10 Valuation Rationale

10.1 Background

The ODA is responsible for legacy transformation work through to the end of 2014 whilst the LDA is currently the overall lead body for the permanent legacy in the Olympic Park. The ODA has previously identified a budget of £350m for legacy transformation work in its Programme Baseline Report (PBR) of November 2007. The PBR categorised the ODA's legacy transformation responsibilities under a number of budget headings covering venues, infrastructure, parklands, ODA management and off site works. There were also clear exclusions to the ODA's proposed scope of legacy transformation work. The £350m budget forms part of the Government's overall £9.3bn public funding package announced in March 2007.

Under the agreements entered into with the LDA to accompany the existing planning consents, and the Land Agreement entered into by the ODA and LDA; the ODA currently has responsibility for carrying out this first phase of transformation. The first phase of transformation will include a programme of works to deconstruct and remove temporary elements and convert the permanent venues, park and infrastructure to meet the legacy requirements. There will then be a much longer delivery programme for the legacy development on the vacant development platforms and the additional infrastructure specified in the LMF as necessary to accompany the development.

The LDA and ODA have undertaken a joint exercise to agree a clear scope of transformation works, clarifying what commitments would be met by the ODA. This exercise set out the ODA's agreed transformation scope and categorised works that were 'essential' and 'desirable'. At the date of this report there are some essential transformation items that remain unfunded. The detail of the transformation works can be found at Appendix 7.

10.2 Valuation Methodology

The valuation consists of 4 elements:

1. Receipts from the sale of development land;
2. Receipts from sale of sports venues;
3. Receipts from sale of MPC/ IBC and MSCP, and parkland;
4. Rental/License income receivable under the Land Agreement between the ODA and the LDA.

10.2.1 Development Land

We have considered the value of the development land (based upon the January 2007 Sitewide Illustrative Legacy Phase Masterplan and the OAPF Compliant Delivery Zones dated September 2006). This has been derived by determining residual land values (allowing for plot specific infrastructure, S106 costs and finance) which have been phased over time, and discounted back to the Valuation Date.

10.2.2 Sports Venues

Stadium

We have considered the market value of a 25,000 seat stadium, based on our view of the price a willing purchaser would pay to purchase the facility having regard to the likely cost of having to provide a new stadium. We have reflected the fact that the stadium may not meet a purchaser's exact specification, may require further modification, and the scarcity of demand, by discounting the value.

Multi Use Sports Centre

We have considered the market value of a 6,000 seat arena, again based on our view of the price a willing purchaser would pay to purchase the facility having regard to the likely cost of having to provide a new arena of a similar size and specification. We have allowed for a discount to the cost of a new arena to take into account likely modifications required by a purchaser and scarcity of demand.

Aquatics Centre

We consider that there is a very limited demand for a facility of this size and nature, and virtually no demand from commercial operators. We have therefore concluded that the market value will reflect the price that a willing purchaser in the public sector would pay to acquire the existing facility. In order to arrive at Market Value on this basis, we have allowed a discount to the cost of the facility to reflect the alternative available to a public sector body of constructing a facility to their own specifications and the discount they might require for not having a bespoke facility.

10.2.3 Other Legacy Facilities

Main Press Centre

This property has been valued on the assumption that it is capable of being let and occupied as offices after minimal refurbishment, following the Olympic Games. We have assumed that the lower ground floor will be let for retail uses, servicing the office occupiers (with ancillary storage). We have allowed for an appropriate marketing and letting incentive period.

International Broadcast Centre

We consider that this facility could be converted to distribution warehouse and office use for which we believe there would be demand. However, this would require refurbishment of the offices, removal of the first floor to the studio accommodation, repair to the damaged cladding (caused by the use of the studios), increased floor loadings and other works necessary to bring the premises up to satisfactory standard for B8 warehouse use. We have allowed the appropriate time period for this work to be undertaken and an appropriate marketing and letting incentive period. We do not consider it likely that there will be sufficient demand to warrant long term studio use.

Multi Storey Car Park

Our valuation is based on the assumption that the all of the MSCP spaces (1,200) are retained in Legacy, and that this becomes a communal car park serving the surrounding commercial and leisure facilities.

Park Land

We have applied a nominal value to the park land (on a per acre basis), to reflect the fact that it carries considerable maintenance liabilities if it is retained for public use. However, our valuation recognises the potential to generate some income from a variety of low income uses. We note that some or all of it may need to be ceded to the LVRPA if the Option is exercised.

