

MEMORANDUM

To Hon. Ian Borg, Chair, National Audit Office Accounts Committee
Hon. Darren Carabott, Chair, Public Accounts Committee

Cc Ms Anna Brincat, Clerk, National Audit Office Accounts Committee & Public Accounts Committee

From Mr Keith Mercieca, Assistant Auditor General, National Audit Office

Subject The Government's rescission of restrictions on the site of the Fortina Hotel: Submission by the National Audit Office in relation to the valuation prepared by its experts

Date 11 February 2026

Purpose of this submission

1. This submission is presented to clarify the position of the National Audit Office (NAO) regarding criticism levelled at the valuation prepared by Forward Architects in the context of this Office's audit work. The NAO considers it necessary to reaffirm the:
 - a. constitutional mandate under which it operates;
 - b. purpose for which expert valuation advice was commissioned;
 - c. professional standards applicable to such valuation;
 - d. distinction between statutory disposal mechanisms and audit evidence gathering;
 - e. basis on which the NAO relied on the valuation by Forward Architects.
2. This submission is not intended to engage in technical debate on valuation minutiae, but to clarify principles relevant to parliamentary oversight.

Constitutional and statutory mandate of the NAO

3. The Auditor General operates independently of the executive and is accountable to parliament. In carrying out its audit functions, the NAO is empowered to:
 - a. examine transactions involving public assets;
 - b. assess compliance with legal and contractual obligations;
 - c. engage external experts where specialist knowledge is required.

4. The commissioning of Forward Architects formed part of this audit function. It was undertaken to assist the NAO in understanding whether the valuation of land covered by four deeds had addressed the full legal and spatial extent concerned, and to assess potential financial implications arising from that question.
5. The Forward Architects valuation was therefore commissioned to serve as audit evidence, obtained independently by the NAO for the purpose of informing parliamentary oversight. It was not intended to replace, replicate or serve as a statutory valuation under the Government Lands Act, but rather to provide independent expert input within the context of the NAO's audit mandate.

Distinction between a valuation to dispose and a valuation for audit

6. Article 79 of the Government Lands Act (Chapter 573) establishes a statutory mechanism applicable to the disposal of government land. That mechanism governs the procedure to be followed by the Lands Authority in specific transactional contexts.
7. The Forward Architects valuation was not commissioned under Article 79. It was commissioned as part of an audit. An audit is not constrained to rely on valuations prepared under the statutory disposal framework of the authority being audited. To suggest otherwise would effectively limit the Auditor General's ability to obtain independent expert opinion when reviewing executive action.
8. The absence of Article 79 formalities does not render the Forward Architect valuation legally invalid for audit purposes. The two instruments operate in different institutional and legal domains.

Nature and scope of the Forward Architects engagement

9. Forward Architects were engaged with a clearly defined scope, namely to:
 - a. assess the value implications of waivers and changes affecting land covered by four deeds;
 - b. evaluate differences between pre- and post-waiver scenarios;
 - c. assist the NAO in determining whether the original valuation addressed the entire relevant extent.
10. The report expressly sets out its assumptions, methodology, limitations and professional basis. The valuation was prepared in accordance with recognised valuation standards, including principles aligned with the Kamra tal-Periti, the Royal Institution of Chartered Surveyors and the European Valuation Standards. Crucially, it was not intended as a disposal valuation for transactional execution, but to provide an independent professional opinion to inform audit analysis.

Transparency and availability of working papers

11. It has been suggested that the valuation by Forward Architects could not be verified due to the absence of detailed workings.
12. Following discussions between the NAO and Forward Architects, the latter confirmed that detailed spreadsheet workings exist; that these were never expressly requested by the Lands Authority; and that they have no objection to making them available if requested.
13. The valuation model consists of an interconnected spreadsheet reflecting market inputs, adjustment factors and scenario testing. The report presents final outputs, while the detailed calculations are contained in working papers. The existence of working papers is consistent with standard professional practice in valuation assignments of this scale and complexity. It is therefore not accurate to characterise the valuation as unsupported or unverifiable. The detailed workings exist and were not withheld. The NAO remains prepared to facilitate access to such workings should the Committees consider this necessary.
14. For completeness and transparency, the NAO is annexing the comprehensive response submitted by Forward Architects to the observations of the Lands Authority (Annex I). That document sets out, point by point, the professional and methodological basis for the valuation and addresses the technical issues raised. The NAO considers it appropriate that the Committees have sight of that material when forming their view.

Professional judgement in valuation

15. Valuation is not a mechanical exercise. It is a professional opinion informed by:
 - a. comparable market evidence;
 - b. adjustment factors reflecting property characteristics;
 - c. planning parameters;
 - d. restrictions, use limitations and integration effects; and
 - e. economic context at the valuation date.
16. Recognised valuation standards explicitly acknowledge that comparable evidence serves as an analytical starting point and that professional judgement is central to deriving market value.
17. Differences in assumptions, scope, date of valuation, planning status, treatment of restrictions and/or valuation methodology, will legitimately produce different results. Variance between valuations does not establish methodological defect. Courts and

professional literature alike recognise tolerances within valuation practice, particularly in complex mixed-use developments.

Treatment of developer profit and the hotel scenario

18. Questions were raised regarding the treatment of developer profit in the hotel scenario. The Forward Architects valuation report distinguished between:
 - a. a speculative residential development intended for sale; and
 - b. an owner-operator expansion of an existing hotel business.
19. In the latter case, value was derived using an income capitalisation approach, where return is embedded in projected operational income rather than in a developer's margin on sale. This reflects a recognised distinction in valuation methodology between development profit and operational income return. The approach adopted is consistent with valuation standards.

