,000 is assumed to be unreasonably high. Recent spending in the region of just £6,000,000 indicated that the estimates used in the present report of up to £5,000,000 are more reasonable.
7. It is reasonable to assume that the port should be used at a range of 65-70% of its tonnage capacity.
8. It is assumed that the security and maintenance costs presented in the present report associated with Peel Ports are reasonable.
9. Government published average for commercial land per acre are relevant to the site of Chatham Docks.

## Appendix K – Sources

1. Additional docks fees – further detailed information regarding specific scenarios:  
<https://www.peelports.com/media/6092/port-of-sheerness-port-charges-2021.pdf>
2. Labour Party – risk of job losses:  
<https://www.medwaylabour.org.uk/proposed-closure-of-chatham-docks-puts-800-jobs-at-risk/>
3. Medway – Local Planning Information:  
[https://www.medway.gov.uk/info/200149/planning\\_policy/519/new\\_medway\\_local\\_plan](https://www.medway.gov.uk/info/200149/planning_policy/519/new_medway_local_plan)
4. Basic 3 Layout – public information:  
[www.4allports.com](http://www.4allports.com)
5. Environmental issues relating to shipping:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/761762/BEIS\\_Shipping\\_CO2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/761762/BEIS_Shipping_CO2.pdf)
6. Trust Ports:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/525076/trust-port-study-key-findings-and-recommendations.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/525076/trust-port-study-key-findings-and-recommendations.pdf)
7. Land Value – Government estimates:  
<https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2019>
8. Chatham Docks – economic impact:  
<https://img1.wsimg.com/blobby/go/3f88807c-c378-4693-b6af-cdc3ee99664a/CD%20EIR%20-%2020020620%20v4.pdf>
9. Industry average yield expectations:  
<https://content.knightfrank.com/research/522/documents/en/investment-yield-guide-december-2020-7652.pdf>
10. Peel Ports:  
<https://www.peelports.com/blogs/2019/the-chatham-docks-a-small-but-mighty-port-servicing-southern-england>



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