

Valuation Report

**Royal National College for the Blind, College
Road, Hereford, HR1 1EB**

Prepared for

Herefordshire.gov.uk

Executive Summary



Exterior Photo



Main Building across Queens Lawn

Location:

The Royal National College for the Blind is located less than 2 miles north of Hereford city centre within a predominantly residential area. Hereford lies 55 miles (88.5 km) south west of Birmingham and is the county town of Herefordshire. It is a distance from competing market towns such as Leominster, Ludlow (in Shropshire) or Ross on Wye and is a rural economy though the recent designation of Rotherwas industrial estate as an Enterprise Zone is having success in bringing other industries into the city.

Description:

The property that is the subject of this valuation report forms only the southern half of a College campus which caters for residential students with visual impairments. Part of the site is now occupied by Hereford College of Arts [HCA] by virtue of a 10 year lease from 2013. HCA occupies four buildings including the Victorian Main Block as office, reception and art studios to which two others are connected – the Main Hall, and a refectory. In addition to this HCA occupies Queens Building and has extensive use of the parking areas adjacent. Three of the remaining buildings have been retained by RNC for its on-going use, which continue to serve the rest of the Royal National College for the Blind [RNC] campus on the northern side of Venns Lane.

As this is a specialised property [D1 Use Class – Institutional Education purposes] that has been developed and extended over many years for specific purposes; it is being offered to the open market and so we have to consider not only how its existing use might continue but also how the open market might approach the buildings on the southern campus with regard to their potential for alternative use: college buildings are rarely offered to the market as a going concern, more over they do so with redevelopment potential.

Tenure:

Freehold, subject to a 10 year lease to HCA from 2013 [described further in this report].

Income:

We have relied upon information provided by the RNC as to income/ outgoings, whilst at the same time translated this in the context of lease obligations into a market scenario. This information has been given confidentially so we make no further reference to it in this report.

In considering the Market Value of the southern campus we had considered the following:-

- Any planning assumptions to be made in the context of comments in Geraint Johns desktop assessment as to alternative use
- That vacant possession would be available but that RNC could then be treated as a third party occupier – given the juxtaposition with the northern campus.
- The lease to HCA will continue until 2023, and [with security of tenure] beyond the lease expiry. Thereafter there could be a renewal of that lease.
- If the RNC was not in occupation, it is possible for the accommodation to be adapted for other [commercial] uses at a rental commensurate with their layout and condition. But other than similar educational occupiers we would anticipate demand to be limited.
- We have considered the buildings individual values in the context of independent, alternative use or those complimentary with the existing use – i.e. B1 (office) on the Main Building or the Queens Building and B2 (light industrial) on 'The Hive' or perhaps in the Chapel [music block]; but this would mean some conversion or adaptation the costs of which have been reflected in anticipated values placed on them.
- Costs of modification may not be reflected in an open market scenario: current aspects of the building specification and layout may exceed market standards.
- The income information provided to us may not be at "open market" levels but reflect the ongoing operations of RNC to which we have made appropriate adjustments as regards future market income.
- There is a dearth of comparable information for design-specific buildings such as on the campus; as well as this the mix of building style and accommodation puts further constraint on their ability to continue to be used in a market context.
- There is difficulty in assessing market value as one entity - a current use of the buildings would more often be as an operational asset, whereas a (hypothetical) purchaser would probably consider any bid to buy the campus with the potential for phased re-development based on highest and best use that might be residential uses to accord with the neighbourhood, whilst retaining the Listed main Block-.

Summary of Value

Our valuations as at February 2019 are summarised as follows:-

Main Building incl. Main Hall/ Refectory & The Queens Building leased to HCA	
The Chapel – used a music block and performance space by RNC	
The Hive – used as the facilities and administration block by RNC	
Gardner Hall – until recently used as assessment centre	
land with development potential adj. Queens Lawn & woodland	
Total before purchasers costs	£5,590,000
After purchasers costs deducted	£5,240,000
Market Value of the southern campus in its present form	£4,045,000

Please note that there is rounding of some of the figures to nearest 1,000.



Our Ref:
Your Ref:

22nd February 2019

Strategic Property Services Manager
Herefordshire Council,
Council Head Office,
Plough Lane,
Hereford HR4 0LE

For the attention of: Andy Husband BSc (Hons) MRICS

Dear Sir

Property: Royal National College for the Blind, College Road, Hereford, HR1 1EB

In accordance with your instructions by email on 24th January 2019 we inspected the above property in order to advise you of our opinion of its market value for possible acquisition purposes.

The southern part of the Royal National College for the Blind campus (edged green the enclosed Ordnance Survey extract) has been valued subject to the lease to Hereford College of Arts, in part and with vacant possession on the remainder, including a special assumption of redevelopment of part of the grounds.

Our formal valuation advice has been prepared in accordance with the RICS Valuation -Professional Standards, incorporating the International Valuation Standards, Global and UK edition (March 2017).

WE ASSESS the **Market Value (MV)** of the freehold interest in the property identified within our report as at February 2019 to be:-

£5,240,000

(Five Million Two Hundred and Forty Thousand Pounds)

It should be noted that the figure is net of purchasers costs and is a target figure for negotiation purposes only; within the main body of the report we have provided additional advice as to the alternative bases required. We draw your attention particularly to comments regarding the treatment of estimation of costs for ongoing maintenance of the buildings on the campus.

We have ignored any potential costs of annexure which RNC might incur in completing a disposal and annexing the southern from the northern campus.

All valuations are reported exclusive of VAT.

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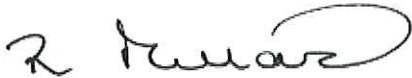
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Regulated by RICS.

We draw your attention to our Definitions and Reservations for Valuations to which our advice is subject and to the Terms of Engagement agreed between us.

Yours faithfully



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Appendices

- Appendix 1 Instruction Letter
- Appendix 2 Site Plan
- Appendix 3 Definitions and Reservations for Valuations

1. Instructions

Instructions were received by email on 24th January 2019 to provide a valuation of the property in order to contemplate its acquisition in the open market. These were later qualified in a later email on 20th February.

A copy of your email is enclosed at **Appendix 1**.

We are instructed to provide the following valuations:-

- Market Value [not RICS Red Book] of the Freehold subject to the existing lease.
- Market Value as above but opinion of higher value if alternative use/development is a special assumption.
- Date of valuation the date of the report: February 2019

Our valuation has been undertaken in accordance with your instruction email and our terms of engagement, which have been prepared in accordance with the RICS Valuation - Professional Standards, incorporating the International Valuation Standards, Global and UK edition (March 2017).

Conflict of interest

As far as we are aware, we have no conflict of interest in relation to the provision of valuation advice in respect of the property. We have no ongoing or previous fee earning relationship with the Council nor the property in the last 5 years; we have brought to your attention a previous valuation done in 2012 but this is not deemed to create a conflict as such we will provide our advice as External Valuers in accordance with the provisions of the RICS Valuation - Professional Standards, incorporating the International Valuation Standards, Global and UK edition (March 2017).

Professional indemnity

See our "Definitions & Reservations" attached to appendix.

Date and extent of inspection

The buildings on the southern campus were inspected on 31st January 2019 by Martin Patrick BSc MRICS together with Andy Husband of Herefordshire Council. Access was made available to all parts of the properties as required. This was simply a superficial visit, and reliance is placed upon the surveys and desktop assessments being prepared for and commissioned by Herefordshire Council.

2. Location

Hereford is a cathedral city and the county town of Herefordshire. It lies on the River Wye, approximately 16 miles east of the border with Wales, 24 miles southwest of Worcester, and 23 miles northwest of Gloucester. With a population of 55,800 people, it is the largest settlement in the county, which is one of the most rural in England.

The M50 Motorway runs to the south of the city with Junction 4 some 15 miles south giving access to the M5 and the national motorway network. The A49 dissects the city giving access to Shrewsbury to the north and Ross on Wye to the south. The A4103 gives access to Worcester and the M5 Motorway at Junctions 6 & 7.

The city is considered to be the main trading centre for the wider agricultural and rural area. The main employers in Hereford include, Herefordshire Council, NHS Herefordshire as well as Bulmers – now part of the Heineken Group; Cargill Meats Europe (formerly Sun Valley) - manufacturers and suppliers of food products, and Painter Bros. manufacturers of galvanised steel towers from where the Skylon Park gets its name. As such Herefordshire is seen as a centre for food production and supports large areas of agricultural land, with breweries and associated food producers largely based at the Rotherwas Industrial Estate, south east of the city. This now has Enterprise Zone Status and is the focus for promotion for military associated industries, arising from the relationship Hereford has had with the Armed Forces.

The plan below shows the location of Hereford in the context of the West Midlands region.



