

Client:

Middlesbrough Borough Council

Civic Centre

Corporation Road

Middlesbrough

Asset Valuation Report

TAD Centre

Ormesby Road

Middlesbrough TS3 7SF

Date of Valuation Report:-

24 April 2015

Prepared by

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Document Control Sheet

Project Title Middlesbrough Borough Council: Asset Valuations Batch E 2014

Report Title TAD Centre

Revision 1.0

Status Final

Control Date 24 April 2015

Record of Issue

Issue	Status	Author	Date	Check	Date	Authorised	Date
1	Final	Melanie Brown	24/4/15	Graham Tyerman	24/4/15	Graham Tyerman	24/4/15
		<i>M. Brown</i>		<i>G.J. Tyerman</i>		<i>G.J. Tyerman</i>	

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Middlesbrough Borough Council	Helen Dalby / Tracy Allan	pdf

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1.0 Client

1.1 The client in respect of this commission is Middlesbrough Borough Council.

2.0 Purpose of the Valuation

- 2.1 This valuation has been carried out in accordance with the client's instructions.
- 2.2 The purpose of this valuation is to provide Middlesbrough Borough Council with an opinion of the Fair Value of the asset, to be used for capital accounting purposes.
- 2.3 This report is one of a series of reports that together cover all of the assets that we have been instructed to value.

3.0 Subject of the Valuation

- 3.1 The property which is the subject of this valuation is the property known as "TAD Centre, Ormesby Road, Middlesbrough"
- 3.2 The interest in the property which has been valued is the freehold interest.

4.0 Asset Category

4.1 We would advise that, as from the valuation date, this asset should be reclassified as "Investment" for capital accounting purposes.

5.0 Valuation Date

5.1 1 August 2014

6.0 Basis of Value

- 6.1 The basis of value is the Fair Value of the asset, as required to be used for capital accounting purposes.
- 6.2 "Fair Value" is defined as:-
"the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."
- 6.3 Details of the way in which Fair Value is applied to the individual valuations are shown at Appendix 4.

7.0 Valuation Standards

7.1 This valuation has been undertaken in accordance with the RICS Valuation - Professional Standards 2014.

8.0 Status of the Valuer

8.1 This valuation has been undertaken by the valuer identified above, who is employed by Mouchel and is in a position to provide an objective and unbiased valuation. The valuer also has sufficient current local knowledge of the particular market and the skills and understanding to undertake the valuation competently.

9.0 Assumptions and Special Assumptions

- 9.1 The assumptions on which this valuation has been made are detailed within this report. In particular, we assume that the property and its value are unaffected by any matters which could be revealed in a local search and replies to the usual enquiries, or by any statutory notice.
- 9.2 No special assumptions have been agreed with the client in respect of this valuation.

10.0 Extent of Investigation and Inspection

- 10.1 We have inspected the property externally.
- 10.2 Neither structural surveys nor specialist inspections or testing of electrical heating or building service apparatus have been undertaken.
- 10.3 It has been assumed that no high alumina cement, concrete or calcium chloride additive or asbestos, woodwool slabs, or other potentially deleterious materials are located on the site.
- 10.4 We assume that the property is unaffected by radon gas.
- 10.5 No investigations have been carried out regarding any potential contamination of land either on the property or in the close proximity.

11.0 Location / Situation

- 11.1 The property is situated in a prominent position with a frontage to Ormesby Road in the Berwick Hills area of Middlesbrough. The site is bounded by housing estates to the east and west and by Morrison's supermarket to the north.

12.0 Description

- 12.1 This asset comprises a four storey business and conference centre. It provides predominantly office accommodation with training, meeting and conference room facilities. Externally there is a large car park area.
- 12.2 We calculate the site area to be 2.31 acres (0.935 ha) or thereabouts.
- 12.3 Photographs of the asset are shown at Appendix 2, whilst a plan showing the extent of the site is attached at Appendix 3.

13.0 Accommodation

- 13.1 The description of the property is set out in Section 12 above.
- 13.2 The Gross Internal Area (GIA) of all the buildings comprised in this asset is 26,750 square feet (2,485.1 sq m) or thereabouts.

