



STRETTONS
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VIABILITY REPORT & VALUATION

**10 GATE STREET
HOLBORN
LONDON
WC2A 3HP**

CLIENT: HILLOLIM MAYFAIR LIMITED





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I.0 SUMMARY OF INSTRUCTIONS & TERMS OF REFERENCE

I.1 SUMMARY OF INSTRUCTIONS

Our Ref	SL/10GATESTREET/AUGUST2017
Property	10 Gate Street, Holborn, Camden, London WC2A 3HP
Date of Report	14 August 2017
Client	Hillolim Mayfair Limited
For the Attention of	Karen Crowder-James: Director Contour Planning Hadar Azaki – Director Hillolim Mayfair Ltd
Addressee	Hillolim Mayfair Ltd 2 nd Floor Devonshire House 1 Devonshire Street London W1W 5DS
Instructions	Confirmed in our email on 5 July 2017 with our terms and conditions of engagement attached.
Purpose of Valuation	This report is prepared to assist in appraising the financial viability in connection with meeting a validation requirement, for a planning application by the client to the London Borough of Camden for the upgrading and redevelopment of the property (comprising four upper floors of a 1800s built 7 storey building). The report is to be used to assist in policy compliance testing.
Basis of Valuation	The definition of Market Value as set out in the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards (The Red Book). To assess the financial viability at the outset we have looked at the Market Value in its current condition of the property with the special assumption it is in its lawful use, as a starting point which provides context and a ‘Benchmark’ point of reference in considering the proposed refurbishment project option’s financial characteristics and standing.
RICS Compliance	Our valuation detailed within this report has been arrived at in consideration to the requirements of the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards, incorporating the International Valuation Standards (IVS) 2017 (The Red Book). However, due to the nature of the instructions and the fact that it is prepared for viability purposes, this report does not comply with the Red Book in every aspect.
Inspection Date	11 July 2017
Valuation Date	Date of Report



Valuer Suzanna Lewis BA (Hons) PGDip MRICS/MRTPI a RICS Registered Valuer, who has the relevant knowledge, skills and understanding to undertake this valuation competently.

Sources of Information In accordance with our instructions, we have relied upon the floor areas, site plan, tenure information and general overview of the condition of each property provided to us by the client and what we observed on our inspection.

We have been provided with build cost estimates and in accordance with instructions we have relied upon the building costs. We would recommend the details of these costs are substantiated by Paragon. If the build costs change these can impact on our viability assessment work and may need us to review our advice.

I.2 TERMS OF REFERENCE

Background Instructions

We understand you are currently in the process of submitting a planning application to renew the implementation date about to expire which is conditioned in an existing planning permission for the potential redevelopment and change of use of the property to residential use. This report is required in the considerations being made over any potential loss of employment uses. This work considers the existing property even if it is put into a more modern condition whether it can reasonably stand the costs to do so.

Our understanding of a viable project option is one that is capable of working successfully, is feasible and the proposed cost expenditure is financially viable. An unviable project option therefore is one that is not capable of working successfully, is not feasible and the proposed cost expenditure is financially unviable.

The purpose of this report is to provide you with our opinion on viability over options to bring the existing property up to a basic lettable state and into a more competitive modern contemporary lettable condition. This viability work is based on the special assumption that the property is to be let in line with its existing lawful office use.

We report on the financial viability of refurbishing the existing property to improve it to a reasonable condition to achieve a market letting. We also report on the financial viability of refurbishing and renovating with some structural repair on the existing property to improve it to a reasonable condition to achieve a competitive modern market letting.

General Assumptions and Conditions

We have prepared this valuation on the basis of the assumptions set out in this report and have carried out all appropriate investigations.



This Viability Report & Valuation has been prepared on the basis of our terms and conditions of engagement as provided at the time of confirmation of our instructions and also the General Assumptions and Conditions as set out at the end of the report.

Inspection

The weather was dry at the time of the inspection.

Conflicts of Interest

We confirm that no conflict of interest arises in Strettons providing this valuation advice.

Sources of Information and Enquires

We have relied on the information provided to us by the client as detailed within the report and also from third parties. Where we have undertaken checks on some of this information as stated within the report. We recommend that you undertake your own checks to confirm the information provided by you to us is correct before it is relied upon. We accept no responsibility for errors or omissions with the information or documents provided.

Confidentiality & Disclosure of Report

This is a confidential Viability Report & Valuation for use only by the addressee or the addressee's professional advisers and only for the purpose mentioned in our instructions. It may not be published or disclosed to any third party without our prior written permission as to the form and context in which it may appear; otherwise, we accept no responsibility to third parties.

2.0 EXECUTIVE SUMMARY

The executive summary below should not be read in isolation from the main body of the report.

- 1) To invest and spend basic refurbishment costs on the existing property to improve it to a reasonable condition to achieve a market letting opportunity for BI office use is commercially **unviable**.
- 2) To invest and spend enhanced refurbishment costs with some structural repair on the existing property to improve it to a reasonable condition to achieve a competitive modern market letting opportunity for BI office use is commercially **unviable**.

This assessment work commercially exposes the serious challenges facing this property's future. In our opinion any potential investor in the market considering the arrangement and use of the existing property is unlikely to take this on as the project risks are too high without any hope value for alternative uses and redevelopment.



3.0 LOCATION

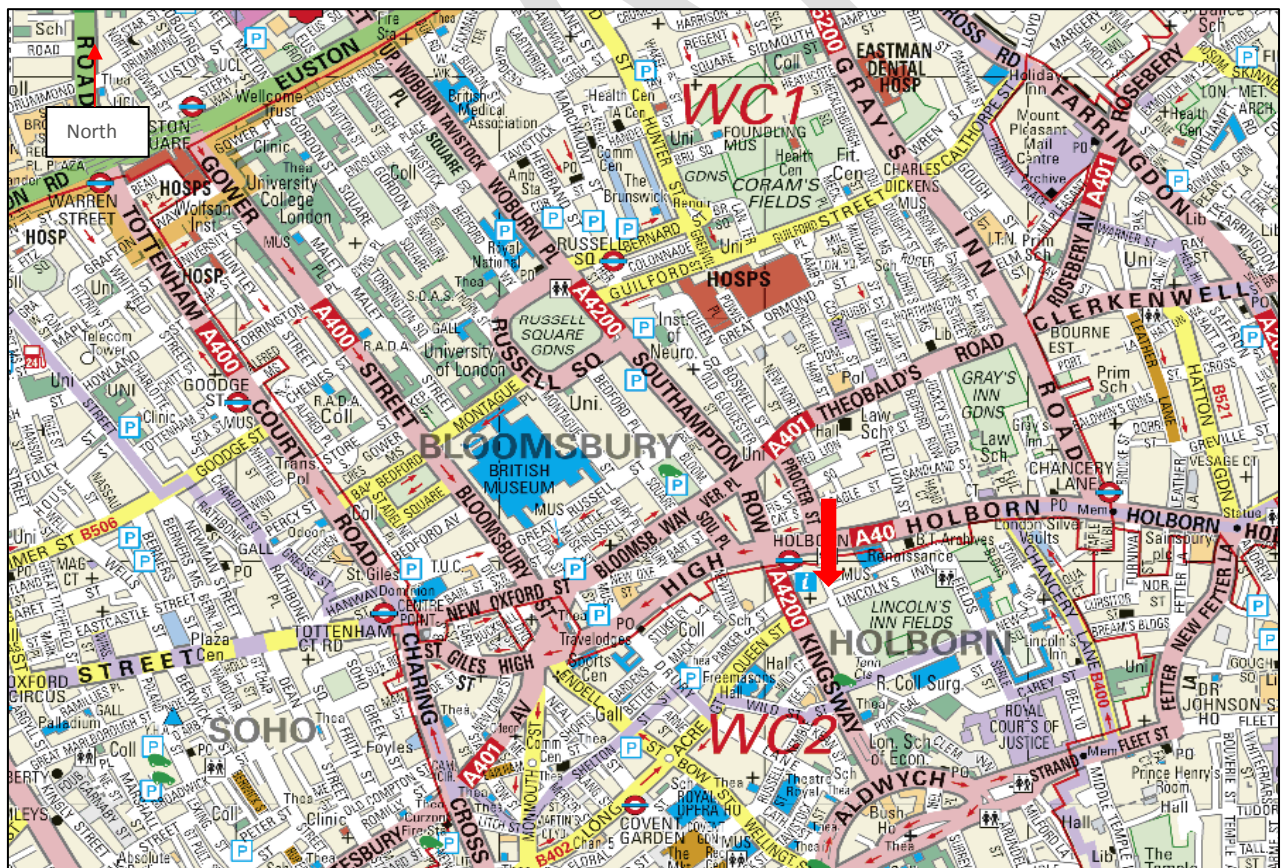
The subject property is located at the corner of Little Turnstile Street, a narrow pedestrian lane filled with cafes and restaurants leading to busy High Holborn, and Gate Street leading to the quiet Lincoln Inn Fields (developed in the early 1600s, with wide straight layouts and field).