Market evidence and advertised prices

20. Forward Architects relied on internal records of 2019 advertised prices, consistent with modern valuation practice. Online listings constitute a recognised source of comparable evidence and are widely used in institutional indices, including those compiled by financial authorities.
21. The selection and adjustment of comparables is inherently a matter of professional judgement. The fact that alternative comparables could be selected does not invalidate the methodology adopted.

On the allegation of overstatement

22. The NAO relied on and continues to rely on Forward Architects' valuation as part of its audit assessment of potential financial impact. The NAO did not present the valuation as an absolute or incontrovertible figure. It was presented as an independent expert assessment indicating that the extent covered by the deeds warranted reconsideration and potential revaluation. The existence of alternative valuation opinions does not, of itself, establish overstatement.

Institutional considerations

23. It is essential to preserve the distinction between:
 - a. executive functions under the Government Lands Act; and
 - b. parliamentary oversight functions exercised through the Auditor General.

24. If audit evidence could be dismissed solely on the basis that it was not produced under executive statutory mechanisms, the independence of parliamentary scrutiny would be materially constrained. The NAO's reliance on independent professional advice is consistent with its constitutional mandate and with international standards applicable to Supreme Audit Institutions.

Conclusion

25. The NAO remains satisfied that:
 - a. the engagement of Forward Architects was lawful and appropriate within its mandate;
 - b. the valuation was prepared in accordance with recognised professional standards;
 - c. detailed workings exist and were not refused on request;
 - d. methodological differences raised by the Lands Authority constitute professional disagreement, not evidence of defect; and
 - e. the NAO acted reasonably in relying on independent expert advice to inform Parliament.
26. The NAO reiterates its commitment to objectivity, independence and transparency in the discharge of its functions, and remains available to provide any further clarification required by the Committees.

Annex | Forward Architects' response to points raised by the Lands Authority

INTRODUCTION

This document presents the questions posed by the Lands Authority to Forward Architects Ltd. on 28 November 2025 regarding their November 2024 valuation report on the Fortina Hotel site and associated government-owned lands. It includes Forward Architects' replies provided on 9 December 2025, together with the technical observations of the Lands Authority Valuations Committee following discussion on those replies.

The underlying valuation report values all the sites marked in figure 1.3. This differs from the GT report, which valued the extent shown in Figure 1.2; and from the LA's original report, which valued solely the previously government-owned site occupied by the previously existing 4 star hotel (red), shown in Figure 1.1.

The valuation assesses market value under various scenarios, residential conversion, hotel extension, and residual land potential; using residual, income capitalisation, and comparative methods benchmarked primarily to 2019 market data. It addresses profit assumptions, transaction costs, and reconciliations with prior valuations.

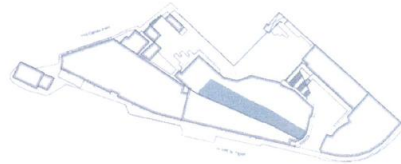


Figure 2.1 - Lands Authority Valuation Report - Site Extent

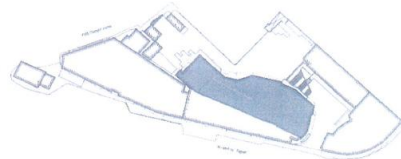


Figure 1.2 - Grant Thornton Valuation Report - Site Extent

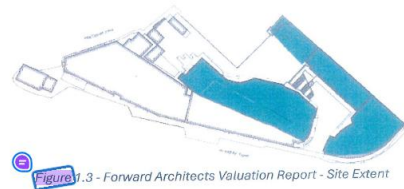


Figure 1.3 - Forward Architects Valuation Report - Site Extent

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Introduction

- A1. Forward Architects confirm that their valuation considered the full extent of the areas covered by the four deeds, as clearly set out in the valuation report. Any interpretation suggesting that only a portion of the relevant area was considered does not reflect the content of the report. The valuation figures and accompanying plans demonstrate that the assessment covered the entirety of the relevant extents.

It is stated in the report that a base rate of €9,052.26/m² was determined for finished apartments. It is also stated that a number of adjustments were adopted due to different factors, including *Storey Height Location, Area Location, Level of Finishes and Outdoor Accommodation*.

1

QUESTION

- 1.1 Was this rate extrapolated directly from the samples of property adverts?
- 1.2 Are the samples available for review?

- 1.3 Are the calculations available as there do not appear to be any indication how these adjustments were factored?

FORWARD ARCHITECT'S REPLY

- 1.1 Yes
- 1.2 As noted in the report, the figures are based on our internal valuation records from 2019. "In the case of apartments and car spaces, the valuation based on personal records of advertised prices during the year 2019." While the links to the advertised apartments still remain in our database, all of the properties referenced have since been sold or had their prices updated to reflect current market trends. Consequently, no 2019 listing will lead to the same active page in 2025. At the time, our valuations relied on the then-current listings to determine the values of nearby apartments with comparable aspects to the Fortina site. We considered the 2019 data to be the most reliable benchmark, as it provided an accurate snapshot of the market at that time, rather than attempting to extrapolate values from today's prices through discounting.
- 1.3 The calculations are available. That said, due to the complexity of the various components, they were not carried out using a traditional hand-calculation approach that can be presented in a conventional formula for each section of the site. Instead, we relied extensively on an Excel-based spreadsheet calculation method, which allowed us to handle the multiple variables and interdependencies more accurately and efficiently.

