

CENTRE POINT

ECONOMIC ASSESSMENT

REDACT VERSION



31st MAY 2012

COMMERCIALLY CONFIDENTIAL

Centre Point, 101-103 New Oxford Street, London
Economic Assessment (A Lifecycle Cost - Benefit Analysis)

On behalf of: Almacantar (Centre Point) Limited

Contact: Robert Fourt
Alex Vaughan-Jones
Charlotte Gorst
Francesca Capocci

31 May 2012

© copyright reserved 2012 Gerald Eve LLP

NOTE: The contents of this report are confidential to Almacantar and it together with any further information supplied shall not be copied, reproduced or distributed to any third parties without the prior consent of Gerald Eve LLP. Furthermore the information is being supplied to the London Borough of Camden is on the express understanding that it shall be used only to assist in the economic assessment in relation to Centre Point. The information contained within this report is believed to be correct as at March 2012 but Gerald Eve LLP give notice that:

- (i) all statements contained within this report are made without acceptance of any liability in negligence or otherwise by Gerald Eve LLP. The information contained in this report has not been independently verified by Gerald Eve LLP;
- (ii) none of the statements contained within this report are to be relied upon as statements or representations of fact or warranty whatsoever without referring to Gerald Eve LLP in the first instance and taking appropriate legal advice;
- (iii) references to national and local government legislation and regulations should be verified with Gerald Eve LLP and legal opinion sought as appropriate;
- (iv) Gerald Eve LLP do not accept any liability, nor should any of the statements or representations be relied upon, in respect of intending lenders or otherwise providing or raising finance to which this report as a whole or in part may be referred to;
- (v) Any estimates of values or similar, other than specifically referred to otherwise, are subject to and for the purposes of discussion and are therefore only draft and excluded from the provisions of the RICS Valuation Manual 7th Edition; and
- (vi) if this report is subsequently to be provided to the London Borough of Camden (the "Council") in full, it should be on a confidential basis. We therefore request that the report should not be disclosed to any third parties (other than consultants instructed by the Council to review this report) under the Freedom of Information Act (Sections 41 and 43 (2)) or under the Environmental Information Regulations.

EXECUTIVE SUMMARY

- 1 Gerald Eve LLP has been instructed by Almacantar to undertake an economic assessment in respect of Centre Point Tower and the office floorspace within the Bridge Link and Centre Point House. Centre Point Tower is the subject of pre-application discussions for the comprehensive conversion and refurbishment of the building to residential as part of a wider comprehensive mixed-use development.
- 2 The purpose of this economic assessment is to determine whether it is financially viable to retain the property in office use, having regard to the on-going functional obsolescence and depreciation of the building.
- 3 A bespoke financial investment model has been built in order to assess the viability of the cashflow in retaining the Grade II listed building in office use. This has been examined on the following two bases:
 - Option A: the current specification with costs limited to essential maintenance; and,
 - Option B: an office refurbishment on a rolling basis as and when leases expire.
- 4 The model comprises an assumed 10-year quarterly cashflow for the period 2012 to 2022, summarised in the form of a “profit and loss” account, on an annual basis. In order to assess the rate of return over the holding period an asset value is included as a notional cost in period one and as an exit value in the final period. The value included is the Market Value of Centre Point Tower assuming it remains in office use.
- 5 The benchmark return used for the cashflow is the Internal Rate of Return (IRR). We have also presented the results on a Net Present Value basis. For a standing investment of this type (with the prospect of refurbishment) it is reasonable to assume a target ungeared IRR of between [REDACTED]
- 6 The investment model has been run on both a present day and growth basis. We have applied growth to office rental values along with build cost inflation during the hold period. A sensitivity and simulation analysis has been employed in order to test the likely returns over the hold period of the investment.
- 7 The report has relied upon inputs from a number of other consultants in respect of values, rents, costs, programme and forecasts. The site value is based on the Market Value of the current use.
- 8 The outturns of the appraisal are summarised in the table overleaf:

Option	IRR – Present Day	IRR - Growth
Essential Maintenance Only	■	■
Office Refurbishment	■	■

- 9 The results identify that the office space at Centre Point Tower is reaching the end of its economic life and becoming functionally obsolete. The building falls substantially short of compliance with Part L of the Building Regulations and holds an EPC 'D' rating. The age, configuration and Listed status of the building limit the potential for substantial improvements to be made. As a result, any refurbishment has minimal benefits and these quickly diminish as the building is intrinsically unable to adapt to occupier requirements and technological advances both as at today and going forward.
- 10 Having regard to the existing building from an investment point of view, to both Almacantar, the market or a new buyer, the analysis indicates that in overall terms the retention of the building in its existing office use is not financially viable.
- 11 This report demonstrates that it is not viable to retain the property in office use in anything other than the immediate future. The results indicate that any rational investor would be seeking a comprehensive conversion and refurbishment of the building for an alternative use. It follows that the loss of office floorspace can be justified, in accordance with Policy 2.12 of the London Plan and Policies CS8 and DP13 of the London Borough of Camden Core Strategy and Development Policies DPD respectively.

Contents

Page

1	Introduction and Instructions	9
2	Background	11
3	The Principles of Building Obsolescence	17
4	Occupancy Review	21
5	Building Functionality, Planned Maintenance and Office Refurbishment Costs	28
6	Market Overview	34
7	Financial Analysis	39
8	Conclusion	47

Tables

- 1 Gross Internal Areas
- 2 Breakdown of Office Areas
- 3 Extent of Works
- 4 Build Cost Inflation
- 5 Rental Growth
- 6 Sensitivity Analysis – present day
- 7 Sensitivity Analysis – growth

Charts

- 1 Unexpired Lease Term
- 2 Lease Term Certain
- 3 Tenancy by Office Floor Area
- 4 Estimated Rental Value v Passing Rent
- 5 Time to Rent Review
- 6 Service Charge
- 7 Vacancy Rates
- 8 Service Charge Shortfall
- 9 Option A: Net Present Value over the period 2012-2022
- 10 Option A: Internal Rate of Return over the period 2012-2022
- 11 Option B: Net Present Value over the period 2012-2022
- 12 Option B: Internal Rate of Return over the period 2012-2022
- 13 Simulation Analysis – IRR Frequency Chart
- 14 Simulation Analysis – Tornado Chart
- 15 Simulation Analysis – IRR 10 year Trend

Appendices

- 1 Location Plan
- 2 Site Plan
- 3 A Brief History of Centre Point
- 4 Sectional View of Centre Point
- 5 Obsolescence and Depreciation: Basic Terms
- 6 Schedule of Floor Areas

The following to be provided to LBC's advisors only

- 7 Schedule of Occupancy
- 8 Knight Frank Office Report
- 9 Knight Frank Estimated Rental Values
- 10 Sweett Tender Price Update
- 11 Refurbishment Option Costs
- 12 Five Year Maintenance Cost Estimate
- 13 Essential Works Cost Estimate
- 14 Investment Matrix Cashflow – Option A: Essential Works and Maintenance
- 15 Investment Matrix Cashflow – Option B: Refurbishment

1 Introduction and Instructions

1.1 Gerald Eve LLP are instructed by Almacantar to undertake an economic assessment in respect of the office floorspace at Centre Point, 101-103 New Oxford Street, London, WC1A 1DD which is the subject of pre-application discussions for the comprehensive conversion and refurbishment of the building including change of use from offices (B1) to residential dwellings (C3). This report comprises an income and cost analysis in relation to the financial viability of the current and future retention of the building in office use in the context of on-going functional obsolescence and depreciation of the building.

1.2 A bespoke financial model has been built to assess the viability of retaining the Grade II Listed building in office use on the basis of:

Option A: the current specification with costs limited to essential maintenance; and,

Option B: an office refurbishment on a rolling basis as and when leases expire (notwithstanding this still results in the provision of Grade B office space due to the existing building constraints).

1.3 We have undertaken basic sensitivity and simulation analysis in order to test the robustness of the returns to changes to inputs.

1.4 In order to prepare our report we have relied upon information provided by:-

- Knight Frank (office accommodation advisors);
- Conran and Partners (architects);
- WT Partnership (cost consultants);
- Gerald Eve LLP (planning consultants); and
- Almacantar.

1.5 A number of Appendices are included and referenced in the text of this report. The remainder of this report is set out as follows:-

Background: A general introduction and description of the site and

planning background;

The Principles of Building Obsolescence:	Components of obsolescence and depreciation and the rational investor;
Occupancy Review:	A review of current occupancy including lease terms and rental income;
Building Functionality, Planned Maintenance and Office Refurbishment Costs:	Functionality, adaptability and future expenditure of the building if it was to remain in office use considering two different options: Option A: undertaking essential works and maintenance only, Option B: undertaking an office refurbishment;
Market Overview:	A review of the local office market and comparative property;
Financial Analysis:	Forecast income and expenditure within a cashflow and investment matrix with IRR and NPV analysis including sensitivity and simulation testing;
Conclusion:	Summary and conclusions upon the building being economically unviable if it were to continue as an office use.

