

Report for Nilkanth Estates
25 Old Gloucester Street London WC1
12th May 2020

Introduction

I have been asked to provide a report on the viability of the front part of 25 Old Gloucester Street being used for office purposes, if retained in a development scheme, due to its heritage importance.

Qualifications Neil Warwick BSC MRICS

I am a partner of Kinney Green chartered surveyors. I qualified as a Chartered Surveyor in 1992 and have spent the majority of my professional life specialising in commercial property in the Midtown area of central London. I have significant experience in office lettings, in particular advising landlords on the specifications of works and equipment to be included in office accommodation to make them as attractive as possible to prospective tenants in the letting and sales market. I work closely with the Midtown Business Improvement District and I am an active member of the property group within that.

Location

The property is situated on the west side of Old Gloucester Street at the junction with Queen Square. It forms part of a mixed residential, educational and medical area with other occupiers in the vicinity including Great Ormond Street Hospital, the Royal London Homoeopathic hospital and with the Mary Ward Centre (adult education) opposite. To the north of the property is St George's Holborn church and immediately to the south a number of residential dwellings. Old Gloucester Street and Boswell Street to the east are dominated primarily by residential accommodation. Southampton Row to the east of the property is populated by many hotels. Transport links are good with Russell Square tube station just a few minutes to the north and Holborn tube station a few minutes' walk to the south. A number of bus routes follow Southampton Row immediately to the west of Old Gloucester Street.

Description

25 Old Gloucester Street is a former Victorian school building constructed from London stock bricks built in 1877. The front of the building provides offices over basement, ground, first, second and third floors with a narrow floor plate. The rear of the building provides a main hall and mezzanine hall above and storage below all being D1 space and accessed through the front part of this building.

The planning proposal as I understand things is to redevelop the rear part of the building retaining a D1 use and provide residential accommodation within the front of the building which would be retained due to its heritage importance. This report looks at the viability for the front part of the building as office accommodation, as opposed to residential.

The windows to the front building are small to match the gothic style of the facade. The rooms in the front part of the building are accessed by a narrow single staircase leading to a corridor on each floor running along the back of the accommodation and small offices to the facade. There are two single WCs on half landings. The basement does have some natural light from the lightwell at the front of the building. I note from the records of when the building was last sold in 2009 that the total floor area of the building comprises approximately 6,200 sqft/575 sqm. The front building is a much smaller part of the accommodation and from my estimation equates to approximately only 1,500 sqft/140 sqm.

Condition of the premises

The building is in a seriously dilapidated condition having not been occupied for a number of years. The attached photographs show that there has been water ingress from the roof which has caused considerable damage to ceilings and floors.

Would the front building once refurbished, as part of the overall proposed scheme, be able provide office accommodation rather than residential space that are financially viable, and is there a market for such offices in this location? In short this might be difficult to achieve.

What level of specification could be achieved within the front building given the limitations of the structure and listed nature of the building?

Firstly, the building would need to be made wind and watertight probably with a new roof and repairs and replacement of any items of structure that may have been damaged by water penetration. This may include floors and ceilings. There is very little that could be changed in terms of layout so that a number of private offices could be achieved, which potentially would be suitable for an old-style professional office.

Whilst a new heating system could be incorporated it may be difficult to provide cooling unless appropriate external space could be found to site condenser units. This is often difficult to achieve with a listed building in a conservation area. New toilet accommodation would be required. It is unlikely that the existing space designated for toilets on the half landing would be sufficient but perhaps additional space could be found at lower ground level in order to achieve the appropriate number of toilets required. Overall, I assume that high quality materials will be used to provide the good standards of finish.

Would this style and specification of offices let in the current market?

This is without doubt a very attractive building with a great deal of character, in a good central London location with good transport links. Buildings with character are often sought after as tenants search for an alternative to modern corporate office space.

Unfortunately, whilst attractive from the outside, the office space that could be provided in the front building will be small heavily cellular offices over a number of floors, not conducive to a modern office environment. Smaller office occupiers are much more likely to consider serviced offices due to the benefits of all the amenities of a much larger building and flexible terms.

With the improvements in modern technology, tenants even professional occupiers, have less need for private offices. Open plan offices are much more space efficient and agile working has meant that more people are sharing desk space and using sound cancelling headphones if they need quiet space.

In my opinion, it would be extremely difficult to secure a tenant for these offices once refurbished for the reasons outlined above. This is backed up by the number of similar offices currently available in the locality and the length of time that they have been on the market, see below.

