



# LeaseholdersUnited Commercial Valuation Report



**513 London Road**

**Westcliff-on-Sea**

**SS0 9LJ**

**19 August 2011**



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### Foreword

The value of a commercial property is, in the majority of cases, a reflection of the amount of rent it could generate when let, whether that rent is expected to rise or fall in the future, how reliable that income stream is and how much it would cost to manage that income stream.

Assessing the current rent of a property requires current open market rental data, and this is always in short supply. However rents in the vast majority of UK property markets move fairly consistently.

So if you combine current open market rental data with a view of how that market has moved in the past, you can estimate the current open market rent more accurately.

Lack of market data in the UK

means that Valuations have a large degree of uncertainty  
it can be difficult for a Buyer to assess the true value of a property.

LeaseholdersUnited is committed to creating greater transparency in the UK property market and to this end we have developed a way of using market data not readily available to the public and Valuers to provide guidance on the current rent and capital value of a property.

Our rental and capital values use as a starting point the 2010 Rateable Value of the property in question as this is the most accurate and readily available representation of relative value between commercial properties in England and Wales and can be downloaded from [www.voa.gov.uk](http://www.voa.gov.uk)

We require the user to add this together with other data to allow the system to calculate its values.

If you add the wrong rateable value for the property in question, you will get the wrong answer.

Also where the rateable value is wildly incorrect, then the wrong answer will be generated. But the chance of this is less than 1 in 100.

So barring human error, we believe the values in this report will be the most accurate representation of current rent and current value of the property in question.

You will see that we provide a "range" of rental and capital values for a property.

This is simply a reflection that, as many academics have indicated, putting a value on a property is not a science that results in one answer, and should give a range of possible answers.

To make it wholly transparent as to how we arrive at these values, you will find that these values are summarised at page 5 of this report, the data and methodology of how we arrived at them are provided from pages 6-10.

That enables you to take your own view on our data to assist any buying decision

Andrew Bacon  
Chartered Surveyor



## Using this report to help your decisions on property

We recognise that there are many potential buyers of this report who have different needs.

### **Investors**

If the asking price of the property is substantially more than our Open Market Value, then we would advise caution as this may indicate that the property is overvalued.

A classic overvaluation of a property will often result because the property is tenanted and the tenant is paying far more than the open market rent.

As most Valuers work for landlords there is a conflict of interest in exposing the fact that the property is over rented.

Indeed this inability to assess whether a property is over rented has been exploited by some owners who sell their property after leasing it back to themselves at above open market value.

Where the price is less than our Open Market Value, aside from disrepair or premises let at below open market value, this could indicate that the property is underpriced.

Under pricing often happens because of “sentimental” approaches to the estimation of yield i.e. High Street shops are always a better investment than Local Shops, which is not true.

It could also be a result of a temporary “glut” of properties being available locally that have pushed down price, something that our systems are unable to track.

### **Lenders**

Inflated valuations or inflated asking prices can both leave the lender with a heavy loss if the borrower defaults.

Our Open Market Value is a simple “risk” indicator unavailable anywhere else.

The further the valuation or asking price is above our Open Market Value, then the greater caution needs to be taken when granting a loan.

In some instances the difference can be because

- 1) The property is tenanted and the tenant is of a higher standard than anticipated by our Open Market Value.
- 2) The property is renting for more than our Open Market Rent.

We would urge caution where the reason for the premium is from either (1) or (2) above as tenants come and go and often the market is not sufficiently sophisticated to take account of this issue.



Indeed a very simplistic approach of assuming that the tenant will remain and that they agreed the open market rent is often taken by Valuers, simply because they have no data to the contrary.

When that data does materialise the Valuer's valuation can swing the other way, leaving the asset value less than the value of the loan. This is what caused the most recent Banking crisis.

An appropriate use of our Open Market Value may be to treat it as the secure element of the purchase price or valuation, and treat the rest as higher risk and structure any loan accordingly.

Such would have the added benefit of encouraging purchasers to renegotiate what may seem "bad deals", before taking out the loan.

A similar approach could be taken when assessing an existing loan book.

### **New Occupiers**

Generally speaking new occupiers will have a series of properties that they can choose to purchase.

Our reports and the Open Market Values shown, can be the way of identifying which of the "deals" on the table represents the best value.

i.e. if you have 4 properties under consideration each on the market at £500,000, where 4 of those are substantially above our Open Market Value, they may be considered to be less attractive to purchase or may be overvalued.

