



GERALDEVE

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Our ref: MAL/J7699

Dear Sir/Madam,

Proposed Stag Secondary School, Mortlake, SW14 7ET

Scope of instruction

In accordance with your instructions, we have undertaken preliminary investigations in order to advise on our estimate of the current Market Value of the site to support the financial viability assessment as part of the planning application for the proposed school, which is being gifted to the Education and Skills Funding Agency (ESFA).

By way of an introduction, I am a Partner in Gerald Eve's Alternative Markets department. I specialise in the valuation of education, healthcare and other institutional properties. I am an RICS Registered Valuer with over 10 years post-qualification experience in advising on independent schools, further education colleges and universities in respect of valuations, acquisitions, disposals, and funding solutions. My clients include many of the leading schools groups as well as numerous charity providers and funders.

This advice is provided without acceptance of any liability. We have agreed that, on your further instruction, we would be pleased to complete investigations and a full Red Book compliant valuation.

In accordance with your instructions and as the site is well known to my colleagues, I have not inspected the property.

Proposed School

The proposed Stag Secondary School site is located on the Western parcel of the wider development application for the Stag Brewery Site. This 5.36 acre parcel of land currently consists of a number of 20th century industrial buildings and a playing field and associated sports pavilion that are privately owned and were used by brewery employees prior to its closure in 2014. The playing field is allocated by the Council as 'Other Open Land of Townscape Importance' (OOLTI).

The proposal involves the provision of a new three storey school building and associated external facilities which will comprise:

- A new school building of approximately 100,255 sq ft (9,314 sq m) (GIA) on the Site for approximately 1,200 pupils and sixth-form including a new three-court indoor sports hall
- A new external two-court Multi Use Games Area (MUGA)
- A new outdoor flood-lit 3G synthetic turf playing pitch to meet Sport England Standards, including community use
- Hard and soft play and social areas
- New car parking provision, circulatory access and pedestrian access

The Education Market

The D1 (non-residential institutional) Use Class covers a wide range of different users which includes uses such as schools and colleges, places of worship, medical & health services, crèche, day nurseries, day centres, museums, public libraries, art galleries, exhibition halls, non-residential education and training centres.

Our current experience is that the market is highly price sensitive, particularly on issues regarding risk, such as planning, condition and refurbishment costs and at the same time purchasers are far more enthusiastic to secure properties in good locations rather than secondary locations. Furthermore, the planning policy context will strongly influence the demand for the property.

Demand for education property which comes to the market for a continuation of the existing use commonly arise from the following groups:

- Independent schools and colleges – these tend to compete strongly for facilities located in or near strong socio-economic catchments (such as the subject), principally in and around London, or other centres of education excellence such as Oxford and Cambridge. There would be good demand for a purpose built school in this locality.
- Higher and further education – universities have been reasonably active in the market. The closest universities are Roehampton and St Mary's, Twickenham. In terms of further education there is Capel Manor, West Thames College and Richmond upon Thames College in the vicinity. If brought to the market, there could be some demand for the site from these colleges and universities.
- Local authority provision – on occasion local authorities will acquire properties where there is a shortage of school places and / or a relocation would provide for larger and / or enhanced facilities.
- Free schools – a key policy of the Coalition Government has been the promotion of free schools. Free schools are all-ability state funded schools set up in response to parental demand. In simple terms, the Education and Skills Funding Agency (ESFA, which was formerly the EFA before it merged with the Skills Funding Agency) funds the acquisition and development of properties and the school receives revenue funding based on the number of pupils attending. The school manages its own budgets.
- University technical colleges (UTC) – UTCs are academies for 14 to 19 year olds, focussing on providing technical courses and work-related learning to meet the needs of employees, combined with academic courses. UTCs are sponsored by a university and employer partners and are typically for between 500-800 pupils. Again, the ESFA would fund the site purchase and development and the UTC would receive revenue funding based on a per pupil rate, similar to the free schools.

The ESFA has been very active in the market in acquiring suitable premises in the last few years but to date, UTCs have been unsuccessful with a number now failing, mainly due to problems with

recruiting pupils at the age of 14 from secondary schools, a lack of understanding about the offering and the stigma attached to being a destination for underperforming children.