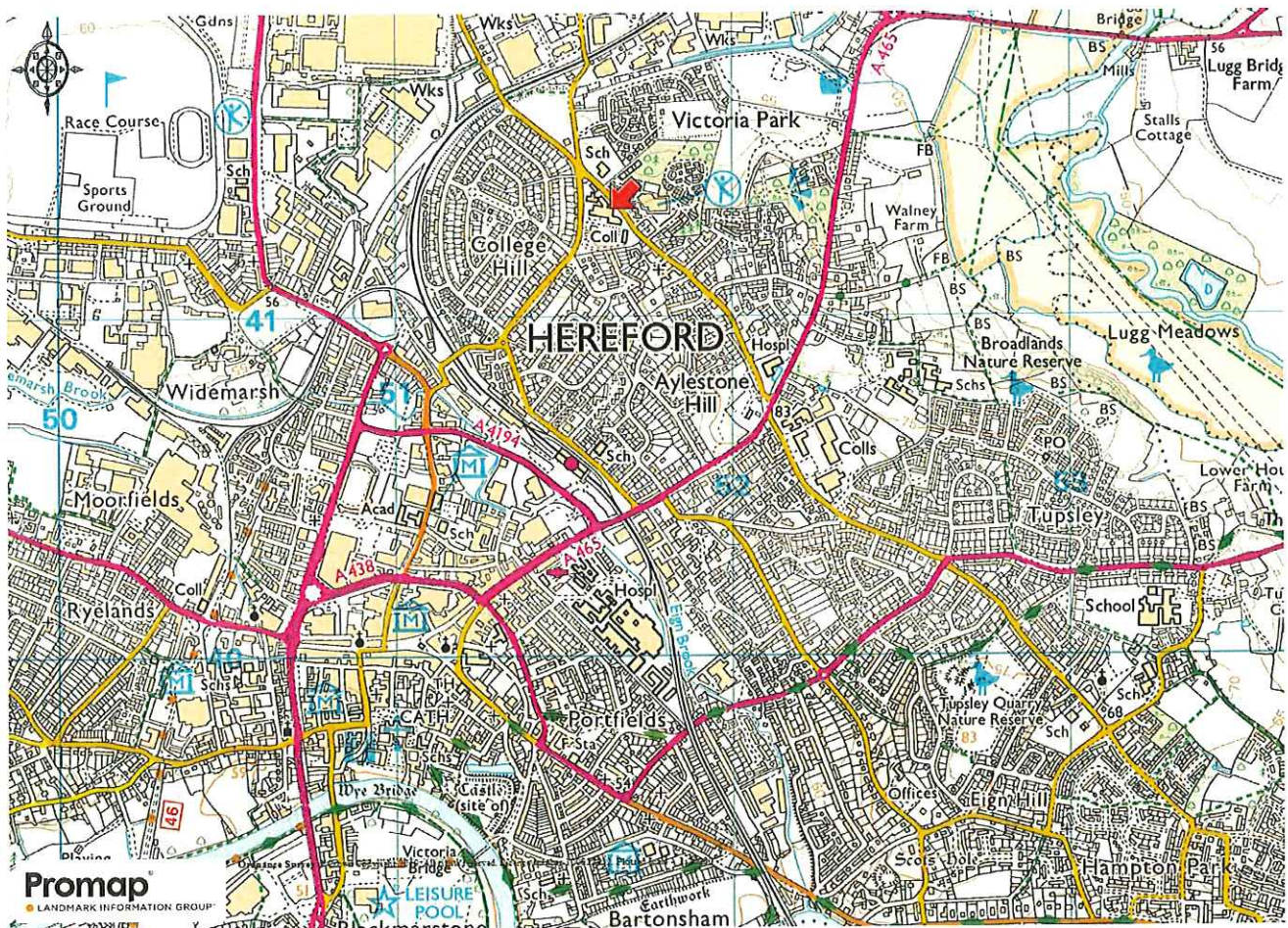
3. Situation

The Royal National College for the Blind (RNC) is located on the northern western outskirts of Hereford; it is situated in a prime residential location approximately 1¼ miles from the city centre. The RNC is situated on the corner of Venns Lane and College Road, the former of which divides the campus and has a junction with the A465 Aylestone Road heading into the city. The southern part of the campus is only being considered for disposal and the subject of this report. RNC is approximately 1 mile from Hereford train station; an inter-city rail service links Hereford with Cardiff (1 hour), Bristol (1¼ hours), Birmingham (1½ hours), and London (via Worcester -2¾ hours), it and its environs being part of a wider transport hub initiative being promoted by the Council.

With the exception of the College campus and another small primary school, the area is predominantly residential in nature being made up of private and social housing. To the immediate north east of the campus along Campbell Road, is a Bloor Homes Development known as Venns Park which is on land sold by the Council.

Main access into the southern campus is from College Road, although Gardner Hall has its own separate entrance and car park off Venns Lane, along which there is a number of residential care homes operate from former large older buildings. The Colleges main entrance gates give access into parking areas on the western side of the campus, primarily to the Main Building but also to Queens Building, a refectory as well as The Hive, a an administration & facilities building in the northern apex of the site on the junction of College Road with Venns Lane.

The plan below shows the situation of the southern campus in relation to Hereford.



4. Description

The RNC is a residential college of further education. Founded in 1871 it is the only college for visually impaired students in the United Kingdom to have been awarded Beacon Status in recognition of its outstanding teaching and learning. The campus was originally a Victorian independent school which was occupied by the Royal Institute for the Blind in the 1970s, since when it has been adapted to suit its current purpose.

In recent years the RNC has undergone restructuring that has seen significant redevelopment and modernisation of the Hereford campus. Part of this process has seen RNC vacate some of the buildings on its southern campus, and the subsequent occupation of them by Hereford College of Arts [HCA], as being complimentary to its campus ¼ mile to the east along Venns Lane and Folly Lane. The remaining RNC campus north of Venns Lane is the main site for the residential elements of the college and the location of point4, a modern indoor sports facility with public membership, and so there remains an ebb & flow of students across Venns Lane.



Main [Victorian] Building

View of Site across Venns Lane [from north]

The southern campus has 7 separately identifiable buildings, 4 of which are inter-connected rather awkwardly with the Main Building; three of those connected [the main block, sports hall, and refectory] are within the lease to HCA. The other connected building, being the music & performance block aka 'The Chapel', is outside the demised lease area and used by RNC. The final other building within the demised lease area to HCA is the Queens Building which together with 80 car spaces immediately adjoin the building and comprise the whole of the demised area to HCA [edged and shaded red on plan in **5. Site Area**, together with blue coloured shape – car parking].

As such the Main Building has extensions on three side: it is supplemented by music studios [The Chapel] to its east. To the north and rear is The Main Hall, a sports hall and theatre, and a refectory. The Queens Building which is to the south west of the Main Block appears to have been built at about the same as the music school, and sports hall.

Gardner Hall is positioned in the eastern corner of the triangular shaped campus and was an assessment centre for RNC but this has been adapted to become a venue for business and ceremonial events on the ground floor, the first floor has 12 en-suite bedrooms, to meet demand for overnight residential courses, whilst the upper floor, with 9 en-suite bedrooms is now let to art college students. This building has its own access and car park off Venns Lane and good views over Queens Lawn to the rear [subject to business viability].

The RNC campus is served by a modern facilities building now known as 'The Hive' which meets both the landlord and tenants daily repair & maintenance requirements.

The specialised nature of the campus means that its value will be determined largely by the design of the buildings and the alternative uses the space can be [commercially] put to; we consider them individually as follows:

Main Building

The Main Building is a listed three storey Victorian building originally built for education purposes in 1881. It is a good example of this type of institutional building with a number of features including an annexed chapel to its eastern side [outside the demised lease area but connected physically], east and west wings and a tower central entrance. It overlooks Queens Lawn, a large grassed amenity space (of approx. 1.0 acre) in front of the buildings.

Its walls are of solid brick, with suspended concrete floors, stone dressed windows and decorative coloured brick courses. The three floors of the building are accessed from a central staircase off the ground floor reception lobby, to which a lift has been added in recent times for disabled access closer to the east wing; this is complemented by two further staircases either end of each wing.



West wing of southern frontage (main entrance)



Vista onto Queens Lawn from Gardner Hall – Music Block (RHS), Main Block centre

The RNC added buildings on three sides of the main building to supplement its amenity but which today, look incongruous next to it. The extensions are characteristic of their era having elements [such as flat roofs] that suggest a shorter life expectancy; as such, when contemplating alternative uses this would tend towards replacement or demolition followed by redevelopment. These buildings were integral to the operations of the RNC but have proved themselves adaptable to other educational uses as for HCA, but they will have obsolescence issues.



Parking/service area rear of refectory



Ground floor main entrance

The Main Building is within the demised lease to HCA and whilst its floor layouts are largely unchanged from RNC occupation, HCA has opened many of the individual offices into larger studio spaces, which makes for a better use

of space across the building. However, disabled access has to be through open studio space from the lift position close to the eastern wing. The original purpose of the building has changed with the times, with masters apartments, classrooms and a library all being adapted into educational studios [which could readily be reused as offices]. The studios have good natural light because of the original tall Victorian windows on front & rear elevations whilst access is readily available via the main staircase it is then supplemented by shorter ones either wings.

A corridor leads out of the rear of the entrance lobby passed an enclosed courtyard separating the Main Building from the Main Hall (sports hall/ theatre, library facility) and single storey annexes, before connecting to a refectory, and lounge area for students.



East wing from across Venns Lane – Music block mid ground Sports hall RHS



Entrance into Sports Hall from Main Building

The Main Hall is a stand-alone sports hall and theatre of 2½ storeys with a flank wall and entrance onto Venns Lane; it is of brick construction, extensively glazed and has a suspended timber floor with a high barrelled ceiling. Stairs lead to a library facility with ancillary performance studios on its western flank. Situated within the curtilage of the building is the data room for RNC, this is a shared facility and if a disposal is contemplated will need to be relocated to serve the RNC exclusively.



Rear single storey annex to Main Building



West wing of Main Building

Corridors provide weatherproof cover from the rear of the Main Building to a refectory. This is a stand-alone facility comprising a large eating area with space for students to relax and congregate, where a minimal reheating amenity is provided as the full catered kitchen has been removed and now used for educational purposes. It is next to the car parking area which serves the Main Building as well as the forecourt to The Hive.



Refectory interior

Rear service area for the Refectory

We undertook a detailed measure of the site in 2012 and have used the same plans for this exercise. These are true to the layout that exists and so we have referred back to the net floor areas calculated then because of ambiguity with the agents floor areas. The Net Internal Floor areas are as follows:

Main Building	Use	Areas	
		Sq m	Sq ft
Ground Floor	Office & Classrooms Main Building	1,164.99	12,540
First Floor	Studios & Classrooms	1,061.8	11,430
Second Floor	Studios & Classrooms	918.52	9,887
Total		3,145.3	33,857

Connected to the Main Building are:

Main Hall	Use	Areas	
		Sq m	Sq ft
Ground & Upper Floors	Sports/Assembly & Art Studio/ Library	1,462.75	15,745
Refectory	Use		
Ground Floor	Dining & Lounges	550.0	5,920
		2,012.75	21,665
	Total	5,157.65	55,522

We have been provided with advice from our Building Dept as to the condition of the structures of the individual properties but would comment that at the time of our inspection the original parts (of the Main Building) appeared to have been satisfactorily maintained and in a reasonable state of internal and external repair, having regard to its age, character and use.

However, the single storey timber annexes/corridors to the rear of the Main Building were showing signs of timber decay that would require replacement in the near future to prevent further deterioration; a significant part of these annexes had flat roofs which by their nature have a limited life and showed signs of requiring attention.