10.2.4 Income

Under the terms of the Land Agreement dated 5th July 2007, the ODA makes a licence fee payment/rental to the LDA of £100,000 per annum, payable annually in arrears until 31st December 2014. We have reflected this income in our valuation.

10.2.5 Cash Flow

The values referred to above have been calculated as at 1st January 2015 at a discount rate which reflects the purchaser's cost of money over the period of the cash flow, in addition to a return for market risk.

The Present Value of this sum has then been calculated back to 1st October 2009 at a discount rate reflect the time value of money. This includes the income payable by the ODA in this period.

A deduction has also been made for the estimated cost of securing the necessary planning permissions to enable the development assumed above.

We have assumed that the option in respect of part of Delivery Zone 6 can be exercised by the purchaser (see 5.2 Tenure).

10.3 Assumptions

We have made the following assumptions in our Valuation:

- a purchaser may elect not to operate the venues, and that there is no obligation or requirement to do so;
- the LDA have acquired the land we have valued to be transferred;
- any issue which may prohibit transfer of the land prior to 2015 has been waived by the ODA and the LVRPA;
- the benefit of any obligations from the ODA to the LDA have been assigned to the purchaser;
- the remediation works required under the service agreement have been completed;
- the restriction on disposing of the property set out in Clause 27 of the Land Agreement is ignored.

Should there be any inconsistencies between your due diligence and current assumptions in this report, we would wish to have the opportunity to discuss these discrepancies with you, to establish whether they impact on value.]

11 Valuation

Having regard to the information provided, and the assumptions made in this report, we are of the opinion that the Market Value of those interests in the Olympic Legacy Park described in this report, if offered for sale as individual lots as set out in this report at 1st October 2009 would be the sum of:

£157,000,000

(ONE HUNDRED AND FIFTY SEVEN MILLION POUNDS)

12 Valuation Commentary

This valuation is of an extensive site of some 101 hectares (250 acres), situated in the Lower Lee Valley in East London and forming the main venue for the 2012 Olympic Games. The valuation is of the Legacy interests which will revert from the ODA to the LDA no later than the 31st December 2014.

The site represents a disparate range of buildings, venues, park land and development land, and ordinarily, it is unlikely that a purchaser would acquire all of these assets in a single transaction. The nature of the assets makes it likely that they would be sold to a variety of purchasers if price is to be maximised. We have therefore discounted the elements of value (e.g. the stadium) to reflect a portfolio sale as a single entity.

In addition, under normal circumstances a vendor would seek to clarify the planning position with regard to the development options prior to offering the development sites for sale. The current stage of the economic cycle militates against price optimisation and again, in normal circumstances most vendors would await an improvement in market conditions.

There is a delay of approximately 5 years before the assets revert to the purchaser and are capable of exploitation. The value is also discounted to reflect this delay.

The transition arrangements from Olympic Games to Legacy do not appear to have been fully detailed or agreed. We understand that a sum of some £350,000,000 has been allocated by the ODA for 'transformation' of the Legacy venues and infrastructure to permit the development of the Legacy Park after the Games. We consider that it may be prudent for the OPLC to engage with the ODA to establish the exact nature of the expenditure and whether it may be more appropriate to reassign some of the budget. Until such discussions have taken place it is not possible to determine the full impact of the transformation on the value of the Legacy venues.

We have been advised that even after the ODA 'transformation' expenditure, a further £80,000,000 may be required to bring the venues into a "useable condition". This information is believed to be contained in a report by Grant Thornton, which to date we have not had sight of.

Together, lot size, the legacy and planning proposals being a "moving target" and current market conditions all combine to depress market value. We have not used Depreciated Replacement Cost in coming to our conclusions on value as the RICS Valuation Standards reserve this methodology for valuations in connection with financial statements.

12.1 Future Overview

We have been asked to comment on the future long term prospects for the value of the Olympic Legacy Park. In our opinion, it is likely that once a number of currently unresolved issues have been properly addressed, the prospects for the sale of assets and development of the Delivery Zones within the Park may well improve. The resolution of clarity in relation to the planning context of the Olympic Legacy Park, finalising the transformation budget and cost items, improvements in the property market and economy generally, and the ability to implement a management strategy should all contribute to an improved value position provided costs do not increase materially.