LocatED is a new government owned property company responsible for buying and developing sites for new free schools in England. With a budget of £2 billion, LocatED has individual acquisition budgets to spend on sites that can deliver 10,000 to 175,000 sq ft (GIA) new free schools. The Government has a current commitment to build 500 new free schools by 2020.

Furthermore, demand for independent schooling was remarkably resilient during the recessionary period from 2008 and has been strong prior to and since this period. Demand in prime areas has been particularly strong. Confirmation of the sector's resilience and stability can be seen in the survey outputs below.

The 2018 Independents Schools Council (ISC) Annual Census showed that there are now 529,164 pupils at the 1,326 ISC member schools, up from 522,879 in 2017. This is the highest number of pupils since 1974. About 7% of all school children are educated at independent schools. Until 2009, pupil numbers increased every year from 1995 with the exception of 2005. The like-for-like change in pupil numbers from those completing both the 2017 and 2018 Census is +0.1%.

There are no significant changes within the different subsets of pupils albeit a marginal increase (0.1%) in the percentage of overseas pupils, which is now at 5.4%. The number of boarding pupils also decreased slightly (0.4%) and now account for 13.2% of all pupils (69,979). Pupil numbers in London increased by 0.4% and 0.4% in the South East (excluding London).

Fees, excluding nurseries, rose in the year by an average of 3.4%, which is the lowest average increase across the sector since 1994. The overall average termly fee (excluding nursery fees) is £5,744 and boarding fee is £11,228.

The independent school sector is dominated in terms of ownership by charitable institutions. Although some have formed groups, such as the Girls' Day School Trust (GDST), the majority of schools are owned by independent charitable entities. However, in the last decade or so, the schools market has matured quite rapidly, initially with venture capitalists and other financial institutions seeking opportunities in the independent school sector. This follows the trends seen in other alternative property sectors. The characteristics of the sector are such that investors see opportunities in being able to purchase long term cash flows, generated by the school's business, secured on good and often freehold properties. In addition, economies can be achieved through growing groups of schools, particularly in geographical clusters.

In the last few years as the new for-profit groups have slowed their acquisitions in the UK, particularly outside of London, we have seen other consolidation, commonly with successful senior schools merging with or acquiring preparatory feeder schools. However, demand for schools in London and better residential areas of the South East has remained extremely strong.

We are of the opinion that market activity in recent years has brought about a greater realisation of the potential value of school businesses and assets. This has resulted in a rising trend in school rental and capital values.

Alongside private equity backed groups there are many other established schools, both charitable or for-profit, who are keen to grow or improve their facilities and services. We are also increasingly seeing demand from international buyers particularly from Asia.

Due to the location of the site with strong socio-economic characteristics, we would anticipate good demand for education.

The transactions referred to below confirm that there is demand to acquire schools, in south east locations, for education use.

Rental Transactions

In arriving at our opinion of market rent, we have had regard to the following:

Address	Description	Area sq ft (NIA)	Rent £ per sq ft	Date
The White Chapel Building, 10 Whitechapel High Street E1	Derwent pre-let the lower ground floors and a new office pavilion to Fotografiska, who run the world renowned photography museum in Stockholm and will use the space for Fotografiska – The London Museum of Photography. Initial rent is £2.4 million pa. Let on a 15-year lease with 5 yearly rent reviews based on annual RPI increases.	88,889	£27	Aug 2017
Confidential pre-let of a college in Lambeth	We are aware of a confidential pre-let of a college in Lambeth. The college relocated to the new premises in September 2015 with the start date in July. The property comprises the college, circa 1,200 student housing beds, a health club and starter office units. The college has taken c.55,000 sq ft net of fitted out D1 space, at a headline rent of c. £27.50 per sq ft plus VAT. Additionally, they acquired c.230 of the bedrooms on a separate lease. The letting was agreed over four years ago and thus, values would be expected to have increased. It is in a superior location to the subject with a prominent road frontage.	55,000	£27.50	Sep 2015
Here East, Olympic Park E15	New letting in March 2015 of 60,000 sq ft. UCL agreed terms and are reported to have paid more than £30 per sq ft for 60,000 sf of space for £1.8 million pa which is £30 per sq ft. Initially a 6 year lease.	60,000	£30	Mar 2015
Sceptre Court, 40 Tower Hill EC3N	Let to London School of Business and Finance following change of use from B1 to D1 for a rent of £2.64 million pa.	88,000	£30	Jul 2014