The Refectory had recently been refurbished and was in good decorative condition, whilst the Main Hall appeared to be in a reasonable state of internal and external repair, having regard to its age, character and use, but elements of it suggest that the ongoing maintenance will become a heavier burden.

We understand that all mains services are connected or available to the subject buildings. We have not undertaken any tests to ascertain the condition or capacity of these services and have assumed for the purpose of this valuation that all service connections are in good order.

Alternative Uses

As the Main Building is Listed it is very unlikely that this could be or would be removed from the site; instead we see its retention as the most likely outcome of any redevelopment and given the surrounding residential neighbourhood that it might be converted into self-contained apartments either for independent living or possibly as retirement apartments. However, we see this as a much longer term redevelopment proposal, and because this sector of the local market is not strong or resilient we have looked it over. Many special assumptions would have to be made in attempting to estimate the value of the building in this way which because of its connections with the annexes on three sides has much wider ramifications across the whole site.

It is possible, though unlikely, that conversion to a stand-alone B1 (Office) use might be contemplated seeing as this is what some of the Main Block has been used for, and could have an ongoing use but this would demand a change of use and we see this having potential resistance from both the planning authority and local residents.

It is emerging more likely that the existing educational use would continue whether to HCA, or another D1 Class e.g. College or university. This being the case we have approached the valuation from an investment methodology, in maintaining the current income [subject to comments made later re The Queens Building] and then capitalising that income stream.

In order to facilitate such a change of use much of the annexes built around and connected to the Victorian building would need to be remodelled or demolished. The purposes of buildings such as the Chapel, the Sports Hall or even the Refectory might have no viable future life and might therefore have to be demolished. If this were to be the case then the land opened up by their demolition could be redeveloped and this would have a value at a point in the future when the scheme happened.

In an open market scenario it is not inconceivable that surrounding buildings could be annexed yet retain access to the road on their own plots; although because of their connection its unlikely that they could readily stand-alone, and the rental values attributed to them is more of an amalgam and as such whilst we can indicate rental value, this doesn't translate accurately to each component as a separate valuation figure. In this way we might conceive a value to the whole campus including the central open space that is Queens Lawn – it would have an incremental value not only to Main Building but also Gardners Hall [see comment later] but not have an intrinsic value itself.

Valuation considerations

In arriving at our opinion of the Market Value, we have had regard to the following:-

- The Main Building is central to the campus, overlooks Queens Lawn and is a landmark building for the surrounding residential areas.
- The Listed status of the building together with some of the surrounding landscaped areas and car parking would therefore have to be retained, though its use could be modified, the costs of doing so would have to be accurately costed, but could be expected to be high.
- The use to which the Main Building can be put will impact directly those adjoining or adjacent buildings, which are ancillary to its current purpose but in other circumstances might become redundant.
- In these circumstances there would be in excess of 55,500 sq ft of space potentially coming to the open market in a city where there is little demand for offices and this coupled with the out of town location suggests that the rental rates must take account of these market factors.

- The Main Building's capacity to be offered to the open market is also going to be limited by its basic amenities, in terms of toilet, lifts, access and parking amenities off College Road.
- Couple to this we have seen cost estimates for the ongoing repair & maintenance of the building, which if put into the public domain would temper the interest of third parties to take on such responsibility.
- The Main Building is used for teaching purposes and so a rental value of its current use could draw reference to other period office buildings in the city. Comparable evidence suggests that this may be of the order of £10-12 psf in Grade A condition - £7.50-10 psf for Grade B, but for much smaller suites of offices in the city, thus making appropriate adjustment to this we have used an overall rental figure of £ psf on the Main building with other rentals having a relationship to this.
- This brings us very close to the rental passing on the lease which as reviewed and agreed in 2018.
- Taken in their current format the same principle could be applied across the site to The Chapel, the refectory and the Main Hall.
- The Main Hall and the Refectory are designed for specific educational purposes and whilst the internal space might be adaptable for light industrial/ workshop/ office space, it is considered that this would have no chance of planning success, nor would it attract demand in the current property market and therefore a nominal figure has been attributed to this space.
- Collections of buildings such as this, rarely come to the market in an ongoing basis; moreover in such a situation purchasers would look to change or adapt the buildings to suit more commercially valuable general market.
- There could be special purchaser status though for an organisation like the Council, but this is a very narrow and uncertain stratum of the market.
- In the longer term an alternative use for the Main Building might be conversion to residential apartments either to the private market or as a sheltered / care scheme. This would require a much more detailed examination of a wider scope of considerations, but it may offer another exit strategy for a purchaser to consider.
- Sales rates for residential land in this neighbourhood may be of the order of £750,000 per acre, though this is highly dependent upon the size, orientation and particular soil conditions of any such site. Sales evidence in Hereford is erratic, because of these factors

Market Value

Having regard to the above factors, we are of the opinion that the Market Value of the freehold interest in The Main Building (together with the attached annexes & Queens Building) subject to the lease to HCA as at February 2019 is:-

This reflects an overall rate slightly less than £ The valuation is exclusive of VAT.

Our opinion of Market Value is with the benefit of the existing lease hold interest. Our valuation on this basis assumes that the existing rental would continue after the expiry either to HCA or A N other educational occupier from the open market. It reflects the current physical condition of the property, but assumes that comparison to office uses is practical.

Queens Building

The Queens Building is a 2-storey modular concrete & brick building built originally as a library but, within the demised area of the HCA lease, is used for educational purposes of a technical & industrial basis e.g. black smithy, welding etc. It is not Listed, and shown on the plan in **5. Site Area** edged and shaded red on the western side of the site.

It is situated between the car park off College Road, and the Queens Lawn in front of the Main Building; a tree lined amenity area provides for 80 parking spaces to its immediate south along the boundary with adjoining residential properties.



Main entrance and parking areas

North façade from the Main Building

The main entrance is at grade, off the entrance drive way into a reception lobby with stairs and toilet facilities opening off. Double swing doors lead into an open plan office area with separate offices off. A lift was inserted by RNC, which is found off a side lobby to the entrance next to a second entry door off the parking area. The first floor is largely open plan with partitioning that could readily be demounted.

We have not carried out a structural survey of the property but would comment that at the time of our inspection it appeared to have been satisfactorily maintained and was in a reasonable state of internal and external repair, having regard to its age, character and use. We understand that all mains services are connected or available to the Queens Building. We have not undertaken any tests to ascertain the condition or capacity of these services and have assumed for the purpose of this valuation that all service connections are in good order.

We were provided with the following Gross Internal floor areas by the RNC at the time of our 2012 inspection, which are in line with the agents floor areas:

Queens Building	Use	Areas	
		Sq m	Sq ft
Ground	Office	346.75	3,732.5
First	Office	356.50	3,837.5
Total		703.25	7,570.0

Alternative Uses

The Queens Building is readily usable as offices space and in an open market scenario it is possible to envisage it being a small stand-alone office block with ancillary parking independent of the Main Block; although how this would work in practice is debateable as there would have to be shared rights of access/ egress. A small professional

office such as accountants, architects or surveyors might find the location acceptable and the out of city amenities as not a disadvantage.

In addition this would require a change of use, which due in part to these factors may not be straight forward to obtain. Whether the planning authority might accept such a change of use however, is a doubtful.

The office market in Hereford is weak however, by comparison to the West Midlands conurbation, when coupled to the residential nature of the neighbourhood, this further restricts the likelihood of getting a change of use in isolation of the campus.

We consider it highly unlikely therefore that the Queens Building could be sold off in isolation of the rest of the College buildings so are cautious in placing a rental value on this building independent of the rental agreement made for the HCA lease; and have used a rental figure derived from the rent review in 2018 in consideration of the future income of this building based on £ psf. This produces an annual rental of the order of £ per annum.

We have approached the value of this building by taking the passing rental attributable to it until the end of the lease, upon which we have assumed that the land upon which it sits could be available for redevelopment to student accommodation when married to adjacent ground. It is our opinion that a low student rise scheme would find better favour with the planning authority and that a site of a little in excess of an acre is possible to create at the south western corner of the site behind Queens Lawn for this purpose. A smaller site would require greater height to achieve a density of rooms that would make the development viable and attractive for outside developers to consider, and we have formed the opinion that this would be unfavourable because of the juxtaposition of the Main Block and the surrounding residential neighbourhood.

We have assumed for the purpose of this exercise that such a scheme could be developed up over the next couple of year with a view to taking a capital receipt during 2023 to coincide with the expiry of the HCA lease.

Valuation considerations

In arriving at our opinion of Market Value, we have had regard to the following factors:-

- The building has the capacity to be a standalone office block with an adjoining car parking area.
- In the absence of the existing D1 use by HCA we think demand would be weak for this particular location.
- It might command a rental value with relevance to the general office market in Hereford. This is tempered by the need for a change of use.
- We have had regard to the estimate of costs placed upon the ongoing repair and maintenance of the building expressed as a percentage of the passing rental.
- A change of use may not be straight forward in the wider context of the southern campus that might see the retention of the Listed Main Building but the selective demolition of surrounding buildings to free up land that might be suitable for low density student/residential development.
- There is no student market to speak of in the city but with reference to our experience valuing student accommodation in towns and cities nearest e.g. Worcester, Gloucester, Cheltenham, and the residual land values that result, then based on a set of hypothetical market rates for new accommodation we would expect a land value to carry a premium above normal residential land values, and consider that this would be of the order of £1,000,000 per acre.

'The Chapel' [music & performance block]

A corridor leads eastwards from the Main Block to The Chapel, a music/performance teaching block, but this is outside the demised lease to HCA and is retained for use by RNC. This is a concrete and brick built two storey block also purpose built at about the same time and other extensions, and highly divided into sound proof studios, rehearsal rooms and teaching rooms that surround the original chapel. As a consequence the Chapel has been converted for use as a performance/ rehearsal space and is promoted as a separate entity by RNC for external users. It is intrinsically linked to the east wing of the Main Building, but [being outside the demise to HCA] the connecting lobby & doors are locked during normal operating hours.

The Chapel block has a separate entrance on its eastern side which opens into gardens between it and Gardner Hall and overlooks Queens Lawn. The block is orientated towards the Venns Lane car park next to Gardner Hall, so access is something that would have to be addressed if 3rd party occupation was to be contemplated.