- 1.6 The report assumes that notwithstanding the poor economic climate, normal funding and financing sources would be available for such works, as proposed. The reader is therefore directed to the authors of the report, in the first instance, in order to confirm that the numbers contained within it are still up to date and appropriate at the time of reading. It may also be necessary to refer to updated addenda.

2 Background

Location Overview

- 2.1 The application site is located within the London Borough of Camden in the west of the Borough and also falls within the Denmark Street Conservation Area. The boundary of the City of Westminster runs along Charing Cross Road immediately to the west of the site. A location plan is attached at **Appendix 1**, identifying the site's locational context.
- 2.2 The site occupies a prominent position, on the eastern corner of St Giles Circus. The surrounding area is characterised by a mix of uses including retail, offices and residential accommodation. Nearby attractions including The British Museum, West End Theatres and Oxford Street shopping, also makes the area a popular tourist destination.
- 2.3 The immediate site is well located for public transport with bus routes running along Oxford Street and Charing Cross Road, connecting the site with other parts of central and outer London. The new Crossrail Station currently being developed on Oxford Street and Tottenham Court Road Underground Station (Central and Northern line), which is currently being upgraded, are adjacent to the site. Oxford Circus Underground Station (Bakerloo and Victoria lines) is approximately 800 metres to the west and Holborn Underground Station (Piccadilly and Central lines) is 600 metres to the east.

Site Description

- 2.4 The site extends to an area of 0.4ha and is bounded by New Oxford Street, Charing Cross Road, Earnshaw Street, St Giles High Street and Andrew Borde Street. A Site plan is attached at **Appendix 2**.
- 2.5 The island site comprises two buildings connected via a bridge link with the following uses:
- Centre Point Tower – offices and a restaurant/bar
 - Centre Point Bridge Link – conference/office facilities
 - Centre Point House – residential units, offices and retail uses

2.6 A schedule of areas is provided in the table below:

Table 1: Gross Internal Areas

Building	GIA (sq. ft)	Floors
Centre Point Tower	276,080	34 + plant
Centre Point Bridge Link	19,039	2
Centre Point House	86,835	11

- 2.7 The purpose of this report requires an analysis of Centre Point Tower however we provide a description of the site in its entirety below.
- 2.8 Constructed between 1962 and 1966, Centre Point Tower comprises a concrete and glass high rise office building arranged over 34 floors which at its time was one of the first skyscrapers in London. The office accommodation is currently occupied by a variety of tenants and is also part vacant. A restaurant and bar, known as Paramount, operates over the 31st to 33rd floors.
- 2.9 Centre Point House is connected to Centre Point Tower via a glazed link known as Centre Point Bridge Link which oversails St Giles High Street. This link runs parallel to New Oxford Street and provides office and conference facilities over two storeys.
- 2.10 Centre Point House lies to the east of Centre Point Tower, adjacent to Earnshaw Road and provides 36 residential apartments over eight floors with some office and retail accommodation at basement, ground and podium level.
- 2.11 In 1995 the buildings were Grade II listed. This recognised Centre Point as one of the most important speculative office developments of its period in Britain and an early example of high quality off-site pre-casting panels. **Appendix 3** provides a brief history of Centre Point.
- 2.12 At present the building falls short of compliance with Part L of the Building Regulations and does not perform well in terms of energy efficiency. It holds an EPC rating of D, and as legislation with regards to energy efficiency becomes more demanding it is unlikely that the building will retain this.

- 2.13 This report focuses on Centre Point Tower and the office floorspace which extends from the Tower to the Bridge Link and Centre Point House. All non-office floorspace in Centre Point House is excluded from this analysis.

Planning Background

- 2.14 Gerald Eve LLP has undertaken a review of the statutory register and there are no recent planning applications or decisions of significance. It is understood that the lawful use of Centre Point Tower is offices (B1), except for floors 31, 32 and part 33 at the top of the building, which have permission for and are currently in mixed restaurant / bar use (sui generis).
- 2.15 Centre Point Tower, Centre Point House and the Bridge Link are Grade II listed. The buildings were listed in 1995. The site is located within the Denmark Street Conservation Area.
- 2.16 The site is located within the Central Activities Zone as identified in the London Plan (July 2011) and within the Tottenham Court Road Opportunity Area. In respect of the Opportunity Area the London Plan states:
- ‘There is significant potential for integrated renewal across borough boundaries recognising the Area’s strategic role as part of one of London’s two ‘international’ shopping locations in the context of the West End Special Retail Policy Area, as well as addressing more local concerns. This will include enhancing the public realm of the Tottenham Court Road and eastern Oxford Street and providing better connection between Covent Garden, Oxford Street and Bloomsbury’.*
- 2.17 Almacantar commenced pre-application discussions with LBC in Autumn 2011, to discuss the emerging development proposals for Centre Point. Almacantar is seeking to retain the existing structures while undertaking a comprehensive conversion and refurbishment of the buildings.
- 2.18 The proposed scheme includes change of use of Centre Point Tower from offices (Class B1) to residential dwellings (Class C3) with retail at ground floor level and other associated external and internal works.

Planning Policy

Employment

- 2.19 The Policy 2.13 of the London Plan (adopted July 2011) relates to Opportunity Areas and Intensification Areas. Centre Point is identified within the Tottenham Court Road Opportunity Area. Policy 2.13 stipulates that development proposals within opportunity areas should seek to optimise residential and non-residential output and densities, provide necessary social and other infrastructure to sustain growth and where appropriate, contain a mix of uses.
- 2.20 Policy CS8 of the Camden Core Strategy (November, 2010) concerns the Camden Economy. It explains that a concentration of office growth should be promoted across growth areas and Central London, and states that existing employment should be safeguarded. Paragraph 8.5 adds that the Council will direct new business development to the growth areas, including Holborn.
- 2.21 Policy CS9 addresses the Central London Area (CLA) of Camden and explains that within the CLA, the Council will inter alia:
- a) recognise its unique role, character and challenges
 - b) support Central London as a focus for Camden's future growth in homes, offices, shops, hotels and other uses
 - c) seek to ensure that development in Central London, in the growth areas of King's Cross, Euston, Tottenham Court Road and Holborn and beyond, contributes to London's economic, social and cultural role while meeting the needs of local residents and respecting their quality of life
 - d) support residential communities within Central London by protecting amenity and supporting community facilities
 - e) seek to secure additional housing and affordable homes, including as part of appropriate mixed use developments
- 2.22 Policy DP13 of the adopted Camden Development Policies document deals with employment premises and sites and states that the council will retain land and buildings

that are suitable for continued business use and will resist a change to non-business unless:

- a) it can be demonstrated to the Council's satisfaction that a site or building is no longer suitable for its existing business use; and
- b) there is evidence that the possibility of retaining, reusing or redeveloping the site or building for similar or alternative business use has been fully explored over an appropriate period of time.

2.23 Camden Planning Guidance (CPG5) adds clarification as to the circumstances where a change of use from offices would be acceptable. More particularly this states that a change of use may be allowed in the case of older office premises since it is expected that new office accommodation coming on stream during the plan period will meet projected demand. The guidance at paragraph 6.4 goes on to list various criteria to be taken into account when assessing applications for a change of use from B1 to a non-business use. These include factors such as the age and condition of premises; whether the premises include features required by tenants seeking modern office accommodation; the quality of the premises and whether it is purpose built accommodation and whether there is evidence of demand.

2.24 Policy DP13 also states that “where it can be demonstrated that a site is not suitable for any business use other than B1 (a) offices, the Council may allow a change to permanent residential uses or community uses, except in Hatton Garden.....”. It is considered that the buildings are not suitable for any business use, other than B1 (a) offices. Given the site’s central location, in a densely developed area and the constraints and costs of converting the existing listed buildings, it is not expected that the site will be desirable or appropriate for flexible B8 or B1(c) uses.

Alternative Uses

2.25 The Core Strategy (Policy CS2) identifies Tottenham Court Road as one of the Growth Areas where in the region of 4,700 new homes and a substantial majority of new business floorspace is expected in the period to 2024/2025. The level of development opportunities and transport accessibility in these areas make them the most appropriate locations to focus the provision of additional homes, jobs and facilities in Camden to

2025. Growth in the area is anticipated to be supported by transport enhancements as part of the development of Crossrail.