As existing, there is a restaurant at basement, ground and first floor levels which is accessed from the southern frontage to Gate Street. The offices above are accessed from a rear door on Little Turnstile Street where there is also a takeaway establishment at ground floor occupying the north section of the site.

The site is located in a very accessible location which has been the focus of regeneration for mixed use residential and commercial development in recent years.

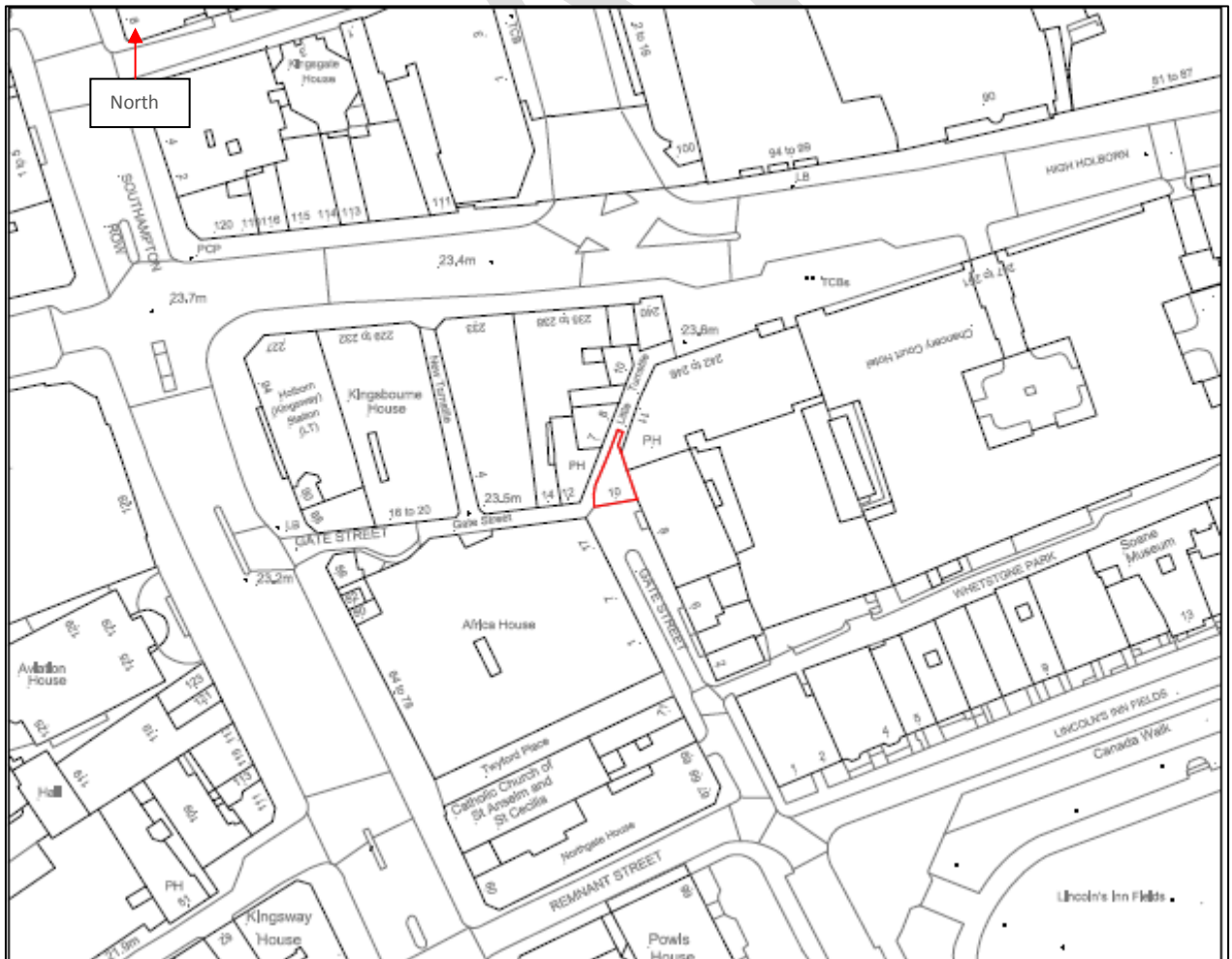
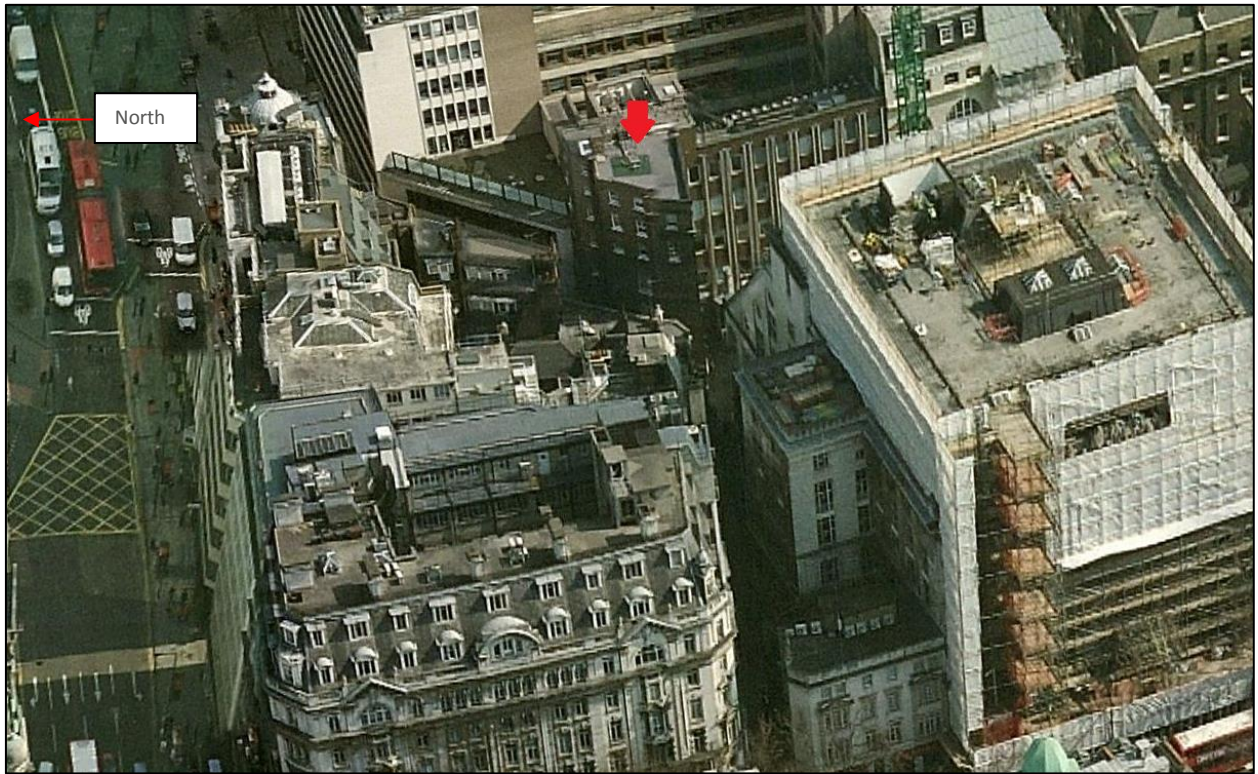
To the south west of the site fronting Southampton Row is Africa House which comprises a Grade II listed 7 storey office building, which has recently benefitted from a roof and rear extension. To the south east is Lincoln's Inn Fields, a large public square in London and home to numerous legal offices. More recently a number of the buildings surrounding Lincoln's Inn Fields have been converted to residential use.