LANDS AUTHORITY OBSERVATIONS

The architect's replies clarify that the base rate was derived from 2019 market information and internal records, but they do not clearly define the nature of the "internal valuation records", nor whether they consist of the architect's own valuations, archived property listings, or a combination of both.

The Valuations Committee notes that, although reference is made to an Excel based model incorporating adjustments for storey height, area location, level of finishes and outdoor accommodation, the detailed calculations have not been provided; consequently, the Committee is unable to verify the derivation of the base rate of €9,052.26/m² or to understand quantitatively how the various adjustment factors were applied.

In view of the above, the methodology and data underlying the adopted rate remain insufficiently transparent for full technical review, and further clarification and disclosure (including an explanation of "internal valuation records" and sample calculation sheets) would be required before the Valuations Committee can rely fully on this valuation.

Question 1: Base rate and comparable evidence

- A3. Forward Architects confirm that the valuation records were compiled internally, based on advertised market prices prevailing in 2019. Whether derived from archived listings or contemporaneous internal records, the underlying data reflect advertised market evidence available at the relevant valuation date.
- A4. The valuation was commissioned by the NAO for audit purposes and was prepared within the scope defined by that engagement. As with any valuation, it represents a professional opinion formed on the basis of stated assumptions and methodology.
- A5. In response to comments suggesting that the derivation of the base rate or adjustment factors could not be verified, Forward Architects clarify that detailed workings exist in spreadsheet form and form part of the working papers. These were not formally requested by the Lands Authority. Forward Architects have no objection to making such workings available on request.
- A6. The adjustment factors applied were derived through professional judgement and experience, reflecting differences between the characteristics of the comparable evidence and the subject property. These factors are not fixed or universal constants; rather, they are analytical tools used to interpret market evidence in context.
- A7. As noted by Nick French (Chair, RICS Global Valuation Standards Expert Working Group), comparable data serve as "signposts" in the valuation process. Professional judgement remains central to interpreting such data and deriving market value.

A8. Forward Architects also note that, although the availability of comparable samples was queried, no formal request for the underlying records was subsequently made.

<p style="font-size: 2em; font-weight: bold; text-align: center;">2</p>	<p>QUESTION</p> <p><i>"The average rate for apartments was further adjusted based on their orientation, either facing the sea or inward. The assessment of residential potential considered the entire floor area without division into separate apartments. Nevertheless, the factor associated with view orientation was averaged using the individual areas of apartments on distinct levels with the specific view."</i></p> <p>This statement requires further clarification as it appears contradictory. It would be best to indicate the areas considered as with/without sea views on plans.</p>	<p>FORWARD ARCHITECT'S REPLY</p> <p>The calculation was not carried out individually for the separate apartments. However, it was based on the layouts provided in the approved permit. In this context, we calculated the areas of the inward-looking apartments and applied the relevant discount factor to those units. For the remainder of the residential floor plan, we applied the rate/factor appropriate for sea-facing or Valletta-view apartments without separating it into a value for each apartment. I hope this clarifies the statement made.</p> <p>For completeness, the total residential floor area (in m²) used in this calculation does not include common spaces such as lift shafts and staircases. These are assumed to be accounted for within the pricing of the apartments.</p>	<p>LANDS AUTHORITY OBSERVATIONS</p> <p>The Valuations Committee notes that the adopted rate for the residential component is derived from an average applied to the entire floor area, which incorporates both sea-facing and inward-looking apartments.</p> <p>In relation to the government-owned red and purple sites (Refer to Annex 3.1), which if disposed of independently would not benefit from sea views, this averaging approach appears to attribute a portion of the sea-view premium to land that would not, in its own right, command such a benefit.</p> <p>An internal verification exercise has been conducted, analysing 2019 Sliema apartment listings exhibiting similar characteristics that did not feature "sea views". The average rate derived from these listings was €3,280.47/m². (Refer to Annex 2.1 & 2.2)</p>
<p style="font-size: 2em; font-weight: bold; text-align: center;">3</p>	<p>QUESTION</p> <p>3.1 The table on page 69 lacks sufficient detail. None of the previously mentioned factors in the report, such as storey height, location, area, level of finishes, and outdoor accommodation, are clearly reflected in this calculation, rendering it vague and difficult to interpret.</p> <p>3.2 Furthermore, please clarify whether the calculations in this table distinguish between external areas enjoying sea views and those with internal views.</p>	<p>FORWARD ARCHITECT'S REPLY</p> <p>3.1 The table represents the final results of the applied method.</p> <p>The valuation was carried out in a heavily interlinked Excel workbook consisting of 42 sheets, where each factor feeds into the final outputs through a series of intermediate steps. Due to the complexity and interconnected nature of this model, it is not practical to reproduce the full sequence of calculations.</p> <p>3.2 Yes, this was further elaborated in the reply on the question 2.</p>	<p>LANDS AUTHORITY OBSERVATIONS</p> <p>The Valuations Committee notes that the table on page 69 presents only the final results of a complex Excel based model and does not show how the factors of storey height, location, area, level of finishes and outdoor accommodation have been quantified and combined. In the absence of the underlying Excel calculations or equivalent detailed workings, no further technical analysis or independent verification of the figures in this table can be carried out, and the original request for clarification on the treatment of these factors therefore remains outstanding.</p>

