
Finance and Resources Committee Meeting – 29 April 2010

PREMISES VALUATION UPDATE

Executive summary and recommendations

Introduction

This paper provides an updated valuation of HPC's premises by Stiles Harold Williams, Chartered Surveyors.

Decision

The Committee is requested to note the report.

Background information

The firm of Stiles Harold Williams, Chartered Surveyors ("SHW") last provided a valuation of HPC premises in mid March 2009. The report outlined a total value of £2.52M, comprising £0.755M land value and £1.765M buildings value. Further breakdowns were provided relating to the land and buildings of each of the three Kennington properties.

The latest SHW valuation report performed in March 2010 outlined a total valuation of £2.35M, comprising £0.735M land and £1.615M buildings value. Further breakdowns were provided for each property – refer Appendix One, P20.

A comparison of the two valuations is provided in Appendix Two. Note that there has been an overall 7% reduction in market value, including a 3% reduction in land value and 8% reduction in buildings value. By property, the reductions in value were 12% for 184 Kennington Park Road, 13% for 20 Stannary Street. There has been a small increase in the value of 22-26 Stannary Street but this is due to the completion of phase two of the project which has added an additional 82.5 Sq. M (888 Sq. Ft.) to the building. The reductions in value are essentially due to the fall in prices in the property market rather than the consumption of economic benefits (excess wear or asset damage).

The valuations were provided on an open market valuation basis and based on a range of factors. These include; net internal floor space, condition, fit out, premises layout, location, development (planning) restrictions, current market conditions and comparable property rentals and sales. SHW reported the same valuation for market value and existing use valuation. The valuation included an allowance for a purchaser's costs of acquisition, but not for any expenses of realisation, or for any taxation that may arise on disposal or acquisition. The premises valuation includes phase two of the 22-26 Stannary Street project.

Date	Ver.	Dept/Cmte	Doc Type	Title	Status	Int. Aud.
2009-03-3023	a	F&R	PPR	Tendering paper	Draft	Confidential
					DD: None	SL: None

Accounting impacts of the valuation

Because the updated market valuation was less than the net book value, there will be financial adjustments and associated disclosures to the 31 March 2010 financial statements.

Resource implications

Write down property value in the statement of financial position.

Financial implications

Cost to provide the premises valuation of £1k.

Appendices

Appendix One – SHW Valuation Report

Appendix Two – Change in Valuation

Date of paper

19 April 2010

VALUATION REPORT

ON

**HPC PREMISES
184 KENNINGTON PARK ROAD
AND
20 STANNARY STREET
AND
22-26 STANNARY STREET
LONDON SE11 4AA**

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69 Park Lane, Croydon, CR0 1BY
T: 020 8662 2700
F: 0208 662 2701
E: bwatkins@shw.co.uk

PRIVATE & CONFIDENTIAL

Health Professions Council
184 Kennington Park Road
Kennington
London
SE11 4BY

Date: 09 April 2010

Our Ref: BPW/JE

Your Ref:

For the attention of G Butler Esq

Dear Sir

CLIENT: HEALTH PROFESSIONS COUNCIL
PROPERTY: 184 KENNINGTON PARK ROAD, LONDON SE11 4BU
20 STANNARY STREET, LONDON SE11 4AA
22-26 STANNARY STREET, LONDON SE11 4AA

In accordance with your instructions via email (See Appendix C), as confirmed by our letter of 17 March 2010, we have re-inspected the above property, in order to advise the Council on the freehold value of the offices as described above, for accounting purposes.

Our valuation has been prepared in accordance with the RICS Valuation Standards 6th Edition. We confirm that the valuer conforms to the requirements of the Practice Statements and is an external valuer as defined therein.

The date of valuation is the date of this report and our valuation assumes full vacant possession. The property was re-inspected on 19 February 2010 by Brian P Watkins BA (Hons) MRICS FCI Arb, Our inspection of the property and this valuation report are subject to our Conditions of Engagement attached to our letter of confirmation of instruction and within the body of this report.

We confirm that we have no other current or foreseeable fee earning relationship concerning the subject property apart from the valuation fee. The Council will be aware that in terms of building surveying, this firm has had involvement with the property in the past, which involvement is continuing, but all the fees for which, are not dependent on the outcome of the subject valuation report.