The street map and aerial photographs below show the location of the subject property; they are for identification purposes only.





10 Gate Street, Holborn, London WC2A 3HP





North of the site is the narrow medieval street of Little Turnstile Street which comprises predominantly retail uses in the form of a number of cafes and restaurants, directly adjacent is the Ship Tavern which was built in 1549. Slightly further to the north is High Holborn which is predominantly commercial in character and comprises a busy thoroughfare when compared to quieter streets of Gate Street and Little Turnstile Street.

The area benefits from access to good public transport, buses serve the nearby roads to the subject property. The nearest Underground Station is Holborn (Central and Piccadilly Lines) this is located to the west and there is also Chancery Lane Station to the south. Whilst Tottenham Court Road provides further London Underground services to the west this site is in good proximity to the New Oxford Street Crossrail terminal (from 2018).

There is no parking provision at the property. There are parking restrictions in the surrounding area for Permit Holders owners. Pay and Display parking is available.

4.0 DESCRIPTION

The property comprises an 1870's built, 7 storey with basement building arranged with A3 restaurant at ground, first and basement floor levels with the subject office premises in the upper parts. The building is of traditional solid brick construction and mainly a timber joisted and boarded floors, a staircase in a spiral design provides access to each floor in the building. The roof is not visible at ground level as it is concealed behind a front and flank wall parapet, from the aerial photograph the roof seems to be flat. Windows comprise dated single glaze windows, which are now due for refurbishment/replacement.

The ground floor, first floor and basement are currently occupied with A3 restaurant use occupied by a Thai restaurant "Thiwanya". The four upper floors, subject to this report, are currently occupied by short term lets which we understand to be the following businesses Manhattan GMAT Limited, David Collins, Nicholas Dawes and Arepo Solutions Ltd. The building is a wedge shape with a frontage onto Gate Street, the subject offices are accessed off Little Turnstile Street.

The report advises on the upper office floors only.

The self-contained upper office floors are reached via a busy and confined pedestrian passage where there is a narrow entrance from the Little Turnstile Street elevation of the building with a single stone and metal balustrade spiral design staircase serving all floors. There is a secondary access through the ground floor restaurant. This arrangement creates an unattractive entrance to the property. Each floor is let separately each of which has a basic separate WC and kitchenette facilities. However, these spaces are compromised by the existence of pillars which limit the useable space.



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We would comment that these upper floors of this 1870s period building is constrained (without structural alterations), to open up the floors to deliver a more conventional open plan office layout. The office spaces in part with partitioned rooms are small however have natural light, albeit the quality of this decreases going up the floors. The staircase access to the building is by a narrow off street entrance arrangement and lack of any lobby area at ground floor level.

The building is in a poor external and internal repair and decorative condition, there are signs which would suggest structural movement which has resulted in the staircase and corridor sections as well as floors being uneven.

Photographs below illustrate the subject property and the surrounding area at the time of our inspection.

The frontage (taken from Gate Street in a northerly direction)



Lincoln's Inn Field (taken from Gate Street in a southerly direction)



The western elevation on Little Turnstile Street (taken in a northerly direction)



Little Turnstile Street (taken in a southerly direction)





The narrow staircase



Second floor office



Second floor office



Second floor WC



Third floor office



Third floor office





Third floor wc



Fourth floor office



Fourth floor office



Fourth floor office kitchenette area



Fifth floor office wc



Sixth floor office





Fifth floor office



Staircase



5.0 ACCOMMODATION

The subject comprises self contained existing offices which have potential for alternative residential use 1870s building which is subject to this report. The access is only from the street pavement and there is no separate parking or vehicular access.

We have only undertaken a check measured survey and therefore have adopted the areas provided by Hillolim Mayfair Limited and Lynas Architects which we assume have been calculated in accordance with the Code of Measuring Practice (6th Edition) published by the Royal Institution of Chartered Surveyors and which is embodied within the RICS Professional Statement – RICS Property Measurement (1st Edition, May 2015). Net Internal Areas (NIA) areas have been used for the commercial and Gross Internal Areas (GIA) for the residential uses.

