

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuations: Tenant

Diminution in the value of the landlord's reversion

Valuation A: value in compliance with covenants	1,370,970
Valuation B: value in actual condition	<u>1,190,724</u>
Diminution in the value of the landlord's reversion	<u><u>180,246</u></u>

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Valuations: Tenant
Valuation A: assuming Tenant's compliance with covenants

Sale to the Investor

1	Estimated rental value ("ERV")		150,000
2	Years' purchase in perpetuity at:	6.50%	15,3846
3	Investment value		<u>2,307,690</u>
4	Investor's acquisition costs at:	6.75%	145,920
5	Gross development value ("GDV")		<u>2,161,770</u>
6	Sale costs at:	2.00%	43,235
7	Net sale proceeds		<u>2,118,535</u>

Project costs (except those related to the site)

8	Scott schedule work		0
9	Less supersession		<u>0</u>
10	Net cost of work attributable to the outgoing tenant		0
11	Work not attributable to the outgoing tenant *		126,000
12	Supervision fees on lines 10 and 11 at:	13.50%	17,010
13	Letting fees as % of ERV:	10.00%	15,000
14	Legal fees on letting as % of ERV	5.00%	7,500
15	Marketing costs		2,500
16	VAT on lines 10-16 at:	0.00%	<u>0</u>
17	Total cost of work and lettings		168,010
18	Interest on the work for:	42 weeks at 5.00%	5,775
19	Insurance premium	50 weeks at £2,000 per annum	1,923
20	Other irrecoverable costs	50 weeks at £3,000 per annum	2,885
21	Void rates	37 weeks at £48,510 per annum	34,517
22	Profit to purchaser at:	20.00% on project costs	<u>360,295</u>
23	Total deductions unrelated to purchase price		573,405
24	Gross cost		<u>1,545,130</u>

Project costs related to the site

25	Interest for project length:	58 weeks at 5.00%	81,619
26	Purchase cost including acquisition costs		<u>1,463,511</u>
27	Acquisition costs at:	6.75%	<u>92,541</u>
28	Valuation A: in compliance, Purchaser pays		<u>1,370,970</u>

Interest rate **5.00%**

Date of valuation

Date of calculation **8-Jul-14**

* inclusive of preliminaries, overheads and profit

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Valuations: Tenant

Valuation B: in actual condition

Originating differences from Valuation A

Difference between the parties

Sale to the Investor

7 Net sale proceeds per line 7 on Valuation A 2,118,535

Project costs (except those related to the site)

8	Scott schedule work			246,000	
9	Less supersession			90,000	
10	Net cost of work attributable to the outgoing tenant			156,000	
11	Work not attributable to the outgoing tenant *			126,000	
12	Supervision fees on lines 10 and 11 at:	13.50%		38,070	
13	Letting fees as % of ERV:	10.00%		15,000	
14	Legal fees on letting as % of ERV	5.00%		7,500	
15	Marketing costs			2,500	
16	VAT on lines 10-16 at:	0.00%		0	
17	Total cost of work and lettings				345,070
18	Interest on the work for:	45	weeks at 5.00%		13,849
19	Insurance premium	58	weeks at £2,000 per annum		2,231
20	Other irrecoverable costs	58	weeks at £3,000 per annum		3,346
21	Void rates	45	weeks at £48,510 per annum		41,980
22	Profit to purchaser at:	20.00%	on project costs		360,295
23	Total deductions unrelated to purchase price				<u>766,771</u>
24	Gross cost				<u>1,351,764</u>

Project costs related to the site

25	Interest for project length:	66	weeks at 5.00%		<u>80,666</u>
26	Purchase cost including acquisition costs				<u>1,271,098</u>
27	Acquisition costs at:	6.75%			<u>80,374</u>
28	Valuation B: in actual state, Purchaser pays				<u><u>1,190,724</u></u>

* inclusive of preliminaries, overheads and profit

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Valuations: Tenant							
Reconciliation of the valuations to the Contractual Claim							
<i>Comparison</i>							
	Contractual claim before interest					509,297	
	Diminution before rounding					180,246	
	Difference					329,051	
		Valuation A	Valuation B	Diminution effect	Contractual claim	Difference	Comment
<i>Valuation reduces the claim</i>							
	Cost of compliance works	0	156,000	156,000	246,000	90,000	Supersession
	Supervision and CDM co-ordination	17,010	38,070	21,060	33,210	12,150	Linked to supersession
	VAT	0	0	0	0	0	
	Insurance premium	1,923	2,231	308	2,077	1,769	
	Other irrecoverable costs	2,885	3,346	461	3,115	2,654	
	Rates	34,517	41,980	7,463	38,248	30,785	
<i>Valuation introduces new factors</i>							
	Interest on the work	5,775	13,849	8,074	0	-8,074	
	Interest on purchase price	81,619	80,666	-953	0	953	
	Acquisition costs	92,541	80,374	-12,167	0	12,167	
<i>Valuation eliminates</i>							
	Preparation of schedule	0	0	0	6,150	6,150	
	Negotiation of claim	0	0	0	24,228	24,228	
	Solicitors' costs	0	0	0	500	500	
	Loss of rent	0	0	0	155,769	155,769	
Comparison with the Contractual Claim						329,051	

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Valuations: **Tenant**

Assumed timings

	A: in compliance		B: actual	
	Weeks	Week	Weeks	Week
Lease expires	0	0	0	0
Preparation of schedule of works	2	2	2	2
Planning consent	0	2	0	2
Instructions to proceed	1	3	1	3
Receipt of tenders	4	7	4	7
Tender report	1	8	1	8
Instructions to proceed	1	9	1	9
Contractor on site	4	13	5	14
Contract period	7	20	14	28
Letting - agreed	26	46	26	54
- completion	4	50	4	58
Investment - marketing	4	54	4	62
- completion	4	58	4	66
Total	58		66	
Cost of works financed for	42 weeks		45 weeks	
Insurance premium paid for	50 weeks		58 weeks	
Other irrecoverable costs paid for	50 weeks		58 weeks	
Empty rates paid for	37 weeks		45 weeks	

NOTE: A complex case may justify a DCF analysis in substitution for the above. Circle Developer uses such an analysis.