- 2.26 Policy CS7 of the Core Strategy seeks to promote Camden's centres and shops. The site forms part of a designated 'Central London Frontage', where the Council will support retail growth where opportunities emerge. It is expected that ground floor retail will be supported in this instance.
- 2.27 Policy CS6 relates to housing. Housing is regarded as a priority land use within the borough. The Core Strategy contains a number of key targets in relation to affordable housing.
- 2.28 At an area specific level, the Tottenham Court Road Growth Area is identified as containing a number of development sites which give an opportunity to improve and enhance the local environment, the mix of uses and links to neighbouring areas to create an attractive, safe and vibrant place. All development within the area should contribute to the Council's wider visions and objectives for this part of the borough which includes an excellent public realm, with an improved network of safe and attractive places and routes for pedestrians and cyclists, which successfully links to neighbouring areas and reduces the dominance of traffic in the area.

3 The Principles of Building Obsolescence

Obsolescence and Depreciation

- 3.1 This section summarises the various facets of owning and occupying buildings in terms of obsolescence and the depreciation of rents and values. In **Appendix 5**, a number of basic terms are defined, which are referred to in the following sections of this report. Regard has also been had to how a rational investor will manage such properties over time.
- 3.2 All property assets involve an ongoing expenditure which needs to be off set against income derived, by appropriate management, through time. The point reached by a property in terms of its economic life will likely determine the relative levels of income and expenditure and therefore the expected return and pricing of the asset.
- 3.3 All buildings potentially suffer from obsolescence and depreciation. Obsolescence can be considered as a “cause”, and depreciation as the “effect” on a building (**Appendix 5**). Obsolescence is largely a result of changing requirements that a particular object or idea is no longer able to fulfil. Obsolescence can be categorised as being a combination of functional, locational and physical factors whilst depreciation is the rate of decline in rent and / or capital values when compared to a contemporary specification. Obsolescence can be difficult to control since it is influenced by uncertain events such as the prediction of changes in technological development, the economy and innovation in design and use of buildings.
- 3.4 Ageing buildings often experience the following characteristics:-
- Multi-occupational;
 - High tenant turnover;
 - Low covenant (financial) strength of tenants;
 - Increasing capital expenditure; and
 - Capital expenditure not being reflected in either increased or maintained income.

- 3.5 As a consequence, a rational investor will wish to limit his financial exposure which may result in a point eventually being reached where “decommissioning” a building (prior to potential redevelopment) is a rational option. Ashworth’s assessment of the life expectancies of buildings concludes that “obsolete buildings just will not do in an age of high technology”¹.

Offices and Functional Obsolescence

- 3.6 A study into the impact of depreciation in different segments of the UK Commercial Real Estate Investment Market² has shown that offices suffer higher rates of depreciation than industrial or retail property. Moreover, owners of these assets spent a significant proportion of value to keep them from further decline, with capital expenditure as a proportion of rental rate per annum for a ten year period from 1994 to 2003: 19.4% and 15.0% for City and West End offices respectively. These amounts do not include expenditure that could be recouped through service charges or otherwise under the terms of the lease; they are irrecoverable spending by landlords on the maintenance of their assets.
- 3.7 Changing political, economic, social and technological conditions have served to reduce the functional life spans of many office buildings. The 1960’s building boom (during which time Centre Point was developed, see **Appendix 3**) involved the use of unconventional construction methods, which in some cases have resulted in premature demolition. The innovative design and construction techniques employed have in some cases shown to be subsequently flawed. This included the case of High Alumina Cement Concrete (HACC), which was used in part in the construction of Centre Point Tower.
- 3.8 Functional obsolescence occurs where the expectations of occupiers exceed actual or perceived levels of building quality and performance, described by Pinder and

¹ Ashworth, A., 1996, ‘Assessing the life expectancies of buildings and their components and life cycle costing’, Presented at COBRA: The Annual Construction, Building and Real Estate Research Conference.

² Crosby, N. and Devaney, S., (N.D.), ‘Deprecation and its impact on The Total Return of UK Commercial Real Estate, 1994-2003’, Working Papers in Real Estate & Planning 05/06, The University of Reading.

Wilkinson³ as the point at which some of the building's intrinsic attributes (i.e. design, specification and quality) fail to meet occupiers' expectations.

- 3.9 The British Council for Offices ("BCO") Best Practice in the Specification of Offices highlights the importance of high operational performance functional office space. The BCO identify that:-

*"since the turn of the 21st Century there has been a growing awareness that office life is changing – primarily due to developments in electronic communications technology, but also because we now have a better understanding of the influence that office design can have on the way people work. A natural consequence of organisations' efforts to overheads will be to work office space harder [there is] plenty of evidence of increasing occupational densities."*⁴

- 3.10 In order to enhance workspace productivity, flexibility in the design and optimum performance of indoor comfort systems and natural daylight / artificial lighting are key. It is essential for landlords and investors to understand and anticipate occupiers' priorities of preferences in terms of their office environment, if buildings are to enhance productivity. In addition, to enable this to be feasible, buildings need to be good quality, flexible and sustainable.
- 3.11 Research commissioned by the BCO has revealed that the office sector will continue to be shaped by rigorous environmental legislation, making the risk of office space becoming obsolete even greater. On top of this, investors and developers will need to keep pace with changing occupiers' needs and the continued technological advancements that are shaping the way in which we do business.

Office Development Finance

- 3.12 Following the 2007 'credit crunch' and its ensuing constraints on lending on commercial property there has been a sharp decline in new office projects. Obtaining bank finance for office development in Central London is contingent on being able to pre-let and loan

³ Pinder, J. and Wilkinson, S. J., (N.D.) 'A Behavioural Approach to Obsolescence of Office Property' Sheffield Hallam University.

⁴ BCO, 2009, Best Practice in the Specification for Offices, page 24

terms are expected to remain much tighter and the cost of finance being higher than was the case in the mid-2000s. A recent report by the BCO highlights that bankers have become very cautious and selective when it comes to commercial property lending: “there is greater risk awareness across the commercial property sector; and thus development with leasing risk is (almost) impossible to finance with senior debt”.⁵

- 3.13 Equity players, who tend to precede the debt players, are also generally not currently investing in either speculative developments or the secondary market.
- 3.14 In respect of Centre Point Tower, given the poor functionality of the office floorspace, we do not consider that it will be possible to achieve any pre-lets. Therefore, given the wide scope of the essential structural works required, funding even a limited refurbishment would be extremely expensive with debt funding unlikely to be available.

Refurbishment versus Redevelopment

- 3.15 Office refurbishments have gained favour in recent times as a commercially viable alternative to redevelopment; due to lower capital expenditure, a limited development pipeline and ever-changing regulatory and occupier requirements. However, refurbishment is only practical where the basic building structure, including the floorplate, layout and floor to ceiling heights, can be adapted to meet occupier needs and expectations.

⁵ BCO, February 2011, 'The Credit Crunch and UK Office Development Finance', page 15

4 Occupancy Review

Introduction

- 4.1 This section provides an overview of current occupancy at Centre Point Tower in respect of lease terms and rental levels. An occupancy schedule is attached at **Appendix 7**.
- 4.2 Centre Point Tower is an iconic building which at 117 metres (385 ft) high was one of the first skyscrapers to be constructed in the London (see **Appendix 3**). It provides 34 floors of predominantly office accommodation amounting to 193,306 sq ft (NIA) including reception and basement areas. The net lettable area equates to 184,343 sq ft. The office accommodation provided at floors 1 and 2 continues through to the Bridge Link and Centre Point House. This area is currently occupied by one tenant (Confederation of British Industry) on a lease expiring March 2024 with no breaks, and extends beyond the period of our financial analysis. Therefore for the purposes of the report the areas in office use within the Bridge Link and Centre Point House have been included, as identified in the table below:

Table 2: Breakdown of Office Areas

Building	NIA (sq. ft)
Centre Point Tower	156,961
Centre Point Bridge Link	17,258
Centre Point House	19,087

Current Ownership and Occupancy

- 4.3 Almacantar purchased the freehold of Centre Point comprising the Tower, House and Bridge Link in April 2011.
- 4.4 Within Centre Point Tower a total of 19 tenants currently occupy floorspace of varying specification, incorporating different lease terms, lease lengths and rental values. The 14th floor is currently vacant and the 11th floor (east) has recently been let.
- 4.5 The tenants are from a diverse range of business sectors including media, research, the oil

industry and manufacturing. Many tenants occupy space on full repairing and insuring leases over a 5 or 10 year term, although it has been 2.6 years since a 10 year lease was last agreed.

- 4.6 As a multi-let building tenants predominantly occupy a single floor within the property equating to approximately 4,500 sq ft. In addition the 3rd, 11th and 18th floors have been partitioned to provide smaller units of approximately 2,000 sq ft.

[REDACTED]

[REDACTED]

Lease Terms

4.9 At Centre Point Tower the majority of leases have been agreed post 2007 typically for a 10 year term with a tenant or mutual break option in the 5th year. Since 2010 there has been a decline in the length of leases agreed and all new tenants have benefitted from service charge caps and/or regular break options.