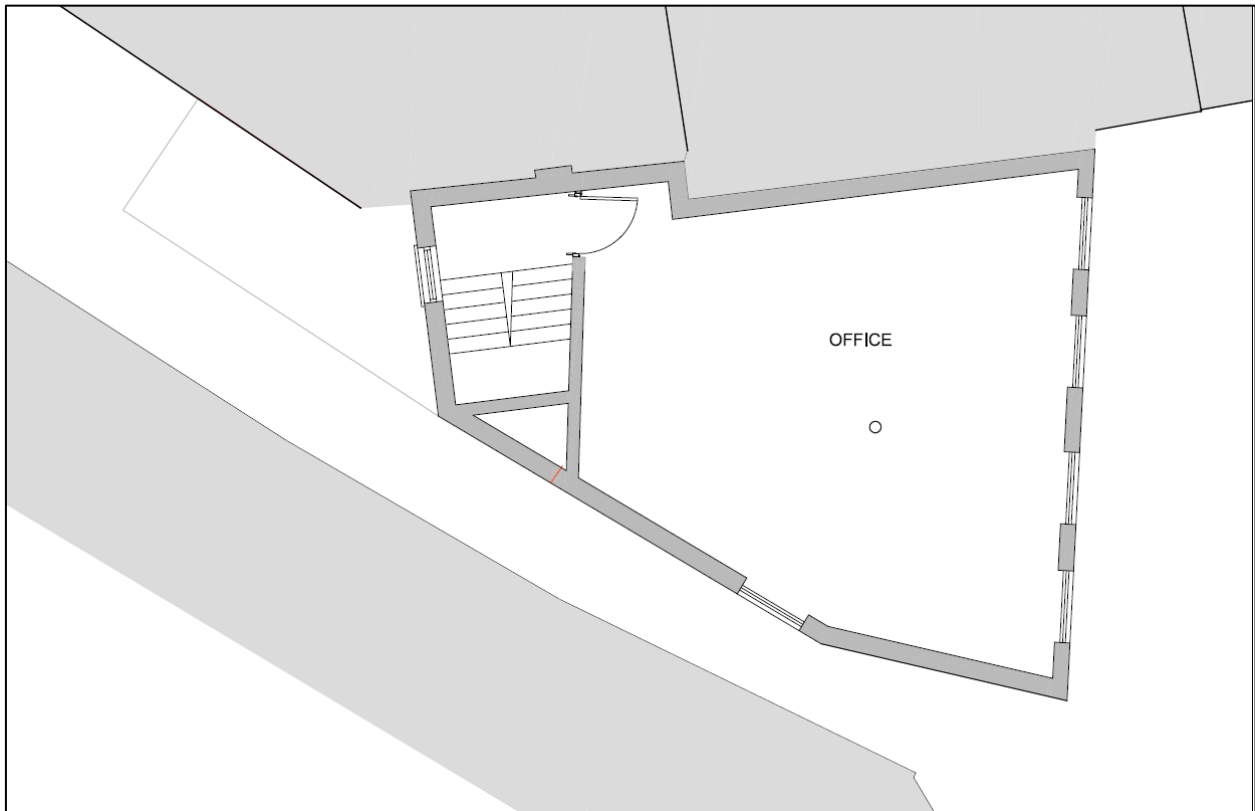
This property has a complex planning history, for the purposes of this report we have been instructed to review the building and each floor in the following current planning use arrangement and proposed residential use:

Current Use - Office:

Floor	USE	NIA sq m	NIA sq ft
Second	Commercial Office	44.8	482
Third	Commercial Office	43.9	473
Fourth	Commercial Office	45.2	487
Fifth	Commercial Office	45.2	487
	Total	179.1	1,929



Sample Existing Layout Plan and Elevation:





6.0 CONSTRUCTION, CONDITION & REFURBISHEMENT

The subject property comprises a traditional brick building. The property is expected to comprise solid brick load bearing construction with timber floors from ground to fifth floor (in total over 7 storeys) with a flat roof.

The condition of this property is a key consideration. You have not instructed us to carry out a Building Survey. Following the inspection it was evident that this property was in a poor condition. It is not uncommon for properties of this age with ongoing repair and there to be a sub-standard or deleterious materials present in the construction and services.

Due to the buildings poor condition and age any proposal which retains the existing structure is likely to be affected by ‘unknowns’ which can significantly impact on build cost. We also refer to our general conditions under which this report is presented at the end of this report which raises in more detail points of construction which may bring out such ‘unknowns’ and could further impact by increasing the costs which have not been included in the costs provided for this report.

To assess viability we have applied a specialist cost estimate, undertaken by Paragon. The summary of these cost assumptions are set out below.

Overall Summary Refurbishment costs	Estimated Costs
Existing building basic refurbishment for office	£240,000
Existing building enhanced refurbishment for office	£1,000,000

The basic refurbishment costs in the first instance present an option to put the property in a basic improved lettable state,

The enhanced refurbishment providing some structural improvement, and alterations to bring up the specification quality to put the building into a modern office, as well as including a lift and modern service installations

The building costs cover the following items.

Basic and Enhanced Refurbishment Items
Alterations
Roof
Stairs
External Walls
Windows and External Doors
Internal Doors
Wall Finishes
Floor Finishes
Ceiling Finishes



Furniture & Fittings
Sanitary Fittings
Disposal Installations
Water Installations
Space Heating and Air Treatment
Ventilation Installations
Mechanical & Electrical Installations
Protective, Communications and Special Installations
Builders Work in Connection with Services Installations
External Works
Preliminaries
Contingency

The costs assume good ground conditions that existing service capacities are adequate and there is no allowance for asbestos removal.

The costs also exclude fees, VAT (@ 20% and interest payments.

We have been provided with costs from which we have been provided and that are relevant to the instruction.

7.0 SERVICES & AMENITIES

For valuation purposes mains gas, water, electricity and drainage services are assumed to be laid on and in working order. No tests have been carried out. Furthermore, we have not tested heating, security, or other plant and equipment either within or solely serving the property. Unless stated otherwise, our valuation assumes that any such equipment is fully operational but you should commission reports from specialist mechanical and electrical consultants if further verification is required. The refurbishment costs provided also assume that these services are available.

We have not undertaken an audit to ascertain the extent of works required by legislation, and recommend one is commissioned to ascertain the extent of any works required for use and occupation. Our superficial inspection for this purpose however noticed the following shortcomings which relate generally to the quality and configuration of the accommodation which tend to be typical of 1870's built 'upper parts' originally constructed for residential uses and subsequently have been used as office space, such as the subject property.

- **Space heating / air handling**

The floors lack any central heating, with space heating having been provided by free standing electric radiators.

There is no air conditioning or supplementary comfort cooling.



If occupied in office use the arrangements for space heating in the winter months in particular would result in entirely unsatisfactory and possibly unsafe arrangements in terms of how these appliances are connected presenting trip hazards and use of multi socket extensions.

- **Power / data cabling**

The floors lack any power and data management. There is no perimeter trunking system. Simple, domestic style power sockets are fitted in each individual room.

Even if data and power amenity were to be upgraded, there is no obvious way these can be run though the building as there are no internal risers and therefore any arrangements put in place for data and telecoms provision would be compromised.

- **Lighting**

Artificial lighting arrangements are provided mainly by dated traditional fittings.

These are inadequate for office use and the accommodation requires upgrade for the installation of more modern florescent lighting arrangements to ensure compliance with current regulations in respect of lux levels and monitor based working environments.

- **WC provision**

These facilities are all extremely dated in terms of their presentation and fall well below modern standards for most occupiers looking for space even in this location.

There are no arrangements for separate male and female provision on each floor. There is no disabled WC and no ability to install one.

- **Entrance Approach**

It is the entrance to each of the upper parts that presents one of the most significant drawbacks of the accommodation.

The entrance to the upper parts lack any presence and would be a key drawback for most notional office occupiers. The building offers little in the way of profile and either of the frontages are limited.

This is a period property for which full compliance to enable disabled access and facilities is not always enforceable, however it is recognized that modern business's look to rent properties which meet these requirements where possible. This property has steep stepped staircase access from the pavement, off the busy, narrow medieval design, Little Turnstile Street.