The Chapel	Use	Areas	
Ground Floor	Music Studio (T rooms) & GF annex (A rooms)	1,933.0	20,805
First Floor	Offices & Studios (T rooms)	350.1	3,768
Total		2,283.1	24,575

The interior of the Chapel a mix of small studios overlooking Queens Lawn which might otherwise become small office/ studios and then the larger teaching and performance spaces, which if vacated could be used for office space or even workshops.

It is one of three building shaded grey on the plan in **5. Site Area**, immediately to the east of the Main Block.

Valuation considerations

In arriving at our opinion of Market Value, we have had regard to the following:-

- The Chapel is a extension building that encompasses a chapel that was part of the original Victorian.
- The accommodation was designed for use specific to the visually impaired and adapting them for open market commercial purposes could be problematic.
- A number of issues would have to be addressed for the building to standalone from the rest of the complex nevertheless
- We have had regard to the rental levels arising from the lease with HCA and the general commercial market in Hereford and done so in the context of the estimate of costs projected onto the building for the coming years.

Market Value

Having regard to the above factors, we are of the opinion that the Market Value of the freehold interest in The Chapel building, RNC Hereford as at February 2019 is:-

£ 2,283,100

This is the equivalent of just under £ 1,000 psf, that reflects the layout, condition and its position in relation to the surrounding buildings. In figures cited in the Executive Summary have been rounded to the nearest ,000.

'The Hive' Building

The Hive is a modern constructed building in the northern apex of the southern campus close to the junction of Venns Lane with College Road. It replaced a maintenance building and as such it now provides all of the repair & maintenance services for the College together with other central administration functions. An electric substation is situated just to the north of the building from where we understand the College receives its supply.

It has steel frame beneath brick and block work external walls; a pitched tiled roof inside of which a second storey exists with roof lights. Access to the building is from a tarmaced forecourt off College Road to 3 garage/workshops.



Frontage to car park forecourt

Carpentry workshop

The entrance leads into a ground floor lobby with stairs and a platform lift to the first floor. At first floor level a central corridor leads to six offices, with a meeting room and kitchen. A staff room opens off the toilet area at the other end of the corridor. A single turn stair leads off the end of this corridor to storage space in the attic.

We have not carried out a structural survey of the property but would comment that at the time of our inspection it appeared to have been well maintained and was in a good state of internal and external repair, having regard to its age, character and use. We understand that all mains services are connected or available to the subject property. We have not undertaken any tests to ascertain the condition or capacity of these services and have assumed for the purpose of this valuation that all service connections are in good order.

The buildings position on the campus is shown shaded grey on the plan in 5. Site Area – this parcel of 0.4 acres approx. could be married to the land associated with the Main Building to its south in a redevelopment/ alternative use scenario and become available for residential use.

We obtained the following Gross Internal floor areas when we inspected and measured the block in 2012; they align with those areas in the agents particulars:

Floor	Use	GIA Areas	
		Sq m	Sq ft
Ground	Workshop	334.4	3,600
First	Office & Staff Areas	260.5	2,805
Second	Attic Storage	86.0	925
Total		680.9	7,330

Alternative Uses

The building is design specific for the RNC; although its existing use as offices and light industrial space should not be seen in isolation of the RNC campus and informal verbal planning advice has been that in the absence of the College this could not continue independently. From a practical perspective this maybe different as there could be separate [but shared] access from College Road; so in a hypothetical open market scenario the building could be used by independent trades possibly IT or R&D needing garaging/ workshop space.

As such we would consider it to have a separate rental value in the context of small office suites with the ground floor workshop or garages.

Valuation considerations

In arriving at our opinion of Market Value, we have had regard to the following:-

- The building is design specific for offices and light industrial/ workshop purposes in connection with the RNC;
- This might otherwise suit small businesses such as carpenters, joiners, or the building trade with architectural connections; or those wishing to cluster around ongoing educational uses.
- It might also appeal to IT or those in Research & Development where complementary "clean" uses co-exist.
- If this were to happen then it's possible that it could be made available to the open market with a value separately attributable it has a parking area and access onto College Road.
- Common access rights would have to be created if the building were to be annexed from the main campus.
- Based on comparable evidence from across Hereford this type of space might achieve at best circa £7.50-8.0 psf pa overall, or alternatively £80-85 psf freehold after capitalising at an appropriate all risks yield;
- Although it is modern on-going costs have been estimated to both the fabric and the services within the building and we have included these as expressed as a percentage of rental [deduction].

Market Value

Having regard to the above factors, we are of the opinion that the Market Value of the freehold interest in The Hive, RNC Hereford as at February 2019 would be:-

This is the equivalent of just under £ 1,000,000 psf. Note that we have rounded this is the Executive Summary to nearest ,000.

Our valuation is exclusive of VAT. Our valuation on this basis assumes that the owner/ occupier has vacated the property as at the valuation date. It reflects the current physical condition of the property. If the property were to be sold with vacant possession, the best price is likely to be achieved by way of a sale to another owner occupier. It block may also have a higher value in a redevelopment scenario if a plot larger enough were assembled in the wider comprehensive plan. Though we must point out that there would be planning and practical issues to resolve in the event of an annexure of the College campus.

Remaining economic life

We are of the opinion, that given reasonable maintenance and periodic repair, the subject property will have a remaining economic life in excess of 50 years. With an ongoing maintenance and repair programme, the life could be extended further.

Gardner Hall

This is a standalone landmark building that has its own car parking forecourt, together with a rear elevation that overlooks Queens Lawn central to the RNCB southern campus.

Gardner Hall is a 3 storey traditional cavity brick & stone built residence located in the south eastern corner of the campus, with its own entrance off Venns Lane. It is situated opposite the RNC halls of residence on Venns Lane and thePoint4 sports complex. To the front of the building is a level tarmaced car park which is flood lit, with metal palisade fencing and gates onto Venns Lane.



Queens Lawn to the rear of Gardner Hall



Parking to the front of Gardner Hall entrance

In 2006 when the other halls of residence for RNC were upgraded, Orchard Hall, across Venns Lane was built to replace it. As a consequence Gardner Hall was extended and adapted and can be used as an assessment centre for prospective students, with the ability to provide overnight accommodation for them and their relatives.

In 2009 Gardner was made available as a venue for private hire for functions such as weddings, business events and it can be available for those using the Point4 sports facilities. It is understood that the RCB will be vacating the building in July 2019, so we have assumed vacant possession later this year.

The main roof to the Hall is pitched and hipped and tiled whereas when the ground floor was extended to the front and rear to create additional reception and conference facilities these have flat roofs, which can be accessed off the first floor. The windows throughout are aluminium framed double glazed units. The interior is bright and well maintained and decorated.



Front entrance to Gardner Hall



Vista from Gardner Hall across Queens Lawn

The ground floor interior is used as a reception area and office complemented by catering and entertainment facility which can be used for internal purposes or let out for external events and functions having a outlook across Queens Lawn.

Complementary to this, the 1st floor is set out predominantly as bedrooms, all with en-suites for visitors to stay on campus. Stairs and a lift proved access to the upper floors. There are 12 bedrooms on the first floor being a mix of doubles, twins and single bedrooms as well as 'access bedrooms' to cater for the disabled. Single and double rooms range from 11 sq m up to 19.8 sq m (incl. access rooms) whereas the twins are larger - up to 26 sq m, which is generous in modern standards.



Dining/ Garden Reception area

1st Floor Corridor to bedrooms

On the second floor, which is on the footprint of the main block only, there are a further 9 bedrooms, again a mix of styles of accommodation opening off the central corridor. All of these bedrooms have en-suite facilities.

The use on the ground floor would be ancillary to the 1st floor and potentially the upper floors although RNC report that whilst the 2nd floor is let out as student and produces a regular income, this has had an impact upon its ability to let the ground floor as the number of bed rooms available is limited to 12.

We have used the floor areas provided by RNC from 2012 as the building has not changed physically and understand the Net Internal Floor areas to be as follows:

Floor	Use	NIA Areas	
		Sq m	Sq ft
Ground	Reception/Assessment	246.7	2,655.5
First	Residential/Hotel	245.2	2,640.0
Second	Residential/Hotel	165.5	1,780.0
Total		657.4	7,075.5

The buildings position on the campus is shown shaded grey in the south eastern corner of the campus on the plan in **5. Site Area** – the red arrow denoting the entrance to the car park.

We have not carried out a structural survey of the property but would comment that at the time of our inspection it appeared to have been well maintained. We have had reference to a report by our Building Surveyors who estimate the ongoing repair and maintenance of this building to be minimal by comparison to other buildings on the campus.

We understand that all mains services are connected or available to the subject property. We have not undertaken any tests to ascertain the condition or capacity of these services and have assumed for the purpose of this valuation that all service connections are in good order.

Alternative Uses

The use of the building as a residential assessment centre was specifically designed for RNC purposes. As the need for this has declined the RNC has adapted the building such that in its current format it could readily convert to a small hotel, though some further adaptations might be needed to improve the space and provide a full kitchen facility. Physically an annexure from the campus looks possible, as are the adaptations, and from a planning perspective given the nature of the surrounding area this could be considered likely.

The only constraint to this might be the size of Gardner Hall [having 21 bedrooms] which being such a solid built building could be difficult to alter and such a small number of bedrooms be unattractive/ unviable to the hotel/catering market sector. This is of concern as is the market demand for a small hotel in Hereford; the value of such a building would be based upon a profits method rather than any intrinsic value of the building itself, as the building becomes a 'working asset' on the balance sheets.

The 2nd floor has been extensively let out recently to Hereford College of Arts students so there is 100% occupancy on a 48 week basis, producing a regular external income. We were told anecdotally that as a consequence of the letting to HCA this has had a detrimental effect upon income for the ground floor from events as the number of available rooms to visitors has reduced.

Ordinarily therefore we might approach the valuation from the business operational side and have extrapolated and translated the information provided by RNC as to the income derived from the past couple of years to arrive at a value for the building. We have blended this with office use for this space in lieu of any further income as we see this is probably what would happen in an open market situation.

In arriving at a value for the building we have therefore taken information provided by RNC together with our own Hotel/ Leisure in-house information which together with our own experience of the student accommodation sector across the wider region have assumed that the RNC would remain north of Venns Lane, the HCA remain in proximity and there be a need for some student accommodation so this building could continue in a similar vein for the foreseeable future.