4.10 The average unexpired lease term is [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Chart 1: Unexpired Lease Term*

To be provided to LBC's advisors only

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

4.12 The term certain identifies to a Landlord the period of time for which he is certain to receive

an income in the form of rent from tenants. We have measured this from the present day to the next break option or lease expiry (if the tenant does not benefit from a break).

4.13 At Centre Point Tower the average term certain [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

Chart 2: Lease Term Certain*

To be provided to LBC's advisors only

[REDACTED]

4.14 Incentives provided to occupiers take the form of rent free periods, inclusive rents (which include rates, service charges and insurance), tenant break options and service charge caps. The nature and age of the building means that the expenditure incurred as a result of on-going maintenance is high and service charge caps often result in a shortfall. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

4.15

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Rental Income

4.16 The average rent is [REDACTED] on the basis of occupied floorspace and excluding those floors used as serviced offices.

4.17 The range of rental values within Centre Point Tower can be attributed to the date of lease and the nature of the property market, the varying quality of accommodation on offer and the floor level. [REDACTED]
[REDACTED]

4.18

[REDACTED]
[REDACTED]

[REDACTED] In order to let the vacant space reduced rents, short term flexible leases and other incentives have been offered. [REDACTED] however this requires on-going intensive management and significant capital expenditure, which is not viable in the long term.

Chart 3: Tenancy by Office Floor Area*

To be provided to LBC's advisors only

[REDACTED]

4.19 In part vacancy levels have been reduced by extending the operation of serviced office accommodation over 8.5 floors of Centre Point Tower. However licence income is highly variable.

4.20 The most recent letting [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].

Chart 4: Estimated Rental Value v Passing Rent

To be provided to LBC's advisors only

4.21 [REDACTED]
[REDACTED] Knight Frank estimates current rental values are between [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Chart 5: Time to Rent Review

To be provided to LBC's advisors only

- 4.22 There is a significant development pipeline in the surrounding submarkets with Knight Frank advising that 1.3 million sq ft of new space could be delivered in the next 4 years. This represents approximately 26 years of take-up, which when delivered will see landlords competing to attract tenants. Over the next 3.5 years 15 of the existing leases have tenant or mutual break options, totalling some 58,516 sq ft or 32% of the net lettable floorspace, and it is likely that some tenants will exercise these in order to take advantage of the superior space on offer. They will be further encouraged if their existing premises is over-rented.
- 4.23 Similarly the delivery of new office developments will dissuade existing tenants from renewing their lease at expiry. Knight Frank highlight in their office report that they are aware of 3 occupiers who have already activated searches for new accommodation. The nature and age of Centre Point Tower is such that it struggles to adapt to changes in modern occupier requirements and is unable to compete with the flexibility and specification offered by new developments.

5 Building Functionality, Planned Maintenance and Office Refurbishment Costs

Functionality of Existing Building

- 5.1 Centre Point Tower provides Grade B office accommodation. Due to its age and nature the property is no longer functional and the out-dated specification fails to meet the needs and requirements of the modern office occupier. At **Appendix 4** we provide a cross section of Centre Point Tower illustrating floor to ceiling heights and other constructional details.
- 5.2 The majority of the property is currently let however should the existing occupiers vacate we believe that any new lettings are likely to be at reduced and/or all-inclusive rents to tenants with weaker covenants. This has already been illustrated through some of the more recent lettings in late 2011/early 2012 and is unsustainable in the long term.
- 5.3 With the majority of leases benefitting from tenant or mutual break options in the next 3.5 years it is not unlikely that a number of floors may become vacant. Should this happen we consider that in its existing state the building would suffer lengthy voids, and that flexible lease terms and incentives would have to be offered in order to secure new tenants.
- 5.4 The building's listed status acts to constrain the modernisation and refurbishment of the existing accommodation. The provision of raised floors and/or suspended ceilings throughout would reduce the ceiling height to between 2.2 metres and 2.3 metres (see **Appendix 4**). The installation of modern office standard air conditioning would have a similar impact. Conran and Partners advise that offices of this configuration, classed as 'deep plan' typically require headroom of 2.75 metres. The reduction in floor to ceiling heights will have a detrimental effect on rental values.
- 5.5 The expenditure associated with maintaining a listed building and specifically the iconic Centre Point Tower facade imposes prescriptive repairing and maintenance obligations on the freeholder. The service charge is currently circa [REDACTED] per sq ft. This is high in comparison to unlisted refurbished buildings including Weston House and 247 Tottenham Court Road where service charge is [REDACTED] per sq ft. New build offices such as Central Saint Giles and New Street Square command a service charge of circa [REDACTED] per sq ft and [REDACTED] per sq ft respectively.

- 5.6 As a result tenants are reluctant to take on this significant liability, often benefitting from service charge caps and leaving the Landlord accountable for any shortfall. As illustrated in the chart overleaf this amounts to a differential of [REDACTED], including the vacant 14th floor for which the Landlord is also liable.

5.7 **Chart 6: Service Charge**

To be provided to LBC's advisors only

- 5.8 Conran and Partners has advised that the provision of wheelchair accessible toilets and the additional riser space required to bring the building up to date would decrease the efficiency of the floor plates to approximately 65% gross to net.
- 5.9 Knight Frank stress in their report that office refurbishments often fail to compete with new developments. Any refurbishment of the Tower will still result in letting voids and significant rent free periods as the building struggles to adapt to technological advances and modern occupier requirements. These include high specification accommodation, large flexible floor plates and onsite staff amenities.

Maintenance versus Refurbishment

5.10 We have looked at retaining Centre Point Tower in office use on the basis of:

Option A: the current specification with costs limited to essential maintenance; and,

Option B: an office refurbishment on a rolling basis as and when leases expire.

5.11 Under the essential maintenance option the office space will be retained in its current state and specification. No work will be undertaken to the office interiors with costs limited to essential works required to 'save the building', planned maintenance costs to ensure the running of the building, the removal of asbestos on relevant floors and necessary repairs to the façade.

5.12 The office refurbishment option will include the works carried out under the essential maintenance option and, in addition, the office interiors will be refurbished and works undertaken to the M&E services at a cost of [REDACTED] per sq ft dependent on the existing specification. A breakdown of these two refurbishment cost options is attached at **Appendix 11**

5.13 A more comprehensive description of the various elements is provided below and table 3 illustrates the allocation of works under Option A and Option B.

Table 3: Extent of Works

Works	Essential Works	Planned Maintenance	Asbestos Removal	Façade Repairs	Office Interior	M & E Services
Option A Essential Maintenance	✓	✓	✓	✓	x	x
Option B Office Refurbishment	✓	✓	✓	✓	✓	✓

Essential Works

- 5.14 A number of essential building works are urgently required to 'save the building', details of which have been provided by WT Partnership and Almacantar, and are set out in **Appendix 13**. Centre Point is Grade II listed and therefore Almacantar are under a legal obligation to ensure the building does not fall into disrepair.
- 5.15 It is recognised that there will be a maximum reasonable amount of any essential or maintenance costs that can potentially be charged to those existing tenants without service charge caps. According to the RICS guidance on Service Charges in Commercial Property, the service charge would usually be limited to "the recovery of the reasonable costs of maintenance, repair and replacement of the fabric, plant, equipment and materials necessary for the property's operation". The majority of the essential works outlined in Appendix 13 however cannot be met by either the current or forecast service charge income.

Planned Maintenance Costs

- 5.16 Almacantar have provided a five-year forward maintenance programme for Centre Point Tower from 2012 to 2016, which is attached at **Appendix 12**. These costs are in addition to the essential costs to ensure the on-going upkeep of the building and where possible are paid for through the service charge.
- 5.17 For the period 2017 to 2021 a cost on the basis of the current five year plan has been assumed.
- 5.18 It should be noted that the essential works and maintenance costs expended by Almacantar to date have been excluded for the purposes of our analysis.

Asbestos Removal

- 5.19 The cost of asbestos removal has been estimated by WT Partnership at [REDACTED], equating to approximately [REDACTED] per unrefurbished floor. The works will be undertaken as and when the floors are vacated.
- 5.20 Floors 8, 9 and 27 which are currently operated as serviced office accommodation contain

asbestos. The removal works are assumed at April 2013 and where the floors must be vacated, however we have not allowed for the resultant loss in licence income. This is at a cost to the operator and will be reflected in the residual amount received by the Landlord, equivalent to rental income.