The refurbishment costs do not cover the works which would be required to fully address these issues.

Where conversion or fit out works are proposed Building Regulation guidance should be sought from the local authority.



We have not been provided with and were not able to locate a copy of any Energy Performance Certificate for this properties following our search of the Landmark website EPC Register (www.epcregister.com). Historically we are research found references to a minimum E rating level. The law requires an Energy Performance Certificate (EPC) to be provided on sale, letting and construction works relating to domestic and commercial properties.

We note from the condition and age of this building it is likely not to be energy compliant. We note that with the following new regulations, set out in more detail in the general conditions under which this report is presented at the back of this report, which have come into effect and are coming into effect will apply to these buildings which will need to achieve a minimum E rating. Long term investors in this market when considering taking on properties that require refurbishment are alerted to recent changes in legislation in relation to energy efficiency, where landlords will be unable to let properties which are identified to be EPC grades F & G, it should be recognized that short term solutions to try to address this don't deal with the longer term future of this type of property.

In cross checking this against the refurbishment costs we have been provided, the expectation is that the EPC rating whatever it is currently will not improve significantly without more thermal insulation, however it is recognized that new heating systems should bring some improvement, we are unable without this specialist information to be able to confirm whether these would meet the minimum requirements.

8.0 STATUTORY ENQUIRES

The local authority for statutory enquiries is the London Borough of Camden. We have reviewed the relevant sections of the Council's website. We note that the property has a complicated planning history and for the purposes of this exercise we trust this report will be reviewed by the planning specialist handling the proposed application. We have adopted our values against the understanding of the following lawful use for each of the floors of the buildings which is set out in the schedule below, with commercial office.

Floor	Use
Second	Commercial Office
Third	Commercial Office
Fourth	Commercial Office
Fifth	Commercial Office

We appraise the property on the basis it has the required planning use consent for its existing arrangement. We also appraise a special assumption option that the property benefits from planning permission.

9.0 ECONOMIC & MARKET BACKGROUND

Research from *FocusEconomics* for June 2017 indicates that cracks are beginning to show in the UK's economy as growth petered out in Q1 following a highly resilient performance last year after the Brexit vote. Households were squeezed by nominal wage growth, higher inflation and working-age benefits freezes, while exports declined, with firms unable to capitalize on the weaker sterling. As inflation continues to rise, the Bank of England forecasts it reaching 2.8% in Q4 2017 and 2.4% in Q4 2018. The unemployment rate remained at a multi-decade low of 4.6%



in April. At its meeting ending on 14 June, the Monetary Policy Committee (MPC) of the Bank of England voted by a majority of five to three to leave the Bank Rate at 0.25%.

The OECD has projected that the UK economy will slow in 2017 and 2018, owing to uncertainty about the outcome of the Brexit negotiations. Policies have supported private confidence and consumption, but household spending is projected to ease as the combination of a weakening labour market and higher inflation reduces real wage growth. The outcome of the election has seen the Conservative Party form a minority government and on the 10th June an agreement was created with the Democratic Unionist Party supporting the Conservative government. This was a set-back for Prime Minister Theresa May who was looking to achieve a majority in the House of Commons to help strengthen the UK's position on Brexit negotiations.

The RICS UK Residential Market Survey results point to a lacklustre set of overall conditions once more, with enquiries, instructions and sales all declining over the month. In addition, price growth (although still positive) appears to have lost momentum in the latest report and expectations suggest a further cooling is likely in the near term. The General Election has been commonly cited as a factor hindering activity, causing some hesitancy from both buyers and vendors. London continues to be more negative in comparison to all other parts of the UK, although, at the twelve month horizon, the outlook is more or less flat. New buyer enquiries fell modestly at the national level, having remained stagnant over much of the past six months.

The latest UK Commercial Property Market Survey shows both rental and capital value growth projections strengthening, with sentiment still strongest across the industrial sector. Meanwhile, the office and retail areas of the market appear a little flatter in comparison. Demand indicators remain mixed across the London occupier market, although activity on the investment side saw some improvement according to the latest results.

Nationally, tenant demand increased at the all-sector level for the third consecutive quarter, albeit the pace of growth remained only modest. The sector breakdown again shows office and retail demand struggling for momentum. Availability continues to decline in the industrial sector, with 33% more respondents noting a fall (as opposed to an increase) and rents are expected to rise most firmly in the industrial sector, both over the near term and over the next twelve months. By contrast offices are expected to see only modest growth, while rents are anticipated to hold steady in the retail segment.

In the Construction sector, the RICS Construction Market Survey for points to a pick up in the pace of output growth across the sector reporting an increase in total workloads. Although expectations for the next 12 months remain generally positive, they have softened slightly in the case of employment and profit margins. The shortage of skilled labour persists and is again cited as a factor dampening growth. The private commercial sector reported the strongest acceleration in the pace of growth compared to the last quarter and the pace of growth also increased across all sectors. The net balance on Infrastructure workloads increased at the national level and the most significant increases are expected in rail, road and energy categories over the next 12 months.



Strettons May Auction auction showed a sales rate of 90% with greater activity in the room and a clear improvement from previous auctions with several lots achieving above guide price. Essential Information Group reported that the residential sector performed well last month nationally with lots offered up almost 5% and lots sold up 10% from the same period last year. Conversely, the commercial sector had a more challenging month with lots offered and sold falling by 15% and 20% respectively.

10.0 VALUATION CONSIDERATIONS & MICRO-MARKET

Market background

In order to establish the Market Values and Market Rents of the subject property based on the special assumptions as instructed for, we have carried out investigations on the local office market within the surrounding area, in particular we note there is shared accesses and stairways to be used by commercial and restaurant users with no separation in part. We believe the following issues need consideration and reflecting in our assessment of the Market Values.

Consideration to the property as a whole;

1. The existing building is in a basic dated condition, any letting to a new tenant where the Landlord wishes to transfer this liability, the usual practice would be to agree a rent free period to enable the tenant to do the works. We note there is demand for properties with challenges such as this which can attract individuals who want the opportunity in the location, however these can be higher risk tenants, whose covenant would push out the expected yield.
2. This property currently does not have an EPC rating, however based on its age and condition is likely to require works to achieve a good rating. With the changes to legislation in relation to energy efficiency where Landlords will be unable to let properties which are identified to be EPC Grade F and G from 2018, i.e. the least efficiency ratings, this is a consideration to this property. Due to the subject properties current condition it is likely not to be energy efficient. We anticipate this is going to impact on the Landlord's ability to let out and potentially could see the property to become vacant.
3. This existing layout of the office space is outmoded and wholly unsuitable for the catchment office market other than perhaps a handful of small professional services businesses that (subject to suitable specification and amenity) might be prepared to accommodate such a cellular configuration.
4. The current market improvement to the area would mean that we would expect investor interest in this property, however this is hindered and significantly restricted if the property is to remain in its current arrangement.
5. Although this is a local shopping and office location and the property is located near to the rail stations it is still an emerging location which as we have previously touched on is experiencing challenges in terms of the accommodation which the existing property even refurbished can only offer.