Question 2: Treatment of sea-facing and non-sea-facing areas

- A9. Forward Architects clarify that the valuation did not apply a simple averaging approach. The floor areas of apartments without sea (Valletta) views were identified and assigned a non-sea-view adjustment factor. The remaining floor areas were assigned the appropriate sea-view factor.
- A10. The valuation was not undertaken on a piecemeal basis. Rather, the site was valued holistically, both before and after the relevant changes, and the difference in value was derived accordingly.
- A11. Forward Architects further note that the lifting of height and use limitations materially altered the development potential of the site. The resulting uplift in value cannot be assessed by isolating rear plots and applying a generic non-sea-view rate. The development must be considered as an integrated scheme.
- A12. It is also noted that properties referred to as enjoying "sea views" in general commentary in fact benefit from Valletta views, which command a premium in the local market. Comparable evidence must therefore reflect location, aspect and development context.
- A13. Forward Architects consider that comparables cited by the Lands Authority do not reflect properties with materially similar characteristics in terms of location, aspect and development integration.

Question 3: Adjustment factors

- A14. The adjustment factors applied were specific to this valuation and reflect differences between the subject property and the comparable evidence considered. These adjustments were based on professional judgement and market knowledge. Without access to the comparable dataset used, it would be difficult for an external reviewer to assess the appropriateness of individual adjustment factors in isolation.

<p style="font-size: 48pt; font-weight: bold; text-align: center;">4</p>	<p>QUESTION</p> <p>At the time this valuation was being conducted, it appears that a number of the apartments being valued had already been sold. Where these sales considered in your analysis? If not, please provide reasons.</p>	<p>FORWARD ARCHITECT'S REPLY</p> <p>The simple answer to this question is yes. Nevertheless, the valuation was intended to reflect 2019 prices, whereas these apartments were sold much later, at a time when market prices were significantly higher. The extended duration of construction and finishing works also influenced the final sale prices.</p> <p>That said, we did have records for some of the sold apartments, and we carried out a reverse valuation to cross check the 2019 values. These checks form part of the previously referenced Excel file calculations and provided us with confidence that our original backdated estimate for 2019 was accurate.</p>	<p>LANDS AUTHORITY OBSERVATIONS</p> <p>The Valuations Committee notes that some actual sales were used in a reverse valuation check of the 2019 values, but as the supporting calculations and sales details are only contained in the undisclosed Excel model, this cross check cannot be independently verified and is therefore recorded as a limitation.</p>
<p style="font-size: 48pt; font-weight: bold; text-align: center;">5</p> <p style="font-size: 10pt; text-align: center;">CAR PARK LEVELS</p>	<p>QUESTION</p> <p>It is stated that the market value per residential car space of €20,000 was "based on 2019 advertised prices for similar properties in the area". Are these samples available for review? Similar to question 4, please explain whether the actual sales of car spaces were considered.</p>	<p>FORWARD ARCHITECT'S REPLY</p> <p>Again, the reply here is the same as for the similar questions relating to the apartments. We relied on our internal valuation records from 2019 and valuations carried out at the same time as for the previously mentioned apartments, located in the vicinity.</p>	<p>LANDS AUTHORITY OBSERVATIONS</p> <p>As previously noted for the apartment valuations, the Valuations Committee is unable to verify the stated basis for the car park rate due to the lack of supporting data and calculations provided.</p>

Question 4 & 5: Underlying sales data

- A16. Forward Architects confirm that they were not expressly requested to provide underlying sales data or supporting documentation. Reverse valuation checks formed part of the internal validation process and were referenced in the report.
- A17. Forward Architects remain available to cooperate with any independent valuation review conducted in accordance with recognised standards (including KTP, RICS and TEGOVA). Professional standards generally envisage that a valuation review should be undertaken by an independent accredited valuer.

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OTHER COMMERCIAL ASSETS

QUESTION

Similar to questions 4 and 5, are the samples for the commercial assets referenced in the report available for review and were the actual sales of commercial spaces considered?

FORWARD ARCHITECT'S REPLY

Yes. In this case, the records available in 2023, at the time of the valuation, were used, and, as explained in the report, these values were adjusted for the relevant inflation between 2019 and 2023. As mentioned earlier, two years later, the links to the advertised properties no longer lead to the same pages as in 2023, either because the properties have been sold or the adverts have been removed and replaced by new ones.

LANDS AUTHORITY OBSERVATIONS

The basis and calculation of the inflation adjustment between 2019 and 2023 are not specified, so the applied factor for the commercial assets cannot be verified.

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QUESTION

On the table indicating the commercial values on page 70, a distinction is made between the internal and external areas of the commercial premises, but no explanation is provided for this differentiation or whether any adjustment factors were applied to arrive at the established rate of €6,360.15/m². Please explain and provide the necessary clarifications.

FORWARD ARCHITECT'S REPLY

The above-mentioned rate was not an "established" rate. Rather, it represents the average rate for commercial property, calculated after applying the relevant discount for inflation.

Yes, we applied an adjustment factor for external areas in our Excel calculations. The factor used, 35%, was an arbitrary but prudent choice – This percentage is more appropriate for certain aspects related to residential areas. While a higher percentage might have been justified for commercially used external spaces, we intentionally chose a conservative factor to avoid inflating the value of these areas.

LANDS AUTHORITY OBSERVATIONS

The rate for commercial areas remains insufficiently substantiated, as the underlying Excel workings have not been provided and the basis for the inflation adjustment is not identified.

