

5 Valuation Commentary

5.1 Rental Evidence and Considerations

In arriving at our opinion of rental value in respect of the property, we have had regard to a range of comparable buildings as follows:

5.1.1 Offices

Bow Exchange, 5 Yeo Street, E3



An undisclosed tenant has taken 1,629 sq ft (151 sq m) of second floor office space within unit 7.2 on confidential terms. Workspace Group PLC acted on behalf of themselves. The quoting rent was £16,338.87 pa, equating to £10.03 psf (£107.96 psm).

The property comprises a terrace of industrial/ warehouse units with parking and CCTV.

Marshgate Business Centre, 10-12 Marshgate Lane, E15



An undisclosed tenant has taken 1,124 sq ft (104 sq m) of office space (unit 5) from Workspace Group Plc on confidential terms. Workspace Group Plc acted on behalf of themselves. The quoting rent was £12,414 pa, equating to £11.00 psf (£118.89 psm).

The property comprises a terrace of industrial/warehouse and office units with car parking

Ensign House, Admirals Way, E14



Landmark Lofts Ltd has taken 1,900 sq ft (176.52 sq m) of fourth floor office space from the Executors of M J Sopher on a three year lease at £22,800 pa, equating to £12 psf (£129.17psm) in year one, rising to £28,000 pa, equating to £14.74 psf (£158.63 psm) in years two and three. No rent review period was agreed. A break option in year two was agreed. Four months rent-free period was agreed.

The property comprises an office building arranged over six floors, within the Admirals Way Office Estate. It includes car parking, central heating, entry phone, excellent natural light, kitchen facilities, raised floors, storage space, WC's

1 Salway Place, 104-106 The Broadway, E15

An undisclosed tenant has taken 3,578 sq ft (332.40 sq m) of office space. The quoting rent was £53,670.00 pa, equating to £15.00 psf (£161.46 psm).

The property comprises a three storey mixed use building, with ground floor retail accommodation and first and second floor office accommodation. It includes category 2 lighting, perimeter trunking, suspended ceilings, WC's

Cairngorm House, 203 Marsh Wall, E14

Onxy Ltd has taken 1,054 sq ft (97.92 sq m) of office space within Unit 4 from Mountain Brook on a three -year lease at £15,283 pa, equating to £14.50 psf (£156.08 psm), subject to a mutual option to break in year two.

The property comprises a five storey office building. It enjoys 24 hour security, air conditioning, car parking, central heating, comfort cooling, good natural light, kitchen facilities, meeting room(s), partitioning, passenger lift(s), raised floors, suspended ceilings.

5.1.2 Industrial**Project Park, Cody Road, E16**

An undisclosed tenant has taken 2,700 sq ft (250.84 sq m) of industrial space in Unit P, on confidential terms. The quoting rent was £27,000 pa, equating to £10 psf (107.64 psm).

The property comprises part of a terrace of industrial/warehouse units of steel portal frame construction part blockwork/part clad elevation's and pitched profile clad roof. It includes 3 car parking spaces, 3 phase power, 6 metres eaves height.

Pirin Court, Unit B Cody Road, E16

A private individual has taken 7,632 sq ft (709 sq m) of ground-floor industrial/warehouse space at Unit B on a new lease. The quoting rent was £67,000pa, equating to £8.78 psf (£94.49 psm).

The property comprises part of a terrace of industrial/warehouse units of steel frame construction with internal 2 storey office accommodation. It enjoys 3 phase power, 7 metres eaves height, 9 car parking spaces, air conditioning, central heating.

Units 1 – 2 Castle Wharf, Orchard Place, E14



Ideal Beds has taken 11,981 sq ft (1,113 sq m) of ground-floor industrial space within unit 2 from Ballymore Properties Ltd on a five-year lease at £53,914.50 pa, equating to £4.50 psf (£48.44 psm), subject to a mutual rolling option to break in year two. Two months rent-free period was agreed.

The property comprises a large building of masonry construction that has been divided to provide two warehouse units. It enjoys 5 metres eaves height, car parking, loading access, yard.

Bow Enterprise Park, Cranwell Close, E3



E Sales has taken 2,153 sq ft (200.02 sq m) of industrial space (unit 8) from Workspace Group Plc on a two-year lease at £13,000.00 pa, equating to £6.04 psf (£64.99 psm).

The property comprises a range of industrial/ warehouse units. It enjoys 24 hour access and car parking.

