BNP PARIBAS REAL ESTATE

COVENT GARDEN AND RIVERSIDE HOUSE, LEAMINGTON SPA
RESPONSE TO JLL REPORT

1. Existing Use Value for Riverside House

JLL's report states that they have requested a copy of the Colliers valuation of the site. This request has never been communicated to us. We attach a copy of Collier's report which shows how they arrive at their capital value of £3.44 million.

Colliers have considered transactions of other offices in the area which show a range from £71 to £109 per square foot. They consider that in the context of the condition of Riverside House, a discounted value of £56 per square foot would be appropriate.

We are happy to accept JLL's suggestion that a higher benchmark land value should apply to Riverside House, and taking the lower end of the range of comparables cited in their report (£94.15 to £134 per square foot), Riverside House could have a value of **£5.65 million to £8.03 million.**

Adopting one of the two ends of this range as the benchmark land value for Riverside House would significantly reduce or indeed eliminate the surplus that JLL suggest.

2. Existing Use Value for Covent Garden

JLL suggest that our existing use value for the Covent Garden Car Park is overstated, although the commentary at Appendix 5 of JLL's report does not provide an opinion of value. This also has implications for the residual value of the proposed development, which reprovides the car park.

JLL appear to suggest that the value of the car park is likely to be significantly lower than we have estimated in our report, however it is unclear from their note what value they are actually suggesting.

They also suggest that we should value the car park on the same basis for establishing the benchmark land value as we employ for the car park in the proposed development.

Based on the 511 existing spaces, and applying the assumptions set out in section 4.2.4 of our report but making the further following adjustments to reflect JLL's commentary:

- Reduce weekday occupancy from 70% to 40% and weekend occupancy from 90% to 60%.
- Deduct business rates of £85,000 per annum.
- Deduct an operator's profit of 30% of net income.
- Increase yield from 5% to 7%.

Based on these adjustments, the capital value of the existing car park would be **£1.45 million.** We trust that JLL accept that this reflects the issues highlighted in their report. We are happy to discuss any other adjustments they wish to test.

3. Value of replacement car park

We have taken on board JLL's comments on the value of the replacement car park and adopted the following additional assumptions:

- Deduct business rates on a pro-rata basis from the existing £85,000 per annum to reflect on increase to 617 spaces (circa £103,000 per annum).
- Deduct operator's profit of 30% of net income.
- Increase yield from 5% to 6% to reflect JLL's comments.

As a result of these adjustments, this would reduce the capital value of the replacement car park to £4.16 million. JLL's appraisal of the Covent Garden scheme shows a capital value of £10.21 million for the car park, which is based on income of £510,000 per annum with none of the deductions and adjustments they suggest in their Appendix 5. We have therefore replicated JLL's appraisal using **all their assumptions**, and the change to the capital value of the car park reduces the residual land value from **£0.3 million to -£3.67 million.**

4. Implications of the changes to car parking capital value

JLL suggest that the Riverside House development will generate a residual land value of £7 million. If the benchmark land value based on Colliers' valuation of £3.44 million is deducted, there would be a surplus of £3.56 million. This of course assumes that JLL do not increase the benchmark land value, which they note is low in their opinion.

The deficit on the Covent Garden site that requires cross subsidy from Riverside House is £3.67 million, assuming that the site has no existing use value at all. Clearly, there is a difference in opinion between ourselves and JLL, but their report does not provide an opinion. Having made the adjustments that they suggest, we consider that the existing car park has a value in the region of £1.45 million. If this is factored into the assessment, then both schemes taken together would be in deficit (see Table 4.1).

Table 4.1: Appraisal outcome using JLL's inputs for RH and CG and reflecting their suggested changes to car park valuations

	Riverside House	Covent Garden
Residual land value	£7.00 million	-£3.67 million
Site value benchmark	£3.44 million	£1.45 million
Surplus/deficit	£3.56 million	-£5.12 million

5. The value of the Council's new offices and the terms of the deal

JLL's report suggests that their office team "believe that a prudent developer in the market would seek to 'engineer' a higher rent to ensure that the scheme is viable". There are clearly limits to any developer's ability to 'name their price' and if the rent is too high and there are lower priced alternatives in the market, space would not be taken up.

We have re-run the appraisal to determine the level of rent that would be required to bridge the gap between the surplus generated by Riverside House (delivered as a 100% private scheme) and the deficit generated by Covent Garden. The rent would need to increase beyond the £21 per square foot that JLL admit is un-evidenced by any transactions to £26 per square foot. This would increase the costs to the Council – in this notional exercise – from £508,000 per annum to £630,000 per annum.

In any event, the terms of the commercial deal between the Council and Warwick PSP LLP are that there will be no rental payment and that the Council will retain freehold ownership of the new offices in exchange for the value achieved on the Riverside House site. The question of whether a rent of £21 or £26 per square foot can be achieved is therefore a moot point.

If the notional value of the office is removed from the Covent Garden appraisal, the negative residual land value worsens to -£10.17 million. If the benchmark land value of Riverside is set aside, a deficit of circa £3.2 million would remain.

BNP Paribas Real Estate
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