Question 6: Inflation adjustment

A19. The adjustment for inflation was based on publicly reported inflation data between the relevant years at the time of preparation of the report.

Question 7: Additional files

A20. Forward Architects note that no formal request for additional files was made.

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QUESTION

The tables on pages 71, 72, and 77 list the different types of areas considered in this study: "Gross External Areas," "Terraces and Balconies," and "Common Areas." Kindly clarify whether "Gross External Areas" contains a typographical error. If not, please explain how "Gross External Areas" differ from "Terraces and Balconies."

FORWARD ARCHITECT'S REPLY

Gross External Area (GEA) is a method of measuring as per Code of Measuring Practice. It does not refer to external areas such as terraces. Please refer to the Code of Measuring Practice in Valuation Standards for Accredited Valuers - KTP and similar international standards.

LANDS AUTHORITY OBSERVATIONS

Refer to the observation included under Question 17.

Question 8: Code of Measuring Practice

- A22. The valuation applied measurement principles consistent with the Code of Measuring Practice, which is incorporated within RICS standards and the European Valuation Standards. These principles provide guidance for categorising and measuring areas when using comparative methods.

9

QUESTION

Referring to the table on page 77 listing Gross External Areas, Terraces and Balconies, and Common Area by level, we note that the areas for Levels 6, 7, 8 and 9 repeat identically across floors. This repetition is understandable if the building layout for these levels is uniform.

However, what appears unusual is that at each individual level, the Terraces and Balconies area and the Common Area are shown as exactly the same value (128.52 m²). While identical areas across levels may be expected, the coincidence of two different classifications of space having precisely the same area at multiple levels, to two decimal points, is unlikely in practice.

We therefore request clarification regarding the basis on which these areas were calculated and confirmation as to whether these figures are correct. Kindly also indicate, by reference to drawings or plans, the specific spaces and zones that were included when determining the terrace/balcony and common area allocations for these levels.

Similarly, please also provide the drawings or plans of all the other levels within the development, clearly indicating the specific spaces and zones that were included to determine the different property designation (terrace/balcony/ common areas, etc.)

FORWARD ARCHITECT'S REPLY

The calculations were based on approved drawings, and the resulting areas in the table reflect measurements taken directly from these drawings. We believe this was clearly explained in the report.

LANDS AUTHORITY OBSERVATIONS

The explanation that the repeated areas were taken directly from approved drawings is noted; however, these drawings or measurement extracts have not been provided, so the Valuations Committee cannot independently confirm the terrace/balcony and common-area allocations cited in the table. Furthermore, these areas were internally cross-checked and couldn't be tallied.

Question 9: Approved drawings

- A24. The measurements were derived from approved drawings available on the Planning Authority website. These drawings are publicly accessible. Forward Architects relied on those approved plans as the basis for their area calculations.

10

QUESTION

10.1 The residual land valuation appears to treat developer's profit differently across scenarios. We note that developer profit has been included only in the proposed residential case, while it has been taken as 0% in all hotel scenarios, as "hotel's profit is based on operation, not on sale of the assets". Even if the intention is ongoing operation rather than asset disposal, development still involves risk, capital exposure and time commitment. As such, the notion that a developer would undertake a full development process with no allowance for return is, in our view, highly questionable.

10.2 Further explanation is required:

10.2.1 As to how it was assumed that the hotel development would not have been sold either now or any time in the future.

10.2.2 It is our understanding that the developer's profit is a very important component in the calculation of the residual land value, regardless of the type of development that is being assessed. Please justify 0% profit assumption.

10.2.3 It is believed that there are more appropriate valuation approaches to calculate the operating profit of a hotel business, such as the income approach. Have you considered exploring other approaches rather than the residual method? If not, please explain why.

10.4 (This question also applies to the calculations indicated on pages 90-94)

FORWARD ARCHITECT'S REPLY

10.1 We would not agree with this assumption. Development of the apartments was done on the basis to sell the apartments; hence, developer has built them to acquire a further profit.

On the other hand, the hotel was built as an extension of the existing hotel and the developer was the same entity that operates the hotel.

10.2.1 No, this was not assumed. It is unclear from where this conclusion has been drawn. For the actual construction it was assumed that developer was "expanding" his own premises. However, for the sale value, it was assumed that the hotel would be sold once it is completed.

10.2.2 Explained above. The developer was not a third party in case of the hotel.

10.2.3 The hotel was in fact calculated using the income capitalisation approach. The report provides a detailed explanation of other hotel valuation methods and their limitations, explaining the rationale for selecting this approach.

10.4 The question is unclear.

LANDS AUTHORITY OBSERVATIONS

The Valuations Committee notes that, unlike the residential scenario, the hotel-related residual land valuations make no explicit allowance for developer's profit, on the basis that the developer and hotel operator are the same entity. In standard development appraisal practice, a return is normally allowed for the development risk regardless of whether the completed hotel is sold or retained, and the reply does not provide a clear, substantiated rationale for adopting a 0% profit assumption in these hotel scenarios or for treating them differently from the residential case.

The reply also states that profit was included in the sale value but not the construction cost, which requires further clarification as it appears inconsistent with the income capitalisation method used for the hotel and the residual approach for land.

Question 10: Developer profit – Hotel scenario

- A26. Forward Architects distinguish between speculative development for sale and owner-operator expansion.
- A27. In this case, the hotel continued operating as a five-star establishment during redevelopment works. The valuation assumed expansion of operational capacity rather than construction for onward sale. Under an income capitalisation approach, return is embedded in projected operational income rather than expressed as a separate developer's margin.
- A28. At the valuation date, there was no indication that the hotel was intended for sale. Accordingly, the adopted methodology reflects the operational context.