Comparable period style offices currently on the market nearby

Here is a list of some of the properties which have similar features to the subject property that are currently on the market will an indication of how long they have been available to let:

3-4 Lincoln's Inn Fields, third floor, 2,222 sqft. On market for 12 months.

23 and 23 Great Queen Street, self-contained building, 1,880 sqft. On market for 6 months.

4 Tavistock Place, self-contained building 4,068 sqft. On market for 23 months.

26-28 Bedford Row, two floors, 2,560–4,068 sqft. On market for 28 months.

8 Montague Street, self-contained building, 3,582 sqft. On market for 42 months.

Bedford House, 21a John Street, self-contained building available in floors, 364 sqft to 3,608 sqft. On market for 36 months.

45 Bedford Row, self-contained building 4,775 sqft. On market for 26 months.

12 John Street, self-contained building, 3,139 sqft. On market for 18 months.

Rapier House, 40-46 Lambs Conduit Street, Floors available 1,570– 2,654 sqft. On market for 21 months.

Whilst some of these properties have retained their period features and only have central heating, a large number have been fully refurbished to include comfort cooling or air-conditioning, modern cabling and in some cases the provision of cycle racks, showers and lockers. The latter being high up the list of tenants' requirements. This is far from being an exhaustive list of properties currently on the market.

The immediate locality being dominated by residential, D1 and medical use has meant that when office accommodation has become available to let or for sale, it is not surprising that owners seek a change of use.

Financial Viability

Looking at the financial viability, I have examined 3 scenarios as follows:-

Scenario 1 (Median Case) – Rent £40 psf (Grnd to 3rd Floor) & Exit Yield 6% NIY

Scenario 2 (Worst Case) – Rent £35 psf (Grnd to 3rd Floor) & Exit Yiled 6.5% NIY

Scenario 3 (Best Case) – Rent £45 psf (Grnd to 3rd Floor) & Exit Yield 5.5% NIY

Using my expert knowledge of properties in the locality in each case I have assumed a purchase price for a period building in need of full refurbishment based on a capital value of £750 per square foot of net area. I have assumed a 12 month build period, a void marketing period of 24 months and then 12 months' rent-free period based on a letting for a 5 year term certain.

As well as attaching detailed description of each appraisal, in the 3 pdf appraisals, I provide a summary below.

Scenario 1

Profit	-£1,622,551	
Profit on Cost	-50.97%	
Revenue	£1,560,824	
Total Build Cost (incl acquisition + fees)		£3,183,375
Development Yield	3.03%	
IRR	-22.82%	

Scenario 2

Profit	-£1,893,124	
Profit on Cost	-59.58%	
Revenue	£1,284,570	
Total Build Cost (incl acquisition + fees)		£3,177,694
Development Yield	2.71%	
IRR	-28.05%	

Scenario 3

Profit	-£1,301,635	
Profit on Cost	-40.81%	
Revenue	£1,888,188	
Total Build Cost (incl acquisition + fees)		£3,189,823
Development Yield	3.34%	
IRR	-17.35%	

Even at the most optimistic rent and yield profile the office scheme makes a significant loss.

Conclusion

In conclusion, the proposed development, retaining the front part of the building and refurbishing as offices will be unlikely to be able to provide the type of accommodation that the market demands, with its lack of air conditioning/cooling, showers, bike racks and lockers, and even if it did there is no market for offices with an awkward compromised layout.

At the time of writing the country is in lockdown due to the COVID-19 pandemic and therefore the market for office space is on hold.

This report is exclusively for the addressee in relation to their planning proposals for development at 25 Old Gloucester Street and is not to be used for any other purpose.

If you require any further information or would like to discuss any of the points raised above, please do not hesitate to contact me.

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Partner

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25 Old Gloucester Street
Scenario 1

London
WC1N3AX

Development Appraisal
Kinney Green
23 April 2020

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

Summary Appraisal for Phase 1

Currency in £

REVENUE**Rental Area Summary**

	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
First Floor	1	540	40.00	21,600	21,600	21,600
Second Floor	1	540	40.00	21,600	21,600	21,600
Third Floor	1	540	40.00	21,600	21,600	21,600
Lower Ground Floor	1	540	26.70	14,418	14,418	14,418
Ground Floor	<u>1</u>	<u>430</u>	40.00	17,200	<u>17,200</u>	<u>17,200</u>
Totals	5	2,590			96,418	96,418