6. As an improving area a number of new schemes and more desirable office accommodation has become available with modern layouts, which has impacted on the older stock which originally provided this use accommodation, such as this property.
7. The configuration and construction of this building severely restrict implementation of the improvements that would be necessary to bring the building up to the standards of a modern office occupation.

11.0 BASIS OF VALUATION

We have been instructed to provide our opinion of the financial viability for which we have considered the property Market Value with the special assumption of use and arrangement and on the basis the property remain in that use and that there is no 'hope value' to reflect alternative uses, with the purpose of assisting with financial viability considerations in connection with a planning application for the change of use and development of the properties to the London Borough of Camden.

To assess the viability options at the outset we have looked at the value of the existing property in its current poor condition as a starting point which provides context and a bench marking point for reference in considering the three proposed project options financial characteristics and standing.

12.0 METHODOLOGY & COMPARABLE EVIDENCE

We are of the view that the most appropriate two methods of valuation to establish the Market Value/ Market Rent of the properties is the 'Comparative Method' and 'Investment Method'. Both methods estimate the value of a property by comparing it to the prices of similar properties being marketed, under offer and sold/let in similar locations within a recent period of time. The basic assumption is therefore that a property is worth what it will let/sell for, in the absence of undue stress and if reasonable time is given.

The two methods of valuing the properties is set out below, as well as the approach taken in more detail for each use type subject of this report:

I. Comparative Method - Analyses the sale of vacant units on a £/ sq ft

In adopting this method, we have considered the general value of the building on a price per sq ft basis. This is in comparison to prices paid for vacant buildings in various uses.

To our knowledge there have not been many directly comparable whole buildings sold/let in the local area in recent years and we have therefore spread our net wider in order to find comparable evidence that are broadly comparable in type, size, age and similar planning use. The lack of supply can in instances result in an owner-occupier having to pay a premium to purchase a vacant building.

The information has been obtained from a number of third party sources such as CoStar and from local commercial agents. With the benefit of such evidence, we have then applied this to the subject to form our opinion of value, at today's date.



2. Investment Method - Ascibe of a notional market rent, which is capitalised

To arrive at an opinion of Market Values of the properties, we capitalise the estimated annual rent by means of an initial yield/ Years Purchase (YP), which is a conventionally used basis.

There is limited amount of direct investment sales evidence for the subject properties.

OFFICE MARKET AND COMPARABLE COMMENTARY

The property is located in Midtown (defined at WCI and WC2), which is one of the core areas of office occupation in the capital. Midtown is a highly-connected area in Central London, made up of the neighbourhoods of Holborn, Bloomsbury and St Giles. The business interests of the companies based here are also managed by 'In Midtown' a Business Improvement District (BID). There is a high concentration of law firms, accountants and other professional advisers.

The area is well established between the West End and City markets and is a sub market which is recognised to have a diverse occupier profile which limits the shock of any single sector. There is strong supply in an area which has benefited from regeneration bringing better quality product into the market. There has been an increase in the serviced office market which is providing flexible good quality space. Recent research (Farebrother QI 2017) reports at the end of Q1 2017 there was 1.7 Million sq ft of speculative new space under construction and scheduled for delivery before the end of 2018. Approximately, half of the total space under construction is due to complete in the 2nd and 3rd quarters of 2017. This is a market where smaller occupiers are a key trend, particularly between 1,000 – 5,000 sq ft, there is good availability and take up in this market for good quality product. Office availability has increased since last year as a direct result of significant development completions, new and refurbished office accommodation increased by 65% and currently represents more than half of total market availability.

The rental value of a commercial office rent considers comparable evidence of refurbished developments and older stock in the local area. With the benefit of such evidence, we have then applied this to the subject office areas to form our option of value, at today's date, taking into account inter alia, of the aspect and condition.

The comparable evidence is within Appendix 2.

The office market in this location is significantly changing, there is increased modern up to date serviced product which is offering space in a more flexible letting basis. The growth in service office provision has had a direct impact on the second hand existing stock, which becomes more apparent in more difficult market conditions. We have applied downward adjustment to this type of better quality product. Office properties within dated period buildings are struggling to attract businesses even to cover day to day maintenance obligations. This in turn is impacting on desirability unless there are alternative use opportunities.



13.0 VALUATIONS

To re-cap you require our views on the following viability refurbishment options:

- 1) The viability of refurbishing the existing property to improve it to a reasonable condition to achieve a market letting opportunity for BI office use.
- 2) The viability of refurbishing and renovating with some structural repair on the existing property to improve it to a reasonable condition to achieve a competitive modern market letting opportunity for BI office use.

To assess this at the outset we have looked at the value of the existing property in its current basic condition as a starting point which provides context and a 'Benchmark' point of reference in considering the two proposed refurbishment and renovation project options financial characteristics and standing.

Existing property in the current basic condition:

Based on the comparable evidence and taking all factors into account, **rental value has been rounded;**
NIA areas are used for commercial office and GIA for residential

To achieve rentals for this space we have assumed a 5 year lease with an internal insuring with reasonable service charges.

Floor	Use	sq m	Sq ft	£/sq ft	Rental Value	Rental Value Say
Second	Commercial Office (Sub Total)	44.8	482	£38.00	£18,316	
Third	Commercial Office (Sub Total)	43.9	473	£32.00	£15,136	
Fourth	Commercial Office (Sub Total)	45.2	487	£25.00	£12,175	
Fifth	Commercial Office (Sub Total)	45.2	487	£25.00	£12,175	
	Grand Total	179.1	1,929		£57,802	£58,000

This rental is in line with the current rental that is being achieved at the property.

We have taken the following into account in our opinion of values:

- There is shared staircase access for commercial users.
- There is no lift and a steep/low ceiling staircase we would expect to see some decrease in rates on the higher floors to office users.
- The specification for this property is likely only to attract local businesses or community users.
- The configuration of the accommodation is a significant drawback for office use in particular on the upper floors. The floor space largely follows the existing configuration of rooms off a staircase. The floor plates are small, typically around 45 sq m/ 484 sq ft.


10 Gate Street, Holborn, London WC2A 3HP

- The office space is compromised by the existence of pillars which limit the useable space. This detriment is proportionately more profound for small units such as these, rather than for large floor plate units. This tends to reduce the flexibility of the space for tenants, and prevents any further subdivision, whilst the constrained unit sizes also clearly limit any expansion. Start-up businesses tend to be better suited to larger floorplate flexible units and purpose-built business centres which enable expansion and contraction within a shell building, and for rent only to be payable on the precise space required.

The overall potential letting income of 10 Gate Street equates to say **£58,000 pa**, which when applying an all risks yield **5.5%** yield (YP 18) the value of this property would be £1,044,000 , and then to reflect a 1 year rent free period say **£1,000,000**.

The property once refurbished:

The proposed refurbishment cost is **£240,000**, as referred to in the above report.

Floor	Use	sq m	Sq ft	£/sq ft	Rental Value	Rental Value Say
Second	Commercial Office (Sub Total)	44.8	482	£40.00	£19,280	
Third	Commercial Office (Sub Total)	43.9	473	£34.00	£16,082	
Fourth	Commercial Office (Sub Total)	45.2	487	£27.00	£13,149	
Fifth	Commercial Office (Sub Total)	45.2	487	£27.00	£13,149	
	Grand Total	179.1	1,929		£61,660	£62,000

The approach taken is that the better and higher the rent means an improved building with reduced risk rounded up/ down which is more desirable which therefore equates to applying a lower yield.