Valuation considerations

In arriving at our opinion of Market Value, we have had regard to the following :-

- Gardner Hall was designed and used as a residential Assessment Centre for the RNC, but has to adapt this use to suit changing circumstances.
- Its value will lie in its ability to generate income from external lettings of bedrooms; conversion to offices of the upper floors is impractical and we consider it to be unviable on likely existing values.
- We have extrapolated the information provided by RNC to arrive at a net income [after deducting outgoings] achievable in the open market, and then capitalised that income at an all risks yield to derive a capital value.
- This makes the assumption that the building will continue largely in its current layout and design; but this may need a more comprehensive redevelopment scheme that might involve wholesale change that is too complicated to be considered in the current circumstances.

Market Value

Having regard to the above factors, we are of the opinion that the Market Value of the freehold interest in Gardner Hall, RCN, Hereford as at February 2019 would be:-

This reflects an overall room rate of circa £ [redacted] per bedroom – for comparison to hotel values. Or close to £ [redacted] psf by comparison to commercial buildings. Our valuation is exclusive of VAT.

Our valuation on this basis assumes that the existing occupier has vacated the property later this year. It reflects the current physical condition of the property.

If the property were to be sold with vacant possession in isolation of the College, the best price is likely to be achieved by way of a sale to an owner occupier. However, as there are likely to be few requirements for a building of this style and nature in Hereford at any given time, a lengthy marketing period may be required to secure a sale.

Remaining economic life

We are of the opinion, that given reasonable maintenance and periodic repair, the subject property will have a remaining economic life in excess of [redacted]. With an ongoing maintenance and repair programme, that lifetime could be extended further.

5. Site Area

The southern campus has an approximate site area of 2.426 hectares (5.994 acres).

This area has been provided by the agent for RCN but checked using the Ordnance Survey Pro-Map system.

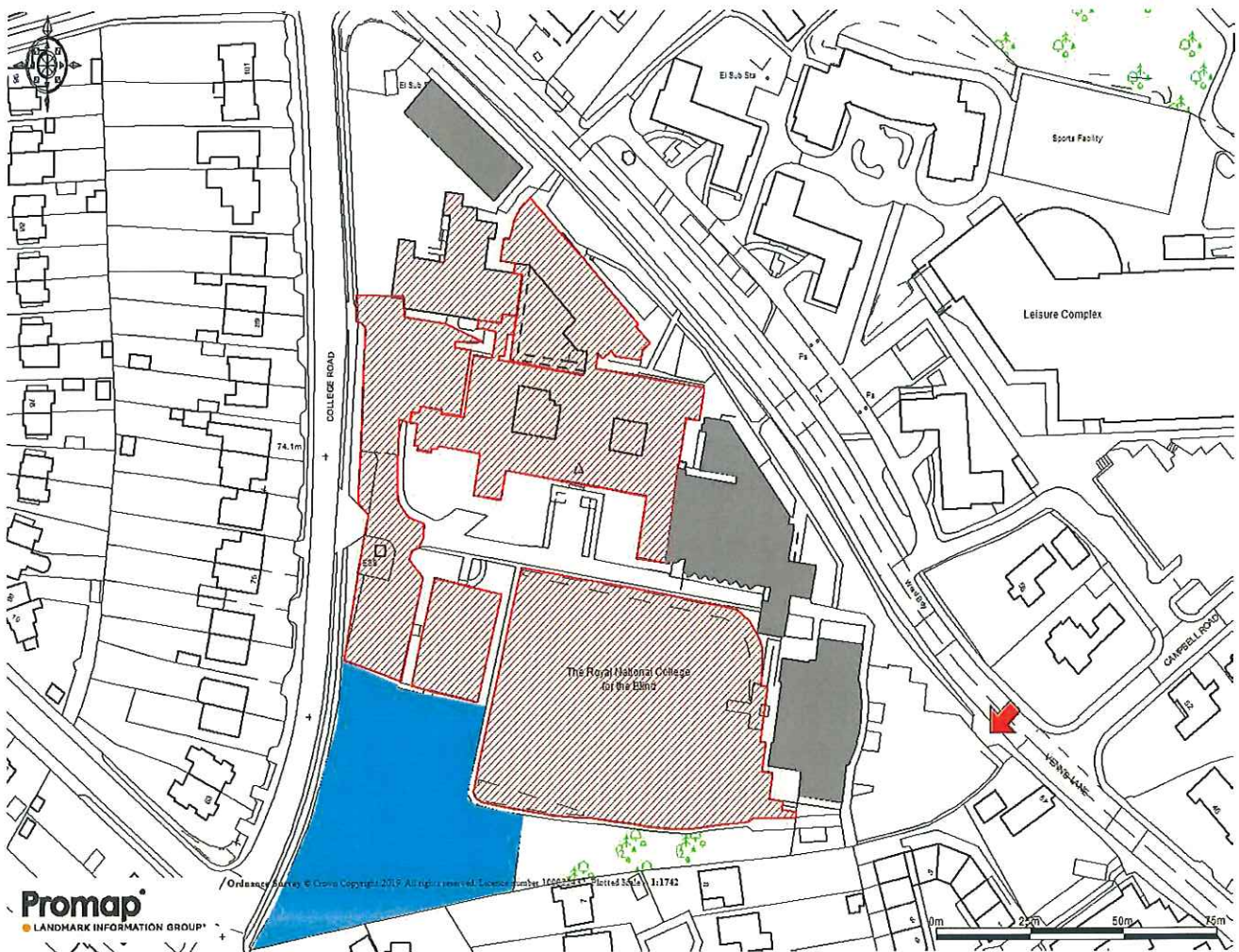
Our understanding of the site boundary is shown outlined in green on the plan below.

The areas within the demised lease to Hereford college of Arts are edged and shaded red, and the parking area coloured blue.

Buildings retained and currently used by the Royal National College are coloured grey;

The entrance to Gardners Hall is denoted with a red arrow which is separate from the main entrance off College Road.

We have assumed that this represents the correct boundaries and that there are no ongoing boundary disputes. We would recommend that our understanding is confirmed by your legal advisers.



6. Local Authority Enquiries

Planning Policy

The land that forms the southern campus of RNC is covered by the Herefordshire Local Plan – Core Strategy that was adopted in October 2015 and covers the policy period up to 2031; as such the site has no specific allocation of land use.

The Core Strategy instead sets out the vision and objectives for the Local Development Framework [LDF] and explains how the county is expected to develop up to 2031.

In preparing this report we have referred to and relied upon the desktop study appraisal undertaken by Geraint John Planning. We are guided by that study and would concur with its general conclusions. However from experience we know that the manner in which development potential may be ultimately achieved by a third party [in the open market] will be function of its desire and ability to obtain planning consent to a specific scheme, and so we have attempted to consider this in an open market context.

The land coloured blue is protected as open space areas, often attached to schools as the play areas, but the plan shows the residential land as pink – the college is un-coloured and thus has no allocated land use.



Our overall interpretations are that the campus has a limited ability to be annexed from its existing [circa] 6 acres. Gardner Hall and The Hive could be divided off, as they have road frontage or separate access arrangements. Most of the other buildings are connected and are intrinsically linked, thus their values will relate, and this in a planning context will be governed by the Main Building being Listed and a landmark building, but the site is not within a designated Conservation Area;

A parcel of land along the south and eastern boundaries could be redeveloped in connection with the existing D1 Educational use continuing i.e. student accommodation with a residential element. We see this as coming under scrutiny from the planning system, and that a suggestion in the marketing package that a building as high as 4 storey be potentially possible. We think this is unlikely, and instead suggest a lower rise building would be more acceptable in the context of not obscuring the vista from the Main Block, the impact on surrounding existing residential property and the need to conserve the landscaped buffer along the boundary.

We would follow the principle shown on page 15 of the Geraint John appraisal that this parcel could be L shaped and if the Queens Building were to be incorporated extend to just over an acre. This would permit a courtyard or quadrant 2/ 3 storey block looking into Queens Lawn, which because the parcel is L shaped would take less of the Lawn and incorporate landscaping

Flood Risk

We have checked the Environment Agency website which confirms that the site is well removed from any flood or surface water risk.

Highways

We have made enquiries of Herefordshire Council that has confirmed College Road and Venns Lane are adopted and maintainable at public expense. We have assumed that there are no highway proposals which may have an adverse impact on the subject property. Your solicitors should confirm this.

The majority of the above information has been provided to us verbally by local authorities or relevant public bodies. However, we would recommend that your legal advisers obtain formal confirmation that the information provided to us is correct. Should subsequent formal investigations contradict the information outlined above, then we would recommend that the matter is referred back to us to consider what impact, if any, this may have on our opinion of the value.

7. Environmental Issues

We have not carried out an environmental audit of the site and therefore have not investigated any past processes carried out on it that might have been a source of pollution.

From the inspection carried out, we did not note any issues of environmental concern.

The property has been used for educational purposes for over a hundred years during when the surrounding residential suburbs have been built. We understand that before this the land was orchards, woodland and grassland above Hereford; therefore we would regard it as unlikely that the College or any surrounding uses would have resulted in significant environmental issues.

Based on this, we think that purchasers would regard the risk of environmental liability as being low.

We would emphasise that we are not qualified to give assurances concerning the presence or otherwise of contamination of a particular site, as this can only be done by way of an Environmental Audit. If an Environmental Audit was undertaken and the property was found to be contaminated, it is likely that our valuation would be affected.

Our valuation has been undertaken on the assumption that the site is free from contamination and no allowance has been made for the cost of any remedial works.

8. Deleterious Material

We have relied upon the information given in the agents pack and further commentary provided via our Building Dept to determine whether or not any deleterious or hazardous materials have been used in the construction of the property or have since been incorporated.

We have assumed for the purposes of this valuation and report that no deleterious materials pose a significant and costly threat upon the value reported herein. Within the Definitions and Reservations for Valuations attached to the rear of this report mention is made of the asbestos regulations and the requirements of owners and occupiers to comply with these regulations. Your legal advisers should enquire as to compliance with these regulations and property owners will need to be able to provide confirmation as to the existence and condition of asbestos.