14.0 Condition

- 14.1 The property is in good condition.

15.0 Services

- 15.1 We understand that all main services are connected.
- 15.2 No tests have been carried out but the service installations are assumed to be in satisfactory condition and in compliance with current regulations.

16.0 Tenure

- 16.1 The property is in the freehold ownership of Middlesbrough Council. It is subject to a 15 year lease of ground floor office area to Nunthorpe Nurseries Group Ltd for £54,000 per annum payable as a service charge. The lease commenced in 2004 and is set to expire in April 2019.
- 16.2 There is also a licence to two local individuals which expired in October 2104. The contribute £10,000 per annum to the service charge and are currently still in occupation.

17.0 Access / Highways

- 17.1 The subject property is accessed from Ormesby Road.
- 17.2 No investigations have been undertaken in respect of highways.

18.0 Equalities Act 2010

- 18.1 This Act imposes a legal requirement to make reasonable changes to the way things are done, to the built environment and to provide auxiliary aids and services.
- 18.2 We have not carried out or commissioned any investigations to determine whether or not the buildings that comprise this asset comply with the requirements of the Act nor made any allowance for the cost of any works of compliance.

19.0 Fire Safety

- 19.1 We have not been advised as to whether a Fire Risk Assessment of the property has been undertaken, but for the purpose of this report we have assumed compliance with the regulations and that there are no outstanding matters.

20.0 Valuation Considerations

- 20.1 We have valued this asset by applying a market rent to the property and capitalising this at an appropriate rate. For the space occupied by the nursery, we have allowed for the fact that no income will be realised until the end of the lease in 2019, but have taken into account the fact that the lease is contracted out of the Landlord & Tenant Act and so the occupation could be terminated when the current lease ends. The licence to the caterers has now expired, so we have assumed that possession of that space could be regained.

21.0 Asset Value

- 21.1 In our opinion the Fair Value of the interest valued in this report for capital accounting purposes is the sum of:-
£523,000 (Five Hundred and Twenty Three Thousand Pounds).
- 21.2 The value can be split between building value and site value as follows:-
Building Value: £61,000
Site Value: £462,000
- 21.3 See Appendix 1 below for details of the valuation that has been prepared.

22.0 Nature and Sources of Information Relied Upon

22.1 The information received from parties identified within the report has been relied upon as being accurate. In particular all information regarding site and building areas as provided by the client. Mouchel is therefore unable to accept responsibility for any errors, omissions or inaccuracies contained within such information.

23.0 Taxation

23.1 No allowances have been made for liability for taxation.

24.0 Publication

24.1 Neither the whole nor any part of this valuation report nor any reference thereto may be included in any published document, circular or statement, nor published in any way without prior written approval from Mouchel of the form and context in which it may appear.

25.0 Limitations

25.1 This valuation report is provided on behalf of Mouchel for the stated purpose and for your sole use. This Report is presented to Middlesbrough Borough Council in respect of its asset valuation requirements and may not be used or relied on by any other person or by the client in relation to any other matters not covered specifically by the scope of this Report. It is confidential to the client and to the client's professional advisors and neither Mouchel nor the author of this report accept any responsibility whatsoever to any other person. No individual is personally liable in connection with the preparation of this Report. By receiving this Report and acting on it, the client or any other person accepts that no individual is personally liable whether in contract, tort, for breach of statutory duty or otherwise.

Signed:



Dated: 24 April 2015

Name and qualifications:

Melanie Brown MRICS Registered Valuer

Appendix 1 – Valuation Details

Valuation of Main Building

Ground Floor:	9,443 sq ft @ £4.00 per sq ft =	£37,772
First Floor:	5,562 sq ft @ £3.00 per sq ft =	£16,686
Second Floor:	4,336 sq ft @ £2.00 per sq ft =	£8,672
Third Floor:	4,336 sq ft @ £2.00 per sq ft =	£8,672
	Total:	£71,802
Total Rent, say	£72,000	
YP in perp @ 15% =	6.667	
	Total Value:	£480,000
	Total Value:	<u>£480,000</u>