### **Owner Occupiers**

Many businesses own their premises by an accident of history and as such are often sitting on an asset that is not fully utilised.

Our reports can give you an idea of:

What you may be able to sell your property for.

What you may be able to get in rent for it

What the cost of alternative premises may be.

So it could be that you could move to cheaper local premises and let your your existing premises making you a profit on the difference in rent.

Or it could be that you could sell your existing premises, buy cheaper more suitable premises and then invest the profit in your business.

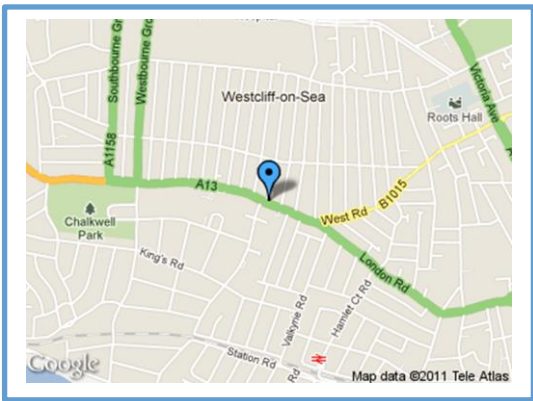
The report could also assist in a decision to put a property into a SIPP.

Or it can give you an independent view of the Open Market Rent that you may need to pay yourself if you own the property and are letting it to your own company.



**Buyers Report Summary**

Property Details	
<b>Address</b>	513, London Road, Westcliff-on-Sea, SS0 9LJ
<b>Billing Authority Area</b>	SOUTHEND ON SEA BOROUGH COUNCIL
<b>Use</b>	Shops
<b>Sub Class</b>	Tertiary Shops (General non High Street shops)
<b>Market Covenant Class</b>	4
<b>2010 Rateable Value</b>	15000



**Capital and Rental Value Summary**

<b>Report Rating</b>	5 *	
<b>Report Date</b>	19 August 2011	
<b>Valuation Date</b>	01/03/2011	
<b>Open Market Rent</b>	From £ 13,000	To £ 15,800
<b>Yield</b>	10.3 %	
<b>Open Market Value for Investment</b>	From £ 126,000	To £ 154,000
<b>Open Market Value for Occupation</b>	From £ 139,000	To £ 170,000

**Notes**

Open Market Rent is the rent at which a willing landlord and a willing tenant would be expected to agree without compulsion and both parties having full knowledge of the local market, at the Valuation Date, on lease terms typical of a property in that market. It also takes full account of any incentives (e.g. rent free period).

Yield, is the rate of return that we consider an investor should pay for the right to receive the Open Market Rent on a lease of normal length and on normal terms for this market.

Open Market Value is the price we would expect the property to sell for at the Valuation date, assuming both parties have full knowledge of the local market and that the property.

- Is vacant
- In good repair
- Ignoring any development value
- Reflecting the "Use" and "Subclass" shown above

Where there is a difference shown for Open Market Value for Investment and Open Market Value for Occupation this reflects that there are costs that an investor would incur e.g. management and voids, that are not borne by an owner occupier and thus making it more valuable to the Owner Occupier.



## Market Information

### Market Size

Within the SOUTHEND ON SEA BOROUGH COUNCIL area there are over 1500 Tertiary Shops (General non High Street shops) category with a total floor area in excess of 146000 sqm.

Properties within the Shop category are generally located in:

ALEXANDRA STREET, ASHLEIGH DRIVE, AVON WAY, BARNSTAPLE ROAD, BOURNEMOUTH PARK ROAD, BRIDGEWATER DRIVE, BRIDGEWATER DRIVE, BROADWAY WEST, CHARTWELL NORTH, CHARTWELL SQUARE, CHASE ROAD, CHICHESTER ROAD, CHURCHILL SQUARE, CLARENCE STREET, CLIFFTOWN ROAD, CLUNY SQUARE, COMMERCIAL ROAD, EAST STREET, EASTBOURNE GROVE, EASTERN ESPLANADE, EASTWOOD BOULEVARD, EASTWOOD OLD ROAD, EASTWOOD ROAD NORTH, EASTWOODBURY CRESCENT, ELM ROAD, ELMSLEIGH DRIVE, FAIRFAX DRIVE, GLENDALE GARDENS, HAMLET COURT ROAD, HAMSTEL ROAD, HIGH STREET, HOBLEYTHICK LANE, KENSINGTON ROAD, LEIGH ROAD, LONDON ROAD, LONSDALE ROAD, MANNERS WAY, MILTON ROAD, MILTON STREET, NELSON ROAD, NESS ROAD, NORTH AVENUE, NORTH ROAD, NORTH SHOEBOURNE ROAD, PALL MALL, PARK ROAD, PIER APPROACH, PIER HILL, PRINCE AVENUE, PRINCES STREET, QUEENS ROAD, RAYLEIGH ROAD, RECTORY GROVE, ROCHFORD ROAD, SHOEBOURNE ROAD, SOUTHBOURNE GROVE, SOUTHCHURCH AVENUE, SOUTHCHURCH ROAD, ST BENETS ROAD, ST HELENS ROAD, STATION ROAD, SUTTON ROAD, TALZA WAY, THE BROADWAY, THE RENOWN, THE RIDGEWAY, VICTORIA AVENUE, WEST ROAD, WEST STREET, WESTBOROUGH ROAD, WESTCLIFF PARK DRIVE, WESTERN APPROACHES, WOODGRANGE DRIVE, WOODSIDE, WOOLPACK, YORK ROAD, YORK ROAD MARKET

### Market Fundamentals

Generally conversions of 1930's shops or earlier on main arterial roads occupied by small local businesses.

### Market Prospects

A large degree of oversupply is expected here in the future as internet retailing makes many of the uses in these premises redundant.



**Open Market Rental Performance**

The indexes below have been created by looking at the movements in Rateable Values, which are Rental Values, from 1988 to 2008.

They are provided to enable simple comparison between markets to help you assess the relative values of commercial property.

The table below shows the rental performance of Retail Nationally.

1988	1993	1998	2003	2008
<b>1.00</b>	<b>1.09</b>	<b>1.20</b>	<b>1.43</b>	<b>1.71</b>

The table below shows the rental performance of properties within the Shop, Offices and Industrial categories within Westcliff-on-Sea .

	1988	1993	1998	2003	2008
Shops	<b>1.00</b>	<b>0.95</b>	<b>0.93</b>	<b>1.11</b>	<b>1.34</b>
Offices	<b>1.00</b>	<b>1.00</b>	<b>1.03</b>	<b>1.04</b>	<b>1.21</b>
Industrial	<b>1.00</b>	<b>1.02</b>	<b>1.08</b>	<b>1.21</b>	<b>1.38</b>

The table below shows the rental performance of Tertiary Shops (General non High Street shops) in SOUTHEND ON SEA BOROUGH COUNCIL .

1988	1993	1998	2003	2008	2013*
<b>1.00</b>	<b>0.94</b>	<b>0.90</b>	<b>1.03</b>	<b>1.32</b>	<b>1.24</b>

The table below shows the five yearly performance of the properties within the Shop category in SOUTHEND ON SEA BOROUGH COUNCIL and how it has performed against inflation.

	1988-1993	1993-1998	1998-2003	2003-2008
<b>Local Market</b>	0.94	<b>0.96</b>	<b>1.14</b>	<b>1.29</b>
<b>Inflation</b>	0.72	<b>0.87</b>	<b>1.03</b>	<b>1.16</b>



## \* Rental Market Predictions to April 2013

The fact that we don't have a publicly available National Database of Rents in the UK, poses problems for all Valuers.

LeaseholdersUnited have overcome most of the problems by indirectly using rental information from the Valuation Office.

However, that source of information is for Open Market Rents prior to 1st April 2008.

To track the whole market since then one would need all the rents that are currently being agreed.

In the UK that is approximately 200,000 rents per annum on offices, shops and industrials.

Or 50,000 a quarter.

Roughly 10% of those transactions are available from private sources but are concentrated at the top end of the market and, as most data is published by landlords, the true rent, taking account of incentives, is often disguised.

There is also the fact that a rent may be agreed but the details of it are only published three months later.

To make up for this weakness, we have looked at how rents have risen and fallen in our 4900 markets from 1988 to 2008, to allow us to make a prediction of where they will be in 2013. That is particularly useful as 1988-2003, the fallout from the 1987 recession, is a very similar period to 2008-2013.