9. Ground conditions

We are not qualified to give assurances on the ground condition of the site and we would confirm that we have not undertaken any formal enquiries to ascertain whether the property is affected by mining or other works. Furthermore, we have not undertaken any site stability enquiries, investigation works or research. Accordingly, we have specifically assumed for the purpose of this valuation and report that the property is not adversely affected in this regard, nor is it affected by subsidence, and our valuation advice has made no allowance for the cost of any necessary remedial works in this regard.

10. Tenure

We understand that the interest to be valued is the unencumbered freehold interest subject to a lease to Hereford College of Arts that we have seen a copy of, dated 10th May 2013, noting that it is for a term of 10 years from 2013, with a rent review on the anniversary of the 5th year.

The lease is effectively an Internal Repairing and Insuring basis, though there is some inter relationship between RNC and HCA as to how those are undertaken – it would seem that RNC has retained its function via the FM facility in The Hive to undertake daily maintenance and recover costs. There is provision within the lease for this under a general Service Charge.

The lease has full Landlord & Tenant protection; the permitted use is D1 Educational.

The rent review is defined in section 7, and we think that this has had reference to office rental rates in the city that have been extrapolated for the continuing educational use. The passing rent is £ per annum exclusive of rates, though we can only speculate on how this might be broken down across the separate buildings that are within the demised areas.

We would comment that the floor areas that we measured and were provided by the RNC when we last inspected the property in 2012 have a slight discrepancy with those given by the marketing agent. We have relied upon our own as they have reference to floor plans for each building and therefore provide consistency.

The demised area has a boundary through the east wing of the Main Block and The Chapel;

We have not been provided with a Report on Title but confirm that upon receipt of a copy we would be pleased to separately confirm whether the content has an impact on the advice provided within this valuation. This may have implications should any future annexation be contemplated; otherwise, we have assumed for the purposes of this valuation that there are no unduly onerous or restrictive covenants affecting Title, which would have an adverse effect on value. This assumption should be verified by your solicitors.

11. Economic Overview

Summary

- UK GDP grew by 0.3% in the three months to November 2018, indicating a slowdown in activity in Q4 2018 compared to 0.6% GDP growth in Q3 2018
- We expect all property rental growth to be 0.4% for 2019 as a whole in line with continued occupier uncertainty and below-trend economic growth
- All-property equivalent yields have stabilised at around 5.8% following a period of downward movement

Economic trends

UK GDP grew by 0.3% in the three months to November 2018, indicating a slowdown in activity in Q4 2018 compared to 0.6% GDP growth in Q3 2018. Manufacturing has been a drag on economic growth driven by poor performance from car production and pharmaceuticals.

The Markit / CIPS Purchasing Managers Indices average across the services, manufacturing and construction sectors dropped to a two and half year low in January, and only just above the crucial 50 no-change value. Brexit-related uncertainty weighed on spending decisions by businesses and willingness to take on new projects in the service sector.

The **labour market** continues to thrive with the employment rate reaching 75.8%, the highest since records began in 1971. The recent improvement in pay growth continued with real earnings increasing by 1.1% excluding bonuses and by 1.2% including bonuses. This is the largest annual increase since 2016.

CPI inflation fell to 2.1% in December 2018, down from 2.3% in November and its lowest level in nearly two years. The Bank of England is likely to keep the 'Bank Rate' on hold in the near term amid Brexit uncertainty and mounting pressure from a global slowdown. However, there is a strong likelihood of a gradual increase in the 'Bank Rate' should the UK reach a deal with the EU. The Bank of England will also be closely monitoring earnings growth and the potential risk of it feeding into higher inflation. However, in the event of a no-deal we expect the Bank of England to cut the 'Bank rate' in order to support the economy.

Outlook – The UK remains engulfed in economic and political uncertainty as we approach the official exit date for Brexit. We expect GDP growth to be weak in 2019, particularly in Q1 with business activity and investment continuing to be subdued. Wider slowdown of the global economy will add pressure, with the deceleration of the Chinese economy, and the trade tariffs imposed by the US, being the most noteworthy but not only factor in an increasingly subdued outlook for growth. The Treasury consensus forecasts economic growth at 1.4% for 2018, remaining around the same level in 2019.

Occupier

2018 was another record year of take-up across the '**Big Nine**' office markets, amounting to 10.7 million sq ft, compared to last year's previous best of 10.1 million sq ft. Both city centre and out-of-town activity were 30% up on the long term average. The lack of prime stock continues to impact on headline rents with increasing by 4.1% over the past 12 months and 30% over five years.

The **retail** market ended on a weak note with overall quantity purchased falling by 0.2% in the three months to December 2018 and by 0.9% when compared to the previous month despite many retailers starting seasonal discounts. The backdrop of rising business rates, diminishing consumer confidence and change in consumers shopping habits has negatively impacted retail property performance, with average retail rental growth declining by 2.5% in the year to December 2018 (MSCI monthly index).

The fundamentals in the **industrial sector** have remained resilient despite the uncertainty caused by Brexit. Activity continues to be underpinned by the strong demand from online shopping and 'last-mile' delivery. As a result,

average UK industrial rental growth remains robust at 4.1% in the 12 months to December, well ahead of the all-property average of 0.7% (MSCI monthly index).

Outlook – We expect average all property rental growth to be around 0.4% for 2019 as a whole, in line with continued occupier uncertainty and below-trend economic growth. We expect the squeeze on mid-market retailers to continue into 2019, and consequently the 'polarisation' of the retail market will continue. We expect average UK rental growth in the industrial sector to continue to outperform the retail and office market, although below the circa 4% pa growth seen in the previous three years.

Investment market

Annual investment transaction value for the UK commercial market totalled circa £62 billion in 2018, with purchases in Q4 totalling £16.7 billion, the highest quarterly figure in 2018. Overseas investors were particularly active in the London office market, boosted by a surprisingly resilient occupational market, cheap currency and relatively attractive yields in comparison to other Tier 1 global cities.

Average all-property equivalent yields have stabilised at around 5.8% following a period of downward movement, although average yields appear to be edging upwards amid weak economic outlook and stress in the retail property sector. Average all-property average capital value growth has lowered to 2.1% in the year to December 2018 (MSCI monthly index), down from 5.5% a year earlier.

Outlook – As we approach the official Brexit date, many investors will opt for the 'wait and see' approach and hold off on transactions in the first quarter of 2019. However, there remains a large weight of global money ready to invest in the UK property market.

Continuing with the trend, we expect the industrial sector to be amongst the few sectors with positive capital gains in 2019. Alternatives characterised by long dated secure indexed income will hold value as demand is underpinned by demographics or technology and is fairly insensitive to Brexit. Many investors will be looking to reduce their exposure to the retail sector, as even those retail assets with 15-year leases no longer provide a guaranteed income stream since many retailers may still have a high risk of entering CVAs in the meantime.

12. Local Economy

Hereford is categorised by national property databases as a Sub-Regional Weak Town on the basis of the volume and quality of its town centre retail provision. In fact there is no industrial or office commentary because of this stature.

The total population within the Hereford Primary Retail Market Area is estimated at 134,000 at end of 2017, below the Sub Regional Weak Town average and ranking the town 123 out of the PROMIS Centres. The Hereford Primary Retail Market Area is moderately affluent, ranking 59 of the PROMIS centres at 2011. Over the period 2001 to 2011 Hereford saw an improvement in the Affluence Indicator Rank; most recently this has fallen back due to a fall in average house prices within the Hereford area.

Hereford ranks 64 on the basis of its PMA Non-Food Retail Score and 65 on the PMA Fashion Score; the town ranks 108 on the PMA Anchor Score. Hereford has a slightly above average volume and quality of retail provision relative to the size and affluence of the shopping population.

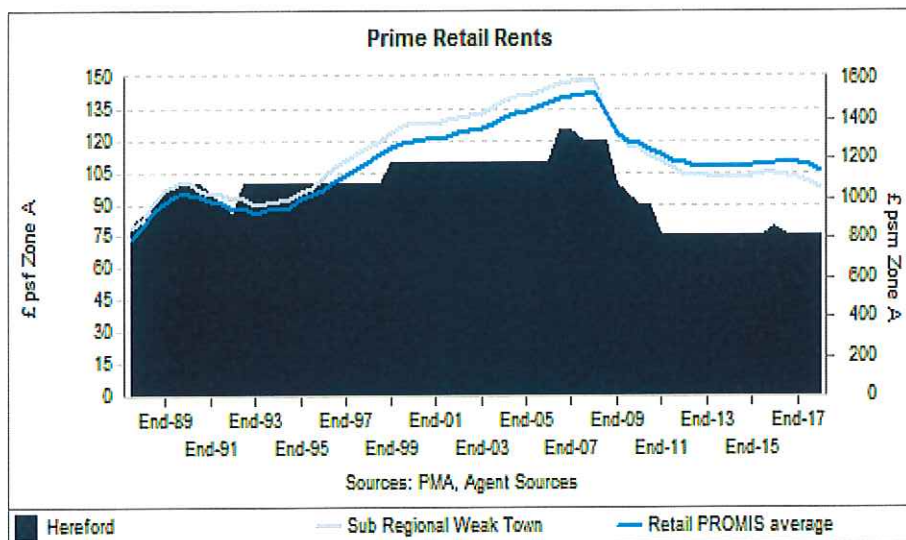
PMA estimates the Consumer Base of Hereford to be 131,000, ranking the town 104 of the PROMIS centres, which is below the average for the Sub Regional Weak Towns. This estimated Consumer Base reflects the modelled market penetration of the town both within the Primary Retail Market Area and beyond

Hereford ranks 133 in terms of the volume of total retail spend available within the Primary Retail Market Area and is forecast to see significantly above average percentage growth in the available pool of retail spending over the forecast period, end 2017-2022.

The age profile of the Hereford Primary Retail Market Area includes a particularly high proportion of the retired aged 65 and over; older working age adults aged 45-64 are also over-represented. In contrast, young adults aged 15-24 are particularly under-represented within the Hereford area and children aged 0-14 and adults aged 25-44 are moderately under-represented. Between 2001 and 2011 Hereford saw a significant increase in young adults aged 15-24 and the retired aged 65 and over and significant decrease in children aged 0-14.