Investment Valuation**First Floor**

Market Rent	21,600	YP @	6.0000%	16.6667	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.0000%	0.9713	349,663

Second Floor

Market Rent	21,600	YP @	6.0000%	16.6667	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.0000%	0.9713	349,663

Third Floor

Market Rent	21,600	YP @	6.0000%	16.6667	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.0000%	0.9713	349,663

Lower Ground Floor

Market Rent	14,418	YP @	6.0000%	16.6667	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.0000%	0.9713	233,400

Ground Floor

Market Rent	17,200	YP @	6.0000%	16.6667	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.0000%	0.9713	278,435
					1,560,824

NET REALISATION**1,560,824**

APPRAISAL SUMMARY**KINNEY GREEN****25 Old Gloucester Street****OUTLAY****ACQUISITION COSTS**

Fixed Price (0.30 Acres 6,333,333.33 pAcre)		1,900,000	
			1,900,000
Agent Fee	1.00%	19,000	
Legal Fee	0.50%	9,500	
Survey		5,000	
			33,500

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost	
First Floor	750 ft ²	280.00 pf ²	210,000	
Second Floor	750 ft ²	280.00 pf ²	210,000	
Third Floor	750 ft ²	280.00 pf ²	210,000	
Lower Ground Floor	750 ft ²	280.00 pf ²	210,000	
Ground Floor	750 ft ²	280.00 pf ²	<u>210,000</u>	
Totals	3,750 ft²		1,050,000	1,050,000

PROFESSIONAL FEES

Architect	7.00%	73,500	
Quantity Surveyor	2.00%	21,000	
Structural Engineer	2.00%	21,000	
Project Manager	2.00%	21,000	
C.D. Manager	1.00%	10,500	
			147,000

MARKETING & LETTING

Marketing		15,000	
Letting Agent Fee	10.00%	9,642	
Letting Legal Fee	5.00%	4,821	
			29,463

DISPOSAL FEES

Sales Agent Fee	1.00%	15,608	
Sales Legal Fee	0.50%	7,804	
			23,412

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

TOTAL COSTS 3,183,375**PROFIT** (1,622,551)**Performance Measures**

Profit on Cost%	(50.97)%
Profit on GDV%	(103.95)%
Profit on NDV%	(103.95)%
Development Yield% (on Rent)	3.03%
Equivalent Yield% (Nominal)	6.00%
Equivalent Yield% (True)	6.23%
IRR	(22.82)%
Rent Cover	-16 yrs -10 mths
Profit Erosion (finance rate 0.000%)	N/A

25 Old Gloucester Street
Scenario 2

London
WC1N3AX

Development Appraisal
Kinney Green
23 April 2020

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

Summary Appraisal for Phase 1

Currency in £

REVENUE**Rental Area Summary**

	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
First Floor	1	540	35.00	18,900	18,900	18,900
Second Floor	1	540	35.00	18,900	18,900	18,900
Third Floor	1	540	35.00	18,900	18,900	18,900
Lower Ground Floor	1	540	26.70	14,418	14,418	14,418
Ground Floor	<u>1</u>	<u>430</u>	35.00	15,050	<u>15,050</u>	<u>15,050</u>
Totals	5	2,590			86,168	86,168

Investment Valuation**First Floor**

Market Rent	18,900	YP @	6.5000%	15.3846	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.5000%	0.9690	281,756

Second Floor

Market Rent	18,900	YP @	6.5000%	15.3846	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.5000%	0.9690	281,756

Third Floor

Market Rent	18,900	YP @	6.5000%	15.3846	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.5000%	0.9690	281,756

Lower Ground Floor

Market Rent	14,418	YP @	6.5000%	15.3846	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.5000%	0.9690	214,940

Ground Floor

Market Rent	15,050	YP @	6.5000%	15.3846	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.5000%	0.9690	224,362
					1,284,570

NET REALISATION**1,284,570**

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

OUTLAY**ACQUISITION COSTS**

Fixed Price (0.30 Acres 6,333,333.33 pAcre)		1,900,000	
			1,900,000
Agent Fee	1.00%	19,000	
Legal Fee	0.50%	9,500	
Survey		5,000	
			33,500

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost	
First Floor	750 ft ²	280.00 pf ²	210,000	
Second Floor	750 ft ²	280.00 pf ²	210,000	
Third Floor	750 ft ²	280.00 pf ²	210,000	
Lower Ground Floor	750 ft ²	280.00 pf ²	210,000	
Ground Floor	750 ft ²	280.00 pf ²	<u>210,000</u>	
Totals	3,750 ft²		1,050,000	1,050,000