Repairs to the Facade

- 5.21 Following an inspection and defect survey undertaken by Pell Frischmann various remedial works are required to maintain Centre Point Tower's iconic concrete façade.
- 5.22 The survey has revealed a number of fine cracks and localised areas of spalled or missing concrete that require repairing in order to maintain the integrity of the building and in some locations to leave it in a safe condition.
- 5.23 The required works to repair the cracks and fissures are scheduled to take place [REDACTED]
[REDACTED]

Office Refurbishment

- 5.24 This will comprise an internal refurbishment of the office space and ground floor reception as and when the space becomes available, and this will enable the current leases to continue (i.e. vacant possession is not required in advance of lease expiry).
- 5.25 Given the multi-let nature of the property, the office space in Centre Point Tower has been refurbished historically on an ad-hoc basis as floors have become available and as a result the condition of the office space varies over the building. Of the 34 floors, 18 including the reception area have been the subject of refurbishment in recent years with the remaining 16 floors unrefurbished.
- 5.26 The proposed level of internal refurbishment will vary between the floors to reflect the current varying levels of condition. The cost of improvement will be greater on those unrefurbished floors to enable lettings at the rents proposed by Knight Frank, as attached at **Appendix 9**.
- 5.27 The main ground floor reception will be refurbished as part of the proposed programme of ongoing refurbishment works. This will cost in the order of [REDACTED], as shown in cost

summary provided at **Appendix 11**. This cost has been included at the mid-point of the ten year hold period.

Build Cost Inflation

- 5.28 We consider it necessary to have regard to future movement in build costs in order to consider the effect on the resultant IRR and NPV. We have taken inflation figures from the Sweett Tender Price update Q1 2012, attached at **Appendix 10**.
- 5.29 This suggests that the worsening economic conditions and a reduction in orders for new work will see tender prices fall again in 2012. It is forecast that London will lead the recovery to positive inflation towards the end of 2012 following an increase of [REDACTED] in 2013.

Table 4: Build Cost Inflation for Central London

2012	[REDACTED]
2013	[REDACTED]
2014	[REDACTED]
2015 - 22	[REDACTED]

6 Market Overview

- 6.1 Located on the south side of New Oxford Street Centre Point Tower is positioned within four of the West End's office submarkets, namely Noho, Soho, Covent Garden and Bloomsbury. Knight Frank have provided an office market report, attached at **Appendix 8** and within this they identify the Noho/Soho/Bloomsbury (NSB) office market as bounded by Euston Road, Southampton Row, Shaftesbury Avenue and Regent Street.
- 6.2 Traditionally this area has appealed to media sector occupiers however more recently it has been infiltrated by corporate occupiers. The majority of office stock comprises small second hand units although there is a concentration of larger Grade A units around the squares and major boundary roads.
- 6.3 Availability across the NSB market currently stands at 1million sq ft, having remained stagnant over the past year. The market's supply is predominantly made up of second hand space and given historic take-up levels and the future development pipeline, availability is unlikely to fall.
- 6.4 Average annual take up of new and refurbished space is less than 50,000 sq ft yet over 1.3million sq ft of new space is due to be delivered in the next 4 years. Total take-up fell in 2011 and looking ahead this specific market could see significant oversupply.
- 6.5 Knight Frank have advised that prime office rents in the NSB market are approximately [REDACTED]. Having risen steadily since 2009 values are now back to their 2007/08 levels. Rental values for secondary office accommodation range up to [REDACTED] for a comprehensively refurbished building.
- 6.6 The economy is forecast to strengthen from 2013, however Knight Frank warn that office rental growth in the NSB market may be dampened by significant over-supply prompting landlords to offer competitive rents and incentives.

Centre Point Tower Long Term Letting Prospects

Option A: *On the basis of Essential Maintenance*

- 6.7 This approach involves doing no work to the existing office interiors, except that required to enable to removal of the asbestos on various floors throughout. Much of Centre Point Tower already provides tired, outdated and inflexible accommodation. Tenants are often responsible for undertaking basic re-decoration, in turn benefitting from reduced rents and capital contributions.
- 6.8 In their report Knight Frank outline that the accommodation on offer fails to meet the needs and requirements of modern office occupiers. [REDACTED]
[REDACTED]
[REDACTED] Rental values are estimated at [REDACTED] per sq ft dependent on floor level and the quality of accommodation provided. [REDACTED]
[REDACTED] See **Appendix 9**.
- 6.9 The building divides opinion and its nature and age act as constraints to improvement. The size of the floor plates mean that the building typically only appeals to smaller occupiers and this along with the low level specification impacts on the quality of tenants attracted.
- 6.10 Knight Frank highlight that over the next 4 years up to 1.3 million sq ft of new space could be delivered to the market, representing approximately 26 years of take-up. This will see notable office occupiers gravitate towards new Grade A office accommodation, while Centre Point Tower suffers from extended voids, low rental levels and short term leases. A number of existing occupiers have already commenced searches to relocate from Centre Point Tower.
- 6.11 In the years preceding the completion of Crossrail the significant disturbance and disruption caused will have a detrimental effect on letting voids and lease terms. This will be keenly felt by buildings such as Centre Point Tower located in the immediate vicinity.
- 6.12 The development pipeline is such that any new occupiers will gravitate towards the delivery of new Grade A office space. This will only exacerbate the outdated, inflexible accommodation provided at Centre Point Tower.

Option B: On the basis of a Refurbishment

6.13 This approach involves refurbishing floors on an individual basis as and when they become vacant. The property currently provides varying grades of accommodation. A complete refurbishment will be undertaken on the poorest accommodation, including the removal of asbestos. Those floors which have been refurbished within the last 7 years will be re-painted, re-carpeted and cleaned.

6.14 Assuming a basic refurbishment Knight Frank have provided estimated rental values on a floor by floor basis, attached at **Appendix 9**. They advise that rents of [REDACTED] per sq ft would be achievable on the upper floors, reducing down to [REDACTED] per sq ft on the lower floors. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

6.15 [REDACTED]
[REDACTED]. The floorplates are relatively small and modern occupiers prefer to be arranged horizontally - therefore it is unlikely a tenant would occupy more than one floor within the Tower. The potential number of tenants will also create significant internal competition and the service office accommodation will somewhat alleviate this.

Vacancy

6.16 We have projected vacancies over the next 10 years in accordance with void periods provided by Knight Frank in conjunction with their estimated rental values, attached at **Appendix 9**. The high level of tenant turnover will create cyclically occurring periods of high vacancy (reaching in excess of [REDACTED]), illustrated by the chart overleaf:

Chart 7: Vacancy Rate (Q1 2012 to Q1 2021)

To be provided to LBC's advisors only

- 6.17 This will result in periods where the level of income received is significantly lower and there will be increased costs to account for the service charge shortfall.

Service Charge Shortfall

- 6.18 A number of leases have a service charge cap, which is set below the actual cost to the Landlord. The shortfall has been included within the cashflow.
- 6.19 For vacant space a service charge shortfall of [REDACTED] per sq ft has been included, which reflects the current full service charge as at March 2013. The shortfall is illustrated in the chart below:



Chart 8: Service Charge Shortfall

To be provided to LBC's advisors only

Projected Rental Growth

- 6.20 The table below sets out the growth rates that have been included with the model. The figures distinguish between the essential maintenance and office refurbishment options and have been provided by Gerald Eve research in consultation with the West End offices team, taking into account the specification of the office space and projected letting profile.

Table 5: Rental Growth per annum

Option A: Essential Maintenance	
Option B: Office Refurbishment	

- 6.21 The forecasts enable a growth model approach to be presented and subsequently tested via sensitivity and simulation analysis.

7 Financial Analysis

Viability Model

- 7.1 A bespoke financial model has been built to assess the financial viability of retaining Centre Point Tower as offices. This comprises a quarterly cashflow summarised in the form of a profit and loss account on an annual basis.
- 7.2 In order for a rational investor to fully evaluate the investment in Centre Point Tower it is appropriate to appraise the property on the basis of a ten-year hold period taking account of the following factors:
- a) The unexpired term certain of the current office leases is an average of [REDACTED];
 - b) On expiry of the current lease a void period would be required for refurbishment of the property, and re-letting period [REDACTED];
 - c) New leases would be for [REDACTED];
 - d) The current leases to Confederation of British Industry and Century Projects Limited [REDACTED];
 - e) Over the ten-year period of the cashflow should any of the [REDACTED] lease terms expire the space will be re-let on the same basis with an appropriate void period, and a light touch refurbishment;
 - f) By 2022 (year 10) the currently unrefurbished space will have been refurbished for all floors without leases extending beyond the ten-year period and there will have been sufficient time for the property to establish itself and demonstrate a steady income flow for the proposed sale of the investment.

- 7.3 The costs included within the model comprise: Market Value of the property assuming it remains in office use, refurbishment costs, service charge shortfall, insurance and other costs including professional fees and contingencies.

Asset Value

- 7.4 The Asset Value is included as a notional cost in the first period of the cashflow. The value

included is the Market Value of the property assuming it remains in office use. This is valued on a simple term and reversion approach. The estimated current rental value is multiplied by the appropriate growth factor.

