

## Valuation Report

151 Strand  
London  
WC2R 1HL

July 2019



Prepared for

GVA  
65 Gresham Street  
London  
EC2V 7NQ



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## Executive Summary



Exterior Photo



Interior Photo

### Location:

151 Strand (the "Property") is situated on the southern side of The Strand, within the WC2 postal district of central London, which is located on the western fringe of Midtown between the West End and The City of London.

### Description:

The Property comprises a mid-terraced building arranged on basement, ground and five upper floors. The building is occupied by your Borrower and provides functional albeit dated office accommodation with ancillary storage and staff areas in the basement.

### Floor Area:

GIA: 538.00 sq. m (5,790 sq. ft.)

NIA: 397.00 sq. m (4,269 sq. ft.)

### Tenure:

Freehold.

### Tenancies:

You have advised us that a new three years lease will be put in place between the Borrower and a connected company J & S Franklin Ltd. The lease will be fully repairing and insuring. We have not been provided with a copy of this lease and we would wish to view it before this valuation is relied upon.

### Income:

£231,000 per annum.

**Proposed Development:**

Demolition of office building (Class B1) and construction of a replacement building comprising basement, lower ground, ground and five upper floors with roof terrace and mechanical plant at roof level; for use as an apart-hotel (Class C1) with bar (Class A4) at lower ground floor level.

**Loan Security:**

We consider that the Property provides adequate security for loan purposes, based on the following SWOT analysis:-

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Central London location.</li> <li>• Good prospects of long term rental and capital growth.</li> <li>• Strong tenant demand and limited supply for office buildings.</li> </ul>	<ul style="list-style-type: none"> <li>• The proposed private members bar may not be attractive to operators other than your Borrower.</li> <li>• There are only five proposed apartments which is a small development in the context of the central London Market. Again, this may not be attractive to operators other than your Borrower.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Refurbishment to increase Market Rent.</li> <li>• Redevelopment.</li> </ul>	<ul style="list-style-type: none"> <li>• Any unforeseen costs increasing the development cost.</li> <li>• The proposed timetable for the development is delayed.</li> <li>• Letting voids and rent free incentives could increase.</li> <li>• A weakening economy.</li> </ul>

**Summary of Value**

Our valuations as at 24<sup>th</sup> July 2019 are summarised as follows:-

Market Value	£4,200,000
Market Rent (per annum)	£230,000
Market Value on the Special Assumption of Vacant Possession	£3,675,000

We are of the opinion that contracts could be exchanged at our opinion of Market Value within 90 days.

Our Ref: RB/ER/02B718707

Your Ref: FRA1457

24<sup>th</sup> July 2019

Proplend  
15 Little Green,  
Richmond  
TW9 1QH

Dear Sirs

**Property: 151 Strand, London, WC2R 1HL**

**Borrower: J & S Franklin (Holdings & Management Services) Ltd**

In accordance with your instructions dated 15<sup>th</sup> July 2019 to value the above Property in order to advise you of our opinion of its value for loan security purposes.

The freehold Property (edged red on the enclosed Ordnance Survey extract) has been valued with subject to the proposed lease.

Our formal valuation advice has been prepared in accordance with the RICS Valuation – Professional Standards UK January 2017

### **Valuation**

**WE ASSESS** the **Market Value (MV)** of the freehold interest in the Property identified within our report as 24<sup>th</sup> July 2019 to be:-

**£4,200,000**

**(Four Million Three Hundred Thousand Pounds)**

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London  
EC2V 7NQ

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**avisonyoung.com**

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Birmingham Bristol Cardiff Dublin  
Edinburgh Glasgow Leeds Liverpool  
London Manchester Newcastle

We are of the opinion that the Property could be sold with three months therefore we have not provided a separate valuation on the basis of a sale in six months.

**Addressee**

Propland Security Limited.

Within the main body of the report we have also provided additional valuations on the various bases required.

**Assumptions**

None.

All valuations are reported exclusive of VAT.

We draw your attention to our accompanying report, the Definitions and Reservations for Valuations to which our advice is subject and to the Terms of Engagement agreed between us.

Yours faithfully



**Robert Baldwin**  
RICS Registered Valuer  
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For and on behalf of GVA Grimley Limited



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## Appendices

Appendix 1    Instruction Letter

Definitions and Reservations for Valuations

# 1. Instructions

Instructions were received on 10<sup>th</sup> July 2019 to undertake a update valuation of the Property for secured lending purposes. You have not advised us of the terms of your loan.

A copy of your letter of instruction is enclosed at Appendix 1.

We are instructed to provide the following valuation(s):-

- Market Value; *and*
- Market Value with the special assumption of 90 days to exchange on the sale of the subject property

Our valuation has been undertaken in accordance with your instruction letter and our terms of engagement, which have been prepared in accordance with the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (the Red Book).

## **Conflict of Interest**

As far as we are aware, we have no conflict of interest in relation to the provision of valuation advice in respect of the Property. You are aware that we have valued the property for another lender. We have no current on-going fee earning relationship with the Borrower nor the Property and are therefore providing our advice as external valuers in accordance with the provisions of the Red Book.

## **Limitation of Liability and Professional Indemnity Insurance**

Our total liability in connection with this instruction and this valuation report is capped at the level set in our existing agreement with you, which is £5.0 million. We confirm that we hold professional indemnity insurance to cover our liabilities arising in connection with this instruction and this Valuation Report.

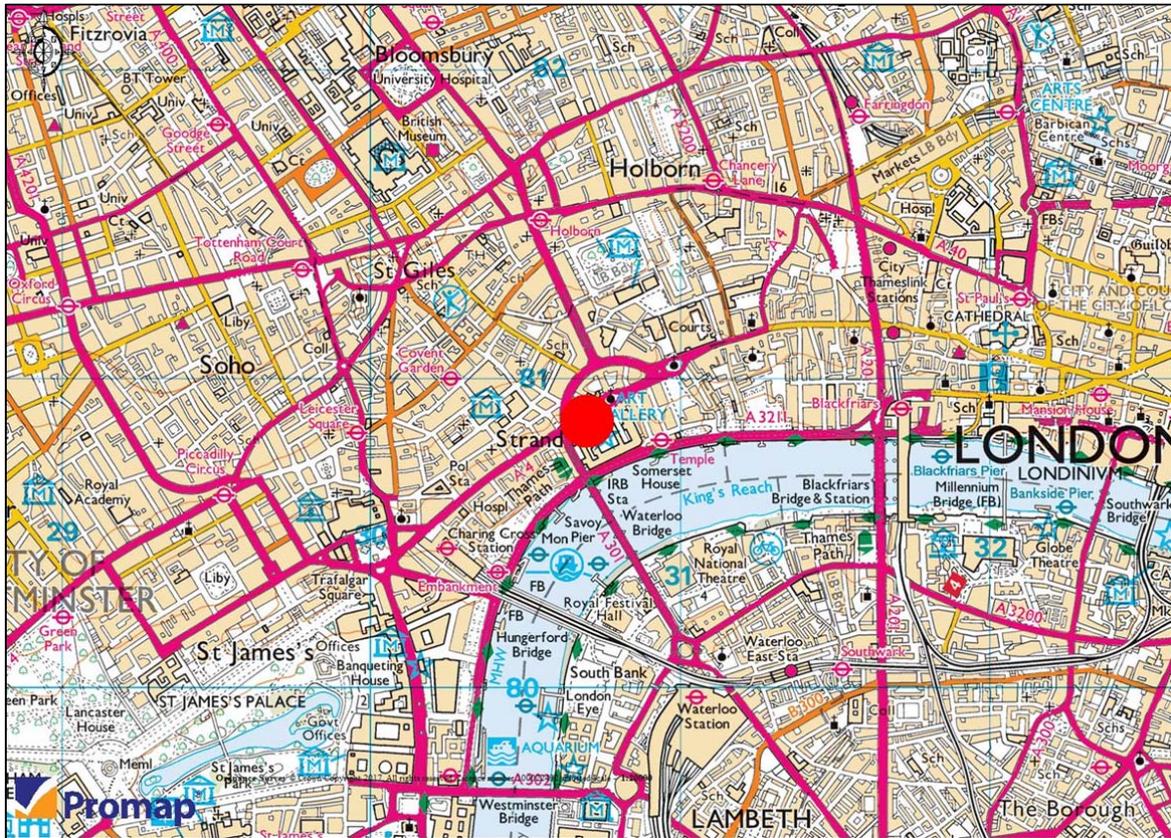
## **Nature and Source of the Information Relied Upon**

In preparing our valuation, we have been provided with information by the Borrower. The extent to which this has been relied upon, and verified, by us in arriving at our opinion of value, is referred to in our report.