Stiles Harold Williams has Professional Indemnity Insurance cover of £7,500,000 for any one claim.

This valuation, unless otherwise stated, is subject to the caveats and assumptions and relevant definitions contained in Appendices A and B, which form an integral part of this report. Stiles Harold Williams operates a complaints procedure which we can make available to the Council and this valuation may be subject to monitoring under the RICS conduct and disciplinary regulations.

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22-26 STANNARY STREET, LONDON SE11 4AA

1.00 EXECUTIVE SUMMARY

1.01 Location

This remains very much as before, with the property standing on the western side of the A3 Kennington Park Road, just north of its junction with the A23 Kennington Road, South East London. The property is within walking distance of the Oval Underground Station to the south west, and the Oval Cricket ground, which is something of a local landmark.

1.02 Description

The property comprises three contiguous buildings, now providing office and ancillary space throughout. Original uses vary, these having comprised residential and commercial/industrial uses. No. 184, a terraced property, provides office space on basement, ground, first, second and third floors. The overall footprint is L-shaped, with 22-26 Stannary Street adjoining No. 20 on its north eastern side. The premises are built in primarily solid walls under a number of types of roof covering, primarily flat. The space has been substantially refurbished and extended in the last few years. The premises as a whole are forecourted to the Kennington Park Road, but the premises open immediately onto the public footpath in Stannary Street to the rear. Age of the parts varies but original construction on site could pre-date 1850.

1.03 Basis of Valuation

Comparable method

1.04 Existing Use Value

£2,350,000 (Two Million Three Hundred and Fifty Thousand Pounds)

1.05 Necessary Capital Expenditure

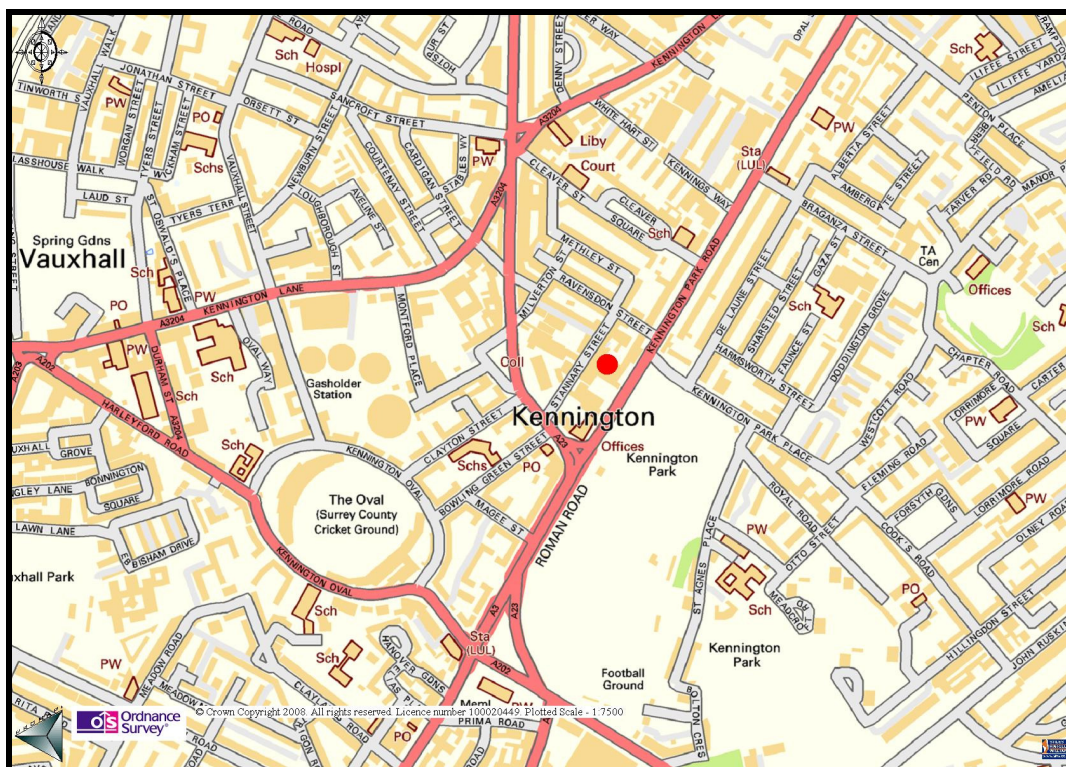
Nil but see remarks

2.00 PREAMBLE

2.01 Since our last report in 2009, works to provide a new part second floor to No. 26 Stannary Street have been completed, together with the installation of a lift serving all floors to this area of the building. The new space was in use at the time of our inspection. On this occasion therefore, we will be reporting an increased floor area to the building as a whole. This amounts to some 890 square feet. The lift shaft had been installed at an earlier date.