Valuation of Nursery

Nursery Space:	3,073 sq ft @ £4.00 per sq ft =	£12,292
	Total:	£12,292
	say:	£12,200

Term:

Current Rent:	£0	
YP, 4.5 Years @ 0% =	0	
Term Value:		£0

Reversion:

Market Rental Value:	£12,200	
YP in perp def'd 4.5 years @ 15% =	3.554	
Reversion Value:		£43,364
	Total:	<u>£43,364</u>
	Say:	<u>£43,000</u>
	Total Asset Value:	<u>£523,000</u>

Comparables

Rental Value

Demand for office accommodation in Middlesbrough remains limited. In the town centre there is an abundance of vacant office accommodation with landlords offering reduced rents and various incentives in order to attract tenants. Rents are currently at circa £6 per sq ft. The subject property is outside the town centre although still in a commercial location. Demand in this secondary location will be more limited than in the town centre. We have therefore reduced the rental value to reflect this.

Site Value

The site of the TAD Centre will have a commercial use, which will give an enhancement in value over and above industrial value, though this enhancement will still equate to a value below residential land value levels.

A relevant industrial comparable is Site D Riverside Park, which was sold in 2012. It was an area of land that had no existing buildings (though it may have had an earlier industrial use) and extended to 2.88 acres and was sold for £175,000, equating to £60,763 per acre.

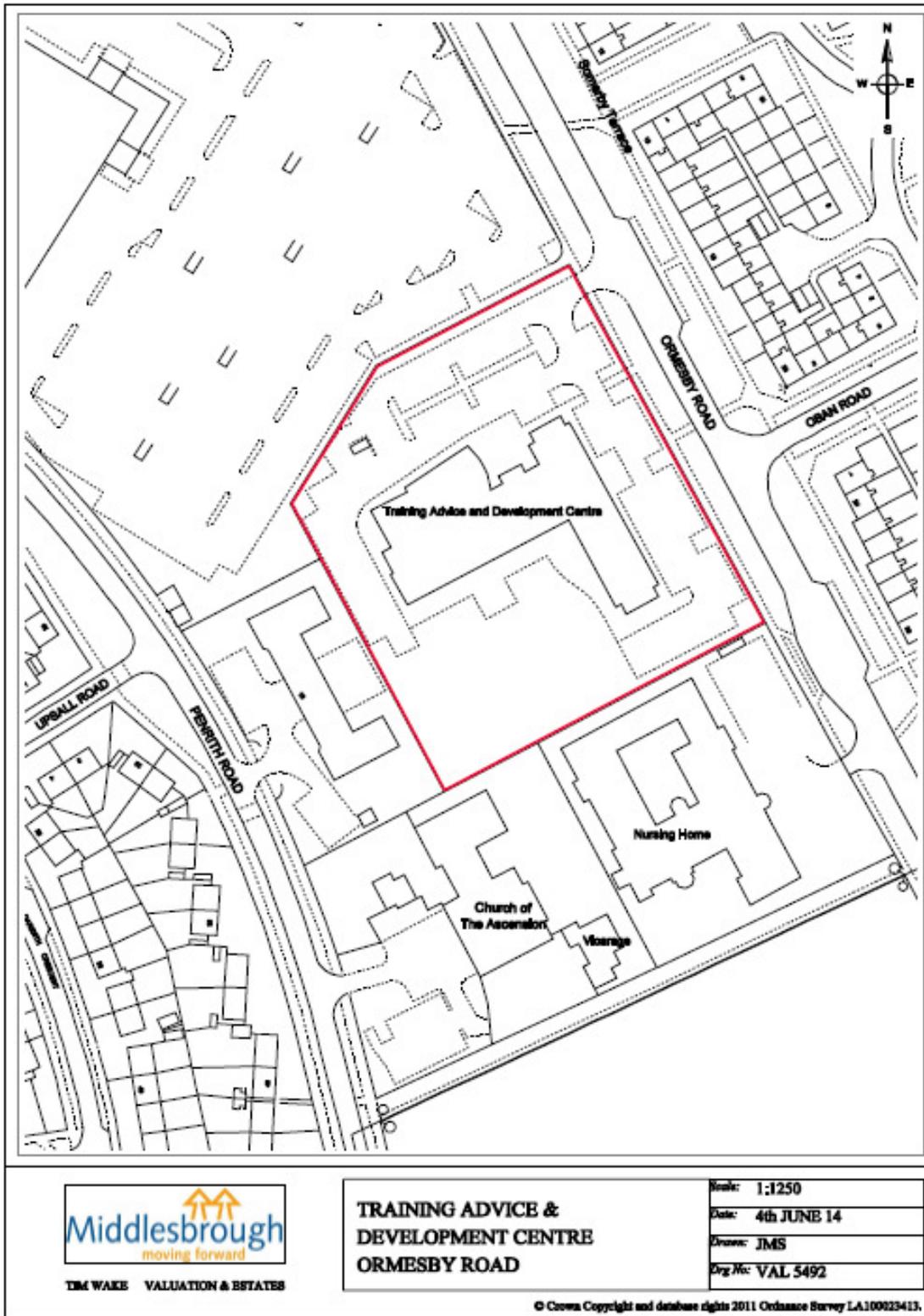
At the other end of the scale, commercial development land located in the town centre might typically have a value of say £600,000 per acre, and we are aware of recent comparables for small sites that exceed that amount.