## **Date and Extent of Inspection**

The Property was inspected on 28 June 2017 by Robert Baldwin MRICS, an RICS Registered Valuer and a Principal within the Valuation Consultancy Department of our London office. Access was available to all parts of the Property. The property was previously inspected on 26<sup>th</sup> February 2018 by Jamie Nathan MRICS a Director within the Valuation Consultancy Department of our London office. There are no material changes in the property between the two inspection dates.





### 3. Situation

The Property is a relatively long and narrow plot fronting the Strand. The plot lies immediately to the west of the north range of Somerset House.

The north facade is the only elevation visible from the public realm and sits to the west side of the strand facade of Somerset House. The long sides of the plot party walls with Somerset House to the east and Gibraltar House to the west (150 Strand: Gibraltar Government office).

The majority of land to the south of the site is Somerset House. The boundary at the rear of the plot to the south directly abuts the tall and largely blank rear external walls of the north range of Somerset House. The back wall of the north range of Somerset House and the rear façades of the Strand terrace define and enclose a long rectangular courtyard.

Opposite the Property on the north side of the Strand is a mixture of buildings dating from the c.19th & 20th Century. The general building heights to the north are taller at around 8 stories.

The surrounding area comprises a mix of uses. Somerset House hosts art galleries, exhibition spaces as well as seasonal events such as music concerts in the summer and an ice-rink in the winter. Kings College University extends to the east of Somerset House, and the High Commission of India and Australia feature on the northern side of the Strand. The area then predominantly features offices and hotels. In terms of the latter, the immediate locality includes a number of

well-known and iconic London hotels, including the Savoy, Strand Palace Hotel, Waldorf Hilton, One Aldwych, Apple Apartments (short-stay apartments within the former Marconi House) and ME London which opened in 2013 opposite the subject Property.

In terms of retail and restaurants, there are a few eateries to the west of the Property including Thai Square, Pizza Express, Greggs and Pret. Further south west along the Strand towards Charring Cross Station there is a larger retail offer including Tesco, Boots, Topshop, Argos and banks like Barclays and Nationwide. Additionally, Covent Garden is a 6 minute walk (0.3 miles) from the Property. This area is also part of London’s theatre district; the closest theatres to the subject Property are the Lyceum and Novello.

Residential accommodation is probably the least represented use class in the area, though it is present despite not always being easily identifiable. Additionally, there have been recent developments of luxury apartments nearby such as 190 Strand.

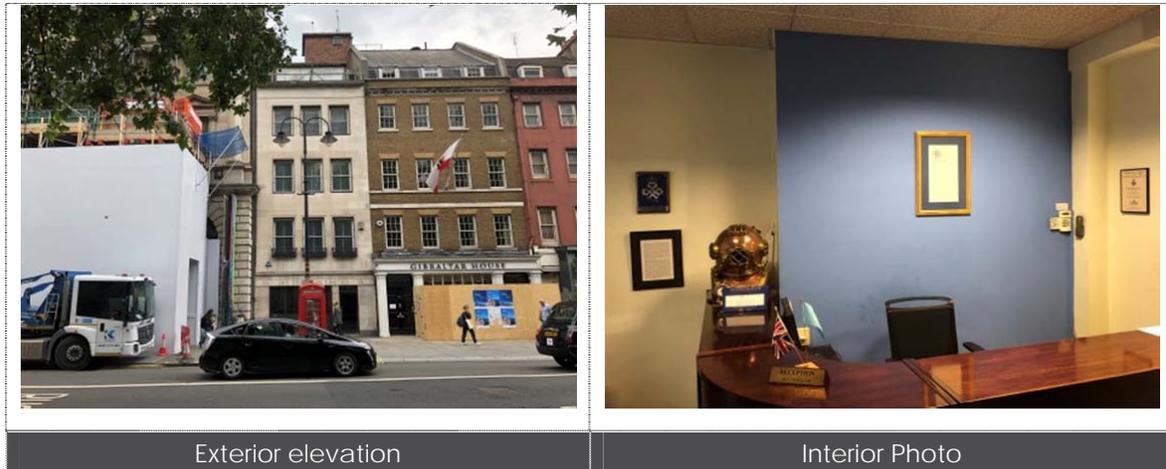
The Property therefore sits in a prime area of London in terms of many uses. The use of the Property as offices (see Description below) is poorer, smaller in size, and of similar age when compared to the surrounding Property.

We have provided a plan below showing the approximate situation of the Property, which is denoted by a red circle.



## 4. Description

The Property dates from 1958-62 and has been in the ownership of the Borrower as their business headquarters and offices since 1983. The existing building comprises of ground and basement floors with five additional floors, laid out as cellular rooms around a stair and lift core. The current use is office (B1).



The Property is of frame construction with attractive Portland stone façade under a slate mansard roof with additional asphalt flat roofs. The rear elevation is of brick construction. The elevations are relieved by large timber framed casement windows with additional secondary glazing. The ground floor has a large plate glass retail type window. There is a single staircore with a lift providing access to all floors. The lift is too small for wheelchair users to use and may not meet current accessibility standards.

Internally, the fit-out varies floor by floor. The property provides predominantly office accommodation as the ground, and upper floors are currently being used as the Borrower's headquarters. The fit out of these floors are to a reasonably good standard, providing comfortable office accommodation albeit somewhat dated in style. Generally, the ceilings are painted plaster with inset lights or pendant lights, walls are either painted plaster, wall paper or have been fitted out with wood panelling. The floor is solid concrete which has been carpeted. The fit out of the upper two are dated fit-out (eg featuring a large amount of wood panelling) and includes a furnished kitchen. Every floor has a WC.





The building has central-heating with radiators provided on every level. The roof hosts air-conditioning units and satellite aerials. The air-conditioning units feature sporadically around the Property, and consist of wall-mounted cassettes fixed to the highest part of the wall. The lighting varies throughout the building; mostly there are large, old-fashioned, recessed bulbs, but there are also long, protruding light panels and more modern spot lighting on the fourth floor. The windows varied in style, some were double-glazed, others were not.

The Property’s entrance is at the front of the building, opening directly onto the Strand. The pavement has a steady footfall of pedestrians, and the road has a constant flow of traffic. The Property does not provide any parking.

**Proposed development**

Your Borrower applied for planning consent (05 Jan 2017- reference 16/12166/FULL) for a change of use. The application is for a new boutique apart-hotel comprising of five short-stay suite hotel rooms with separate living and bedroom spaces (C1 - hotel) with ancillary private members bar and service areas. The proposed new operation is planned to be retained and operated by the Borrower. The planning document compiled by Coffey Architects dated 20 December 2016 shows the following areas;

Level	Appt No	Beds	Sq. m	Sq. Ft.
Ground/First	1	2	94	1,012
Second	2	1	70	753
Third	3	1	70	753
Fourth	4	1	64	689
Fifth	5	2	83	893
<b>Total</b>			<b>381</b>	<b>4,101</b>

The proposed bar area is shown to be 79.50 sq. m (854.60 sq. ft.).

The total Gross Internal Area of the proposed development is 736 sq. m (7,913 sq. ft.)

The new building aims to make the most of the Strand location as a popular location for hotels with proximity to the many cultural attractions that draw visitors to the area, such as Somerset House next door. The proposals continue a long history of hotels on the Strand, including, most

famously, the Savoy which opened in 1889, and later the Strand Palace hotel. More recent additions include One Aldwych and ME London which opened in 2013 and are located directly opposite the Property.

## 5. Site Area

We have provided an Ordnance Survey extract below showing the site boundaries of the Property. The site is chiefly a rectangular shape which is level in its topography. We calculate the site to have an approximate site area of 0.033 hectares (0.013 acres) using the Ordnance Survey Promap system. We have assumed that this represents the correct boundary to the site and that there are no on-going boundary disputes. We would recommend that our understanding is confirmed by your legal advisers.



*Boundaries subject to confirmation with title plan*

## 6. Floor Areas

We have been provided with the following floor areas in metric and imperial by the Borrower which we assume have been correctly prepared under the RICS Professional Statement – RICS Property Measurement 1st edition, May 2015 and in accordance with the RICS Code of Measuring Practice, 6th edition published by the Royal Institution of Chartered Surveyors on a Gross Internal Area basis:-

Floor	Use	Areas (GIA)		Areas (NIA)	
		sq m	sq m	sq ft	sq ft
Basement	Office	102	1,098	82.13	884
Ground Floor	Reception/Office	94	1,012	66.00	710
1st Floor	Office	87	936	66.90	720
2nd Floor	Office	87	936	66.90	720
3rd Floor	Office	86	926	66.90	720
4th Floor	Office	67	721	47.80	515
5th Floor	Plant	15	161	-	-
<b>Total</b>		<b>538</b>	<b>5,790</b>	<b>397</b>	<b>4,269</b>

To verify the accuracy, we took check measurements of the second floor.

## 7. Services

We understand that all mains services are connected to the Property. We have not undertaken any tests to ascertain the condition or capacity of these services and have assumed for the purpose of this valuation that all service connections are in good order.