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3.00 LOCATION



- 3.01 The property stands on the western side of Kennington Park Road, north of the junction of Kennington Park Road with the A23 Kennington Road, in South East London. There is in addition, a rear access to the property from Stannary Street to the western elevation of the building. The latter adjoins the public footpath, whereas the Kennington Park Road elevation is forecourted. Underground and overground railway links to the West End and City are all within easy walking distance of the property. Kennington Park Road is a main bus route.
- 3.02 The property remains in keeping with its surroundings, which are of mixed age and styles. Both residential and commercial users co-exist in the area, as previously.

4.00 DESCRIPTION

- 4.01 The property comprises an office building in a terrace of both residential and commercial properties, the site itself comprising three buildings amalgamated into one with the current use of the whole comprising office space with ancillary areas. The layout remains largely as before, the space being arranged on as many as five floors in the case of No. 184. The remainder of the property now comprises primarily ground and two upper floors, plus some mezzanine space. The front and rear parts of the building, as before, are connected by an internal covered bridge. The small amount of mezzanine office area in the property is located to the middle rear of the property. A considerable amount of floor space remains lost to

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circulation, mainly as a result of the long narrow footprint of the majority of the building.

- 4.02 Generally speaking, the fit out to the space, including the new space as described, is to a relatively high specification throughout. This is very much in keeping with expectations within the marketplace as a whole.
- 4.03 Turning to the new space as described, this comprises a single open plan office, generally to the same specification as the remainder of the building, with good natural light from both western and eastern elevations. The construction of the space also included the installation of a passenger lift to the lift shaft already in place to this area of the building. This complements the existing staircase access from the Stannary Street elevation. The ceiling height to the new space is slightly lower than the remainder of the building. The lift shaft as such stands to the southern side of the new space, opening straight on to the useable floor area.



FRONT ELEVATION OF 184 KENNINGTON PARK ROAD LOOKING WEST (SUBJECT PROPERTY TO RIGHT HAND SIDE OF LAMP POST MIDDLE OF PICTURE)



STREET SCENE LOOKING SOUTH WEST



STREET SCENE LOOKING NORTH EAST



REAR ELEVATIONS TO NOS. 20 – 26 STANNARY STREET LOOKING SOUTH (INCLUDING NEW SECOND FLOOR)

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QUALITY OF OFFICE SPACE



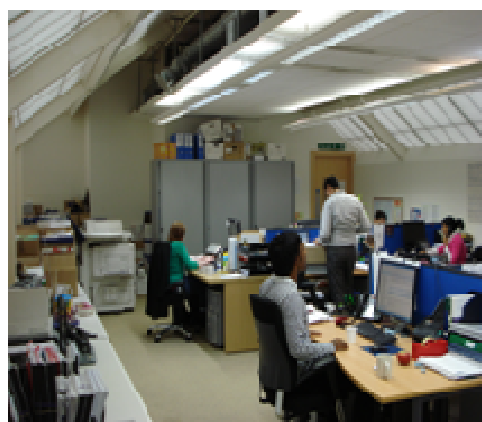
GROUND FLOOR RECEPTION AREA



ANCILLARY AREAS (STAFF AREAS TO LOWER GROUND FLOOR)