PROFESSIONAL FEES

Architect	7.00%	73,500	
Quantity Surveyor	2.00%	21,000	
Structural Engineer	2.00%	21,000	
Project Manager	2.00%	21,000	
C.D. Manager	1.00%	10,500	
			147,000

MARKETING & LETTING

Marketing		15,000	
Letting Agent Fee	10.00%	8,617	
Letting Legal Fee	5.00%	4,308	
			27,925

DISPOSAL FEES

Sales Agent Fee	1.00%	12,846	
Sales Legal Fee	0.50%	6,423	
			19,269

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

TOTAL COSTS 3,177,694**PROFIT** (1,893,124)**Performance Measures**

Profit on Cost%	(59.58)%
Profit on GDV%	(147.37)%
Profit on NDV%	(147.37)%
Development Yield% (on Rent)	2.71%
Equivalent Yield% (Nominal)	6.50%
Equivalent Yield% (True)	6.77%
IRR	(28.05)%
Rent Cover	-21 yrs -12 mths
Profit Erosion (finance rate 0.000%)	N/A

25 Old Gloucester Street
Scenario 3

London
WC1N3AX

Development Appraisal
Kinney Green
23 April 2020

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

Summary Appraisal for Phase 1

Currency in £

REVENUE**Rental Area Summary**

	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
First Floor	1	540	45.00	24,300	24,300	24,300
Second Floor	1	540	45.00	24,300	24,300	24,300
Third Floor	1	540	45.00	24,300	24,300	24,300
Lower Ground Floor	1	540	26.70	14,418	14,418	14,418
Ground Floor	<u>1</u>	<u>430</u>	45.00	19,350	<u>19,350</u>	<u>19,350</u>
Totals	5	2,590			106,668	106,668

Investment Valuation**First Floor**

Market Rent	24,300	YP @	5.5000%	18.1818	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	5.5000%	0.9736	430,147

Second Floor

Market Rent	24,300	YP @	5.5000%	18.1818	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	5.5000%	0.9736	430,147

Third Floor

Market Rent	24,300	YP @	5.5000%	18.1818	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	5.5000%	0.9736	430,147

Lower Ground Floor

Market Rent	14,418	YP @	5.5000%	18.1818	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	5.5000%	0.9736	255,221

Ground Floor

Market Rent	19,350	YP @	5.5000%	18.1818	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	5.5000%	0.9736	342,525
					1,888,188

NET REALISATION**1,888,188**

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

OUTLAY**ACQUISITION COSTS**

Fixed Price (0.30 Acres 6,333,333.33 pAcre)		1,900,000	
			1,900,000
Agent Fee	1.00%	19,000	
Legal Fee	0.50%	9,500	
Survey		5,000	
			33,500

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost	
First Floor	750 ft ²	280.00 pf ²	210,000	
Second Floor	750 ft ²	280.00 pf ²	210,000	
Third Floor	750 ft ²	280.00 pf ²	210,000	
Lower Ground Floor	750 ft ²	280.00 pf ²	210,000	
Ground Floor	750 ft ²	280.00 pf ²	<u>210,000</u>	
Totals	3,750 ft²		1,050,000	1,050,000

PROFESSIONAL FEES

Architect	7.00%	73,500	
Quantity Surveyor	2.00%	21,000	
Structural Engineer	2.00%	21,000	
Project Manager	2.00%	21,000	
C.D. Manager	1.00%	10,500	
			147,000

MARKETING & LETTING

Marketing		15,000	
Letting Agent Fee	10.00%	10,667	
Letting Legal Fee	5.00%	5,333	
			31,000

DISPOSAL FEES

Sales Agent Fee	1.00%	18,882	
Sales Legal Fee	0.50%	9,441	
			28,323

APPRAISAL SUMMARY**KINNEY GREEN**

25 Old Gloucester Street

TOTAL COSTS 3,189,823**PROFIT** (1,301,635)**Performance Measures**

Profit on Cost%	(40.81)%
Profit on GDV%	(68.94)%
Profit on NDV%	(68.94)%
Development Yield% (on Rent)	3.34%
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%
IRR	(17.35)%
Rent Cover	-12 yrs -2 mths
Profit Erosion (finance rate 0.000%)	N/A