## 8. Condition of Building

We have not carried out a structural survey of the Property but would comment that at the time of our inspection it appeared to have been satisfactorily maintained but was in a dated state of internal repair, having regard to its age, character and use.

## 9. Remaining Economic Life

We are of the opinion, that given reasonable maintenance and periodic repair, the subject Property will have a remaining economic life in excess of 50 years. With refurbishment and an on-going maintenance and repair programme, the life could be extended further.

## 10. Deleterious Materials

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the Property or have since been incorporated. Although our inspection did not reveal any obvious deleterious materials, we are unable to report that the Property is free from risk in this respect. We have assumed for the purposes of this valuation and report that no deleterious materials were used in the construction of the Property. Bearing in mind the age and nature of construction, we believe that this is a reasonable assumption.

# 11. Statutory Enquiries

## Planning Policy

Westminster's Local Development Framework is a portfolio of documents which together provide a comprehensive local policy framework for this part of London. The main document is the Local Plan, which is called Westminster's City Plan. It was initially adopted in November 2013 but subsequently revised with the latest version being formally adopted in July 2016. The Plan includes both strategic and more detailed policies to manage and deliver Westminster's future sustainable development.

Under this Plan, the Property is zoned as being in the Core Central Activities Zone (Core CAZ) and then more specifically within the Thames Policy Area and the West End Strategic Cultural Area. The site is located within the Strand Conservation Area and immediately adjacent to the Grade I-listed Somerset House.

The subject Property is not listed, however The Strand Conservation Area Audit (2003) identifies No.151 Strand as an unlisted "building of merit" as part of a larger terraced group at Nos.143-151. The Audit document sets out that "... these properties are of particular value to the character and appearance of the conservation area ...", which indicates a positive contribution to the significance or special interest of the conservation area in the view of the local planning authority.

## Planning History

We have provided below a summary of the planning history for the Property which has been taken from the City of Westminster's Planning Portal.

Ref no	Validated	Description
85/01225/FULL	22 Mar 1985	Replacement of shop-front
85/02490/FULL	12 Aug 1985	Replacement of shop-front
86/01246/FULL	14 Apr 1986	Installation of satellite dish receiver on rear roof

16/12166/FULL	05 Jan 2017	<p>Demolition of office building (Class B1) and construction of a replacement building comprising basement, lower ground, ground and five upper floors with roof terrace and mechanical plant at roof level; for use as an apart-hotel (Class C1) with bar (class A4) at lower ground floor level.</p> <p>This is the pending application for the Borrower's development. We attach this application at Appendix 3.</p> <p>The application was reported to the Planning Applications Sub-Committee on 16 January 2018, where members resolved to defer the application to allow the applicant to re-design the proposed front façade of the building to be more appropriate for its setting. The applicant has responded and now proposes: a lighter, more traditional colour, type and bond of brickwork; a more subtle shop front with the introduction of a stall riser, metal frame and the use of faience to provide a more solid structural appearance and grounding; and a slimmer but more refined parapet cornice to the building incorporating more horizontal detail and a coping stone.</p> <p>Planning consent was granted 18<sup>th</sup> March 2018.</p>
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We have not however been provided with or discovered a copy of the Planning Consent for the current use, Building Regulations Approval or Licences and we would therefore recommend that confirmation is sought from your solicitors that these are in place. Our valuation assumes that planning is in place for the current use.

### Equality Act 2010

The Equality Act places duties on employers and service providers to consider barriers (both physical and intangible) that disabled people might face when trying to access a service or employment. Using a particular product or designing a building in a certain way might help someone (person or organisation) meet their duties, but having an 'accessible' building in itself does not guarantee compliance with the Act.

The building is multi-storey with the ground floor at pavement level and the upper floors accessible via a lift. We therefore consider it likely that the building would be regarded by the market as complying with the accessibility requirements of the Equality Act.

### Highways

The Strand is an adopted road and maintainable at public expense. We have assumed that there are no highway proposals which may have an adverse impact on the subject Property.

### Rating

Business rates are levied as a tax on an occupier. However where premises are vacant and under the landlord's control, the landlord will assume responsibility for the payment of empty rates. Following the Finance Act 2008, empty Property rates are assessed at 100% of the basic occupied business rate, after an initial void period of 3 months has elapsed. In the case of industrial Property, the void period is extended by a further three months.

### 2017 Rating List

The property is included within the current rating list as follows;

Address	Description	Rateable Value
151, Strand, London, WC2R 1JA	Offices and premises	£148,000

The Uniform Business Rate for the year commencing 1 April 2019 is 49.1 in the pound.

### General

The majority of the above information has been provided to us from the web or verbally by local authorities or relevant public bodies. However, we would recommend that your legal advisers obtain formal confirmation that the information provided to us is correct. Should subsequent formal investigations contradict the information outlined above, then we would recommend that the matter is referred back to us in order to consider what impact, if any, this may have on our opinion of the value of the Property.

## 12. Environmental Issues

In accordance with the RICS Practice Standards Guidance Note, 'Contamination, the Environment and Sustainability', 3rd Edition - dated April 2010, we acknowledge that some properties may be affected by environmental issues that are an inherent feature of either the Property itself, or the surrounding area, and could have an impact on the value of the Property interest. Therefore, the following sections describe the underlying assumptions we have made regarding environmental issues, the extent of our enquiries and reliance on information provided by others in preparing this valuation.

### Valuation Assumptions and Extent of Enquiries

We have not been instructed to make any investigations, in relation to the presence or potential presence of contamination or other environmental features in land or buildings or affecting the Property.

We have not carried out any investigation into past uses, either of the properties or any adjacent land, to establish whether there is any potential for contamination from such uses or sites, and have therefore assumed that none exists.

In practice, purchasers in the Property market do require knowledge about contamination and other environmental factors. A prudent purchaser of this Property would be likely to require appropriate investigations to be made to assess any risk before completing a transaction.

Should it be established that contamination does exist, or the Property is affected by other environmental factors, this might reduce the value now reported.

### **Coal Mining**

From a review of The Coal Authority Gazetteer, the Property is not located in an area where a Coal Mining Report is required.

### **Invasive Plant Species**

The Wildlife and Countryside Act 1981 (as amended) is the principal legislation which regulates the release of non-native species. Section 14(2) prohibits the release of certain invasive non-native plants into the wild in Great Britain; it is an offence under Section 14(2) to “plant or otherwise cause to grow in the wild” any plants listed on Part II of Schedule 9.

The most common plant species found on brownfield and urban sites include Japanese Knotweed, Giant Hogweed and Himalayan Balsam, although other non-native species do exist. Japanese Knotweed poses a particular problem to Property, as not only does it out-compete native species, it also has the potential to cause costly damage to buildings, pavements, roads, etc. During our site inspection, we did not note the presence of Japanese Knotweed, Giant Hogweed or Himalayan Balsam.

### **Fluvial Flood Risk**

From a review of the Flood Hazard Mapping on the Environment Agency (EA) website, the site is not located within an area considered to be at risk of flooding from rivers and/or the sea. Currently available mapping indicates that the risk of flooding at this locality is regarded as very low (with the chance of flooding in any year is less than 1 in 1,000 (0.1%)).

The above risk rating takes into account the effect of any flood defences that may be in this area. It is important to acknowledge that flood defences reduce, but do not completely stop the chance of flooding and they can be overtopped or fail.

### **Surface Water Flood Risk**

From a review of the Flood Hazard Mapping on the Environment Agency (EA) website, the site is not located within an area considered to be at risk of flooding from surface water sources. Currently available mapping indicates that the risk of flooding at this locality is regarded as very low.

It is also important to note that flooding can occur through other mechanisms such as insufficient drainage capacity and breach of water storage infrastructure such as reservoirs, and these forms of flooding have not been specifically assessed in the above risk categories.

### **Conclusion Options for Flood Risk**

Given that the Property is located in an area designated as very low risk associated with fluvial and/or coastal flood risk and very low risk surface water flooding we do not consider that the valuation presented will be adversely impacted.

## 13. Energy Performance Certificates (EPC)

In line with the EU Energy Performance of Buildings Directive (EPBD) the Government is seeking to improve the environmental efficiency of all buildings. All residential, public and commercial buildings sold or let are required to have an EPC, with few exemptions.

On 26 March 2015, the Energy Efficiency (Private Rented Property) (England and Wales) regulations were passed into law. These regulations are better known as the Minimum Energy Efficiency Standards (MEES). MEES regulations make it unlawful to let, sub-let or renew a lease in a property or unit which has an Energy Performance Certificate (EPC) rating below E i.e. F or G, until qualifying improvements have been made or an exemption certificate has been obtained. From 1 April 2018, the regulations will apply to all new lettings, sub lettings or renewals (where an EPC is in place). From 1 April 2023 all leased properties with an EPC will need to meet the minimum requirements.