Bow Enterprise Park, Cranwell Close, E3



Charterhouse Voice & Data Plc has taken 3,230 sq ft (300 sq m) of industrial/warehouse space within unit 27 from Workspace Group Plc on a three year lease at £24,500 pa, equating to £7.58 psf (£81.65 psm). The lease is outside the Tenant and Landlord Act.

The property comprises industrial/ warehouse unit. It enjoys 24 hour access, 3 phase power, car parking, closed circuit TV, loading area and storage space.

Units 3-4 Orchard Place, E14



Couriers Ltd has taken 11,980 sq ft (1,113 sq m) of ground-floor industrial space within unit three on a five-year lease at £53,910 pa, equating to £4.50 psf (£48.44 psm), subject to an option to break at the mid point of the lease.

The property comprises a large building of masonry construction that has been divided to provide two warehouse units. It enjoys 3 phase power, 5 metres eaves height, roller shutters, self contained, steel portal frame.

5.1.3 Rental Value Considerations

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

The assumed ERV of the properties vary according to their most likely use and quality however industrial ERVs are c £6 per sq ft and offices vary between £7.50 - 15 per sq ft net of service charge costs.

Commercial Riverbank

Our ERV assumptions have been based on market research conducted in the surrounding area to 3 Mills and from rental evidence from within the site itself. For example lettings to tenants such as Michael Eriera, BDM Logistics and Chadwell Frameworks previously are likely to still represent the market ERV for this type of accommodation.

Riverbank – Studio

In terms of the office accommodation we believe an ERV of £7 per sq ft represents market value of Riverbank House, assuming reasonable condition. We have applied a substantial discount to the ERV of the Clubhouse to account for its reportedly bad condition. These levels are based on market evidence from the 3 Mills Estate and in the surrounding area such as at Bow Exchange and Marshgate Lane. With regard to the industrial accommodation we have used similar market evidence from within the estate, BDM Logistics, and in the surrounding area such as Bow Enterprise Park which produces a figure of £6 sq ft.

Moorings

The market for moorings in Central London is extremely strong and we are therefore adopting the current yearly income into perpetuity. Market reports suggest rental values are likely to experience growth in the coming years and we have therefore taken this in to account. The rate equates to c £200 per linear metre.

Sugar House Business Centre

In terms of the office accommodation we believe an ERV of £7.75 per sq ft represents Market Rent, assuming reasonable lettable condition. The level is based on market evidence from the 3 Mills Estate and in the surrounding area such as Marshgate Business Centre. We also believe that the rental level set by Michael Eriera in Unit 4 at the end of 2008 is still current. With regard to the workshop accommodation we have used similar market evidence from within the estate, such as the current offer to Chadwell Framework Ltd in Unit 8, and believe an ERV for this quality of space to be £6 per sq ft.

Sugar House Business Yard

In terms of the office accommodation we believe an ERV of £7.75 per sq ft represents Market Rent, assuming reasonable lettable condition. The level is based on market evidence from the 3 Mills Estate and in the surrounding area such as at Marshgate Business Centre. We also believe that the rental level set by Access to Music at the beginning of 2008 provides us with an indication of the likely rental level. With regard to the industrial accommodation we have used similar market evidence from within the estate, BDM Logistics, and in the surrounding area, such as Bow Enterprise Park and believe an ERV for this quality of space to be £6 per sq ft.

Sugar House Yard / 107 High Street

In terms of the office accommodation we believe an ERV of £7.75 per sq ft represents Market Rent, assuming reasonable condition. The level is based on market evidence from the 3 Mills Estate and in the surrounding area such as at Marshgate Business Centre. With regard to the industrial accommodation we have used similar market evidence from within the estate, BDM Logistics, and in the surrounding area, such as Bow Enterprise Park and believe an ERV for this quality of space to be £6 per sq ft.

Custom House

We have assumed an ERV of £5 per sq ft based upon our research in to comparable deals in the surrounding areas and evidence from other buildings on the 3 Mills Estate. The Clock Mill is currently being marketed at £16 per sq ft and has received offers at £10 per sq ft inclusive of service charge. Custom House is of a much lower

specification, is in need of refurbishment, has less efficient floor areas, and will have a smaller market audience. With this in mind we have applied a discount accordingly.