The overall letting incomes of 10 Gate Street equates to say **£62,000 pa**, which when applying a **5.0%** yield (YP 20) the value of this property would be say **£1,240,000**.

The property once it has been renovated to an enhanced level including some more structural improvements:
The property once refurbished and renovated, robustly using the same areas;

The proposed refurbishment cost is **£1,000,000**, as referred to in the above report.



Floor	Use	sq m	sq ft	£/sq ft	Rental Value	Rental Value Say
Second	Commercial Office (Sub Total)	44.8	482	£55.00	£26,510	
Third	Commercial Office (Sub Total)	43.9	473	£49.00	£23,177	
Fourth	Commercial Office (Sub Total)	45.2	487	£42.00	£20,454	
Fifth	Commercial Office (Sub Total)	45.2	487	£42.00	£20,454	
Grand Total		179.1	1,929		£90,595	£90,000

The approach taken is that the better and higher the rent means an improved building with reduced risk which is more desirable which therefore equates to applying a lower yield.

Based on the comparable evidence and taking all factors into account, we would attribute the overall annual letting income of **£90,000**, however with the reduced risk and the opportunity of a longer letting we would apply a **4.5%** yield (YP 22.22) the value of this property would be £1,999,800, say **£2,000,000**.

CONCLUSION

It should be recognized that capital value is the priority, with investment return a secondary position in terms of property value.

There has been detailed adjustment to income rate for both the refurbishment and redevelopment projects, and different yields have been applied to reflect the different risk. The greater the risk the less attractive the investment, the risk is reduced in relation to the better condition of the property and therefore its ability to better support a longer term letting opportunity.

Residual valuation work has been undertaken using the build costs provided, the residual work does not take account of profit, voids, finance and risk of overspend. The yields applied do not take into account purchasers costs.

Summary Table of Values:

Description	Annual Letting Income	Yield	Value
Property in existing condition	£58,000	5.5%	£1,000,000
Property refurbished	£62,000	5.0%	£1,240,000
Property renovated including some structural repair	£90,000	4.5%	£2,000,000

The values are provided on the basis that the proposed refurbishment works are completed.

At the date of this report the area around the subject property is of a mixed use character. The area has significant potential and in time is likely to improve.

At the date of this report the values of the property are based on its existing character and appearance, and instructed special assumptions.



We have had to take a robust approach to the valuation of the refurbishment and renovation work at this stage where we have been unable to see the finished product.

Based on all of the available evidence, our experience in the local market and the factors affecting the subject scheme as set out earlier, we conclude that the value of the subject is set out above and reflects an element of new build premium to the enhanced refurbishment and development scheme.

Viability Summary

The property is in a poor condition for its age, the on-going repair action to mitigate building movement and general wear and tear. The area is improving and with it improved scheme product is becoming available, which is more desirable than this property can provide in its existing and even refurbished condition.

The properties current and even refurbished profile will tend to be unsophisticated attracting sole traders and businesses in the local market place who are unlikely to pay large rental increases for better quality space of this nature, with small fragmented space in period buildings. These types of business do not tolerate high specification premises and these tend not to project the image that these wish to present. The building is therefore currently constrained, and from the outcome greater expenditure within such a period property does not always equate to proportional added value to the property and greater rental incomes.

Our instruction has been to give consideration to the financial viability of investing in this property via basic refurbishment and renovation works.

The building is currently let out on a short term basis which has been reflected in the valuation work. This viability assessment has considered the different levels of improvement work and whether the investment is worth it when considered against the let ability and market value of the improved property.

At a time where properties now need to better comply with energy efficiency standards, this property is likely to require even greater investment, even than those costed, to continue to be occupied to cover ongoing costs and management, consideration to this in terms of viability has been taken into account. In particular a basic refurbishment may achieve a short term solution, but does not protect the buildings longer term future.

The building cost estimates that we have been provided or assumed exclude VAT, fees and interest costs as well as a 6 month build out period which we have applied for the residual work as these costs would be required to implement the refurbishment schemes.

In conclusion it is unviable to implement the refurbishment works, because the improvements do not compete with modern requirements particularly in terms of layout and the standards demanded.



The costs of the works alone result in a lower value than the existing property, without offering longer term compliance and building life. It should be noted that this does not reflect, the risk, profit, finance and voids in undertaking the works which will further reduce residual value.

The proposed residential scheme however offers a potential future for this property as the investment is financially viable.

Summary Table

Condition	Value	Refurbishment & Renovation & Development Costs	Value less Costs	Resultant Value	Viability
Existing	£1,000,000	-	-	-	-
Refurbished Basic	£1,240,000	£240,000	£1,240,000 - £240,000 = £1,000,000	£1,000,000 - £1,000,000 = -£0	Unviable as the resultant value is below the existing property value.
Refurbished enhanced including some structural repair	£2,000,000	£1,000,000	£2,000,000 - £1,000,000 = £1,000,000	£1,000,000 - £1,000,000 = -£0	Unviable as the residual value is below the existing property value

We have adjusted and used the build costs as provided, some have been extrapolated in places and adjusted down from wider development proposals, however in line with our instructions we have adopted where possible the most relevant costs in relation to the subject office floors.

The assessment work commercially exposes the serious challenges facing this property's future. In our opinion any investor in the market when considering this property is unlikely to take this on as the project risks are too high without any hope value, and when compared to the resource commitment required. The viable option for this building is demonstrated in the potential change of use scheme and the addition of a floor to provide two flats.



14.0 VALUER

This update report has been prepared by Strettons. If any clarification or enlargement is required concerning this report please do not hesitate to contact the valuer.

Yours sincerely

FOR STRETTONS

Suzanna Lewis BA (Hons) PGDip MRICS/MRTPI

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DRAFT



GENERAL CONDITIONS UNDER WHICH THIS REPORT IS PRESENTED

BASIS OF VALUATION

EXISTING USE VALUE

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 acted knowledgeably, prudently and without compulsion – assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost

No allowance has been made for the cost of realisation or for any liability for value added or other taxes that might arise or be deemed to arise upon sale or acquisition.

MARKET VALUE

Market Value is defined under International Valuation Standard Framework Paragraph 30.1 of the RICS Valuation – Professional Standards – Global and UK (July 2017) (The Red Book) as:

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.

This definition of Market Value disregards any element of special value that would be paid by an actual special purchaser at the date of valuation. Special value includes synergistic value (marriage value). Market Value does however include 'hope value' where appropriate.

For the avoidance of doubt, our valuation excludes goodwill, fixtures and fittings, process plant and equipment, used in connection with the occupier's business.

MARKET RENT

Market Rent is defined in International Valuation Standard (IVS) 104 of the RICS Valuation – Professional Standards – Global and UK (July 2017) (The Red Book) as:

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.

TENURE

In the absence of information to the contrary, we have prepared our valuation on each property on the basis of immediate full vacant possession and a good long leasehold title, clear of any unusually onerous or restrictive covenants and that full rights of way are available.