11

QUESTION

We note that in all four scenarios, marketing/agent fees have been included, while purchasing fees have been explicitly excluded on the basis of existing ownership. Even where land is already owned, acquisition-related costs form part of the overall economic picture, just as disposal fees do. The selective inclusion of one transaction cost and exclusion of the other may produce an asymmetrical result. We would appreciate clarification on the reasoning behind this approach.

(This question also applies to the calculations indicated on pages 90-94)

FORWARD ARCHITECT'S REPLY

It is difficult to respond to this question as it combines several different subjects and also draws conclusions within the query.

The agent's fees have been included as one of the factors to adjust the advertised rate to a more realistic market rate.

Regarding purchasing fees, several points should be noted:

1. Fees related to the purchase of the apartments are paid by the buyers of the developed properties over and above the purchase value, and, therefore, are not part of the value attributable to Fortina or the Government.
2. The sales tax was discussed in one of the meetings with NAO, and it was initially decided to exclude it. We have recently informed NAO that it should have been included, which would bring the resulting final value to €19,335,000.
3. Our valuations do not include VAT for any transactions, including costs related to construction or other development works. In principle, valuation standards do not include taxes in the market value. According to EVS 2020, section 4.11.4:

"Market Value will be the value before any taxes which may apply to any real transaction in the property being valued. The fact of transaction taxes or Value Added Tax as they may affect some or all potential parties will be part of the wider framework of the market and so, along with all other factors, influence value, but the specific taxation due on a transaction is over and above its Market Value."

LANDS AUTHORITY OBSERVATIONS

The Valuations Committee notes that the valuers acknowledge sales tax should have been included, which would reduce the result to **€19,335,000 rather than the currently stated €21,017,914**. The underlying calculations and the precise treatment of agent's fees and taxes are not shown, so the Valuations Committee cannot verify the adjusted figure or confirm consistent handling of transaction costs across all scenarios.

Question 11: Treatment of sales tax

A30. Forward Architects clarify that:

- a. if establishing the net worth to the developer (Fortel), the 8% sales tax would be excluded, yielding an approximate value of €19 million;
- b. however, for purposes of establishing market value from the Government's perspective, the 8% should not be deducted, as it forms part of the gross consideration.

A31. This clarification was communicated to the NAO after the report was issued.

12

QUESTION

The residual value of land for the Prospective basement which was not built is listed as €5,824,625.38. Kindly clarify the basis of this figure.

FORWARD ARCHITECT'S REPLY

The reference to the "prospective basement which was not built" refers to the extents of the newly proposed basement, which was permissible even prior to the 2019 deed. This area was assumed to contribute to the value that Fortina could have realized even without the said deed. The fact that it was not constructed to its full potential before 2019 was not taken into account. Instead, the value of this basement was added to the existing potential already owned by Fortina.

The area of the potential underground space that did not exist in 2019 was extensive and could not have been solely for hotel use. Consequently, the unbuilt area was assumed to be used as a public car park, similar to the use of the newly proposed car park, after accounting for the portion of spaces sold with the apartments. The applied rate per m² was based on the resulting rate for the public car park, as calculated for the newly proposed car park using operational costs to arrive at the market value.

LANDS AUTHORITY OBSERVATIONS

Neither the area used nor the unit rate and workings behind the €5,824,625.38 figure are shown, so this value cannot be verified.

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QUESTION

Please clarify how the deduction of 3 floors was determined.

FORWARD ARCHITECT'S REPLY

This is explained in the report. Please refer to the cross-referenced notes under the same table. If further clarification is required, kindly specify the particular point that is unclear.

LANDS AUTHORITY OBSERVATIONS

The underlying Excel workings have not been provided and therefore the Residual Land Value of €317,195.07 cannot be verified.

Question 12 & 13: Scope of clarifications provided

A33. Forward Architects confirm that the clarifications requested were addressed in the original replies. The valuation was prepared strictly within the defined brief and stated assumptions. Any subsequent observations extend beyond the scope of the original queries and do not alter the methodology applied.

14

QUESTION

On page 92, "Figure 1" is referenced, seemingly illustrating the three distinct components considered in the determination of the market value of the residential pre-owned asset. Could you please clarify since Figure 1 seems to have no correlation to this part of the report.

FORWARD ARCHITECT'S REPLY

This was an oversight during the drafting process. The reference should have been to Figure A. References have been changed after the draft, and this one was missed out.

LANDS AUTHORITY OBSERVATIONS

No further comments

15

QUESTION

Similar to Question 3, the tables on page 92 require more detail as it is difficult to understand what factors were taken into account in order to determine the *assumed value in 2019*.

FORWARD ARCHITECT'S REPLY

As indicated in the report, the same methodology, including the same rates and factor types applied to the valuation, was used to determine the values presented here. The full set of calculations is included in the Excel file referenced previously.

LANDS AUTHORITY OBSERVATIONS

The Excel file and supporting calculations have not been provided, the specific factors and steps used to derive the assumed 2019 values in these tables still cannot be reviewed or verified.

Question 15: Application of consistent methodology

- A35. The figures referenced were derived using the same rates and adjustment principles applied throughout the report. The tables reflect the outputs of the established methodology. Detailed workings exist within the valuation file. No formal request for underlying data was made.

