

**SITE 11 REDENESS STREET
LAYERTHORPE
YORK
YO31 7UU**



1. EXECUTIVE SUMMARY

To be read strictly in conjunction with the accompanying report.

- City of York Council holds the freehold interest in the site subject to a long ground lease now held by York Motor Factors. Maple Developments recently has completed a student housing development immediately to the side of the property and has agreed terms to take an assignment of the long leasehold interest held by York Motor Factors. City of York Council proposes to sell Maple Developments the freehold interest in order that Phase II of the student housing scheme can take place.
- The ground lease is subject to an underlease of part to a dance facility albeit this underlease is due to expire in April 2017. You have explained that for the purposes of our valuation we can ignore the underlease to the dance company. YMF have shown us a copy of the underlease and the tenant has no security of tenure.
- The head leasehold interest is granted for a term of 99 years from 1 April 1971 at an initial rental of £480 per annum and currently realising £4,700 per annum. This revised rent was set we understand in 2004 at the first of the 33 yearly rent reviews. The demise is of both land and buildings and the rent review provides for it to be upward only to either 15% of the rental value of the property or a “reasonable rent” of the land excluding buildings. The lease is granted on effective full repairing and insuring terms and includes a development obligation on the tenant to develop the building.

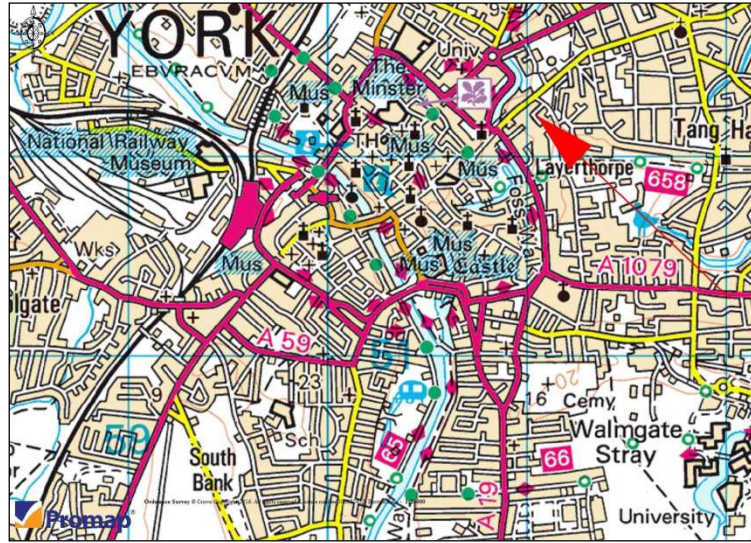
| PURPOSE OF VALUATION | Proposed Sale to tenant |
|--|--|
| VALUATION DATE | Date Report Issued |
| a) MARKET VALUE OF THE FREEHOLD INTEREST SUBJECT TO THE LONG LEASE HELD BY MAPLE DEVELOPMENTS (IGNORING THE SUB-LEASE) | £130,000 (One hundred and thirty thousand pounds) |
| b) COMMENT ON THE PROPOSED MARRIAGE VALUE CREATED BY COMBINING THE FREEHOLD AND LONG LEASEHOLD INTERESTS AND HAVING REGARD TO THE PROPOSED SALE PRICE OF THE FREEHOLD INTEREST. | See Below |

2. LOCATION

The property is located on Redeness Street and with frontage both to the north boundary and western boundary. It is a regular rectangular shaped site with frontage to open car parking to the east and the new student housing scheme to the south.

York City Centre is approximately ½ mile to the south west. The immediate area historically comprises a rather dated industrial estate. More recently trade centre, retail and leisure uses have located there. Most recently a large student housing scheme has been undertaken on land immediately to the south. As such the area is changing as more valuable uses take over.

The general location of the property is illustrated on the following Ordnance Survey extract.



Not to Scale

3. THE SITE

You have provided Ordnance Survey plans of the property and from which we understand:-

Approximate Areas

| | |
|--|--------------------|
| Site Area | 0.135ha (0.33acre) |
| Frontage to Redeness Street (to the north) | 36m (118 feet) |
| Frontage to Redeness Street (to the west) | 28m (92 feet) |

Notes on Site

The site is rectangular in shape and generally level. It is extensively developed with buildings albeit there is a small car park to the rear (south). Access into the car park is from the west.

The extent of the site boundaries as we understand them are shown edged red on the 1:1250 scale Ordnance Survey extracts attached within Appendix I.