The Gin Still

We have assumed an ERV of £5 per sq ft based upon our research in to comparable deals in the surrounding areas and evidence from other buildings on the 3 Mills Estate. The Clock Mill is currently being marketed at £16 per sq ft and has received offers at £10 per sq ft inclusive of service charge. The Gin Still has a worse location, is of a lower specification, will not suit the majority of occupiers and will need an amount of enablement works to allow occupation as an office.

Rooftop Studios

With regard to the subject property we have valued it partly on the basis of its existing use as office and storage accommodation and have considered the studios as office space also. The Still Cafe and Bar makes up part of the ground and first floors and are leased to Operon on a turnover rent, the Cafe is however currently non profit making and therefore produces no income.

We have assumed an ERV of £15 per sq ft based upon our research in to comparable deals in the surrounding areas and evidence from other buildings on the 3 Mills Estate.

Waterhouse Studios

We have assumed an ERV of £5 per sq ft based upon our research in to comparable deals in the surrounding areas and evidence from other buildings on the 3 Mills Estate. Waterhouse Studios has a worse location, is of a lower specification, will have a smaller audience to market to and will appeal only to the budget occupier. Due to its build quality and appearance we therefore believe Waterhouse Studios would command a lesser rent than Bridge House and have priced it accordingly lower.

Rush House

We have applied an ERV of £12 per sq ft to 2,493 sq ft of the accommodation and £9 per sq ft to 1,309 sq ft based upon our research in to comparable deals in the surrounding areas (in particular Ensign House and Salway Place) and evidence from other buildings on the 3 Mills Estate.

Bridge House

We have assumed an ERV of £15 based upon our research in to comparable deals in the surrounding areas (in particular Ensign House and Salway Place) and evidence from other buildings on the 3 Mills Estate. A number of short term lettings have taken place at Bridge House and tenants are paying in the region of £20 per sq ft (inclusive of service charge)

Island Site / Studios

Our assumed ERV's have been based upon our research in to comparable deals in the surrounding areas and evidence from other buildings on the 3 Mills Estate. The studios are generally of a much lower specification, in need of refurbishment, have less efficient floor areas, and will have a smaller market audience. With this in mind we have applied a discount accordingly. With regard to the stages, again market evidence has been drawn from other lettings in the 3 Mills Estate, such as to BDM Logistics, and in the surrounding area to 3 Mills.

5.1.4 Lease Terms

The above office rents are based on the assumption of a 3 year lease drawn on institutionally acceptable, full repairing and insuring terms, subject to no rent reviews, rolling break clause and with the benefit of a rent free period of 3 months. A void period of 6 months has also been assumed.

The industrial rents are based on the assumption of a 5 year lease drawn on institutionally acceptable, full repairing and insuring terms, subject to no rent reviews, rolling break clause and with the benefit of a rent free period of 6 months. A void period of 24 months has also been assumed.

5.1.5 Void Costs

Based on the assumptions made in respect of the likely void costs we have assessed the total costs of holding the property during this period, in particular the payment of Empty Business Rates and service charge for the period of 3 months for the office units and 18 months for the industrial units, at £1,250,000 which has been deducted from the valuation.

5.2 Covenant Status

Although we reflect our general understanding of the status of the tenants, we are not qualified to advise you on the financial standing of the tenants. Based on the information available to use, we have formed the view that the majority of the tenants are of poor covenant status and that the likely market perception of the covenants could effect liquidity.

5.3 Investment Comparables and Investment Considerations

5.3.1 Marketing Background

Glenny is currently marketing Warehouse 7, Sugar House Business Centre, The Clock Mill and Sugar House Yard.

We understand that the properties have received little interest from the market except for;

- The Clock Mill that has received interest at £10 sq ft based on the following terms; 3 year term, 3 month rent free, service charge inc and a rolling break clause. It is being marketed at £16 sq ft inclusive of service charge.
- Warehouse 7 has had interest at £5.50 to £6 sq ft based on 3 year term, 3 month rent free and a rolling break clause. It is currently being marketed at £7 sq ft.