QUALITY OF CIRCULATION SPACE WITHIN BUILDING



MEZZANINE OFFICE AREA



BRIDGE BETWEEN KENNINGTON PARK ROAD AND STANNARY STREET

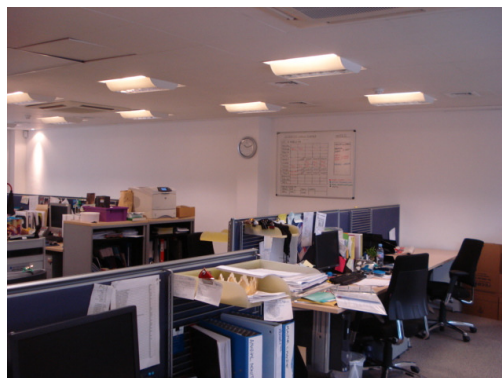
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**REAR ACCESS FROM STANNARY STREET INTO
NO. 20 STANNARY STREET**



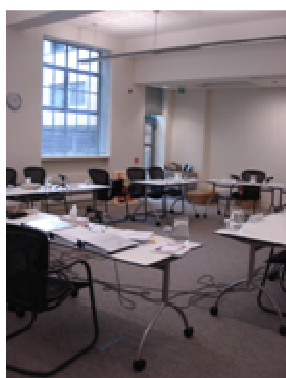
**QUALITY OF OFFICE SPACE TO
UPPER FLOORS OF NO. 184**



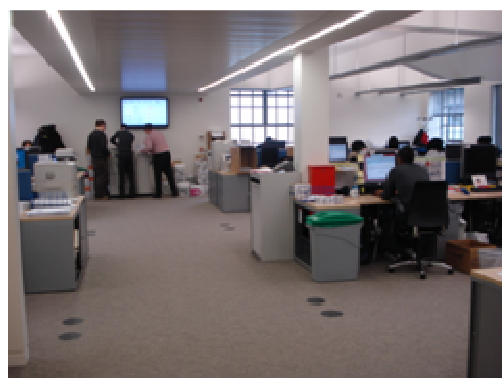
**GENERAL ROOF LINE LOOKING EAST FROM
NO. 20 STANNARY STREET**



**MAIN GROUND FLOOR ENTRANCE CORRIDOR TO
NOS. 22-26 STANNARY STREET LOOKING WEST
TOWARDS STANNARY STREET**



**GENERAL VIEW OF GROUND FLOOR OFFICE
TRIBUNAL ROOMS/OFFICES
(22-26 STANNARY STREET)**



**QUALITY OF FIRST FLOOR OFFICE SPACE
TO 22-26 STANNARY STREET**

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**QUALITY OF FIRST FLOOR OFFICE SPACE
TO 22-26 STANNARY STREET**



**SMALL ANCILLARY KITCHENETTE
TO FIRST FLOOR**



**QUALITY OF NEW SECOND FLOOR SPACE
SHOWING LIFT ACCESS**



**NEW SECOND FLOOR SPACE
LOOKING NORTH WEST**



GENERAL VIEW OF NEW SECOND FLOOR SPACE



**GENERAL VIEW OF ROOFSCAPE FROM NEW
SECOND FLOOR SPACE LOOKING NORTH (NEW
SPACE ON LEFT HAND SIDE OF PICTURE)**

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GENERAL VIEW OF ROOFSCAPE TO 184 KENNINGTON PARK ROAD AND 20 STANNARY STREET LOOKING EAST TOWARDS NUMBER 184 FROM ROOF OF 22-26 STANNARY STREET



EASTERN ELEVATION OF NUMBER 20 STANNARY STREET TO TOP FLOOR LOOKING SOUTH



GENERAL VIEW ALONG STANNARY STREET LOOKING SOUTH FROM ROOF OF 22-26 STANNARY STREET

5.00 ACCOMMODATION

5.01 We have measured the property in accordance with the RICS Code of Measuring Practice (6th Edition). We set out below the net internal floor areas previously taken as follows:

184 Kennington Park Road

LOCATION	DESCRIPTION	SQ. M.	SQ. FT.
Basement	Offices and ancillary areas	132.04	1,421
Ground Floor	Reception area, individual rooms and ancillary areas	119.66	1,288

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First Floor	Offices	75.31	811
Second Floor	2 offices	75.31	811
Third Floor	Offices	75.44	812
	Total	477.76	5,143

20 Stannary Street

LOCATION	DESCRIPTION	SQ. M.	SQ. FT.
Ground Floor	Offices and ancillary areas	115.12	1,239
First Floor / Mezzanine	Offices and ancillary areas	101.68	1,095
Second Floor	Offices	56.07	604
	Total	272.87	2,938

