

Financial Assessment:

Non-technical Summary

Coventry Stadium, Brandon, Rugby,
Warwickshire, CV8 3GJ

Prepared on behalf of:

Brandon Estates Limited

November 2017

Contents

1.	Non-technical Summary	1
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Brandon Estates Limited

Date

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1. Non-technical Summary

Introduction

Instruction Purpose

- 1.1 Turley has been appointed by Brandon Estates Limited ('the applicant') to objectively assess, and report upon, the financial viability of the operation of the Coventry Stadium, Rugby, Warwickshire, CV8 3GJ ('the subject premises').
- 1.2 The assessment extends to an analysis of historic and forecasted financial trading at the subject premises utilising published annual accounts and estimated trading revenues and expenses; along with consideration of the stadium's physical condition and the required cost of refurbishment to an operational standard.
- 1.3 This document represents a Non-technical Summary ('NTS') of the assessment, and confidential report, which was submitted by the applicant to Rugby Borough Council ('the Council') as part of a planning application with respect to the proposed redevelopment of the subject premises.
- 1.4 The NTS excludes information that is commercially sensitive and inappropriate for disclosure on public record.

Subject site & Premises

- 1.5 The subject premises are located upon the subject site, which has a gross area of 25.7 acres (10.4Ha) and is broadly flat. The subject site is approximately 8 kilometres (km) east of Coventry and 10km west of Rugby, and located off Rugby Road (A428) which provides accesses to the south and the south east of the subject site.
- 1.6 Coventry Stadium (interchangeably referred to as 'Brandon Stadium'), is located within the subject site, in addition to associated areas of hardstanding used for car parking to serve the subject premises.
- 1.7 The subject premises comprises a disused greyhound racing and speedway / stock car motor racing circuit together with Grandstand, which provided visitor viewing and dining facilities, ancillary buildings and a substantial area of car parking (part-gravel and part-hardstanding). The Stadium had a maximum capacity of 5,000 people. Other buildings on site included storage areas, dog kennels, a shop, laundry room, offices and first aid room.
- 1.8 A large car park fronts the stadium consisting of gravel and tarmacked areas. The site is presently secured by barriers and gates. The subject site and premises are not currently operational and have not been in operation since late 2016.

Marketing & Acquisition

- 1.9 The subject site was marketed and sold on behalf of the previous vendor by the Birmingham office of property consultancy GVA. It is understood that due to breach of loan covenants (i.e. default by the vendor) NatWest, as mortgagee in possession, had exercised the right to force disposal to recoup monies owed.

- 1.10 The subject premises were subject to acquisition by the applicant in November 2015 following a protracted marketing and negotiation period, which had first commenced in early 2013. It is understood that GVA received a total of 6 tenders. All offers were submitted by parties who did not intend to continue to run the existing facility as a stadium or offer any continuation of the exiting Speedway, Greyhound or Stock Car meetings. All parties interested in the property sought to redevelop the property for alternative uses.
- 1.11 In addition, the Crown Prosecution Service (CPS) had a restriction registered against the title of the subject premises to prevent its disposal. This was removed once proof was granted that the applicant's funds for purchase were transferred directly to the solicitors of NatWest Bank. The transaction formally completed, with title transferred from the former vendor, on 2 December 2015 following removal of the CPS restriction.
- 1.12 The subject site is in the unencumbered freehold ownership of the applicant; Brandon Estates Limited.

Events Post-acquisition

Lease Activity and Closure

- 1.13 Following acquisition, the applicant agreed new leases with the existing tenants to allow operations and events to proceed unhindered for a period of 12 months (until late 2016). New lease/licence terms were offered to Coventry Speedway Limited (owners of Coventry Bees speedway team and racing licence holder) and Coventry Racing Club Limited (owners of Coventry Stox stock car/banger racing and associated licence holder) in mid-late 2016.
- 1.14 However, the tenants did not agree lease (or licence) terms and the head-lease remained unsigned. Correspondence between the tenants and the applicant (as landlord) confirms that neither tenant was willing to meet the operational costs of Coventry Stadium in full or in equal part. As no lease was signed with tenants, Coventry Stadium closed in November 2016.
- 1.15 Coventry Racing Club Limited subsequently moved their events to Stoke Stadium in 2017, and have recently announced that the Coventry Stox operations will cease for 2018 and 2019 seasons (at least) whilst venue and financial arrangements are addressed.
- 1.16 Coventry Speedway Limited had their licence to compete in speedway as the Coventry Bees racing team frozen by the governing body for the 2017 season. In November 2017 Coventry Speedway Limited announced that Coventry Bees speedway team had reached agreement with the Leicester Lions speedway team to share facilities at the Leicester Speedway stadium from 2018 and would not return to Coventry Stadium.
- 1.17 Following leases not being renewed by both operators the stadium formally closed in January 2017.

Enquiries for Purchase

- 1.18 The applicant has received several enquiries from parties interested in either acquiring or operating Coventry Stadium since its original purchase. The applicant has willingly

engaged with these parties. Based on correspondence provided by the applicant, to date none of the parties seeking to re-use the facilities have demonstrated a credible business case or professional team to operate the stadium or have failed to provide suitable evidence of funds to either operate or acquire the subject site and premises.