The Property does not appear to have an EPC. The subject Property is approximately 57 years old. We are not qualified to provide an EPC or assessment of its likely rating. However, we would recommend an EPC rating is established and an assessment of its exposure to the MEES regulations taken into account.

Within our valuation we have applied what we consider are appropriate rents and capital values based on the age and nature of the building, having regard to current market conditions. At the moment the market evidence suggests that the costs of upgrading buildings are rarely taken into account; though as awareness increases, we anticipate that this will become more prevalent. However, we suspect that non-compliant buildings will experience downward movement in values in the short to medium term as we approach the critical 2018 date.

In addition, it is considered that purchasers and occupiers will become increasingly influenced by EPC ratings, regardless of compliance, in the acquisition and occupation of buildings, which is likely to be reflected in prices and rents offered. There is no guarantee that buildings compliant with MEES regulations are protected against the behaviour of the market in stipulating what is an acceptable EPC rating for a particular building.

## 14. Tenure

We have not been provided with a Report on Title, however we understand that the interest to be valued is the unencumbered freehold interest. The Property is occupied by the Borrower.

We have assumed for the purposes of this valuation that there are no unduly onerous or restrictive covenants affecting the Property's title which would have an adverse effect on value. This assumption should be verified by your solicitors.

## 15. Tenancies

You have advised us that a new three years lease will be put in place between the Borrower and a connected company J & S Franklin Ltd. The lease will be fully repairing and insuring. We have not been provided with a copy of this lease and we would wish to view it before this valuation is relied upon.

## 16. Economic Overview

### Summary

- UK GDP growth increased to 0.5% in Q1 2019, up from 0.2% in the previous quarter;
- We expect all-property average rental growth to turn negative to -0.2% for 2019 as a whole;
- All-property average capital value growth turned negative to -0.5% in the year to May.

### Economic trends

UK GDP growth increased to 0.5% in Q1 2019, up from 0.2% in the previous quarter. However, rolling three-month growth slowed to 0.3% in April 2019. The slowdown comes as stockpiling eased and a sharp fall in car production as annual factory stoppages were brought forward to minimise impact from the original Brexit date.

The Markit / CIPS Purchasing Managers Indices average across the services, manufacturing and construction sectors remained fairly stable at 50.7 in May, only slightly above the crucial 50 no-change value. However, both the manufacturing and construction sectors fell into the negative territory with positive growth only in the service sector. Whilst growth in the service sector was the highest in three months businesses remain cautious amid Brexit-related uncertainty, subdued economic growth and rising input costs.

The labour market continues to thrive with the unemployment rate falling to 3.8%, the lowest since December 1974. The improvement in pay growth continued with real earnings increasing by 1.5% excluding bonuses and by 1.2% including bonuses compared with a year earlier.

CPI inflation increased to 2.1% in April, up from 1.8% in March and close to the Bank of England's 2% target. The Bank of England is likely to keep the 'Bank Rate' on hold in the near term amid Brexit and political uncertainty and heightened concerns about a global slowdown. However, increasing inflation and higher pay growth could add pressure on the Bank.

### Outlook

The UK remains engulfed in economic and political uncertainty as Theresa May steps down as the leader of the Conservative Party. Talks on UK's exit have taken a backseat as the race to replace Theresa May has begun.

We expect GDP growth to be weak in 2019, particularly in the first half with business activity and investment continuing to be subdued. However, the slowdown in economic growth is not unique

to the UK, suggesting there are other global factors at play too which have been a drag globally. The Treasury consensus forecasts economic growth at 1.5% for 2019 and 2020.

## 17. Local Market Commentary

### Take-Up

Midtown take-up totalled 330,000 sq ft for Q1 2019, down 52% on Q4 2018, but only 9% below the 5-year quarterly average. The largest deal of the quarter was at Herbal House, 10 Back Hill, EC1 where The Open Society acquired 29,000 sq ft on a 15 year lease. Q1 saw a scarcity of larger deals; by comparison Q4 2018 recorded three over 50,000 sq ft. There were 28 deals transacted overall, resulting in an average deal size of just 12,000 sq ft. The TMT & Creative sector accounted for the majority of take-up in Q1 2019 at 28%. This was largely due to the impact of the burgeoning creative district in Clerkenwell where 57% of the sector's take-up was based. The Government and Services sector followed next, accounting for 22% of take-up.

### Availability and Development

Midtown availability fell to 960,000 sq ft for Q1 2019, down from 1.1 million sq ft at the end of last year. The vacancy rate now stands at a very low 2% together with a limited development pipeline going forward. The under construction development pipeline currently comprises 410,000 sq ft overall, of which 36% is prelet. Developments over 50,000 sq ft currently total 200,000 sq ft, of which 55% is prelet. There are currently no developments over 100,000 sq ft in the market; the largest available development is Farringdon East which will provide 90,000 sq ft due for delivery in Q4 2019.

### Rental Growth

Holborn prime rents saw marginal growth for Q1 2019, increasing to £66.50 per sq ft. This is up from £65.00 per sq ft at the end of last year and could be attributed to the falling supply in the submarket, placing upwards pressure on rents. Bloomsbury rents remained at £80.00 per sq ft, unchanged since Q1 2018. Similarly, rent free periods stayed stable in line with wider trends at 24 months. Prime rents across Midtown submarkets were stable during the quarter. Midtown prime rents are 1% down on this time last year. Prime rents in Bloomsbury remain at £75 per sq ft.

### Market Rent

In arriving at our valuation, we have had regard to the Market Rent in the current use and the Market Rent given the current planning application.

We are aware of the following rental evidence which we consider to be relevant to the subject property:-

Address	Description & Size	Tenant	Brief Lease Terms	Rent £pa & £psf	Incentives	Type & Date of Transaction
2 <sup>nd</sup> Floor, 20-22 Bedford Row, WC1	Georgian built office building. Grade A office space. 2,509 sq ft	DMS Governance	5 year FRI lease.	£159,322 pa £63.50 psf	10 months	OML – Under Offer and due to complete July 2019
2 <sup>nd</sup> Floor, 4 St Paul's Churchyard, EC4	Period mixed use building with retail at ground floor and offices above. Grade A office space. 2,456 sq ft	Thistle Initiatives	10 year FRI lease. Break in year 5.	£156,570 pa £63.75 psf	10 months at start plus 7.5 months if the break option is not exercised.	OML – Jun 2019
2 <sup>nd</sup> , 3 <sup>rd</sup> & 4 <sup>th</sup> Floor, 30 Farringdon Lane, EC1	Mid-terrace period built offices arranged over three floors. Would benefit from refurbishment 3,670 sq ft	Not known	5 year FRI lease.	£192,675 pa £52.50 psf	6 months	OML – Mar 2019
2 <sup>nd</sup> Floor,	2 <sup>nd</sup> floor	Linesight	5 year FRI	£103,530	11	OML – Oct

Address	Description & Size	Tenant	Brief Lease Terms	Rent £pa & £psf	Incentives	Type & Date of Transaction
Midway House, 27-29 Cursitor Street, EC4A	office presented to a good specification. Lift access and air-conditioning.  1,785 sq ft		lease with break option in year 3.	pa  £58.00 psf	months' rent free from start of the lease	2018
3 <sup>rd</sup> Floor, The Lightwell, 12-16 Laystall Street, EC1R	Newly refurbished office presented to a Grade A specification. Lift access and air-conditioning.  3,462 sq ft	Kayak	5 year FRI lease with break option in year 3.	£199,065 pa  £57.50 psf	Not known	OML – Sep 2018
4 <sup>th</sup> Floor, 72-82 Rosebery Avenue, EC1	Recently refurbished office building.  1,023 sq ft	Buchen Group	2 year FRI lease with no breaks.	£100,000 pa  £62.50 psf	None	OML – Jul 2018
Cobham House, 9 Warwick Court, WC1	Mid-terrace period built self-contained office building arranged over lower	Available	Available	Quoting £62.50psf on ground – 3 <sup>rd</sup> floors and £42.50psf	Likely to be offered with a 10 - 12 month rent free period.	Available

Address	Description & Size	Tenant	Brief Lease Terms	Rent £pa & £psf	Incentives	Type & Date of Transaction
	ground, ground & three upper floors. Newly refurbished to a Grade A specification.  3,407 sq ft			on lower ground.  Blended rate for the whole building equates to £57.92psf		
11 Cursitor Street, EC4A	Mid-terrace period built self-contained office building arranged over ground & four upper floors.  Recently refurbished to a Grade A specification with lift access.  706 sq ft - 6,875 sq ft floor plates.	Available	Available	Quoting £65.00 psf on a floor by floor basis.	Likely to be offered with a 10 - 12 month rent free period.	Available

### Conclusions

We are of the opinion that the market would regard the Property as not particularly lettable in its present condition and assume a refurbishment. Therefore, we have adopted a rate assuming a

refurbishment and allowed for these works within our valuation. We have adopted a rate of £60.00 per sq. ft. on the office space, reducing this to £30.00 per sq. ft. for the basement space.