Address	Description	Area sq ft (NIA)	Rent £ per sq ft	Date
33 Finsbury Square EC2	University of Liverpool has taken basement to seventh floors of 33 Finsbury Square on a 15 year IRI lease at £2.9 million pa. The lease is subject to a rent review but no break option was agreed.	74,359	£40	Dec 2013

Investment Transactions

- Abingdon House School, Broadley Terrace, London NW1 - We advised on a school sale and leaseback in December 2016 which sold for in excess of £7.5 million at a net initial yield below 4.50%. The leases are subject to a confidentiality agreement and therefore we are unable to disclose details. The sale devalued to £695 per sq ft (gross).
- Fulham Prep - Acquired in the Summer 2015 under a sale and leaseback. The lot size was of the order of £20 million; there was over twenty years unexpired on the lease (22 years); the tenant is of relatively limited covenant strength; and the school was slightly under-rented at c. £38 per sq ft. The investment transacted at a c. 4.25% net initial yield. The sale price devalued to c £594 per sq ft (gross).
- In July 2015, Legal & General acquired a newly built state school in Tottenham, North London N17 based on a net initial yield of 4.02%. Brook House at 881 High Road, Tottenham is a newly built school which opened in September 2015, forming part of a mixed use redevelopment of the former Cannon Rubber Factory. The school has a gross internal floor area of approximately 26,000 square foot and the initial rent on a gross basis is £18 per sq ft (say approximately £24 per sq ft net). It is let to the Lion Education Trust with a full rental guarantee from the Secretary of State for Education for a term of 25 years. Rent reviews are five yearly to a fixed 2.5% per annum compound. The Government covenant on the lease counters the relatively poor location within London.
- 21 & 23 Pembridge Villas, Notting Hill was purchased in Summer 2015. The property comprises period buildings extending to a gross internal floor area of 12,420 square feet adapted for school use and let on a full repairing lease to the Russian Federation for a term expiring on 31 December 2029. The passing rent of £561,077 per annum devalues to approximately £70 per sq ft on a net basis. The purchase price reflected a net initial yield of 3.35% and devalued to c £1,270 per sq ft gross and £1,985 per sq ft net.
- Thomas's Fulham was purchased in Summer 2015. The property comprises a circa 1900 purpose built school which was extensively refurbished in 2005. It has a gross internal floor area of c. 46,500 square feet plus a 3 bedroom lodge house. It is let on a full repairing lease to Thomas's London Day Schools, which is a good tenant covenant, with approximately 9¾ years unexpired. The passing rent of £966,463 per annum devalues to £20.24 per sq ft on a gross basis and approximately £30.32 per sq ft on a net basis. It is therefore, highly reversionary. The purchase price reflected a net initial yield of 3.9%.
- Ovingdean Hall, Greenways, Brighton, BN2 - A former language school comprising a campus of 86,983 sq ft of office, educational, recreational and student accommodation

within a Grade II listed former Georgian house. This is an investment sale. Partially vacant property but let to a financially strong tenant. The transaction reflected a net initial yield of c. 5.8%. Sold for £18 million in June 2016 which devalues to £207 per sq ft on a net basis.

- We have also had regard to the investment sale in 2015 of the Translation Building, Imperial West W2. Part of the new Imperial White City Campus, the property comprises 187,000 sq ft net of Grade A offices and incubator space on the 7.5 acre Innovation Campus. The building was pre-let entirely to Imperial Bioincubator (part of Imperial College London) for 25 years at a rent of £30 per sq ft (£5.71 million per annum), with index linked reviews. It was purchased by Aviva in May 2015 for £153 million, which devalues to 3.39% and £819 per sq ft on net.