In 2011 the Hereford area contained a significantly above average proportion of adults of working age categorised within social group C2 (which includes those in skilled manual employment). In contrast, the most affluent AB social group (which includes those in managerial and professional occupations) and social group C1 (which includes junior non manual employees) are particularly under-represented within the Hereford area.

There is no additional town centre floor space currently under construction within Hereford town centre and no additional floor space with full or outline planning consent (net additional). At end 2018, agent sources estimated prime rents in Hereford at £75 psf Zone A. This represents no change to the 2017 level of prime rents in the town compared to the PROMIS average decline of 3.5%. Agent sources placed prime retail yields in Hereford at 6.50% at end 2018, showing no change on the level 6 months previous, compared with a modest outward shift, on average, across the 200 PROMIS Towns.



Retail warehouse supply was estimated at 435,000 sq ft, ranking the town 124 of the PROMIS Centres. Overall, provision per household of retail warehousing floor space is above the PROMIS average, although this varies across key goods categories. Some goods categories are over-represented in terms of provision per household, particularly DIY, Furniture/shing, and Other Bulky. In contrast, Child/Sports and Other High St are under-represented on this basis.

There is no retail warehouse floor space currently under construction within the Hereford area and no additional floor space with full or outline planning consent.

Overall, Hereford town centre faces below average competition from competing retail centres and ranks 15 out of the 200 PROMIS centres on the PMA Competition Indicator (a rank closest to 1 reflects a low level of competition).

Hereford's largest competing centre is Cheltenham, situated some 35 miles away. The town centre also faces competition from Gloucester, Cheltenham as well as Gloucester Quays and Malvern Shopping Park.

It was announced in 2011 that Hereford would accommodate one of 22 new Enterprise Zones that will benefit from a combination of financial incentives and reduced planning restrictions, with the aim of encouraging business and generating jobs. The Rotherwas Enterprise Zone includes 3 sites focusing on defence, advanced engineering, green technologies and food processing and has been re-branded as Skylon Park; the marketing of which is beginning to see benefits but which draws the market south out of the town centre. In this way the value of industrial and office space is yet to see how the market would treat existing space, and the development of Skylon Park is conditional upon improved crossing of the River Wye by way of a proposed second crossing west of the city centre.

Employment in private sector services accounts for 46% of total employment in Hereford, slightly below the Retail PROMIS average; specifically, professional & business services and finance sectors together account for a below average 7.3% of total employment, while retailing and leisure account for 24.4% of total employment, around the Retail PROMIS average. The public sector accounts for 16.4% of total employment in Hereford, around the Retail PROMIS average.

Average office rentals were reported by local agents as £8-10 psf though higher rates were achieved on smaller quality space.

By comparison average industrial rentals were circa £4.50 psf for modern units smaller than 10,000 sq ft increasing to £6 psf average for modern units less than 2,500 sqft.

13. Market commentary

Local market context

The property is situated on the northern edge of Hereford City Centre. Hereford is the principal population concentration in Herefordshire having a reported population of around 60,000+. As previously stated, the property is situated in a predominantly residential area. Immediately to the east of the property is a new housing development (Venns Park).

Hereford is perhaps most famous for being the base of the SAS. It has a reasonably large retirement community but also has some manufacturing, the RNC, Hereford College of Arts, agriculture and is the home of Sun Valley (chickens) and Bulmer Cider.

There are a number of villages and small towns within close proximity to Hereford but Hereford is the least densely populated county in the UK. Residential values remain low when compared to the rest of the country; a two bedroom house may sell for circa £125,000 and a three bedroom semi for £140,000-150,000.

Given the strength of its property market Hereford is always going to lag the general commercial market; demand is local or at best regional in an extensive rural economy; success being achieved at Skylon Park is in the context of property prices being in proportion to other better connected locations such as Ross on Wye on the A40, Worcester and Gloucester on the M5 or Shrewsbury on the M54/ A5.

Market Rental

The vast majority of office lettings in Hereford in the past 12 months have taken place in the edge of town Business Park at Rotherwas. Here a serviced office centre achieves all-inclusive rentals of between £18-20psf, though it is difficult to analysis purely the property value from this. In the city itself there are very few speculative built office blocks – most are integral to larger industrial/manufacturing complexes and owner occupied.

The office market in Hereford is for mainly smaller suites within low rise blocks often above retail premises. In such cases parking provision is poor or reliant on public parks with charges. We are aware of the following market evidence:-

King Street, HR4 – a suite of 1,175 sqft in a timbered building close to the cathedral asking £7.56/ sq ft.

Cross Street, HR1 – a suite comprising 1,241 sq ft of offices asking £7.65/ sq ft

3 King Street, HR4 – a small suite of 596 sq ft asking £10.06/ sq ft.

Faraday Road, HR4 – part of Marshall Business Centre [operated via Council] a suite of 1,640 sq ft asking £6.40 / sq ft.

Foley Trading Estate, HR1 - an office suite of 900 sq ft achieved £8.06/ sq ft

Freehold Sales

Evidence of freehold sales for office property within Hereford has been very limited over the last few years. We have established one sale over the last two years and very few opportunities are currently being marketed. We are aware of the following freehold evidence:-

14. Commercial Investment market commentary

Recent investment performance

The level of commercial property transactions has stabilised at around £7.5 billion per quarter, as the first chart illustrates. Overseas investors have remained highly active in the UK market. Q2 saw more than £4.5 billion purchased by overseas investors. This accounted for more than 60% of total market activity.

Taking properties sold into account, the net increase in overseas holdings during Q2 was more than £2.5 billion, the highest quarterly increase since 2009. Over the 12 months to June 2012, overseas investors have increased their exposure to UK commercial property by an impressive £7 billion (source: Property Data).

Strong overseas interest in the London market is buoying overall demand. In general, transaction levels are being held back by the scarcity of debt finance, the lack of quality product and by high levels of investor uncertainty.

Average all property yields as monitored by the IPD Monthly Index shifted upwards in June for the eighth consecutive month. This has driven a modest fall in capital values of -2.1% between October 2011 and June 2012, reversing the trend seen throughout most of 2010 and 2011. The change in the level of all property capital values over the last decade is illustrated in the second chart. Yields at the very prime end of the market held broadly steady during Q2, but elsewhere they continued to soften, and so the gap between prime and secondary property widened further. However, yields are difficult to quantify in some markets due to low transaction volumes. The total all property return for the first six months of 2012 was 1.2% (IPD Monthly Index), well below the year on-year figure for June of 4.8%.

Investment market outlook

Away from central London and parts of the South East, rental growth is likely to remain elusive in most markets. However, we expect the rate of inflation to continue slowing and this will help performance when viewed in real terms.

We expect average capital values to fall in the second half of this year, by a similar amount to the first six months, taking the figure for 2012 to around -4%. The income side is producing a healthy return of almost +6% pa, and so we expect total returns of nearly +2% for the whole of 2012.

Our central view is for little change to either rental or capital values next year, with a total return of +5.6% forecast. But we are clearly in very uncertain times and the IPF consensus forecasts reflect this, with views ranging from +4.4% to -2.0% for this year and a range nearly as wide for next year.

The market will continue to be polarised. Prime assets, particularly those with long leases and strong covenants, as well as quality assets in central London, will continue to attract strong investor demand but supply will be limited. At the secondary / tertiary end of the market, supply will be steadily fed to the market as banks work their way through their distressed asset portfolios and pricing will need to be realistic to attract buyers.

Student Housing Market

Overall, UK universities continue to recruit an increasing number of students from outside the UK, with EU students growing 63% and international students by 215% since 1999/00. There are now over 285,000 students from outside the UK, making up nearly one quarter (23%) of the student population.

The relatively weak value of Sterling has attracted international investment and additional applications from non-EU students. The government has recently announced that EU students applying to start in 2019 will still be able to obtain funding for the duration of their course. It is understood that discussions are taking place on the potential to offer EU students commercial loans, with students set to lose Student Loans Company funding when the UK leaves the European Union.

A 2.4% fall in applications to study at UK universities in 2018/19 masks wider positive trends in the sector, with more non-UK and 18-year old applicants than ever before.

Whilst applications from UK students have fallen, applications from EU students have risen this year and non-EU applications continue to grow strongly. Applications from those aged 18 or under have grown by 0.2%, despite a 2.5% fall in the number of 18 years in the UK as a whole. Applications from older students continue to fall, down 5.1% in 2018.

Emerging UCAS data for 2018/19 entry shows no change in those placed at higher tariff institutions but a 2% decrease in those placed at medium tariff universities and a 4% fall in those placed at lower tariff providers. This hints at a continuation of a flight to quality institutions seen in recent years.

This year has seen a record number of applicants for "early deadline" university courses, with the number of students applying before the 15th October 2018 for the deadline for the 2019 academic year rising by 7% on the previous year. The number of 18-year olds applying has grown by 11%, UK applications are up by 9% and non-EU applicants are up by 6%, all of which bodes well for continued positive performance at quality institutions.

Supply

The number of purpose-built student accommodation bed spaces in the United Kingdom has risen to a record 627,115 in 2018/19.

The market continues to evolve apace, with 31,348 new beds delivered for this academic year, the largest increase ever observed. Over the same period, over 12,000 beds have been taken out of use to be refurbished or repurposed. New supply has again been dominated by private sector development in 2018, with 77% of all beds delivered by this part of the market. However, this is lower than the 87% figure seen in 2017 and there is a significant pipeline of on-campus beds set to be delivered over the next three years. 2019 is expected to be another record year for the delivery of new bed spaces, with up to 36,000 new rooms set to enter the market.

The market is now seeing a slowdown in the number of studio bed spaces being delivered, with this room type accounting for 32% of all new beds in 2018, down from 43% the previous year. However, this room type has grown by 130% in just four years. Development has been concentrated in limited locations, with 40% of all new beds in just five cities and 61% in ten locations.

Universities still provide the largest number of bed spaces, providing 53% of all rooms available in 2018/19, with the private sector providing the remaining 47% of beds. However, if considering on-campus partnership bed spaces as 'private sector' beds, the private sector now controls over half of all supply in the market. This is a remarkable change from 2014, when universities provided two-thirds of all beds in the UK.