Consequently we are of the opinion that the current Market Rent as offices (assuming a refurbishment) for the Property is:

**£230,000 per annum**  
**(Two Hundred and Thirty Thousand Pounds)**

In line with market conditions, tenant incentives are likely to be required in order to secure our opinion of Market Rent. We have allowed for six month rent free periods following a three month letting void, in order to secure a five year term.

## 18. Investment Market Commentary

Investment volumes totalled £2.8 billion in Q1, a sharp decline from Q4 last year, but despite the uncertainty in the market investment volumes were largely in line with Q1 from previous years.

We expect investment volumes to remain steady throughout 2019 given there are a number of high value properties currently under offer. Since the start of April, investment has picked up. However with the date when the UK will leave the EU being pushed back for the second time to October 2019, we still expect to see some investors exercising caution with new acquisitions

Q1 investment volumes fell to £2.8 billion for Q1 2019, a 31% decline on the 10-year average but only 11% down on Q1 2018. There were 38 deals recorded for the quarter, one of the lowest levels on record and 37% down on this time last year. There was a lack of larger transactions in the market in Q1 with just four transactions over £100 million, equating to a total of £1.5 billion. By comparison, Q1 2018 recorded nine transactions with total volumes of £2.0 billion. The figures were boosted by Citigroup's purchase of their own offices at 25 Canada Square, E14 for £1.1 billion, 4.23% NIY.

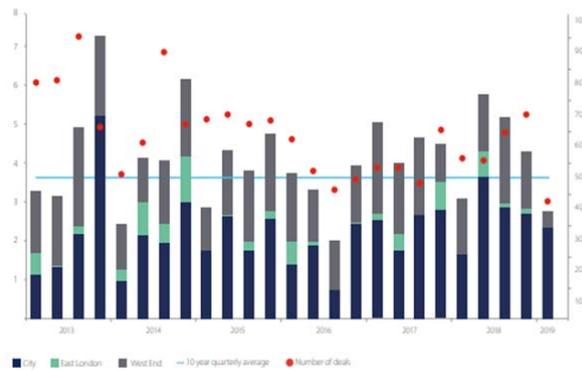
On a submarket basis therefore, East London outperformed recording the second highest investment total on record, 258% above the 10-year average. There were only two deals recorded in the market in Q1 2019 but they were the two largest deals overall. Conversely, the City and West End markets saw investment volumes fall dramatically. City investment volumes totalled £1.1 billion in Q1 2019, down 75% on the 10-year average and 52% down on Q1 2018. The largest deal to transact in the market in Q1 was Dukelease Properties' acquisition of 42-47 Minories, E1 for £121.25m. By number of deals, City investment activity remained largely stable with 26 deals recorded, slightly below the 10-year average of 29, but in line with Q1 2018.

The majority of purchaser activity in the City market in Q1 2019 was from overseas investors who accounted for 49% of the total. Although overseas investors still accounted for the majority of acquisitions, overseas investment also saw the largest fall by total volumes, dropping 160% on the 10-year average. As a result, UK Property Companies accounted for a higher overall percentage of 29%, although volumes remained in line with previous quarters.

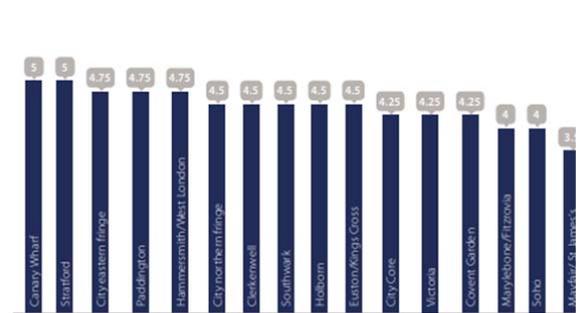
The West End saw investment volumes fall to £420 million for Q1 2018, down over 200% on the 10-year average and Q1 2018. There were no deals recorded over £100m, the largest transaction was Arax's acquisition of 24 Eversholt Street, NW1 for £95m, 4.83% NIY. By number of deals, Q1 2019 recorded just 10, the lowest level on record and considerably below this time last year when 26 deals transacted. T

There was a spread of activity across most West End submarkets for Q1 2019, although Victoria saw the most investment overall with £120m recorded in three deals. This is the second quarter in a row that Victoria has been the best performing submarket. Submarkets surrounding King's Cross also saw strong activity recording £110m in two deals, located in Euston and Camden. There were two deals in Mayfair and St James's for the quarter recording £44m of investment, 26 St James's Square, SW1 bought for £33m, and 11 Curzon Street, W1 bought for £11m. We expect further sales to complete this year and the table overleaf shows a number of buildings that are currently on the market as UK funds look to benefit from continued liquidity across Central London.

CENTRAL LONDON QUARTERLY VOLUMES VS NUMBER OF DEALS



CENTRAL LONDON YIELDS



## Investment Comparables

We are aware of the following transactions;

Address	Description/ Size/Tenure	Tenancies Unexpired Term	Rent	Date	Sale Price NIY/EY	Comparison to Subject Property
18 Red Lion Court, EC4A	Period built office building. 8,624 sq ft Freehold	Single let to 5KBW until March 2022 (3 years unexpired term). 3 years	£360,000pa (approx.) c.£41.74psf	Under Offer	c.£8.40m £974psf c.4.00% NIY	The rental income is considered reversionary.  Upon completion of the refurbishment works and when fully let we consider that the subject property would achieve a higher capital value per sq ft.
Charles Darwin House, 12 Roger Street, WC1N	Comprises a 1960s built office building that was refurbished in 2010. 17,794 sq ft Freehold	The building is single let to the Microbiology Society on lease due to expire in September 2019. c.6 months	£695,000pa (approx.) c.£39.06psf	Mar-19	£12.85m £722psf 5.06% NIY	This comparable is a large 1960s multi-let office building. The subject property is a more desirable period building and so we consider that it would achieve a lower yield.

50-54 Clerkenwell Road, EC1	Early 1900s office building that has been recently refurbished.  8,954 sq ft  Freehold	Fully let to a total of 5 tenants.  4.16 years to breaks.	£564,779pa  £63.08psf	Oct-18	£11.4m  £1,273 Psf 4.64% NIY	Broadly rack rented.  Upon completion of the proposed refurbishment works we consider that the subject property would attract a premium and so are of the opinion that it will achieve a lower yield.
13 Austin Friars, EC2	Comprises a mid-terrace period built office building.  10,645 sq ft  Freehold	Multi-let to eight tenants.	£401,132pa  £37.68psf	Sep-18	£7.75m  £728psf 4.85% NIY	This is a larger multi-let office building. Upon completion of the refurbishment works the subject property will present a more desirable investment.

9 Gough Square, EC4	Comprises a period build mid-terrace office building. 6,805 sq ft Freehold	Single let to Chambers of Graham Aldous QC	£216,000pa (approx.) c.£31.74	Jun-18	£4.60m £676psf 4.44% NIY	The rental income is reversionary. Upon completion of the proposed refurbishment works the subject property will be superior to this comparable and therefore achieve a higher capital value per sq ft.
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### Conclusions

Based on the above evidence we conclude that a capitalisation yield of 4.50% would be an appropriate yield for the subject property given the short term income.

## 19. Valuation Considerations

In arriving at our opinion of Market Value, we have had regard to the following factors:-

### Location

- The WC2 area of Midtown is within the central business core. The area is popular with a range of occupiers. The subject property is located in a prominent location, close to Kingsway (A4200).
- The London office market has recently experienced a period of significant rental growth. The market appears to be stabilising, however rental growth is forecast to remain positive over the next few years.

### Building

- The Property is a mid-terraced building located between the landmark Somerset House and Gibraltar House (the diplomatic mission of the British Overseas Territory of Gibraltar) to the west.
- Internally, the building is "tired" and in need of refurbishment to continue the existing use. We are of the opinion that there would be a good demand for the subject property once refurbished.

- The building is situated on basement, ground and five upper floors. Your Borrower intends to demolish this and create a larger building on sub-basement, basement, ground and six upper floors. This will be operated as serviced apartments and a private members club.

#### **Proposed development**

- Planning consent for the redevelopment was submitted on 21 December 2016 approved on 13<sup>th</sup> March 2018. The planning application is for a C1 use on the upper parts which is for "Hotels, boarding and guest houses where no significant element of care is provided". We are of the opinion that a C3 consent would provide the maximum capital value whilst still allowing short-stay, however the planning law is not particularly clear on this matter.

#### **Marketability**

- The Property is likely to be attractive to investors due to its lot size. In addition, the Property offers a development/refurbishment opportunity.