Although there are no direct comparables for this site nearby, taking both of the above examples into account we would consider that a value of £200,000 per acre would be appropriate for this site in a secondary location in a neighbourhood centre.

Appendix 2 – Photographs



Appendix 3 - Site Identification Plan



Appendix 4 – Basis on Which Asset Valuation Reports are Prepared

1.0 Basis of value

- 1.1 All asset valuations are prepared on the basis of Fair Value, as defined by the International Financial Reporting Standards (IFRS)
- 1.2 Fair Value is defined as:

“Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”
- 1.3 The guidance relating to the calculation of Fair Value equates the valuation methodologies for different asset categories to the Royal Institution of Chartered Surveyors (RICS) definitions of “Market Value” and “Existing Use Value”.
- 1.4 Assets classed as “Property, Plant and Equipment” have been valued having regard to their existing use only. In these cases, the values shown do not purport to be the Market Values on an unrestricted basis, which may differ considerably.
- 1.5 Existing Use Value is defined as:-

“the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.”
- 1.6 Where specialist properties are concerned, Fair Value is calculated using the method of Depreciated Replacement Cost. This means that the cost of constructing the property is calculated, and then depreciated for the factors of age and obsolescence. An addition is then made for the value of the land on which the property is situated. Such valuations are subject to the prospect and viability of the continued occupation and use of the property.
- 1.7 Depreciated Replacement Cost is defined as:-

“the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.”
- 1.8 Assets classed as 'Investment' properties or 'Assets Awaiting Sale' are valued to Fair Value utilising a Market Value basis.
- 1.9 Market Value is defined as:-

“the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

2.0 Plant and Machinery:

- 2.1 The valuation assumes that plant and machinery usually considered to form part of the building services installation have been included.

3.0 Age, Construction and State of Repair:

- 3.1 The valuations have been undertaken in accordance with appropriate guidelines having regard to age, construction and state of repair, but make no implied representation or statement as to the condition of any buildings or services covered by this report.

4.0 Impairment:

- 4.1 We are not aware of any impairment issues applying to the valuation of these properties.

5.0 Estimate of Asset Life:

- 5.1 These are included within the report where appropriate, and where asset life is relevant to the valuation method employed. The estimates are on the assumption that the property will continue to be maintained, but that rebuilding or extension works will not be undertaken. They represent the shorter of the physical life of the structure, and the period for which the asset will be economically useful for any owner.
- 5.2 It is for the client to determine the Remaining Useful life of the assets, which is used to allow for depreciation within the accounts. This may be a shorter period of time than the Asset Life, because it takes into account the period of time that the asset will be of use to the current owner.