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22-26 STANNARY STREET, LONDON SE11 4AA**22-26 Stannary Street**

LOCATION	DESCRIPTION	SQ. M.	SQ. FT.
Ground Floor	Offices and ancillary areas	138.43	1,490
First Floor	Open plan office area and ancillary kitchenette	193.46	2,082
New Second Floor	Open plan office area	82.51	888.15
	Total	414.40	4,460.15

		SQ. M.	SQ. FT.
	Grand Total	1,165.02	12,540.15

- 5.02 These areas differ from those reported in our previous valuation, due to the increase in space caused by the additional second floor to Nos. 22-26 Stannary Street.
- 5.03 We calculate a total site area for the three properties of approximately 0.078 hectares (0.21 acres).
- 5.04 We attach an Ordnance Survey Extract below showing our understanding of the extent of the property edged in red.

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6.00 CONDITION

- 6.01 We have not been provided with a building survey or engineer's report and have not been asked to compile either document.
- 6.02 Our inspection was for the purposes of valuation only. We would however, reiterate comments from previous reports that generally speaking our inspection showed that there were no immediately obvious essential repairs that needed to be carried out to any of the buildings. It is likely that, in a building of this size and arrangement, there will always be some minor repairs needed on an ongoing basis, this to include planned maintenance throughout the building as a whole, including plant and machinery, heating and cooling equipment, and other parts of the fabric.

7.00 SERVICES

- 7.01 We note that all expected mains services are connected to the property. Wall mounted air conditioning units are available throughout the premises, 22-26 Stannary Street being fitted with central heating and air conditioning. All floors of the property are now served by lift access, together with the staircase access as already described. The lift to the rear of the property is of course recently installed. compared to the lift to the front part of the property (No. 184 Kennington Park Road) which has been in place for some time, and as mentioned in previous reports, is relatively small.

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7.02 Looking at the general overall specification of the building, we consider that as a whole, the specification within the building is likely to be better than that which one would normally see in the office market in this general area.

8.00 TENURE

8.01 We have not been provided with a report on title.

8.02 We understand that the property is owned as an unencumbered freehold. We have valued on the basis that full vacant possession would be available. The party occupying the entirety of the property at the time of our most recent inspection, as on previous occasions, was the Health Professions Council, and so far as we are aware no sub-letting at the property currently takes place.

9.00 TOWN PLANNING, HIGHWAYS & STATUTORY CONSENTS

9.01 The local planning authority is the London Borough of Lambeth, and as mentioned previously, the premises have a significant planning history, going back some years. One point which is particularly pertinent to the comparables we will be discussing later, is the fact that much of the premises were originally constructed as commercial/ industrial space, prior to consent being gained for conversion to the current office use now in existence to the entirety of the premises. There is also evidence of car showroom use to part of the site over the years.

9.02 To reiterate, the properties stand within the Kennington Conservation Area. There is a tunnel safeguarding line in the area as well, relating to London Underground services in the area. Similarly, a cross-river transit constraint operates in the area, which is likely to entitle transport authorities in the area to be consulted on any proposals on the site as described. Other constraints include a restriction on building that might impinge on the views towards the Palace of Westminster. The A3 also stands on the site of a Roman road.

9.03 Having regard to the use of the building at the time of our most recent inspection, we are satisfied that such use is in line with current planning consent. We understand that none of the buildings are Listed.

10.00 ENVIRONMENTAL CONSIDERATIONS

10.01 Local authorities do not give verbal advice regarding contamination. No formal enquiries have been made. We rely on our valuation inspection of the property to identify whether or not the property or any neighbouring land is likely to be contaminated or has been, or is being put to any potentially contaminative use. Our inspection, as on previous occasions, has not revealed any matters which would affect our valuation. However, if it is established subsequently that contamination exists or that the property has been put to a contaminative use, this may reduce the values now reported.

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10.02 It is clear that there is a history of industrial use in the immediate vicinity, particularly to Stannary Street. There is thus a mixed use heritage to the area, which could bring with it some contamination in the ground. Wartime bombing in the area led to some previous uses being lost, for example a major A3 use at the junction of Kennington Park Road with Kennington Road, just to the south of the subject premises. The mix of uses in the immediate vicinity now currently seen, may well be less diversified than that which existed in the area say 60-70 years ago.