That prediction plots 2 paths

- 1) That rents will continue to grow based on that markets annual rate of growth since 1988
- 2) That rents will move in this recession as they did in the last recession

We then look at the available current market data to assess which path the market is actually on.

We also look at how much rents rose in the market between 2003 and 2008, following the accepted view that "markets that rise the fastest often fall the fastest".

Finally, large increases in rental values between 2003 and 2008, led to a large increase in business rates from 2010 onwards.

As most tenants have a budget for rent and rates, a big increase in rates leaves them less to pay in rent. So short term rises in rent inevitably lead to stagnation or falls in rent in the future.

Thus we have our 2013 prediction which we then use to assist us in assessing the current open market rent of the property using current market data, where available.



## Estimating the Current Open Market Rent

The 2010 Rateable Value is based on rental values as at 1st April 2008 and is, therefore, the most accurate and independent measure of open market rent available at that time.

This is why we ask the user to provide his 2010 rateable value before buying this report.

We convert those open market rental values at 1st April 2008 into current values using the following methods

- 1) We “correct” any 2010 rateable values that appear to be in error.
- 2) We use our research into the past performance of that market to predict what the Open Market Rent is likely to be on 1st April 2013, and then with a straight line graph interpolate an estimate of the Open Market Rent of the property quarterly from 1st April 2008 to 1st April 2013.
- 3) We “test” those estimates of market data against actual rents agreed, where available, and when there are sufficient numbers of rents agreed indicating that the market is moving differently to our prediction we change our estimate of open market rent.

For the period since April 2008 we have looked at more than 50,000 rents giving us current rental data in 75% of our 4900 markets. Those markets that we don’t have data tend, in any event, to move very consistently and so our “predictive” approach will actually be very close to Open Market Value anyway.

Where current rental data has been used by us to override our prediction based on past performance, this is shown next to the Open Market Rental value.

Current Data means we have used current rents to estimate the Open Market Rent.

Historic Data means we have used past performance to estimate Open Market Rent.

## Estimate of Open Market Rental Value

Date	From	To
01/04/2008	£ 13,500	£ 16,500
01/04/2013	£ 12,700	£ 15,500

Date	From	To	Basis
01/03/2011	£ 13,000	£ 15,800	Current



## Assessment of Yield

The most widely reported and most robust All Risk Yields in the commercial property market are those reported on major shopping centres and Prime City centre retail, as all parties are generally fully informed about the market.

Those yields are a reflection of how good an investment is and that, in turn, is a reflection of the likely quality of the tenant occupying the property, how reliable and how much cost is expected to generate the income stream, and also how the market has performed in the past in terms of rent.

By being able to quantify the value attributed to the type of tenant, the cost of generating the income stream and the relative performance of markets, it is possible to adjust Prime City centre yields into yields appropriate to all other types of commercial property.

The sequence of adjustment is important here and follows

- 1) **Covenant.** This is done by Market Covenant score which reflects the typical occupier for a property in that market and how we believe an investor would value those different covenants. Prime City Investment is 1 and other Markets may get a score of 2, 3 or 4. For every point the Covenant falls 0.5% is added to the Yield. So the largest adjustment here is 1.5%
- 2) **Management, voids and other costs.** Prime City Centre shops generally are let on longer leases, giving fewer voids, nominal management costs and a secure income stream and are marked as 1. Other markets do not have those attributes and this is then reflected in a factor that may be as high as 1.2. That factor is then applied to the Yield adjusted for Covenant.
- 3) **Market Performance score.** Past long term rental performance is the most reliable indicator of likely future rental growth, a key factor in determining the value of a commercial property. We know the relative performance of each market, and so the yield is further adjusted pro rata by the difference in rental performance.

<b>Top Market All Risks Yield (1)</b>	5.5%
<b>Top Market Covenant Score</b>	1
<b>Covenant Score this Market</b>	4
<b>Yield adjusted for Covenant</b>	7.00 %
<b>Management, voids and other costs for Top Market</b>	1
<b>Management, voids and other costs for this Market</b>	1.10
<b>Yield adjusted for Covenant and Costs</b>	7.70 %
<b>Top Market Performance Score</b>	6300
<b>Rental Performance Score for this market</b>	3774
<b>Yield Adjusted for Covenant, Voids and Rental Performance</b>	10.27 %
<b>Adopted Yield</b>	10.3 %



## Accuracy of our Open Market Rent and Open Market Values

Less than 1 in 20 of the rents agreed in the UK will be between sufficiently informed parties to be considered representative of Open Market Rent.