4. CONSTRUCTION

The age of the building appears to be consistent with the start of the lease. To the front is a single storey part of brick construction beneath a flat roof of unknown covering. To the rear is a single storey warehouse with brick external walls and what appears to be a corrugated asbestos cement sheet roof lined to the underside. It is not clear whether the building has a portal frame hidden by brick piers or more likely if the roof is supported on these brick columns. The building is relatively low with an eaves height of approximately 4.34 m.

Part of the warehouse has been divided off and refurbished to provide two dance studios. This includes the provision of a raised sprung floor.

5. ACCOMMODATION

| Description | Approximate Gross Internal Floor Area | |
|---------------------------------|---------------------------------------|--------------|
| | m ² | sq ft |
| York Motor Factors | | |
| Ground Floor | | |
| Offices/Stores/Ancillary | 52.98 | 570 |
| Rear Warehouse Areas | <u>257.5</u> | <u>2,772</u> |
| Total York Motor Factors | 310.48 | 2,772 |
| Dance Studio | | |
| Ground Floor | | |
| Waiting/Ancillary/Music Room | 77.11 | 830 |
| Dance Studio | 174.54 | 1,879 |
| Dance Studio (Low Head Height) | <u>54.33</u> | <u>585</u> |
| | 305.98 | 3,294 |
| First Floor | | |
| Storage (Low) | <u>54.33</u> | <u>585</u> |
| Total Dance Studio | 360.31 | 3,879 |
| Total | 670.79 | 7,221 |

6. DEVELOPMENT PROPOSALS

We understand City of York Council proposes to sell the freehold interest to Maple Developments which has agreed terms to acquire the long leasehold interest also. A plan has been provided (see Appendix III) which provides for the comprehensive re-development of the site for a student housing scheme in conjunction with additional land we understand already controlled by Maple Developments to the east. The combined scheme provides for a total of 153 units on 4 floors plus communal space. It is not possible to divide the scheme between the subject property and the adjoining land. A completely different scheme would be required in the event that the subject site was to be developed in isolation. As such that part of the scheme that would be constructed on the subject property is likely to be greatly reduced. For the purposes of this report we assume Maple Developments have/ or would have control of the adjoining land and that a simple pro-rata apportionment is possible assuming say 70 bed spaces on the subject property.

7. CONDITION

As referred to in our Terms of Engagement and Guidance for Clients, we have not carried out a building survey and our comments that follow should not be regarded as such.

However, the following points are worthy of note:

The building appears to date from the early 1970's and is of a standard and quality that would be expected. It is capable of being re-occupied. Nonetheless we can understand the proposals to comprehensively re-develop the site.

The building is of an age where defects can be expected. Examples from our survey undertaken for valuation purposes are shown in the attached photographs. In preparing our valuation opinions we have had regard to the age and apparent condition as evidenced by our valuation survey albeit no major defects are assumed. If you were acquiring the property then we would recommend a full survey into the structure and services. However in this case this would not appear necessary and simply we have had regard to the apparent condition as identified during our valuation survey.

8. SERVICES AND AMENITIES

Mains services

We understand all mains services are laid and connected to the property.

Heating

We understand previously a gas fired blower was installed but this is no longer operational and the only heating is via dated electric convectors.

None of the services have been tested.

9. STATUTORY ENQUIRIES

Highways

We assume Redeness Street is an adopted highway maintained at public expense. We are not aware of any highway proposals likely to have an adverse impact on the property.

Planning

Our valuation advice assumes the current use is authorised and can continue.

Rating/Council Tax Assessments

From the Valuation Office Agency website the property is assessed in the 2010 rating list as follows.

| Address | Description | Rateable Value |
|--|---------------------------|----------------|
| 11 Redeness Street, York, YO31 7TU | Workshop & Premises | £13,500 |
| York Danceworks, 11 Redeness Street | Dance School and Premises | £12,500 |

The National Non-Domestic Rating Multiplier for the rates year 2016/2017 currently is set at 49.7 pence in the pound for large assessments over £12,000 RV and 48.4 pence in the pound below that level.

The subject property may be subject to transitional phasing and as such multiplying the Rateable Value by the National Non-Domestic Rating Multiplier may not give a true representation of the rates payable.

Equality Act 2010 & Disability Discrimination

As referred to in our Terms of Engagement and Guidance for Clients, it should be noted that our inspection of the premises does not constitute an accessibility audit for Equality Act purposes.

Our valuation advice assumes that the results of any Equality Act Accessibility Audit would not be valuation significant.

The Regulatory Reform (Fire Safety) Order 2005

We have not had sight of any Fire Safety Assessment for this property. Our valuation advice assumes that the findings of any such report would not be valuation significant.