- 7.5 The office space has an assumed notional disposal date in 2022. The exit valuation at this point is valued on a simple term and reversion approach. The estimated rental value used for calculating the reversionary value is taken to be the passing rent at the point of notional disposal multiplied by the appropriate growth factor at the time of sale.

Internal Rate of Return (IRR)

- 7.6 The IRR is calculated using a discounted cashflow appraisal having regard to the total costs and total revenue over the ten-year period. The IRR takes full account of the time value of money; it does this by discounting at a rate where the cashflow will have a zero Net Present Value (NPV). The resultant discount rate arising used is the measure of return having regard to the holding period and the refurbishment project.
- 7.7 For standing investments, the market norm for a property of this type with the need for potential future refurbishment is an ungeared IRR within the [REDACTED]⁶.
- 7.8 We have analysed a rolling IRR for each year of the ten-year hold period. This assumes a notional sale at each year, and demonstrates the stability of the financial return following the initial refurbishment phase.

Growth Approach

- 7.9 In addition to looking at the cashflow on a present day basis we have had regard to a second option, which includes growth. The cashflow has regard to office rental growth as well as build cost inflation. The reasons for this approach are as follows:-

- a) That a current day approach to assessing viability does not always provide a true reflection of the potential returns that are available, given that the refurbishment is not due to begin until expiry of the current leases and will take place on an ad hoc

⁶ IPD Standing Investments

basis as space becomes available;

- b) That the current economic climate and prevailing poor property market do not potentially reflect the medium to longer term growth prospects for this part of London; and
- c) In order to test the robustness of the appraisals explicit account needs to be taken of variances in values and costs over time.

7.10 For the growth option, the current day achievable rental levels are grown on the basis of the time elapsed up to the actual letting (this is notwithstanding rent free periods after the letting has taken place).

7.11 We have assumed that the building and proposed refurbishment are wholly equity funded with no recourse to debt finance.

Essential Works Option: Results

7.12 The cashflow over the hold period produces an ungeared return of [REDACTED] which is significantly below the target rate of [REDACTED]
[REDACTED]

7.13 We produce in **Appendix 14** the cashflow and investment matrix, which has produced the NPV and IRR analysis which we show in the two graphs below (include growth):-

Chart 9: Net Present Value over the period 2012 – 2022

To be provided to LBC's advisors only

- 7.14 Chart 9 shows a declining NPV during the whole period. As should be noted the investment fails the NPV rule of not being above zero at any point during the whole period.

Chart 10: Internal Rate of Return over the period 2012 - 2022

To be provided to LBC's advisors only

- 7.15 The above chart shows that the running IRR is significantly below the level a rational investor would require. Whilst the IRR improves towards the end of the whole period post the programme of refurbishment, this is still significantly below the required rate of return given the risk of the investment.

Refurbishment Option: Results

- 7.16 The cashflow over the hold period produces an ungeared return of [REDACTED] which is significantly below the target rate of between [REDACTED]
[REDACTED]

- 7.17 We have also analysed the return on a year on year basis via an NPV and IRR basis. This demonstrates the impact on the investment return of :-

- a) the potential refurbishment of the majority building on expiry of individual leases;
and
- b) the subsequent re-letting of the building.

- 7.18 We produce in **Appendix 15** the cashflow and investment matrix, which has produced

the NPV and IRR analysis which we show in the two charts below:-

Chart 11: Net Present Value over the period 2012 – 2022

To be provided to LBC's advisors only

7.19

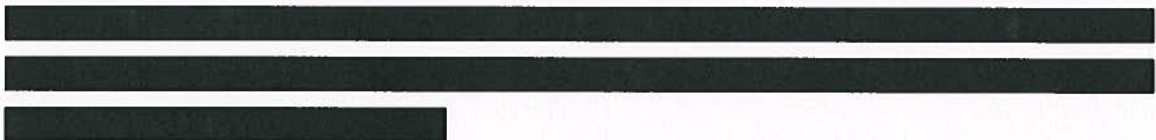



Chart 12: Internal Rate of Return over the period 2012 – 2022

To be provided to LBC's advisors only

7.20 Chart 12 shows that the running IRR is significantly below the level a rational investor would require, this is also the case where growth is included. 

[REDACTED]
[REDACTED]
7.21 [REDACTED]
[REDACTED]

[REDACTED] It is clear from the above analysis that a rational investor would be highly unlikely to undertake an office refurbishment given the compromised functionality and likely rental levels that may be achieved.

Sensitivity Analysis

7.22 We have undertaken sensitivity analysis looking at variations to both the office rental values and the refurbishment costs. If the office rental values were to increase by 20% and the refurbishment costs were to fall by 10%, the IRR produced would still only be [REDACTED]

Table 6:Sensitivity Analysis – present day

To be provided to LBC's advisors only

7.23 We have undertaken sensitivity analysis on the growth model also; [REDACTED]
[REDACTED]
[REDACTED]

Table 7:Sensitivity Analysis – growth

To be provided to LBC's advisors only

Simulation Analysis

7.24 Monte Carlo simulation analysis has been undertaken, which quantifies the robustness of the financial model in terms of risks and return. The Monte Carlo simulation exercise considers the probability of outcomes given certain variances applied to key inputs within the financial model through a stochastic process. The resultant forecast provides the most likely returns or the ability to achieve an acceptable IRR. The key inputs identified in the financial model are:

- office rental levels and yields;
- office rental value growth;
- exit yield; and,
- refurbishment costs

7.25 A simulation analysis was run on the cashflow which produces an average IRR of [REDACTED]. This is shown in the frequency charts below.

Chart 13: Simulation Analysis – IRR Frequency Chart

To be provided to LBC's advisors only

7.26 It can be seen from the following chart that the inputs that contribute to the variance of the viability are principally the office rental values and office rental growth.

Chart 14: Simulation Analysis – Tornado Chart

To be provided to LBC's advisors only

Finally, we have undertaken a simulation analysis on the rolling IRR throughout the ten-year holding period, assuming a notional sale for office use at the end of each year demonstrating the stability of the financial return following the initial refurbishment phase.

Chart 15: Simulation Analysis – IRR 10-year trend

To be provided to LBC's advisors only

8 Conclusion

8.1 Gerald Eve LLP has been asked to undertake a financial assessment in order to consider the retention of Centre Point Tower in office use. The report demonstrates that the existing building is reaching the end of its economic life in commercial terms' requires substantial investment and that it is not viable for the property to continue in office use over the long-term.

8.2 Functional obsolescence is already a factor going forward, neither Centre Point Tower, the Bridge Link nor the office space within Centre Point House meet the requirements of modern office space. Furthermore, the building currently falls substantially short of compliance with Part L of the Building Regulations and holds an EPC D rating. As legislation on energy efficiency becomes more demanding the building will struggle to retain this rating given the inherent constraints of the building. It follows that Centre Point Tower is coming to the end of its useful economic life as an office building. This is demonstrated by the following characteristics:-

- a) **Multi-occupational** – following the expiry of the existing leases and the subsequent refurbishment programme, it is expected that the building will be let on a floor-by-floor basis. In some cases floors may be split to accommodate two tenants and this could result in more than 50 different occupiers throughout the building.
- b) **High tenant turnover** – on re-letting, it is expected that lease terms of only five years will be achievable on Centre Point Tower. This will result in a significant level of tenant turnover, create greater uncertainty in terms of letting voids and occupancy rates.
- c) **Low covenant strength** – given the compromised and constrained nature of the office floorspace, the range of potential occupiers will be limited and are likely to represent relatively small businesses with relatively low covenant strength.
- d) **Increasing capital expenditure** – given the age and era of Centre Point Tower and that it is a listed building (Grade II), substantial capital expenditure is required in order to maintain the building in a lettable state.

8.3 In addition to the above factors the sheer quantum of space provided in Centre Point

Tower, is a significant risk to any prospective investor and creates a high level of uncertainty.

- 8.4 This report has analysed whether it would be possible to retain the building as offices by maintaining the office space in its current specification (undertaking essential maintenance only) or alternatively by undertaking a refurbishment. For both options the IRR falls significantly below the target rate required by a rational investor of [REDACTED]

Option	IRR – Present Day	IRR - Growth
Essential Maintenance Only	[REDACTED]	[REDACTED]
Office Refurbishment	[REDACTED]	[REDACTED]

- 8.5 The results reflect the uncertainty in short term income, as a result of the assumed vacancy periods, tenant profile (multi-let with relatively low covenant strength) and high level of expenditure required. Having regard to the existing building from an investment point of view, to both Almacantar, the market or a new buyer, the analysis indicates that in overall terms the retention of the building in its existing use is not financially viable.