This is because there is no National directory of rents, meaning tenants can't find out market locally. This makes the UK one of the least transaction transparent economies of the G7.

So actual rents agreed are not necessarily a valid test of the accuracy of our Market Reports.

The vacuum of market data also affects those buying and selling property, but to a lesser extent, as Auction sales are readily published.

So Auctions sales can also be a valid test of our Valuations, and an examination of the results of the latest Auctions, with a comparison with our Open Market Value, can be viewed in our member's area.

It demonstrates that, where the property sold at Auction is sold on the same basis as our Open Market Values, the sale price and our Valuations are very close.

Such shows how "market led" our approach really is.

Outside of empirical tests, we recognise that in some areas we have a lot more rental data than in others on which to base our values.

This is both in terms of data gathered from 1988 to 2008 and then from 2008 to present day.

To reflect the amount of data available we rate our reports from 5 stars, best to 1 star worst.

This rating is made up in the following way:

Historic Data	Score	Plus	Current Data		Equals	Rating
Market Coverage			Yes	No		
>40%	4	+	1	0	=	4 / 5
>30%	3	+	1	0	=	3 / 4
>20%	2	+	1	0	=	2 / 3
<20%	1	+	1	0	=	1 / 2

Where we have more than 40% of the market covered for historic data and we have current data i.e. data post April 2008, the report gets 5 stars.

Where we have less than 20% market coverage of historic data and no current data, it gets 1 star.

The further we move away from our historic data which currently stops at April 2008, the greater weighting will be put on current data.

That is why we are continually trying to gather more current market evidence.



## Appendix 1 : Additions for Flats above Shops

Where residential elements are attached to the commercial property in question and separate Council Tax is payable, then the value of that residential element would need to be added to the commercial value to produce a total value.

A useful starting point to assessing the value of flats is often going to websites, for example [www.rightmove.co.uk](http://www.rightmove.co.uk) and searching for flats in that area and then applying adjustments pro-rata.

The most valuable flat over a shop will be one that has recently been refurbished and has front access. Flats with rear access only, typically, will have a lower value because such access is generally undesirable and unattractive in most cases.

Flats with internal access are problematic from a valuation perspective.

Find a flat For Sale on a property website that is closest in size and location to the flat above the Shop. Then apply the following adjustments.

Element	Adjustment	Amount
External Rear Access	<b>MINUS</b>	<b>20%</b>
Internal Access Only	<b>MINUS</b>	<b>40%</b>
Un-Refurbished	<b>MINUS</b>	<b>20%</b>

Add the adjusted Residential Value to the Open Market Value shown in the report (on Page 5) to provide you with a guide as to the value of the Shop and Flat.

We would stress that this method is less helpful in areas where there are high residential values.



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  - (vi) If you wish to vary any limitation of liability as set out in these Terms, you must request such variation prior to ordering the Report. LeaseholdersUnited may agree such variation in its absolute discretion and reserves the rights to increase its fees in order to cover the cost of any insurance premium.
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### 8. Entire Agreement

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### 9. Notices

Any notice or other communication served under this Agreement shall be in writing and sent by post or by electronic mail and shall be deemed delivered upon receipt by the party to whom the communication is directed at the address specified below. If to



LeaseholdersUnited, the email notice shall be addressed to [notices@leaseholdersunited.com](mailto:notices@leaseholdersunited.com) and other written notices addressed to:

LeaseholdersUnited Ltd  
10 Fenchurch Avenue  
London EC3M 5BN

If to you, the notice shall be addressed to the most up to date contact details provided by you.

### 10. General

- (a) If any of the clauses under this Agreement should be determined to be illegal, invalid or otherwise unenforceable by reason of the laws of any state or country in which the clause is intended to be effective, then to the extent and within the jurisdiction which that clause is illegal, invalid or unenforceable, it shall be severed and deleted from that clause and the remaining clauses shall survive, remain in full force and effect and continue to be binding and enforceable.
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This Agreement shall be governed by and construed in accordance with English law and the parties irrevocably submit to the non-exclusive jurisdiction of the English Courts in respect of any dispute which may arise.