10. ENVIRONMENTAL ISSUES

We are not Chartered Environmental Surveyors and we have not been instructed to make any investigations, in relation to the presence or potential presence of contamination or other environmental features in land or buildings or affecting the property. We have not carried out any investigation into past uses, either of the properties or any adjacent land, to establish whether there is any potential for contamination from such uses or sites, and have therefore assumed that none exists. In practice, purchasers in the property market do require knowledge about contamination and other environmental factors. A prudent purchaser of this property would be likely to require appropriate investigations to be made to assess any risk before completing a transaction. Should it be established that contamination does exist, or the property is affected by other environmental factors, this might reduce the value now reported.

Control of Asbestos Regulations 2012

As referred to in our Terms of Engagement and Guidance for Clients, our inspection of the property does not constitute a survey in compliance with Government Directives and as such we will not comment in detail on any potential asbestos containing materials believed to be present in the property.

We have not had sight of any Asbestos Register for this property, however the building is of an age where we believe asbestos containing materials may be present and we would recommend further investigation in this respect.

Flooding

The Environment Agency classifies the subject property as being within an area classified as having a Very Low chance of flooding from Rivers and Sea and also from Surface Water. A Very Low designation is stated as being a less than 1 in 1000 (0.1%) chance in any year.

Invasive Plant Species

During our inspection of the property the presence of invasive species was not noted, however our investigations were not exhaustive and we cannot therefore categorically state that none were present. Any potential purchaser should make their own investigations in this respect, especially if redevelopment is considered. If invasive species are found to be present on site, this may reduce the valuations herein reported.

Energy Performance Certificates

We have not had sight of any EPC for this property. Prior to the premises being sold or let an EPC will be required to be in compliance with the legislation.

Our valuation advice assumes that the findings of any EPC will not be valuation significant. Given the imminent changes to the regulations regarding the letting of thermally inefficient buildings we recommend an EPC is commissioned prior to any acquisition of the Head Lease.

11. TENURE

FREEHOLD

We have not examined the title documents nor have we been provided with a report on title in respect of the subject property. We therefore assume that the freehold interest is not subject to any onerous restrictions, charges, easements or rights of way and is in all respects good and marketable. We recommend that legal advice is taken to verify our assumptions to be correct.

12. TENANCIES

The property is subject to a 99 year ground lease from 1 April 1971 and now vested we understand in York Motor Factors. We understand York Motor Factors has agreed terms to assign the ground lease to Maple Developments, such a sale to take place simultaneous with the transfer of the subject freehold.

The lease was granted at an initial rental of £480 per annum and is subject to 33 yearly rent reviews. We understand the current rental set in 2004 is £4,700 per annum. The reviews are upward only and to 15% of the rental value of the building or the “reasonable rent” of the land (excluding buildings) whichever is the higher. The lease is granted on pretty standard terms with a development obligation on the original tenant to develop the building and which we assume has been satisfied. The tenant is responsible for insurance and also for maintenance of the building as well as the site. The tenant is permitted to assign and sub-let the building with consent, such consent not to be unreasonably withheld. There are limitations on the development of the site in respect of the frontages to Redeness Street.

We understand a dance company occupies part of the property on a lease until 2017. Specifically we have been instructed to ignore this underlease for the purposes of our valuation.

13. MARKET COMMENTARY AND GENERAL COMMENTS

The property market in York for most sectors and locations continues to be strong. The market for industrial/warehousing property is not particularly large and average units sizes are smaller than other cities in the region. There is though a general shortage of workshop and manufacturing space.

The highest comparables of which we are aware for industrial properties of this sort of size albeit more modern are in the order of £7 per sq ft. However, this does seem to be an isolated example with exceptionally reasons for the tenant wishing to locate in this position. More generally rental levels for the better quality end of the industrial/warehousing market are in the order of £5/£5.50 per sq ft and from which allowances then need to be made for the quality and location of the subject accommodation, plus adjustments for large yards.

Rents for smaller units are higher still, particularly those with good prominence and/or proximity to the city centre and which can benefit from trade centre or quasi retail type uses.

The market for residential property continues apace and we have seen the change of quite a number of office buildings to residential under permitted development rights.

The market for student housing remains strong. Typically well let modern schemes on University campuses are worth £45,000 to £50,000 per bed space. A discount would seem to be warranted here albeit the site has the benefit of being in close proximity to the City Centre. Ordinarily we would assess such proposals on a residual appraisal but there is insufficient information to prepare a reliable assessment, also it is further complicated by the land and title assembly issues so make a “broad brush” approach the best reasonably we can undertake. Accordingly for the purposes of our calculations we have assumed a plot value of circa £10,000 per bed space. This assessment is then factored into the remainder of our calculations to look at likely marriage value and as such a reasonable selling price off market.