Student number growth, site availability and local policy has concentrated development in particular locations, with just four markets accounting for 25% of all new beds in the last five years. 10 markets now have over 20,000 purpose-built bed spaces available to students, compared with just three in 2014.

Development Outlook

Continued strong demand for accommodation means that the development pipeline remains buoyant nationwide. Excluding London, the development pipeline in 40 major locations now stands at 108,000 bed spaces, with almost three quarters of these having planning approval. Development will continue to vary by location, with one major market set to grow by 25.8% by 2021, whilst another will grow by just 1.4% – formerly one of the UK's major pipeline locations.

After a relatively slow start to the year, the number of transactions in the market has more than doubled from July to October with transaction volumes climbing from £1.4bn to £3bn. With so much stock currently in the market it might be a little too early to predict year-end total transactions, although based on the current position we would expect this to be in the region of £3.75bn.

The total portfolio transactions for 2018 to date are currently at £1.8bn, showing that investor appetite remains active for larger transactions. This equated to 62% of total transactions. The largest transactions of the year to date include the Enigma portfolio. Consisting of 5,470 beds geographically spread throughout the UK, which was purchased by Brookfield Asset Management and Allianz acquiring a 47.5% stake in the Chapter portfolio. These two transactions combined equated to ca. £1.2bn.

Overseas investors continue to dominate the market making up over 55% of 2018 transactions to date, with a broad spectrum of demand from investors in the Far East, the US and continental Europe. The investment focus of overseas buyers has been quite diverse, with investors looking for ground up developments through to the acquisition of income producing first generation assets.

In addition, we are seeing growing demand from UK institutions, who are increasingly focussed on operational real estate and who have become increasingly comfortable with the granular leasing profile offered by direct-let PBSA. These investors are looking to acquire single assets as well as portfolios in strong performing PBSA markets.

In 2018 over 40,000 bed spaces have transacted so far, although this represents a decrease from last year's 45,000 beds. There are currently over 22,000 under offer or on the market. The average capital value per bed has reduced marginally from £80,000 to £75,000. Whilst there has been yield compression and rental growth this reduction is due to lower levels of activity in London.

The weight of capital continues to put downward pressure on yields. This is also driven by the relative pricing of PBSA, which is currently at a ca. 75-100bps discount to build to rent schemes. This contrast markedly with more mature BTR/PBSA markets such as the US where yield spreads are closer to 25bps. We believe this is likely to continue to sustain demand, particularly from overseas investors, who believe the UK market is mispriced.

Demand for good quality regional PBSA assets remains strong, as evidenced by the sale of Brunswick House, Cambridge in October, which provided good evidence that yields for super prime assets have hardened to around 4.75%. This shows approximately a 50 bps inward yield shift as institutions compete with new overseas investors for the larger single let trophy assets.

We are also seeing strong demand for more dated assets that offer affordable rents but in strong locations, with the ability to secure a higher running yield which is particularly important for income return investors, notably from the

Middle East and Far East. This is particularly the case for assets offering asset management angles, priced below replacement cost on a rate per bed basis.

Looking ahead, the run up to Brexit Day is likely to provide for tailwinds for investment as we go into 2019, however we believe that investment demand is likely to be sustained, especially if Sterling devalues relative to other currencies.

In terms of investment demand, we believe that micro-locations will become an increasingly important part of investors' criteria which may impact on investment yields. In addition, investors will remain focussed on the underlying residential markets in cities alongside the development pipelines, particularly with the emergence of more BTR schemes in regional cities which will increasingly act as competition, particularly for higher-end studio schemes.

Transactions that we have considered in assessing our valuation of the student element of the property include:

City Edge, Hagley Road, Edgbaston, Birmingham

The property was purchased in March 2018 by a private investor for £10,600,000, reflecting a NIY of 7.5%. The property is located to the west of Birmingham city centre within walking distance of Birmingham's universities and provides 136 student beds. The property is currently managed by Homes For Students and was converted from office space in 2016 it includes a ground floor retail unit that is currently occupied by Guitar Guitar.

Fairchild House, College Street, Southampton

The property was purchased in February 2018 by a private investor for £4,100,000, reflecting a NIY of 6.1%. The property was recently developed and is located in Bedford Place a popular student area to the north of Southampton city centre and provides 45 studio style apartments.

Roman House, Friar Gate, Derby

The property was purchased in June 2018 by Northridge Capital Ltd for £8,625,000, reflecting a net initial yield of 6.2%. The property comprises 126 beds with a total passing rent of £571,900. The property provides modern accommodation with features including a private gym, on-site cinema and resident's social club. The property is located in the heart of Derby and the university of Derby is less than 2 miles away.

Crosstrend House, Lincoln

The property was purchased in March 2018 by Canopy Properties Holding for £4,335,000, reflecting a net initial yield of 6.97%. The property comprises accommodation converted from offices to student accommodation in 2012, providing 76 beds in total and 25 on-site car parking spaces. The building is let in its entirety to Bishop Grosseteste University College Lincoln for a term expiring 23 September 2033. The rent is £364,672 per annum and is subject to 5 yearly rent reviews in line with RPI. There is a tenant option to break in 2022 and 2027.

It would be our expectation that new accommodation in Hereford would have to fall in line with the general market in terms of construction costs and rental returns, and that the income currently being taken on Gardner Hall is broadly in line with our expectation for the nature of quality of accommodation provided.

This being the case we draw upon our experience of development for student accommodation in Worcester, Gloucester and Cheltenham, all considered to be 'new university' towns. Student accommodation, often because of its density and lower demand for on-site parking can command a premium on top of residential land values. In these towns we have seen land values of circa £1m per acre and consider that this to be an appropriate target point for developer/ investors of such accommodation in Hereford.

15. Valuation Considerations

Having had regard to the information pack provided by yourselves from the agent for the RNC, the majority of it is specific to certain aspects of the property and the buildings thereon and would fall within the domain of the building surveyors, we have had regard to some of this information and consider its impact upon our opinion of values.

It is evident that the age and nature of the various buildings, of which the most significant is Listed, will impose a burden upon future owners and occupiers in order to repair and maintain it, or use it in an economically viable way. We have had regard to the information provided by our Building Surveyors as to the estimated costs that might be anticipated on the buildings in the coming years. Some of these are to be expected and we have had general regard to them in considering a hypothetical rental value; but those on the Main Building are onerous because it is Listed and of a particular structure and fabric. This may determine its potential for future use that will require continual attention to communication spaces, corridors, stairs for both access and fire egress, as well as toilet facilities and will in itself a potential impact on rental income. We can only speculate how.

The current use of the main block, together with the sports hall and the refectory building appears to fit with HCA's modus operandi, however, it is uncertain if there is any other type of commercial occupier that may be able to find as good a fit as this. This being said it is perfectly feasible that a civic or community use such as the Council would require may be suited to this type of eclectic collection of buildings. The layout and adaptation of the 20th century buildings around the Victorian main block produces changes of levels and the need for connecting corridors that then fall outside the net lettable area and are not deemed to be of rental value. It is possible that the Council may be able to use the buildings, but we notice that there are discrepancies between the floor areas used from our previous report in 2012 that were provided by the RNCB, and those now cited by the agent. This could be down simply to interpretation of the areas whose use has changed over the past 6 years.

We have contemplated how the open market would treat the buildings in order to arrive and assess both the current and also future uses should vacant possession be given. The buildings are clustered around the Victorian main block, and therefore we have recognised four separate hereditaments as part of our valuation. In addition to the Victorian main block together with the sports hall and the refectory, there is also the Queens Building including within the demise to HCA, but separate to this would be the music/ performance block, the FM Building known as "The Hive" and Gardner Hall. In particular those buildings that are connected to the Victorian main block, namely the sports hall, refectory and then the music and performance block will be more problematic to deal with in an open market situation. It is not inconceivable that as such they may be contemplated for demolition and redevelopment in a more intense style. This would require architectural or planning input to which we are not privy, and given the timescale are unable to comment further.

Generally our visual inspection of the premises reveal them to be in sound and good condition bearing in mind their age, and we believe this is a direct consequence of having a dedicated estates team on site. If this were not to continue, we think that parts of the properties would deteriorate quicker and this would impact on the wider property and its longer ability to derive an income.

We have made assumptions in the light of planning and market forces as the next and best alternative use – that is in the absence of the RNC being in occupation – the vacant possession value.

If the RNC or HCA were not in occupation, it is very difficult to see where another similar organisation will come from without extensive and potentially international marketing. There is unfulfilled potential as regards University status coming to Hereford, such that it should not be relied upon.

In time therefore (likely the medium term of 5-10 years plus) it is possible to see those structures that were built in the 1960s onwards becoming dysfunctional and demolition then having to be contemplated.

We have considered the properties Market Value individually in the context of alternative uses or those complimentary with the existing use – e.g. B1 use (office) on the Main Building, or the Queens Building and B2 (light industrial) on The Hive; more often than not this would mean conversion or adaptation would have to be considered.

- There is a dearth of comparable information for what are design-specific buildings in terms of visually impaired and disabled user modifications which may not be reflected in an Open market scenario.
- Difficulty in assessing market value as one entity - a (hypothetical) purchaser would probably look to buy the campus with the potential for phased development based on residential uses – there is therefore a discount built into the individual building values (below) to address their ability (or otherwise) to be annexed.

Based on some hypothetical assumptions that the accommodation could be used for the best alternative use; offices for the administration and teaching buildings, residential for the halls.

16. General Comments

We have been not been requested to provide an informal estimate of the reinstatement cost for insurance purposes. But we suspect that these could well exceed the OMV now reported because of the special nature of the buildings concerned. It is unlikely for example that if the Victorian Main Block were destroyed it would be replaced like for like.

We confirm that we meet the requirements as to competence and the definitions of an External Valuer within the RICS Valuation - Professional Standards, incorporating the International Valuation Standards, Global and UK edition (2017).

The Valuation Report has been prepared by Martin Patrick BSc MRICS Registered Valuer within the Valuation Services Department. The valuation has been discussed with and approved by Rebecca Millard BSc MRICS, an RICS Registered Valuer and Director in the same department.

Appendix 1

Instruction Letter

Appendix 2

Site Plan

Appendix 3

Actual & Forecasted Trading Info

Appendix 4

Valuation Approach

Appendix 5

Definitions and Reservations for Valuations

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