Land Transactions

- Former Barclays Sports Ground, Ealing. The site forms part of a larger sports ground and comprises former playing fields, sports courts and groundsman premises on a site of 5.42 acres (i.e. a similar size to the subject). The site was acquired by LocatED subject to planning permission for a new 100,000 sq ft school, for £6.75 million. This is our key land comparable which we have paid particular regard to. The price paid equates to £1.245 million per acre.
- The EFA bought Green Belt land between Egley Road and railway, Woking, to be developed as a Hoe Valley secondary school and leisure centre. The EFA paid £2.5 million, subject to planning permission. Woking Council resolved in October 2015 to grant planning permission for a mixed use scheme including a leisure centre, sports facilities, car parking and an 840 pupil secondary school of approximately 6,200 sq m (gross). An additional £1.5 million was to be paid for shared use of the sports facilities. The site comprises 4 acres and therefore devalues to £1 million per acre. This is an inferior location to Mortlake.
- East Site, Central Road, Dartford Northern Gateway, Kent. In 2016 ESFA bought vacant land formerly part of GlaxoSmithKline industrial premises and now a clear site. A full planning application was submitted for a new 2FE primary school. The price paid was £4 million, which equates to £1 million per acre. Mortlake is a superior location to Gravesend.
- The EFA bought a vacant site at 209-213 Hanworth Road, Hounslow in March 2016. The site is located approximately 3 miles to the south of the subject property in the neighbouring borough of Hounslow. The land was allocated in the local plan for education and residential use (75:25). Residential land values in the area are typically higher than Hanwell. The site extends to 2.7 acres and was bought for education use. The price paid was £10 million which devalues to £3.7 million per acre.
- The EFA purchased Land at Westway, Guildford in April 2016. The site was previously used as a staff car park by the Royal Surrey County Hospital Trust and was allocated for residential development. The site extends to 1.39 acres and purchased for £4.6 million, equating to £3.3 million per acre. We assume that the price paid reflects an element of over-bid to secure the site in a competitive bidding environment against residential developers.

Approach to Valuation

We have had regard to the evidence of education transactions above. One of the striking points is that many of the transactions have been completed by ESFA. Clearly, there are some risks in relying on market evidence which ESFA are creating to support the market value of the school site, but we do seek to cross-check with a residual valuation based on realistic inputs.

For example, the subject property is in a superior location to 209-213 Hanworth Road, Hounslow; however, on the other hand the subject is far larger and the Hounslow site sold for a 2FE school only. On the face of it, this could therefore support a valuation of the subject property at well over £18.5 million. However, the Hounslow site was allocated for residential and we consider the price paid reflects this.

We have paid particular regard to the purchase of the former Barclays Sports Ground in Ealing, which was purchased subject to planning for a new school extending to 100,000 sq ft, for a price equating to £1.25 million per acre. We consider the Barclays Sports Ground is comparable to the subject in terms of existing use, the size of site and also of the proposed school building, and planning constraints.

As noted, we have cross-checked with a residual valuation. To determine the gross development value we have assumed a rent of £27.50 per sq ft NIA (assumed 75% net to gross ratio) and capitalised at a net initial yield of 5.0%.

Having deducted purchaser's costs this provides a GDV of £32.91 million. The GDV devalues to c. £328 per sq ft (GIA) which reflects location, quantum and the fact that the subject will comprise a new purpose built facility.

We have then deducted the following costs:

- Construction costs £195 per sq ft
- Demolition £50,000
- Contingency 5%
- Landscaping 2.5%
- Professional fees 8%
- Planning / traffic consultant £25,000
- Finance 6.5%
- Developer's profit/contingency 5% (assumed market likely to be from an operator)

We have not made any allowance in our valuation for abnormals.

This determines a land value of **£5.9 million** (which equates to £1.1 million per developable acre), which we consider reflects a requirement for education and no potential for alternative higher value uses.

Excluded from our valuation is the future investment value of the income from the all-weather full size football pitch. The compensation to the displaced Barnes Eagles club which uses the existing playing field is set at £45,000 per annum until the new sports pitch has been completed. Once constructed, Barnes Eagles have priority use of the new school pitch at weekends, but there is the potential for income from the pitch which is floodlit between the end of the school day and 10pm on weekdays, and full days of use during the school holidays. Due to its location and that it will be new

and floodlit, we would anticipate demand from local sports clubs. Typically, sports pitches are rented by the hour. For example, we have had regard to the following hourly rates for floodlit AstroTurf pitches within the vicinity of the subject:

- Chiswick RFC - £130 per hour
- V Sports, Acton - £50 per hour
- Goals, Isleworth rents £68-100 per hour
- PlayFootball Shepherd's Bush - £57.50- £82.50 per hour

The rates vary widely from £50 - £130 per hour, and it is therefore difficult to assess with any certainty what rates may be achieved on the subject, once complete. Therefore, we have omitted this from our assessment of the gross development value.

We trust this is adequate for your current purposes. However, should you have any queries or require any further information please do not hesitate to contact me.

Yours sincerely,



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