14. VALUATION CONSIDERATIONS

This appears to be one of those situations where significant marriage value ought to exist. The freehold reversion is subject to a long ground lease and at a low rental with limited reviews. The lease expires in 54 years time and produces a current rental of only £4,700 per annum but subject to review to 15% of the rental value of the building or a reasonable rent of the land excluding buildings whichever is the higher. The next review is in 2037 albeit the rent already appears reversionary.

This is compared similarly with the value of the current long leasehold interest which is a wasting asset and in acquisition terms is of limited attractiveness having only 54 years remaining.

The subject property is regular in shape and the building erected on it of a better quality and much more easily lettable than for instance the property at No. 10 Redeness Street. As such the existing ground leasehold interest should be a lot more saleable than the interest at 10 Redeness Street. Also the property has the added advantage that it is much easier to see developed for an alternative use in isolation and for that matter in conjunction with adjoining land which is the proposal now. As we understand it Maple Developments have constructed the adjoining student housing scheme and now wish to undertake a Phase II scheme involving the subject property plus the adjoining car park and retail unit beyond. On this basis whilst ordinarily we would expect the marriage value to be reduced as a result of the greater demand for the existing ground lease nonetheless this alternative use potential adds to the likely benefit being obtained by the acquiring party. It is highly unlikely that the property would be redeveloped with the long ground lease in place.

15. VALUATION OPINION

Having regard to the attached report we are of the opinion that the value of the unencumbered freehold interest subject to the long leasehold interest is:

| Valuation Basis | |
|--|--|
| a) MARKET VALUE OF THE FREEHOLD INTEREST SUBJECT TO THE LONG LEASE HELD BY MAPLE DEVELOPMENTS (IGNORING THE SUB-LEASE) | £130,000 (One hundred and thirty thousand pounds) |
| b) COMMENT ON THE PROPOSED MARRIAGE VALUE CREATED BY COMBINING THE FREEHOLD AND LONG LEASEHOLD INTERESTS AND HAVING REGARD TO THE PROPOSED SALE PRICE OF THE FREEHOLD INTEREST. | See below |

We stress the importance of the valuation date as recent experience has shown that property values may change quite significantly over a relatively short period of time.

There will be strong demand for the freehold interest subject to the long ground lease partly as a result of the security of the existing income but more particularly in relation to the likelihood of securing some form of marriage value. On this basis we would expect your current freehold interest to sell well.

In the case of the ground leasehold interest the ground lease tenant has the ability to continue to obtain beneficial use of the accommodation or sub-let the accommodation to achieve a profit rent and that this is likely to be quite significant and of limited risk for the balance of the term. That said, and as with No. 10 Redeness Street, the comparatively short term remaining on the ground lease means that this has a psychological as opposed to mathematical effect on the valuation calculation. The traditional mathematical approach to assessing a profit rent would tend to apply most value to the early years of the ground lease and as such there ought to be some but not a significant difference between the value of the ground lease and the unencumbered freehold. However this is unlikely to be the case if offered to the open market. On this basis we would not be surprised if there was a discount of 35-40% in the value of the ground leasehold interest compared to the unencumbered freehold.

This would then frame the marriage value benefit which ought to be created and which ordinarily would be shared on the basis of 1/3 Council:2/3 Tenant. However in this case we also need to assess the value of the unencumbered freehold interest for alternative use and you have the proposal from Maple Developments to construct Phase II of their student housing scheme. There is incomplete information on the proposed scheme but no further details are available. Indeed the developers probably are only part way through the process of identifying this information and as such all we can do is base our advice on that which is available. As such, it can be expected that the freehold value with the lease expunged and assuming planning permission for the proposed scheme is obtained will increase to a figure in the order of £700,000. On this basis it is reasonable to expect a share of the uplift in value created above the freehold and ground leasehold interests. If this is shared on a 1/3:2/3 basis in favour of Maple Developments then it would be reasonable for you to expect a figure in the order of £200,000 for your freehold interest. In fact we understand you have negotiated a sale price in the order of £256,000 to include Number 10 Redeness Street. Adding the Market Value of your interest in that building (£25,000) to the reasonable figure for this building (£200,000) gives a total below the intended sale price and therefore can be recommended. Also you have the situation that Maple Developments is the only party able to free up this additional value and could therefore hold you to ransom more. On this basis and given that in a sale now you would appear also to avoid the risks associated with securing all the land for development and then all of the necessary development, planning and other constraints then this would be appear to be a transaction that we can recommend is undertaken.

15. TERMS OF ENGAGEMENT AND GUIDANCE FOR CLIENTS

We refer you to our “Terms of Engagement and Guidance for Clients” appended to this report. This document describes in detail the work which we have and have not undertaken in compiling this report and valuation on your behalf.