## **20. Basis of Valuation**

We set out below our valuations on the various bases requested in your instruction letter. Our valuations are exclusive of VAT.

#### **Market Value**

We have carried out the valuation on a traditional income capitalisation basis having regard to appropriate yields.

We have adopted a Market Rent of £60.00 per sq. ft. reducing this by 50% for the basement totalling £230,000 per annum and capitalised the passing rent of £321,000 per annum for three years this at an equivalent yield of 4.50%. We have allowed for a 12 month void on lease expiry to allow for the refurbishment, marketing and rent free period. We have deducted £426,900 (£100.00 per sq. ft.) for refurbishment this includes contingencies and professional fees and 15.00% for leasing fees. We have also deducted standard purchaser's costs. This produces a rounded Market Value of £4,200,000 equating to £983 per sq. ft.

Having regard to the above factors, we are of the opinion that the Market Value of the freehold interest in 151 Strand, London, WC2R 1HL, subject to the current tenancy, as at 24<sup>th</sup> July 2019 is:-

**£4,200,000**

**(Four Million Two Hundred Thousand Pounds)**

Our valuation provides the following yield profile:-

- Net Initial Yield 5.17%
- Nominal Equivalent Yield 4.50%

- True Equivalent Yield 5.63%
- Reversionary Yield 4.70%
- Our Market Value reflects a capital value of £983 psf

We believe a marketing period of 90 days would be required to achieve an exchange of contracts at our opinion of Market Value.

### Market Value on the Special Assumption of Vacant Possession

We have carried out the valuation on a traditional income capitalisation basis having regard to appropriate yields. We have adopted a Market Rent of £60.00 per sq. ft. reducing this by 50% for the basement totalling £230,000 per annum and capitalised this at an equivalent yield of 5.00% deferring the income for 12 months to allow for the refurbishment, marketing and rent free period. We have deducted £426,900 (£100.00 per sq. ft.) for refurbishment this includes contingencies and professional fees and 15.00% for leasing fees. We have also deducted standard purchaser's costs. This produces a rounded Market Value of £3,675,000 equating to £861 per sq. ft.

Having regard to the above factors, we are of the opinion that the Market Value of the freehold interest in 151 Strand, London, WC2R 1HL, subject to vacant possession, as at 24<sup>th</sup> July 2019 is:-

**£3,675,000**

**(Three Million Six Hundred and Seventy Five Thousand Pounds)**

Our valuation provides the following yield profile:-

- Net Initial Yield 0.0%
- Nominal Equivalent Yield 5.00%
- True Equivalent Yield 5.16%
- Reversionary Yield 5.88%
- Our Market Value reflects a capital value of £861 psf

We believe a marketing period of 90 days would be required to achieve an exchange of contracts at our opinion of Market Value.

## 21. Reinstatement Cost Assessment

Our estimate of the current reinstatement cost of the Property on a day one basis is in the order of:-

**£2,500,000**

**(Two Million Five Hundred Thousand Pounds)**

This figure includes demolition costs and statutory/professional fees, but excludes the following:-

- Tenants fixtures and fittings
- Inflation
- Legal Fees
- Loss of Rent
- Consequential Loss
- Agency Fees
- VAT

This assessment has been prepared by a valuation surveyor based on current guidelines. In order to produce a more formal assessment (which could be relied upon as the basis for insuring the Property) our quantity surveyors would need to carry out a detailed inspection of the premises. We strongly suggest that our informal estimate is compared with the current sum insured. In the event of a material discrepancy between the two figures, we recommend that a formal assessment is undertaken.

## 22. Capital Allowances

Capital allowances might be available in relation to this Property and could provide significant future tax savings. The benefit of such allowances is dependent on matters such as the tax position of the vendor and purchaser, contract agreements and the history of previous claims. A claim would require expert assessment. It is therefore not feasible to make a reliable estimate of the value of allowances as a part of this valuation report. Therefore we have not taken account of the value of capital allowances except to the extent that this value is reflected in market comparable evidence.

If a purchaser could claim capital allowances, this might present additional value to that purchaser and could result in an increased bid for the Property.

## 23. Suitability for Loan Security

We are of the opinion that the Property provides adequate security for a commercial loan based on all of the factors referred to in this report. Our assessment of the suitability of the Property for loan purposes is based on the following SWOT analysis:

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Central London location.</li> <li>• Good prospects of long term rental and capital growth.</li> <li>• Strong tenant demand and limited supply of</li> </ul>	<ul style="list-style-type: none"> <li>• The proposed private members bar may not be attractive to operators other than your Borrower.</li> <li>• There are only five proposed</li> </ul>

office buildings.	apartments which is a small development in the context of the central London Market. Again, this may not be attractive to operators other than your Borrower.
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Refurbishment to increase Market Rent.</li> <li>• Redevelopment.</li> </ul>	<ul style="list-style-type: none"> <li>• Any unforeseen costs increasing the development cost.</li> <li>• The proposed timetable for the development is delayed.</li> <li>• Letting voids and rent free incentives could increase.</li> <li>• A weakening economy.</li> </ul>

#### Lender Action Points

- You should obtain your Borrower's business plan to ascertain the level of income to be generated from the proposed development. We can review this and provide an updated Market Value if appropriate.
- You should employ a monitoring surveyor to ensure the development is completed as proposed.
- You should reserve 'step in' rights in relation to the development contract and other due diligence reports.
- We should view the proposed lease before our valuation is confirmed.

## 24. General Comments

We confirm that we meet the requirements as to competence and the definitions of an External Valuer within the RICS Valuation – Professional Standards UK January 2014, (revised April 2015). The Valuation Report has been prepared by Rob Baldwin, an RICS Registered Valuer within the Valuation Consultancy Department.

The valuation has been discussed with and approved by Jamie Nathan an RICS Registered Valuer and Director in the same department.

Appendix 1  
Instruction Letter

Attn: Robert Baldwin,  
Avison Young,  
65 Gresham Street,  
London,  
EC2V 7NQ

Ref: J. & S. Franklin (Holdings And Management Services) Limited

Dear Sirs,

Please accept this letter as our formal instruction to your firm to carry out a valuation, for mortgage purposes, on the addresses indicated below upon which we, Proplend Security Limited shall rely. The valuation may be shown to any third parties in connection with the financing of the property albeit it cannot be relied on by those parties directly. Please notify us if there will be any delay. **Please advise us immediately if you are unable to give prompt attention to this matter.**

Borrower:	J. & S. Franklin (Holdings And Management Services) Limited
Contact Name:	Jasmina Franklin-Pierce
Phone Number:	07802 604040
Email:	jasmina@franklin.co.uk
Properties:	151 Strand, London, WC2R 1HL
Tenure:	Freehold
Use:	Retail and Office
Tenancies:	to be a new 3-year FRI lease between the above freeholder, and associated business J. & S. Franklin Limited, at a rental of £231,000 p.a.
Access:	via Jasmina, as above

### Instruction

The report should be addressed to Proplend Security Limited which must clearly state that it can be relied upon for lending purposes by the parties named herein. Please ensure that the report accords with the current RICS Appraisal and Valuation Manual.

Please indicate in your report if the valuer or your firm have had any previous involvement with the property forming the subject of the valuation. If so, please indicate the nature and extent of that involvement and confirm specifically that you consider there is no conflict of interest on the part of the valuer or your firm.

The report must be signed by a partner or director of the firm who is a member of the Royal Institute of Chartered Surveyors.

Whilst your report will be addressed to Proplend Security Ltd, it will need to be uploaded to the Proplend website and viewed by its Lending members on the understanding that only Proplend Security Ltd may rely on the report for mortgage purposes. Can you please confirm within your report that this is understood and accepted?

### Valuation and Report

The Market Valuation referred to below should be based on current values and should reflect market conditions prevailing at the date of the report, and changes in market conditions that you are able to predict, and should include:

1. The Market Valuation for loan security purposes of the Property in its current condition at the date of your inspection, subject to any current tenancies in place and sold as a going concern. Please indicate the period of marketing you have assumed in arriving at your valuation.
2. A valuation of the Property on the assumption that the Property was being sold without the benefit of a going concern.
3. A valuation of the Property on the assumption of Vacant Possession.
4. Please provide comparable evidence to support your assumptions on values.
5. Please provide an estimated rental value for the Subject Properties.
6. Please provide commentary on continued likely market demand for properties of this size and nature, in this location, for sale and to let.
7. Please provide an estimated reinstatement cost of the buildings for insurance purposes.
8. Please provide a full description of the Property to include its accommodation, its size, its construction, location and general state of repair. These details should be supported with photos of the Properties. Whilst you are not instructed to carry out a structural survey on each Property, please comment of any noticeable defects that might warrant further investigation and which might affect the marketability of the Property.
9. Please certify that the Property is acceptable for secured lending purposes.