However, there will be some further constraints which may delay bringing forward some aspects of development on the Park. These are likely to include the disposal of the residential units in the Olympic Village and Stratford City. The proposed development of the consented office accommodation at Stratford City is also likely to provide a very competitive environment. The need for additional public transport to service further reaches of the Park will also become increasingly important as development progresses.

Nevertheless, the attractive nature of the Park (waterways, public realm, park land etc), the proximity to first class sporting facilities and a major transport hub are likely to assist demand for homes and employment accommodation on the Park. Once critical mass is established and place creation has occurred (greatly assisted by the development of Stratford City and the Olympic Village), the speed of take up and land values for both residential units and employment space is likely to increase.

The increasing necessity to deliver sustainable homes and working environments will also favour development on the Park.

As the economy recovers from recession and bank lending returns to more normal levels, development and land values should increase all other things being equal.

21 Valuation Rationale

The 3 Mills Estate is one of London's largest film studios and as such we initially sought to value it under its current usage however after detailed investigation it was found that due to the considerable running costs, there is limited value in its existing use. We have therefore valued the estate and its separate buildings on an individual basis assuming what we believe to be the most likely alternative use for each individual building.

In terms of basis of value we have assumed industrial usage for the stages and office usage for the studios; otherwise we have proceeded upon the basis of existing use.

In terms of yield we have applied a rate of 10% on the Island site and 9.75% on the Riverbank site with some small variations. This is based upon a yield of 8% being considered appropriate for well refurbished office assets in fringe City locations and 8.25% for secondary industrial assets; we have then inflated this yield to take account of location, poor specification, poor condition in some cases, covenant strength and the island's Leasehold tenure.

Our ERV assumptions have been based on market research conducted in the surrounding area and from rental evidence from within the site itself.

The assumed ERV of the properties vary according to their most likely use and condition. However industrial ERVs are between £5 - £6 per sq ft and office vary between £8 - £20 per sq ft.

22 Valuation

Having regard to the information provided, and the assumptions made in this report, we are of the opinion that the Market Value of 3 Mills described in this report, if offered for sale as a single entity at 1st October 2009 would be the sum of:

£26,750,000

(TWENTY-SIX MILLION, SEVEN HUNDRED AND FIFTY THOUSAND POUNDS)

23 Summary

23.1 Summary

This property represents an eclectic group of assets, ranging from some of the purpose built Olympic venues (in their Legacy form) an extensive park area, significant development sites for residential and a number of employment uses, together with the largest film studio complex in London. The assets are wide ranging, and in the long term provide significant prospects for capital growth and development.

However, these assets, with the exception of the Three Mills complex, will not be available to the purchaser until 1st January 2014. As a result a purchaser would be likely to discount the value until then to reflect the holding costs of such a substantial sum of money. The fact that all assets are to be treated as a single disposal would also, in our view, result in a significant discount in any bid.

All of these factors, together with the current poor market for residential development and a total lack of speculative office, industrial and retail development would be likely to result in a very limited number of purchasers for the portfolio in the present market.

In arriving at our valuations we have relied on the information supplied by the Client and the LDA. However, given the limited time we have had to undertake due diligence on this highly complex site we reserve the right to amend or update our valuations should further information emerge or become available. We would expect a purchaser to have more time in which to undertake due diligence.

Our valuations are set out below:

23.2 Valuation

This property represents an eclectic group of assets all located in the Lower Lee Valley, ranging from some of the purpose built Olympic venues (in their proposed Legacy form), an extensive area of public park, significant development sites for residential and employment uses, together with one of the largest studio complexes.

The valuations of the property interests as at 1st October 2009 are as follows:

Development Land	£26,000,000
Stadium	£39,000,000
Aquatic Centre	£28,000,000
Multi-use Sports Centre	£13,000,000
Main Press Centre	£27,000,000
International Broadcast Centre	£15,000,000
Multi –storey car park	£14,000,000
Park Land	£ 300,000

Three Mills Site	£26,750,000

These represent the Market Value of the individual lots as show above.

27%

We consider that the sale and purchase of the whole portfolio as a single entity would result in a discount of 25% of value being applied because of the size, nature and extent of the property. As a result we consider the portfolio value of the complete entity as described above in this report, if offered for sale on the open market as at 1st October 2009 would be the sum of:

£138,000,000

(One Hundred and Thirty-Eight Million Pounds)