10.03 Our general inspection of the area indicated no evidence of issues concerning abandoned cars, or fly tipping, this to include any accumulations of domestic refuse in the neighbouring residential streets, or in the low rise blocks of flats nearby.

11.00 RATEABLE VALUE / COUNCIL TAX

11.01 A new rateable value for the property came into force on 1 April 2010, due to the 2010 Rating List coming into force on that date. This is based on levels of value as at April 2008. The current rateable value is £255,000. The previous rateable value was £171,000.

12.00 REINSTATEMENT COST

12.01 A formal assessment has not been commissioned in this instance. An assessment of the reinstatement cost was reported to the council in 2008. Following on from the work to the new second floor however, and the installation of the lift, the prevailing figure will almost certainly need to be increased to reflect the changes.

13.00 VALUATION CONSIDERATIONS

13.01 Market sentiment and the general outlook for the property market and the economy have improved over recent months. There still remains an element of cautiousness as the ongoing effects of the credit crunch and the recession continue to make themselves felt.

13.02 The Bank of England (BoE) announced on the 10th December 2009 that interest rates were to remain at the all time record low of 0.5%. This is the ninth consecutive decision to hold interest rates at this level after six months of drastic cuts that began as the economic crisis escalated.

13.03 Further to the cuts in interest rate The Bank of England implemented its quantitative easing programme which started in March 2009. The aim of this is to further boost liquidity within the credit markets and restore trading activity within the economy. This programme has recently been extended to March 2010 with the BoE aiming to purchase £200 Billion of corporate bonds and gilts by this time.

13.04 In the Bank of England's recent announcement it was commented that *"In the United Kingdom, output has fallen by almost 6% since the start of 2008.*

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Households have reduced their spending substantially and business investment has fallen especially sharply. GDP continued to fall in the third quarter. A number of indicators of spending and confidence, however, suggest that a pickup in economic activity may soon be evident". In the BoE's commentary it was also stated that debt liquidity has improved marginally at local level following the loosening of monetary policy, however, tough lending criteria and higher entry costs are still acting as a barrier to finance for some individuals. Companies as with many private businesses are preferring to raise funds either privately or through equity and bond markets.

- 13.05 The Bank of England stressed that accommodative monetary policies in Europe, America and Asia have improved global economic conditions with initial empirical evidence showing they have emerged from recession. However, the global economy remains fragile with activity levels still significantly depressed and restrained by the global banking system as banks continue deleverage.
- 13.06 The UK economy contracted at an annualised rate of -5.1% per cent year on year and recorded a 0.3% decline in Q3 (ONS October '09). Latest empirical evidence shows that the contraction has principally been driven by the decline in the production and construction industries with the service industry recording a nominal decline of 0.1%. Market commentators anticipated that the UK economy would have been out of recession by the end of 2009. Many remain uncertain now as to the future performance of the economy with growing concerns over fiscal consolidation, falling stimulus and falling consumption.
- 13.07 The Office of National Statistics (ONS) latest surveys (November 2009) has revealed inflationary pressures have pushed both the CPI and RPI measures upwards. The CPI annual inflation figure was 1.9% up from 1.5% whilst the RPI annual inflation figure was 0.3% up from -0.8%, this was the largest upward monthly shift since 1990.
- 13.08 Recent inflationary pressures have been predominantly driven by the recent increase in the price of oil and the depreciation of sterling. Other contributing factors also included increasing costs of Transport, Food & Alcoholic Beverages and Recreation & Culture. Some are now expressing concerns over stagflation, particularly with the reversal of the reduction in VAT and the increased fuel duty in the New Year strengthening recessionary forces in 2010. These fears are being clearly reflected now with signs of volatility in both the Swap and Money markets with the 5 year swap rate jumping 75 basis points in October and the three month Libor projection showing a return to 4% in the next three years.
- 13.09 Despite the signs of an improving economic sentiment, particularly with recent rallies in both the Stock and Housing markets; wage growth, unemployment, affordability pressures and access to affordable finance prevail. Thus the economy still remains very fragile. It is certainly the case that market activity has increased, albeit from all time lows which has stabilised confidence within the economy and respective markets. Notwithstanding this, experts are still cautioning that much of this activity has been derived from company's balance sheet restructuring and basic turnover rather than suggested 'green shoots of recovery'.