5.3.2 Investment Comparables

In arriving at our opinion of Market Value in respect of this property, we have had regard to a range of investment transactions as follows:

Exchange Tower, 1-2 Harbour Exchange Square, E14



MGPA Europe Fund III has purchased the freehold interest in 482,950 sq ft (44,867.52 sq m) of office space from Hammerson Plc for £134,600,000 as an investment, reflecting a net initial yield of 8.1%. The top ten tenants (in order) occupying the buildings by rent passing include the Secretary of State for Communities and Local Government, Barclays Bank Plc, Platform Home Loans Ltd, CLS UK Intermediate Holdings Ltd, Tata Communications (UK) Ltd, Ceridian UK Ltd, JP Morgan Cazenove Service Co Ltd, Axill Europe Ltd, American Eagle Tankers UK Ltd, and Rouse & Co International Ltd. The buildings as a whole produce an annual rental income of £13,290,992, equating to an average rent of £24 psf

The property comprises a seventeen storey high-spec office development, constructed in 1988. The building is constructed around a reinforced concrete frame with a distinctive reflective blue curtain walling system and full height sealed double glazed units. There is an impressive shared atrium at ground floor level which is of steel frame construction and clad with clear glass.

3-11 Dod Street, E14



A private property company has purchased the freehold interest in 42,902 sq ft (3985.73 sq m) of office space from Rock Investment Holdings Ltd (in administration c/o PriceWaterhouseCoopers LLP) for £5,800,000 as an investment, reflecting a net initial yield of 6.43%. Tenants include Reed Partnership Ltd.

The property comprises a series of linking office buildings, converted from a former Victorian warehouse. The property is built over three storeys and is of brick and stone construction.

Nationwide Industrial and Office Investment

- Forest Industrial Estate, Cardiff – Segro bought for £127.7m, 9.94%, 920,000 sq ft
- Fleets Corner, Poole - £24.1m, 9.2% (Industrial)
- 4 Bedford Park, Croydon £11.1m 10.9% NIY. Sunley House, 10,435 m2 12 storey offices, multiple tenants.

Jones Lang LaSalle Prime Yield

- Out of Town Leisure – 7%
- Greater London Area Offices – 6.5%
- SE multi let industrial – 6%

5.3.3 Commentary

In general we believe that owing to the level of vacancy rates, the poor tenant covenant strength and the remaining term unexpired an investor will take a dim view on the studio and commercial property. However, as mentioned above there are a number of schemes that will improve the general area and along with the Olympics will attract people to the area. Whether this will result in a significant increase in the values we believe is still at significant risk. We have therefore taken this into account when assessing the likely yield in addition to the comparable data above and have adopted the following equivalent yields:

- Offices – 10.25%
- Industrial – 10.5%
- Leisure / Moorings – 7%
- Telecommunications – 6%

We have deviated from this approach as follows: Clock Mill/Custom House +0.25% to reflect listing, -0.25% at Sugar House to reflect mostly let and 107 High Street – 0.75% to reflect prominent frontage.

5.4 Valuation Approach

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 costs involved in its running 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. I.e. we have assumed industrial usage for the stages and office usage for the studios.

In view of the poor quality of many of the buildings for office and industrial use and its inferior location compared Stratford City and Central Stratford, demand for the use of these buildings is likely to be limited in the immediate post Olympic period.

However, in the medium term the development of Stratford City and the Olympic Park (Queen Elizabeth II Park) there is likely to be some demand for industrial uses, and office use from occupiers providing support services but where the requirement for a large grade A office is neither desirable or affordable. Thus such longer term improvement to the immediate locality, including the KEA development adjoining the site, taken with the ambitious masterplan developed by Newham provides significant potential for growth of value of the estate. But considerable expenditure will be required to achieve such growth which will have to await a significant improvement in UK economic outlook.

5.4.1 All Risk Yield Approach

We have adopted an all risks approach to the valuation and have taken account of the void periods, rents, yields etc and have produced an investment valuation using the Circle valuation programme. A copy of the circle print out is attached at appendix 5.

6 Valuation

6.1 Market Value

Having regard to the foregoing, we are of the opinion that the Market Value (as defined in Appendix 2) of the entire freehold and leasehold interest in the Three Mills Studios, subject to the existing tenancies as at 13th April 2011 is:-

£19,950,000

(NINETEEN MILLION NINE HUNDRED AND FIFTY HUNDRED THOUSAND POUNDS)

6.2 Confidentiality and Publication

Finally, and in accordance with our normal practice we confirm that the Report is confidential to the party to whom it is addressed for the specific purpose to which it refers. No responsibility whatsoever is accepted to any third party and neither the whole of the Report, nor any part, nor references thereto, may be published in any document, statement or circular, nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

Yours faithfully

Yours faithfully