Physical Condition & Refurbishment Costs

Damages occurring after November 2016

- 1.19 Prior to its closure the applicant instructed a Building Condition Survey, which confirmed that the subject premises were in a poor state of repair, but would have been suitable for operation in 2017, subject to the noted investigations, general maintenance and repair, health and safety certification and the obtaining/renewal of relevant and up to date insurances.
- 1.20 However, in late November 2016, substantial damage was done to the subject premises by a third party. Damage included the removal of a substantial amount of essential fixtures and fittings, belonging to the applicant, including the shale on the racetrack, floodlights and stadium seats.
- 1.21 Significant further malicious damage to the subject premises was also carried out including removal of fire alarms and emergency lighting, the cutting of electrical cables and damage to the external fire escape.
- 1.22 The damage caused is understood to have played a significant part in the financial decision of Coventry Speedway Limited not to take up the lease offered by the applicant.

Trespassing and Criminal Damages

- 1.23 Despite the applicant undertaking significant works and incurring costs to secure the subject site, there have been repeated recorded occurrences of trespassing and further criminal damage to the premises over the course of 2017 to date. Prior to the first break-in the applicant implemented additional security measures including employment of on-site security staff, installation of security gates and digging of trenches to restrict vehicular access amongst a wider package of measures.
- 1.24 An updated Building Condition Survey published 4 October 2017 concludes that the damage to the subject premises has considerably worsened as a result of the damage done during trespassing occurrences throughout 2017.

Operational Trading Performances

Published Annual Accounts

- 1.25 Analysis of the most recent published abbreviated accounts for the businesses relevant to the subject premises confirms that businesses owned by the former vendor, and with registered addresses at the subject premises, owe significant sums to creditors or have liabilities significantly in excess of assets and appear in financial distress.
- 1.26 Substantial intercompany loans between the related businesses of Coventry Stadium Limited, Coventry Greyhounds Club Limited and Coventry Racing Club Limited may

reflect the movement of money to mask losses, liabilities and assets. Coventry Greyhounds Club Limited has since been dissolved.

- 1.27 Analysis of the published abbreviated accounts for Coventry Speedway Limited confirms that liabilities have consistently exceeded assets in each year of trading with the business recording annual operating losses. The company has not turned a profit in any year of trading since incorporation in 2011.

Estimated Financial Trading Performance

- 1.28 Turley has directly liaised with Mr Michael Horton, the Company Director of Coventry Speedway Limited to obtain management accounts in order further understand the detailed operational trading performance of the Coventry Bees speedway team.
- 1.29 This evidence confirms that operating the Coventry Bees speedway team at the subject premises has consistently represented a financially unviable business proposition. Essentially, on average, each track meeting is run at an operating loss.
- 1.30 Even excluding costs and assuming the stadium landlord would offer non-commercial terms to the Coventry Bees, the team would still generate an operating loss. It therefore confirms why Coventry Speedway Limited did not take up the head-lease offered by the applicant (as landlord) in January 2017. Given Coventry Speedway Limited could not break-even before contributing significantly towards the operating costs of Coventry Stadium, it is rational to conclude that should such costs have been added these would have further deepened operating losses.
- 1.31 Turley has not been provided with management accounts of Coventry Stadium, and hence the trading performance cannot be determined definitively. Some revenue and operating cost information has, however, been provided to the applicant by the former vendor to inform lease negotiations. Supplementary information has also been provided by Coventry Speedway Limited, which traded from the premises for five years.
- 1.32 Operational trading performance analysis suggests that a very slim positive trading margin would be achievable in a best-case scenario where all tenants met their lease obligations and paid their rent on time and in full. Given the challenges faced by Coventry Speedway Limited in meeting their lease obligations, this represents an unlikely scenario. Moreover, should either speedway or stock car events be withdrawn or reduced the impact on operating margin is significant and would tip the stadium into an operating loss. This risk was likely evident to Coventry Racing Club Limited and Coventry Speedway Limited, with neither willing nor able to meet the stadium operational costs in part or in totality.

Reopening the Stadium

- 1.33 The applicant has instructed a firm of specialist chartered surveyors to prepare an up to date building condition survey and assessment of capital costs to bring Coventry Stadium back into use. This confirms a practical necessity for significant capital expenditure to restore the subject premises to an appropriate standard for trading following the substantial damage incurred since November 2016.
- 1.34 The costs are substantial. Due to the modest (best case) stadium operating margin any loan to meet the refurbishment costs would require an elongated repayment period that

far exceeds typical commercial loan terms available for this purpose (prior to accounting for interest payments).

- 1.35 In the unlikely event that full funding was secured, the interest payments required to service the debt would substantially exceed the annual operating margin. As a result, Coventry Stadium would be running at an operating loss prior to making any allowance for capital repayments, depreciation, taxation and any owner's return. This is not sustainable and would lead to a swift breach of loan covenants.
- 1.36 In light of this forecast it is considered highly improbable that the applicant (as owner), or any other commercial investor, developer or operator, would consider the return on capital expended in investing in the refurbishment works to return Coventry Stadium to operation as sufficient to justify the financial risk involved.
- 1.37 Moreover, there are no licence holders willing to hold motor racing events at the stadium, and there is no active greyhound racing licence, which leaves Coventry Stadium without a business case for reopening or operational purpose.
- 1.38 Based upon the information available, there is no plausible commercial basis upon which Coventry Stadium would now be reopened.

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