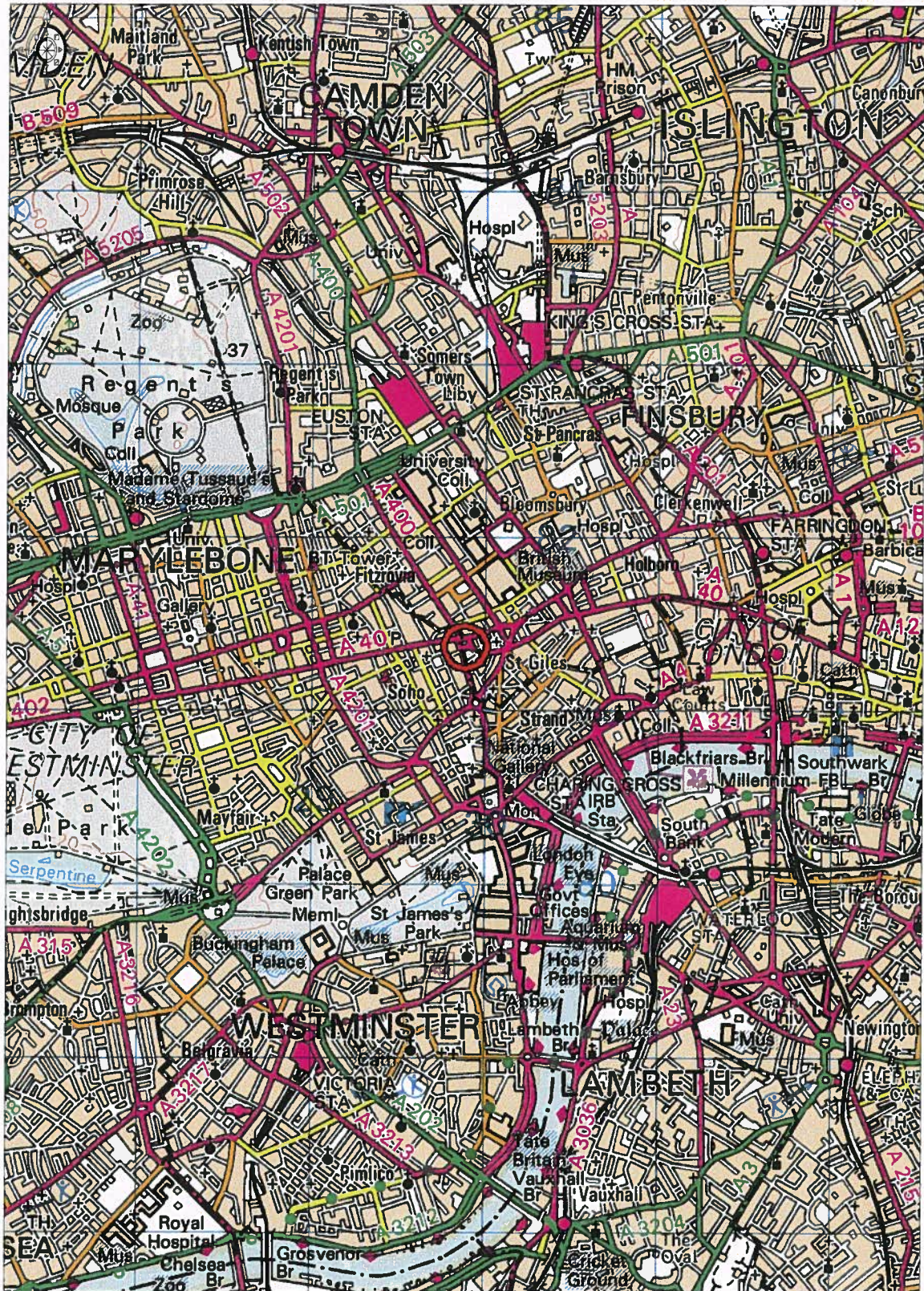
- 8.6 In summary, the financial analysis has shown:

- a) a year-on-year return below that which would be accepted by a rational investor in the market;
- b) a decline in Net Present Value over the holding period;
- c) that a rational investor would not retain the offices on the basis of the current specification; and,
- d) that refurbishing floors is also uneconomic and produces a return significantly below that which would be expected as a benchmark for undertaking such a project.

- 8.7 In light of the above factors, it is not considered that Centre Point Tower is viable for future office or alternative business uses and therefore the loss of office floorspace can be justified, in accordance with Policies CS8 and DP13 of the LBC Core Strategy and Development Policies DPD respectively.

Appendix 1

Location Plan



Appendix 2

Site plan



Appendix 3

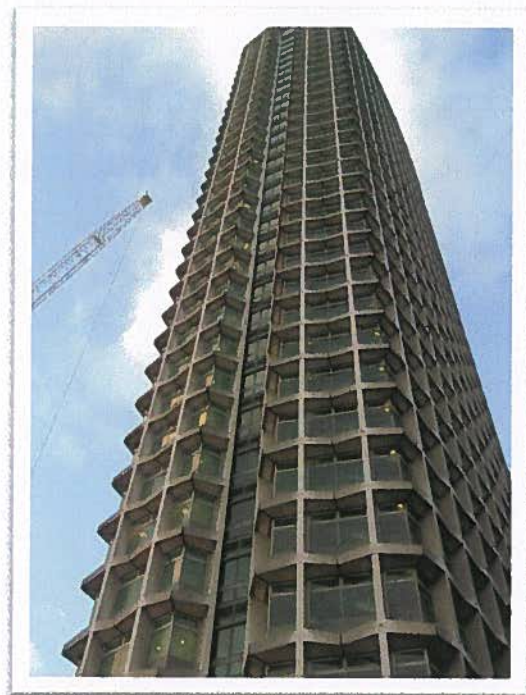
A Brief History of Centre Point

Centre Point is an iconic and substantial complex consisting of three components: the Tower, the House and the glazed Bridge Link. It was originally designed by Richard Seifert and Partners on behalf of property tycoon Harry Hyams. Planning permission was granted in 1959 after it was devised that the development could also deliver a new gyratory to improve traffic movement and facilitate highways works being promoted by the planning authority. Centre Point was subsequently constructed by Wimpey Construction from 1962 to 1966 and on completion the Tower became one of London's first skyscrapers standing at 117 metres (385 ft) high.

Centre Point was seen as a construction and engineering innovation due to Seifert's innovative method of pre-cast assembly of the external elements. The 1960's building boom had led to experimentation in the use of concrete and Seifert's technique allowed Centre Point to be built quickly and without the use of scaffolding.

The Tower comprises a concrete and glass high rise office building, arranged over 34 floors and identifiable by its hexagonal façade and the illuminated "Centre Point" set within. Centre Point House adjoins the Tower via a glazed Bridge Link and provides residential apartments over eight floors with office and retail accommodation at basement, ground and podium level. The Bridge Link provides a lobby area between the two office components and at present offers conference facilities.

The height and heavily modelled façade of the Tower means it is instantly recognisable and the dominant element of the Centre Point complex. Centre Point House and the Bridge Link were conceived around the gyratory and as a result have been criticised for their awkward architectural relationship with the Tower. These two elements lack the design quality that is attributed to the Tower. The Bridge Link comprises a significant area of sheet glazing which uses Pilkington glass ribs set at right angles to the outer skin, while the House sits as a long horizontal block with glazing at ground floor, dense rectangular brise soleil and stacked balconies above.



Centre Point Tower



Centre Point House



Centre Point Bridge Link

Built as speculative office space the Tower remained empty for many years after completion. It was speculated by the press that this was a deliberate move by Hyams in order to capitalise on rising rental values and that he intended a single blue-chip tenant to occupy the entire building. However in 1975 multiple tenants began leasing space in the building, some nine years post completion.

Centre Point now stands as one of Oxford Street's most prominent landmarks, located on the eastern corner of St Giles Circus and adjacent to the new Crossrail station. The architectural and historical interest of the tower was recognised in 1995 when it was Grade II listed. This cited Centre Point as an early example of off-site pre-casting, whereby the panels are hung from the frame without the use of scaffolding. In 2009, the building won the Concrete Society's Mature Structures Award which recognises excellence in the use of concrete in building and civil engineering structures more than 25 years old.