GENERAL

16

QUESTION

Was the valuation report prepared by Grant Thornton in 2019, as well as the valuation report commissioned by the Lands Authority and carried out by Perit D. Camilleri, Perit M. Cassar, and Perit C. Mallia in 2017, available to you during the drafting of this report? If so, were they taken into consideration as sources of information in its preparation?

FORWARD ARCHITECT'S REPLY

Yes, these valuations were available to us. We reviewed the approaches and results and provided our comments verbally to the NAO. In general, we agree with the methodologies used in these valuations.

The differences primarily arise from the timing and scope of the valuations. Some were prepared in advance, predicting future outcomes rather than assessing events from a historical perspective. Additionally, a significant portion of the discrepancy in values stems from the 2017 valuation, which covered only a portion of the site for which the valuation was requested, whereas the 2019 deed encompassed the entire subject property, resulting in a broader scope and higher overall values.

LANDS AUTHORITY OBSERVATIONS

The Valuations Committee notes that the valuers attribute differences between their conclusions and previous Grant Thornton and LA commissioned valuations mainly to timing and scope. However, the Valuations Committee's analysis of the Grant Thornton report indicates a substantial divergence in the value of the hotel itself (approximately €3.5 million in the present report compared with about €0.8 million in the GT valuation), which cannot be explained solely by differences in timing or site coverage and remains insufficiently justified.

17

QUESTION

Table 3 appears to be the summary of the whole valuation report. Please provide clarification in respect of the following points:

17.1 Please provide a breakdown of the values listed under "total built area in m²".

17.2 What is meant by "total built area in m²"? Is it representing the footprint, or the gross floorspace, or the net floor space?

FORWARD ARCHITECT'S REPLY

17.1 The breakdown is on the pages 71 and 72.

17.2 It is GEA (Gross External Area) as indicated in pages 71 and 72.

LANDS AUTHORITY OBSERVATIONS

The Valuations Committee notes that 'total built area in m²' is defined as GEA and said to be broken down on pages 71 and 72; however, the summed Gross External Areas on those pages do not reconcile with the 'total built area' figures in Table 3 and the latter appear closer to the combined total of Gross External Areas, terraces/balconies and common area columns. Accordingly, the derivation of the total built areas remains unclear and cannot be independently verified.
(Refer to Annex 2.3-2.5)

70

Question 16: Comparability of different valuations

A37. The valuations cited for comparison differ in scope, valuation date, subject extent and purpose. Direct numerical comparison between such valuations may be misleading if context is not aligned. Each valuation must be assessed on its own defined parameters.

Question 17: Measurement and area classification

A38. The breakdown of areas was already provided in the report. Tables prepared for construction cost estimation include certain elements (e.g. roof areas) that were not included in the market value assessment where they carried no intrinsic value under the relevant use assumptions. This distinction reflects standard professional measurement practice.

18

QUESTION

Since the Fortina development had already been constructed in its' existing state at the time of the valuation, it is logical to understand that the most appropriate approach to obtain accurate values was to request Fortina to provide the actual costs for the development. Have you considered this option? If not, please explain why.

FORWARD ARCHITECT'S REPLY

Requesting Fortina for development costs could be a viable option. However, the following considerations were taken into account:

1. At the time of preparing the valuation, the works had not been completed, so any total costs would have been projections rather than actual figures.
2. Using actual costs would reflect a price rather than a market value, which is a different concept. The valuation should be based on construction rates applicable to an unknown contractor, rather than a specific contract that may or may not have been favourable or representative of prevailing market trends.

LANDS AUTHORITY OBSERVATIONS

The reply explains why actual development costs were not requested, but the reasoning is not fully persuasive. Given the advanced stage of works by the November 2024 valuation date, it is reasonable to expect that reliable cost information would have been available and could have served as a useful benchmark alongside standard construction rates, yet this option was not explored or documented.

Question 18: Market value versus development cost

A39. Market value and development cost are distinct concepts. Development costs reflect project-specific arrangements and may not represent market conditions. As works were incomplete at the valuation date, reliance on projected costs would not have provided an appropriate market-based benchmark. The valuation therefore applied recognised market methodologies consistent with professional standards.

CONCLUDING REMARKS

The Valuation report relies heavily on rates, prices, and factors that the Committee cannot quantitatively analyse. As noted in prior verification processes conducted by the Valuations Committee, even the smallest adjustments could significantly impact the final results. Replies from architects fail to clarify questions on calculations. Without underlying Excel workings, which Forward Architects considered too complicated for the Valuations Committee to verify, an independent verification remains impossible, leaving original clarification requests outstanding.

Other identified issues include:

- Government-owned red and purple sites (Annex 3.1) receive undue sea-view premiums via averaging, despite lacking independent sea views.
- The amount of around 20% to represent the developer's profit that is typically included in the residual method and the income capitalisation method has not been considered, resulting into a significant discrepancy in the final land value.
- Valuers admit sales tax omission, reducing value to €19,335,000 from €21,017,914, but unshown calculations prevent verification of agent's fees/taxes consistency. It is unlikely that this would have been revealed if this verification process had not taken place. Doubts remain on whether there may be other similar errors in view of the inability of the Valuations Committee to verify the workings carried out by Forward Architects since these were not made available for verification. (Refer to Question 11)
- The substantial differences between the previous 4-star hotel valuations remain unclarified despite the Valuations Committee efforts to obtain the relevant workings to carry out its' own verifications. In this case only, the variance is somewhere in the region of €3.6M (GT €0.8M; Periti €3.5M; Forward €4.4M).
- Requesting Fortina's actual development costs was dismissed without persuasive rationale; by November 2024, actual data would have benchmarked more accurate outcomes. (Refer to Question 18)

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On the concluding remarks

- A40. Forward Architects do not share the conclusions drawn in the review. The valuation was undertaken in accordance with the defined brief and did not adopt a piecemeal approach capable of direct comparison with other reports prepared for different purposes. Comparisons based on extracted figures, without alignment of scope, assumptions and extent, may lead to misleading outcomes. The valuation methodology and rationale were clearly explained in the report.