**Report on Title**

A copy of the solicitors Report on Title will be sent to you so that you can cross check your assumptions with the facts contained within the said report and comment on specific items which may affect your valuation.

**Fees**

You have quoted and the Borrower has agreed to pay a fee of £tbc + VAT for this undertaking. Whilst a receipted invoice for this service should be supplied with your report, and addressed to this company, we ask that you seek settlement of your fee from the proposed Borrowers whose contact details are supplied above. Proplend Security Limited cannot accept any responsibility for non-payment of your fees in this regard.

**Contact Details**

Please contact Proplend on 0203 637 8418 if you have any queries regarding this instruction.

Please send the Valuation Report to [borrower@proplend.com](mailto:borrower@proplend.com), with hard copy to 15 Little Green, Richmond TW9 1QH. Draft reports are not acceptable. Following provision of the Valuation Report, you should be prepared to discuss its contents with the Lender.

Yours Faithfully,



Brian Bartaby  
Director

Proplend Security Limited

Definitions and  
Reservations for  
Valuations

## Definitions and Reservations for Valuations

### Information

All information supplied by the Client, the Client's staff and professional advisers, local authorities, other statutory bodies, investigation agencies and other stated sources is accepted as being correct unless otherwise specified.

### Tenure

Title Deeds and Leases are not inspected (unless specifically stated) and, unless we are informed to the contrary, it is assumed that a property is free of any onerous covenants, easements, other restrictions or liabilities including mortgages, grants and capital allowances which may affect the value.

No responsibility or liability will be accepted for the true interpretation of the legal position of the client or other parties.

### Tenants

Tenants' status is investigated only where we are so instructed and so specified in the valuation.

### Plans

Any plans supplied are for identification purposes only unless otherwise stated. The valuation assumes site boundaries are as indicated to us. The reproduction of Ordnance Survey sheets has been sanctioned by the Controller of Her Majesty's Stationery Office, Crown Copyright reserved.

### Site Areas

Site areas are normally computed from plans or the Ordnance Survey and not from a physical site survey. They are approximate unless otherwise indicated.

### Floor Areas and Dimensions

Floor areas and dimensions are taken from inspection unless otherwise specified but are nevertheless approximate. Areas quoted are calculated in accordance with the RICS Professional Statement – RICS Property Measurement 1<sup>st</sup> edition, May 2015 on the basis agreed with the Client, i.e. adopting either (1) The Code of Measuring Practice, 6th edition published by the Royal Institution of Chartered Surveyors, or (2) The International Property Measurement Standards (IPMS): Office Buildings.

The following bases are those most frequently used under the Code of Measuring Practice, 6th edition:

Net Internal Area - Measured to the internal faces of external walls, excluding toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

Gross Internal Area - Measured to the internal faces of external walls, including toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

Gross External Area - Measured to the external faces of external walls, including toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

The following bases are those used under The International Property Measurement Standards (IPMS): Office Buildings:

IPMS1 - The sum of the areas of each floor level of a building measured to the outer perimeter of external construction features and reported on a floor by floor basis.

IPMS 2 - Office - The sum of the areas of each floor level of an office building measured to the internal dominant face and reported on a component by component basis for each floor of a building.

IPMS 3 - Office - The floor area available on an exclusive basis to an occupier, but excluding standard facilities and calculated on an occupier-by-occupier or floor-by-floor basis for each building.

### Ground Conditions

Soil stability, mining and geological reports are not undertaken by us or normally inspected. Unless we are instructed to the contrary, we assume that the ground and any adjoining or nearby areas are not contaminated, that there are no dangerous materials in the vicinity and that it is capable of development without the need for abnormal costs on foundations and services.

### Condition of Buildings, Plant Etc

Our inspection of a property does not constitute a structural survey. When preparing our valuation we have regard to apparent defects and wants of repair and take into account the age of the property. We do not however carry out the detailed search for defects which is undertaken as part of the structural survey neither do we necessarily set out the various defects when making the report. We do not inspect woodwork or other parts of the structure which are covered, unexposed or inaccessible. We do not arrange for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or any other deleterious materials or permanent woodwool shuttering or composite panelling has been used in the construction.

Unless so instructed we do not arrange for any investigations to be carried out to determine whether or not any deleterious or hazardous material or techniques have been used in the construction of the property or

has since been incorporated and the services are not tested.

We are therefore unable to report that the property is free from defect in these respects.

For valuation purposes we assume unless otherwise stated that the property (including associated plant and machinery, fixtures and fittings) is in serviceable order and will remain so for the foreseeable future. It will be assumed that the building/s is/are in good repair, except for defects specifically noted.

### **Asbestos Regulations**

The Control of Asbestos Regulations 2012 came into force on 6 April 2012, updating previous asbestos regulations to take account of the European Commission's view that the UK had not fully implemented the EU Directive on exposure to asbestos (Directive 2009/148/EC). Your legal advisers should enquire as to compliance with these regulations and property owners will need to be able to provide confirmation as to the existence and condition of asbestos.

### **Fire Safety**

The Regulatory Reform (Fire Safety) Order 2005 (The Order) replaces previous fire safety legislation including both the Fire Precautions Act 1971 and the Fire Precautions (workplace) Regulation 1997. Consequently any fire certificate issued under the Fire Precautions Act 1971 will cease to have any effect. The Order came into force completely on the 1st April 2006.

The Order applies to the majority of premises and workplaces in England and Wales although does not include people's private homes. It covers general fire precautions and other fire safety duties, which are needed to protect 'relevant persons' in case of fire in and around most 'premises'.

Under the order, anyone who has control in a premises or anyone who has a degree of control over certain areas may be classified as a 'responsible person'. It is thus the duty of such individuals to comply with the requirements of the Order and make certain that all measures are taken to ensure the safety of all the people he or she is directly or indirectly responsible for.

The responsible person must then carry out a Fire Risk Assessment. In short this is a five-point process whereby fire hazards must be identified, relevant persons at risk recognised, potential risks reduced, staff training implemented and the whole assessment regularly reviewed. The assessment must pay particular attention to those at special risk such as disabled people, those who have special needs and young persons. Furthermore the responsible person must provide and maintain clear Means of Escape, Signs, Notices, Emergency Lighting, Fire Detection & Alarm and Extinguishers.

This approach is different from previous legislation, as it is now necessary to consider everyone who might be on

your premises, whether they are employees, visitors or members of the public.

The Risk Assessment must be regularly reviewed and if necessary amended. Finally if the responsible person employs five or more people, the premises are licensed or the Inspector requires it then the Risk Assessment must be formally recorded.

The Smoke and Carbon Monoxide Alarm (England) Regulations 2015 effective 1 October 2015 require that landlords of residential property must provide (1) a smoke alarm on each storey of the premises on which there is a room used wholly or partly as living accommodation and (2) a carbon monoxide alarm in any room of the premises which is used wholly or partly as living accommodation and contains a solid fuel burning combustion appliance. The landlord has a responsibility to ensure that the detectors are checked and in proper working order.

It is assumed that the property is compliant in regard to the above regulations.

### **Accessibility**

From 1 October 2010, the Equality Act 2010 replaced previous anti-discrimination laws, including the Disability Discrimination Act, with a single Act to make the law simpler and to remove inconsistencies. The Equality Act protects the important rights of disabled people to access everyday facilities and services and to ensure that disabled workers are not disadvantaged.

Our report will contain observations of a general nature on the extent to which we consider that the building would be regarded by the market as complying with the accessibility requirements of the Equality Act. We have not, however, carried out an in-depth study which would be required to reach a formal view.

### **Energy Performance Certificates**

From 2008 Energy Performance Certificates (EPCs) are required for the sale, rental or construction of commercial buildings. The requirement was phased in over 6 months between 6 April and 1 October 2008. Commercial properties with a useful floor area of more than 10,000 sq m were affected from 6 April 2008, those exceeding 2,500 sq m had to comply from 1 July 2008 and the remaining properties had to comply from 1 October 2008. An EPC must be provided on the sale, rental or construction (or in some cases modification) subject to transitional arrangements. Non-compliance may lead to sanction under civil legislation, involving a financial penalty.

Our valuation assumes that the property has an Energy Performance Certificate (if required under the Energy Performance of Buildings (Certificates and Inspections) (England and Wales) Regulations 2007) and that the Certificate will be maintained as required.

### **Services**

It is assumed that the services and any associated controls or software, are in working order and free from defect.

## Composite Panels and Insurance

We will not test any panels within the property to see whether there are any polystyrene insulated composite panels. The presence of such panels may result in the property being uninsurable, which would have an adverse impact on value.

## Defective Premises Act 1972

Obligations or liabilities or any rights thereunder, whether prospective or accrued, are not reflected in valuations unless actually specified.