Appendix 4

ALC	2332	21001	21001
NE	1206	A1	21001





DATE _____



INFORMATION

INFORMATION

**CONRAN+
PARTNERS**

22 Strand, London EC1 2YU
Tel: 020 7 403 8866
conran@conran.com www.conranandpartners.com

Carlisle Place
101-103 New Oxford Street
London, WC1A 1DD

EXISTING NORTH ELEVATION

**CONRAN+
PARTNERS**

Architects Designers
22 Shad Thames London SE1 2YU
T: 020 7403 8899
up@corwin.com www.corwinandpartners.com

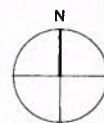
Centre Point
101-103 New Oxford Street

London, WC1A 1DD

ALC	2332	01/2002	BLVD A1	BLVD FEB 12
ME			1-200	



ALC	2332	9 604	01003	9 604	ABN
ME	1208	01003	01003	01003	ABN



Appendix 5

Obsolescence and Depreciation

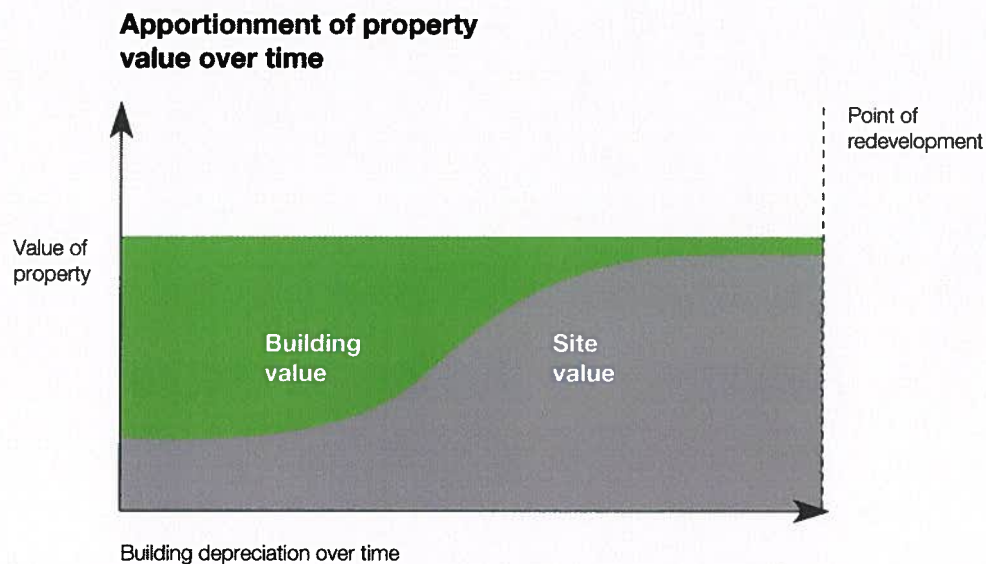
1. Obsolescence can take many forms in causing depreciation. Obsolescence can take a number of forms:-
 - **functional** obsolescence – where the building is less able to meet the requirements of tenants/occupies of the building having regard to either its original design or current use;
 - **locational** obsolescence – as a building depreciates its location may appreciate i.e. where the increasing gap between rents on an existing building in a location and a hypothetical new building expand so that the increased value of redevelopment (including some element of yield change) outweighs cost;
 - **physical** obsolescence – where the fabric of the building internally and/or externally is deteriorating.
2. Depreciation can be defined as follows:-

“the rate of decline in rental/capital value of an asset ... over time relative to the asset ... valued as new with a contemporary specification”¹
3. Age and refurbishment are factors in depreciation often necessitating an on-going need for capital expenditure on the building in any one year. This expenditure can be expressed in terms of a percentage of capital value per year. Ranges from studies indicate ageing refurbished buildings can experience expenditure of between 5% and 25% of capital value per annum.²
4. Rental depreciation (in real terms) is by far the most obvious sign of a building's depreciation from a financial perspective. This most often results from functional obsolescence where occupiers are either not prepared to pay for asking rents or will simply not take space in buildings. This can lead to uncertainties in cashflow through voids and will, in turn, affect the asset's Market Value as the property becomes in essence more risky. Remedial capital expenditure may seek to address certain tenant concerns (and therefore seek to attract tenants) but this has to be set against anticipated income which, by its nature, is uncertain.

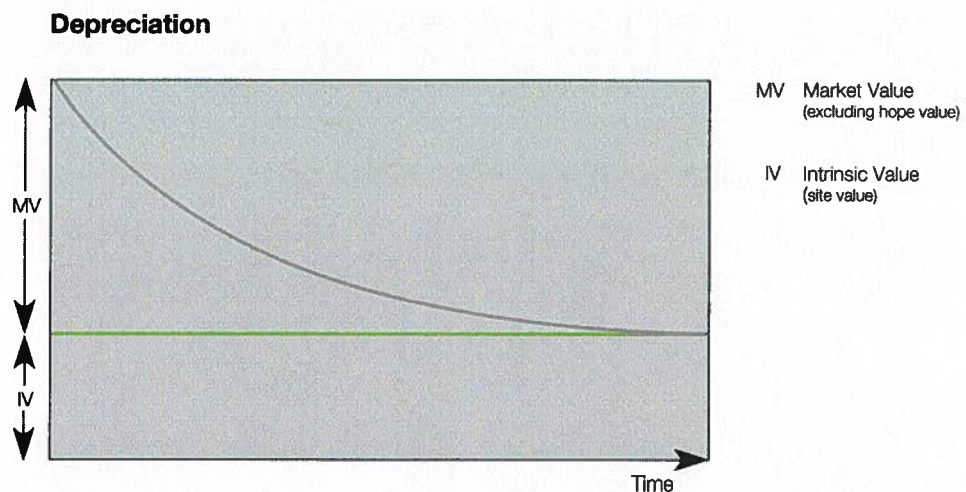
¹ IPF (2005) Depreciation in Commercial Property Markets, Investment Property Forum / IPF Educational Trust, London.

² *ibid.*

5. A combination of rental decline and location appreciation may eliminate "building value" altogether. As illustrated in the diagram below, the location (site value) becomes the dominant component of value within a property as the building value declines. At that point redevelopment is the most likely option.



6. The above also explains that whilst a building may be subject to obsolescence, causing the depreciation effect, it still retains an underlying or intrinsic (asset) Market Value. This is further illustrated in the diagram below:-



7. It follows that as a result of the onset of obsolescence and the depreciation of building value this would account for the situation where the Market Value of the asset is apparently in excess of the current passing rental income when capitalised, as the market

will be pricing in “hope value” for redevelopment. The degree of certainty associated with the prospect of development, which may for example be expressed in terms of the likelihood of receiving a planning permission or an “optimal” planning permission.

8. Even if “hope value” is excluded, the property will always have an Intrinsic (site) Value which may be significantly above the capitalised income of the existing building, given the causes of obsolescence and the effect of depreciation.
9. Notwithstanding the underlying Market Value of the property, the immediate concern for the risk averse investor, holding an ageing asset that is coming to the end of its economic life, is the “Net cashflow” position. This may be defined as follows:

Net cashflow	=	Total Income – (Revenue Expenditure & capital Expenditure)
where :		
Total Income	=	the rent receivable and other receipts
Revenue Expenditure	=	spending by the investor for the regular management of the properties
Capital Expenditure	=	funds for refurbishment /improvement of the property.

Source: IPF (2005) Depreciation in Commercial Property Markets, Investment Property Forum / IPF Educational Trust, London.

Appendix 6

Centre Point Tower - Schedule of Floor Areas

Floor	Floor Area (sq ft)	
	NIA	GIA
34	-	4,314
33	2,148	2,774
32	4,400	6,469
31	4,399	6,472
30	4,525	6,435
29	4,511	6,434
28	4,523	6,434
27	4,523	6,434
26	4,533	6,434
25	4,467	6,434
24	4,525	6,434
23	4,512	6,434
22	4,524	6,434
21	4,526	6,434
20	4,406	6,435
19	4,529	6,434
18 (East)	2,621	6,435
18 (West)	1,832	
17	4,529	6,435
16	4,532	6,435
15	4,531	6,435
14	4,562	6,469
13	4,498	6,435
12	4,519	6,436
11 (East)	2,383	6,471
11 (West)	1,990	
10	4,384	6,437
9	4,356	6,466
8	4,369	6,482
7	4,373	6,472
6	4,362	6,467
5	4,351	6,472
4	4,519	6,435
3 (East)	2,127	6,436
3 (West)	2,113	
Floor 2 (inc bridge and house)	18,547	23,668
Floor 1 (inc bridge & house)	26,513	29,805
Mezzanine	2,329	4,310
Ground	4,162	5,765
Basement	311	31,991
Basement	3,281	
Basement	1,273	
Sub Basement	888	24,769
TOTAL	193,306	320,765

Appendix 7

To be provided to LBC's advisors only

Appendix 8

To be provided to LBC's advisors only

Appendix 9

To be provided to LBC's advisors only

Appendix 10

To be provided to LBC's advisors only

Appendix 11

To be provided to LBC's advisors only

Appendix 12

To be provided to LBC's advisors only

Appendix 13

To be provided to LBC's advisors only

Appendix 14

To be provided to LBC's advisors only

Appendix 15

To be provided to LBC's advisors only