ANNEX 2.2

Property Listings - 2019 Sliema Apartments for Sale (No Sea Views)

(Refer to Question 2)

SLIEMA. Penthouse new on the market. Three bedrooms, 130sqm terrace. €750,000. Phone agent 9910 8077.
Figure 3 - The Sunday Times 13/01/2019

SLIEMA. Best part of Tower Road. Apartment 190sqm three bedrooms fully designer furnished. €875,000. Phone 9946 2959.
Figure 4 - The Sunday Times 10/03/2019

SLIEMA. Qui-si-Sana. 130sqm, fourth floor, three bedroom apartment. Modern finish. Front, back balconies. Garage space. €525,000 FH. Phone 9947 6945.

SLIEMA. A brand new, fully furnished 230sqm apartment in the very best part of Sliema. Open plan, three bedrooms and a very comfortable car space. €950,000. Phone 7949 9137.
Figure 5 - The Sunday Times 07/04/2019

SLIEMA, Savoy area. Third floor, 170sqm apartment. €430,000. Phone 7942 1340.

SLIEMA. 160sqm four bedroom apartment. Great investment buy-to-let. €349,000. Phone 7739 6840.

SLIEMA. 163sqm apartment two mins. from the sea, on one of the best streets. Two/three bedrooms. Needs refurbishing. €460,000. Phone 9900 0322.
Figure 4 - The Sunday Times 09/06/2019

SLIEMA. 100sqm apartment, two bedrooms, two bathrooms, three balconies. Highly finished. Completion April 2020. €280,000 negotiable. Phone 9922 4200.

SLIEMA. 160sqm, first floor, four bedroom apartment. €349, 000. Phone +356 7739 6840.
Figure 5 - The Sunday Times 23/06/2019

SLIEMA. A three bedroom fully furnished apartment. 150m from seafront. €425,000. Phone 9900 7165.

SLIEMA. Large, three bedroom, fully furnished apartment (140/150sqm), with back yard. €320,000. Phone 9982 3868.

SLIEMA. Two bedroom, 100sqm finished apartments starting from €280,000. Phone 9914 6231.
Figure 6 - The Sunday Times 30/06/2019

SLIEMA. Seafront, south-facing apartment. Three bedrooms, over 250sqm, large terrace, car space. €990,000. Phone 9942 3070.
Figure 7 - Times 17/08/2019

SLIEMA. Newly built, two bedroom, 121sqm apartment in Tigné area. €595,000. Phone 9991 4178.
Figure 8 - Times 13/11/2019

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On Annex 2.2

- A42. Forward Architects confirm that online advertised prices constitute a recognised and widely accepted source of market evidence in contemporary valuation practice. Such data are routinely relied upon in professional valuation assignments and institutional indices, including those compiled by financial authorities.
- A43. However, the reliability of such evidence depends fundamentally on the selection of truly comparable properties. In this instance, the properties referenced in Annex 2.2 do not appear to share materially similar characteristics in terms of precise location, aspect, frontage, view quality, and integration within a large-scale seafront development. In high-variance localities such as Sliema, property values can differ significantly within short distances depending on orientation, exposure, street hierarchy, and development context.
- A44. Forward Architects therefore maintain that comparable evidence must be carefully filtered to ensure alignment in terms of view (including Valletta-facing orientation), seafront exposure, planning parameters and development integration. Reliance on properties with materially different attributes may lead to distorted rate conclusions and does not provide a reliable benchmark for assessing the subject property.

CONCLUSION

In light of the comprehensive review and assessment of both the Grant Thornton and Forward Reports, the Valuations Committee has identified a number of overarching conclusions which reflect the findings outlined throughout this report.

These are summarised as follows:

1. Both reports are not as per provisions of Article 79 of CAP 573.
2. Both reports fail the verification process currently adopted by the Valuations Committee of the Lands Authority
3. In the case where the requested data was in fact supplied, an in-depth verification resulted in major discrepancies in the final results.
4. In the case where the request for data was denied, the in-depth verification was impossible to carry out. However, the NAO consultants voluntarily deducted ca. €1.8M from the final result and this was based purely on one single aspect of all the questions raised by the Lands Authority.
5. The Lands Authority therefore concludes that further consideration of both reports is not only counter to the provisions of the Government Lands Act, but also inadvisable due to the failures indicated in this report.

On the conclusion

- A46. Forward Architects confirm that no formal request for supporting data was made and subsequently refused. All queries received were addressed in good faith. Clarifications regarding the treatment of sales tax and resulting figures were communicated to the NAO. The interpretation reflected in the review does not fully reflect the context in which those clarifications were provided.

Conclusion

A47. Forward Architects reiterate that variance between valuations is inherent in professional practice, particularly where differences arise in valuation date, scope, assumptions and methodology. Academic literature and judicial commentary recognise that professional judgement may reasonably produce divergent figures without implying error. The valuation was prepared in accordance with recognised professional standards and within the scope defined by the engagement.