## Environmental Issues

Our Valuation Report does not constitute an Environmental Audit or survey and nothing contained in it should be treated as a statement that there are no contamination or pollution problems relating to the property or confirmation that the property, or any process carried on therein, complies with existing or proposed legislation on environmental matters. If we have been provided with third party reports, we have accepted their contents as being correct.

## Enquiries

Enquiries of local authorities and statutory undertakers are made verbally in respect of contingent liabilities such as road widening, road charges, redevelopment proposals and the possible effect of any town planning restrictions, and on occasion in respect of rating assessments. Local searches are not undertaken. No responsibility is accepted for any inaccurate information provided.

Generally it is assumed that buildings are constructed and used in accordance with valid Town Planning Consents, Permits, Licences and Building Regulation Approval, with direct access from a publicly maintained highway, that Town Planning Consents do not contain restrictions which may adversely affect the use of a property and that there are no outstanding statutory or other notices in connection with a property or its present or intended use.

It is further assumed unless otherwise stated that all necessary licences, permits etc either run with the property or are transferable to a new occupier as appropriate.

## Flooding Risk

The valuer will make enquiries concerning flooding risk where it is perceived to be of relevance as published by the Environmental Agency. However we are not qualified to definitively assess the risk of flooding and our valuation will assume no difficulties in this regard. Further, GVA shall not undertake any additional enquiries to confirm this information.

## Plant, Machinery, Fixtures and Fitting

Unless otherwise specified, all items normally associated with the valuation of land and buildings are included in our valuations and reinstatement cost assessments, including:-

Fixed space heating, domestic hot water systems, lighting and mains services supplying these, sprinkler systems and associated equipment, water, electricity, gas and steam circuits not serving industrial or commercial processes, sub-station buildings, lifts and permanent structures including crane rails where forming an integral part of the building structure, fixed demountable partitions, suspended ceilings, carpets, drains, sewers and sewerage plants not primarily concerned with treating trade effluent, air conditioning except where part of a computer installation or primarily serving plant and machinery.

Unless otherwise specified, the following items are excluded:-

All items of process plant and machinery, tooling and other equipment not primarily serving the building, cranes, hoists, conveyors, elevators, structures which are ancillary to, or form part of an item of process plant and machinery, sewerage plants primarily concerned with treating trade effluent, air conditioning where part of a computer installation or primarily serving plant and machinery, and water, electricity, gas, steam and compressed air supplies and circuits serving industrial and commercial processes.

Unless otherwise specified, no allowance is made for the cost of repairing any damage caused by the removal from the premises of items of plant, machinery, fixtures and fittings.

In the case of filling stations, hotels and other properties normally sold and valued as operational entities, all items of equipment normally associated with such a property are assumed to be owned and are included within the valuation unless otherwise specified.

## Taxation and Grants

Value Added Tax, taxation, grants and allowances are not included in capital and rental values as, unless otherwise specified in the report, these are always stated on a basis exclusive of any VAT liability even though VAT will in certain cases be payable.

It is assumed for the purposes of valuation that any potential purchaser is able to reclaim VAT, unless otherwise stated. In particular it should be noted that where a valuation has been made on a Depreciated Replacement Cost basis the Replacement Cost adopted is net of VAT unless otherwise stated.

Unless otherwise specified GVA will not take into account of any existing or potential liabilities arising for capital gains or other taxation or tax reliefs as a result of grants or capital allowances, available to a purchaser of the property.

## Market Value (MV)

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Market Value provides the same basis as the OMV basis of value supported by the first four editions of the Red Book, but no longer used as a defined term.

### Fair Value

1. The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties (IVS 2013).
2. The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (IFRS 13).

### Depreciated Replacement Cost

The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

### Operational Entities

The RICS advises that the most appropriate basis of valuation of properties normally sold as operational entities is Market Value as defined above. Such properties include public houses, hotels and other leisure uses, together with nursing homes, residential care homes, private hospital and petrol filling stations.

Our valuations reflect the following:-

- a. The market's perception of trading potential with an assumed ability on the part of the purchaser to renew existing licenses, consents, registrations and permits;
- b. That the property is offered with vacant possession throughout, although in the case of nursing and residential care homes, subject to the contractual rights of the patients/residents occupying the home from time to time;
- c. That trade fixtures, fittings, furniture, furnishings and equipment are included.

Our valuations also specifically assume, unless otherwise specified that the business will continue to operate at a level not significantly worse than that indicated to us.

### Existing Use Value

The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost.

### Market Rent

The estimated amount for which an interest in real property should be leased on the valuation date

between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

### Insurance

Insurance is usually arranged by clients (or their brokers) based on reinstatement cost assessments or occasionally on an indemnity basis and other methods of valuation are not appropriate.

### Reinstatement Cost Assessment

A Reinstatement cost assessment is our opinion of the likely cost of reinstating all the buildings, normally for insurance purposes, on the basis that:-

- a. the accommodation provided will be similar in construction, design and area to the existing buildings;
- b. the works will be in compliance with conditions imposed by local Authorities in connection with the construction of the building;
- c. unless reported separately, allowances are made to cover the cost of necessary demolition and site clearance prior to rebuilding, external works such as hardstandings, private roadways and fences and professional fees which would normally be incurred.

Unless otherwise stated, the reinstatement cost does not include any allowance for:-

- a. any loss of rent incurred during rebuilding;
- b. planning restrictions which a planning authority might impose;
- c. special foundations required for plant and machinery or due to adverse ground conditions;
- d. any plant, machinery, equipment, tanks, loose tools, office furniture and equipment (refer to the heading "Plant, Machinery, Fixtures and Fittings" for details of items normally included);
- e. any effect of inflation on building costs occurring after the valuation date;
- f. VAT (except on professional fees) which will normally be payable in addition.

Note - A reinstatement cost assessment is not a valuation. The valuer's assessment of the reinstatement cost assessment should be regarded as an informal estimate and should not be used to arrange insurance cover with.

### Apportionment of Values

Apportionments provided between buildings, land and plant and machinery are normally for depreciation purposes only. In normal circumstances apportionments are not valuations and they should not be used for any other purpose unless specified in our report.

### Future Useful Economic Life

Future useful economic life of buildings is normally assessed in bands of years, most frequently subject to a maximum of fifty years. This applies to freehold properties and to leasehold properties where the future life is less than the unexpired term of the lease. An average figure is usually provided for groups of buildings forming a single asset. The figures are appropriate for depreciation purposes only.

### Compliance with Valuation Standards

Where applicable our valuations are in accordance with the RICS Valuation – Professional Standards UK January 2014 (revised April 2015), published by the Royal Institution of Chartered Surveyors ("RICS"), the Insurance Companies (Valuation of Assets) Regulations 1981, the Financial Conduct Authority (FCA) "Listing Rules" ("Source Book") and "City Code on Takeovers and Mergers" ("Blue Book") as amended and revised from time to time. A copy is available for inspection.

### RICS investigations

The valuation may be investigated by the RICS for the purposes of the administration of the Institutions conduct and disciplinary regulations. Guidance on the operation of the RICS monitoring scheme including matters relating to confidentiality is available from [www.rics.org](http://www.rics.org).

### Total Valuation

Where provided this is the aggregate of the value of each individual property. It is envisaged that properties would be marketed singly or in groups over an appropriate period of time. If all properties were to be sold as a single lot, the realisation would not necessarily be the same as the total of the valuations. This assumption is not applicable to valuations made for taxation purposes.

### Legal Issues

Any interpretation of leases and other legal documents and legal assumptions is given in our capacity as Property Consultants (including Chartered Surveyors and Chartered Town Planners) and must be verified by a suitability qualified lawyer if it is to be relied upon. No responsibility or liability is accepted for the true interpretation of the legal position of the client or other parties.

### Date, Market Conditions and Validity of Valuation

Valuations may be relied upon for the stated purpose as at the date specified. In normal market conditions the value may not change materially in the short term. However the property market is constantly changing and is susceptible to many external facets which can affect business confidence. If any reliance is to be placed on the valuation following any changes which could affect business confidence, then further consultation is strongly recommended. In any event, the valuation should not be considered valid after a period of three months.

### Valuations and Reports

Valuations and Reports are only for the use of the party to whom they are addressed. They may be disclosed only to other professional advisors assisting in respect of that purpose. No responsibility is accepted to any third party for the whole or any part of the contents.

Reports should be considered in their entirety and should only be used within the context of the instructions under which they are prepared.

Neither the whole nor any part of a valuation, report or other document or any reference thereto may be included in any published article, document, circular or statement or published in any way without prior written approval of GVA of the form and context in which it may appear.

### Warranties

The client warrants and represents that, to the best of its knowledge, information and belief, the information supplied by and on its behalf to GVA is true and accurate and that it will advise and instruct its third party advisers to advise GVA in the event that it and/they receive notice that any such information is either misleading or inaccurate.

### Updated January 2017