We have used tenure information supplied to us and made reasonable assumptions. Solicitors should confirm its accuracy before this report is relied upon.

CONSTRUCTION & CONDITION

We have made reference to a number of key points regarding this property and its condition, we are not experts and we would expect the following statement paragraphs to be given the due consideration.

We have not inspected roof voids; if coverings have been replaced with concrete tiles, we assume (but cannot confirm) that adequate additional support has been provided. If chimneys have been removed or load bearing walls altered we are unable to say if adequate support was provided. Our valuation assumes that a building survey would confirm our general assessment of condition; and, that no sub-standard or deleterious materials are present in the construction, or services.



The age, type of construction or use of this property might indicate the presence of asbestos. It is impossible to locate or identify asbestos from an inspection for valuation purposes and we are not experts in this field. You should be aware that the cost of removal can, in some cases, be substantial. If present, the occupier is responsible for having an asbestos audit prepared, and maintaining a management plan. We have made no provision for this in our valuation. As such, and to satisfy the Control of Asbestos Regulations 2012, we have to recommend an expert audit to ascertain whether asbestos is present, whether it presents a risk; and to advise on cost and an appropriate method of removal and disposal. We are able to obtain a quotation for this if required.

We have assumed a modern competitive specification for the proposed private flats in line with other market product.

Services

For valuation purposes mains gas, water, electricity and drainage services are assumed to be laid on and in working order. No tests have been carried out. Furthermore, we have not tested heating, security or other plant and equipment either within or solely serving the property. Unless stated otherwise, our valuation assumes that any such equipment is fully operational but you should commission reports from specialist mechanical and electrical consultants if further verification is required.

The Equality Act 2010

The Equality Act 2010 imposes a duty on a person who is in control of a building to ensure that where a physical feature puts a disabled person at a substantial disadvantage in relation to a relevant matter in comparison with persons who are not disabled, the person in control has a duty to take such steps as it is reasonable to have to take to avoid the disadvantage. This includes removing the physical feature in question; altering it, or providing a reasonable means of avoiding it.

A physical feature of a building refers to a feature arising from the design or construction of a building, a feature of an approach to, exit from or access to a building. It also includes a fixture or fitting, or furniture, furnishings, materials, equipment or other chattels, in or on premises, or any other physical element or quality.

SERVICES & AMENITIES

We note that this property potentially will be effected by the detail of this legislation which we further refer to in the body of the report.

The Equality Act 2010 imposes a duty on a person who is in control of a building to ensure that where a physical feature puts a disabled person at a substantial disadvantage in relation to a relevant matter in comparison with persons who are not disabled, the person in control has a duty to take such steps as it is reasonable to have to take to avoid the disadvantage. This includes removing the physical feature in question; altering it, or providing a reasonable means of avoiding it.

New regulations for domestic and non-domestic private rented property comes into effect from April 2016 and April 2018, respectively implementing the UK Energy Act 2011.

For Commercial property the above regulations for non-domestic private rented property comes into law on 01 April 2018 under the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 and there are now two important dates after which letting of properties with an EPC rating of F or G becomes unlawful without implementing cost-energy efficiency improvements or fulfilling an exemption criterion:

01 April 2018 – It is an offence attracting penalty payments for landlords to grant NEW leases (including renewals and extensions) and

01 April 2023 – Offence if landlords *continue* to let under EXISTING LEASES

For residential property the above regulations for domestic private rented property comes into law from 01 April 2016 under the Energy Act 2011.

Tenants will have the right to request reasonable energy efficiency improvements from landlords and superior landlords that are at no cost to the landlord from April 2016.

01 April 2018 – It is an offence attracting penalty payments for landlords to grant NEW leases (including renewals and extensions) and



01 April 2020 – Offence if landlords *continue* to let under EXISTING LEASES

NOTE: Tenancies provided by social landlords, low cost rented accommodation provided by a registered social housing provider and low cost home ownership accommodation are excluded.

We have not undertaken an audit to ascertain the extent of works required. If a report identifies significant deficiencies then we may need to amend our opinion of value accordingly. We consider that the market is likely to make an allowance for this factor, and likely to the closer 2018 approaches.

ENVIRONMENTAL ISSUES

We have not carried out an environmental risk assessment as this would exceed our instructions. For the purposes of our valuation we assume that there are no overly adverse ground or contaminations conditions that would adversely impact on the value of the properties.

This is a densely built-up area where there could be high voltage electricity equipment, telecommunication aerials or dishes nearby. Possible effects of electromagnetic and microwave fields have been subject of media coverage and possible health-risks. Public perception may, therefore, affect marketability and future value of the property. We have made no allowance for this in our valuation. Advice could be sought from the Health Protection Agency (www.hpa.org.uk) or other specialists if you need assurance.

Flooding

We have made enquiries of the Environment Agency website which confirms that the property has not been identified as being one where there is an increased risk of flooding such as on a flood plain. Clients seeking further information should search on the Environment Agency website (www.environment-agency.co.uk).

Radon

The property is in part of the country where there is a very low likelihood of Radon potentially posing a risk to health. Radon is a naturally occurring radioactive gas and is linked to increase incidences of lung cancer. The Ionising Radiations Regulation impose a duty on employers to protect works from exposure to Radon. Further information may be obtained from the Health Protection Agency (<http://www.ukradon.org/information/ukmaps/englandwales>). If Radon is discovered at the property to be sufficiently high to require remedial works, significant costs may be incurred. For the purpose of our valuation, we have assumed that no such works are necessary.

Plant, Vermin And Fungal Attack

We were not able to fully inspect the property and therefore are not able to determine that the property is free of adverse plant, vermin or fungal infestation.

COMPARABLE EVIDENCE

Some of the comparable evidence in our report may be based upon oral enquiries and information provided by third parties. Whilst every effort is made to ensure that the information is correct, its accuracy cannot always be assured, or may be the subject to undertakings as to confidentiality. In the event that the information supplied is inaccurate, we may have to revise our opinion of value. However, such information is only referred to where we have reason to believe its general accuracy or where it was in accordance with expectation.

OUR PRINCIPLE SERVICES

AGENCY

- Sales, lettings and acquisitions of retail, industrial/warehouse, office property and development property

AUCTIONS

- 6 combined residential and commercial property auctions each year

INVESTMENT

- Sales and acquisitions of investment property
- Portfolio management and valuations

ASSET AND PROPERTY MANAGEMENT

- Collection of rents, service charges, insurance etc.
- Planned and reactive maintenance
- Health & Safety (CDM Regulations)
- Generating value

SPECIALIST CONSULTANCIES

- Advising public authorities and charities

VALUATION & ADVISORY SERVICES

- Private valuations of all types of property
- Asset valuations for company accounts, takeovers etc.
- Valuations for banks and building societies for secured loans
- Valuation for taxation assessments e.g. Capital Gains Tax, probate etc.
- Rent review and lease renewal negotiations
- Expert witness reports
- Business rates advice
- Compulsory Purchase advice and compensation

DEVELOPMENT CONSULTANCY

- Development Appraisals
- Funding
- Affordable Housing
- Development Viability

LEASEHOLD REFORM AND ENFRANCHISEMENT

- Advice and negotiations of lease extensions
- Leasehold enfranchisement
- Expert witness reports

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