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- 13.10 Furthermore, the state of public finances has also prompted speculation for the need of substantial cuts in public spending. Some are now commenting that future economic growth could be hindered by fiscal and monetary policy actions implemented to counter the ongoing effects of the credit squeeze. The impact of these policies is yet to be qualified. It is anticipated by some that despite improving confidence, economic recovery is likely to be restricted by the availability of credit, worsening unemployment conditions, reductions in public sector investment and the recovery in both fiscal and monetary policies to compensate for the state interventions to date.
- 13.11 Most commentators still believe that there will be no significant recovery within the property market before 2012 at the earliest. Aforementioned issues are cited as the main depressors of market activity which are anticipated to remain at historically low levels for the foreseeable future.
- 13.12 Looking at the commercial property sector, the deteriorating economic conditions are now being clearly reflected in both rental and capital performance. The IPD index has shown over the past 24-36 months a considerable decline in values although recent evidence has suggested a recent upswing in the value of prime assets.
- 13.13 In respect of secondary and tertiary markets, the lack of empirical evidence creates issues in assessing current values. Whilst the downward trend strongly followed that of prime assets recorded in the IPD indices there is no evidence suggesting that demand has spilt over from the primary market into the secondary and tertiary markets. The values of secondary and tertiary assets may well be subject to further softening in value, despite being past the apparent point of maximum pessimism.
- 13.14 Activity in the market has improved since the beginning of the year. This has been derived from improving levels of equity and debt liquidity circulating into property, as well as many other asset classes, as a result of precipitous falls in interest rates. This has predominantly been derived from funds and individuals who believe now is the optimum time to maximise purchasing power through cash purchases and attain better rates of return. This has resulted in strong competition, particularly in auction houses which has seen yields on properties fall generally but sharply on prime assets or smaller more affordable lots, as investor seek better returns over and above competing asset classes. This recent activity is certainly indicating that investor sentiment may be returning positive but the fear of tenant default is still a powerful dissuasive factor deterring all but the bravest investors.
- 13.15 Investors, particularly in the lower asset value brackets, may be failing to appreciate the relative risks involved in investing in a particular asset class, with their principle aim being to achieve returns on their money that will outstrip savings rates and keep up with inflation. This has created extremely volatile market conditions. In the context of the current economic environment it is perceived that many asset values are unlikely to continue to appreciate in value and they are unsustainable in the long term.

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- 13.16 At the All Property level, The IPD Monthly Index (November 2009) reported a rental growth of -0.5%, a capital growth of 1.9% and a total return of 2.5%. On a year on year basis, at the all property level, the total return was -14.0%, capital values -20.5% and rental values -8.9%. Overall prime asset values have fallen some 42.4% from the height experienced in the summer 2007.
- 13.17 Weighted office yields hardened last month with both the City and top English regional cities hardening 25 basis points to 6.00% and 6.25% respectively (JLL Prime Yield Indices, December 2009). The IPD index reported a total return of -15.6% in the 12 months to date, capital growth of -22.1% and rental growth of -14.7%.
- 13.18 The central London and English regional office markets have felt the affects of the recession most keenly, with occupier demand, particularly in the banking and finance service sector being very weak and speculative schemes continuing to complete. The relative reduction in occupational demand in combination with businesses opting to re-gear or renew their leases has resulted in a subdued take-up and consequently a decline in headline rental values. A significant increase in the value of inducements on both new lettings and other lease events has also been noted as Landlords seek to minimise void periods and the inherent costs of holding a vacant property. This has had a significant effect on net effective rents in most cases although more recently it has been reported that the value of inducements offered may have reached a peak and it is anticipated that these will begin to fall as take up improves. More notable is the market dynamics of new prime stock. In most cases, particularly regionally, there is a distinct lack of prime space on the market. This has served to limit the depreciation in net effective rents of prime stock particularly in areas of undersupply; however, this is not to say that they have not been subject to wider market falls.
- 13.19 These factors combined with further landlords inducements implied by the change in rate relief legislation and increased competition have eroded rental values and will continue to create further downward pressures on pricing until the subdued take up improves. The JLL Overseas investors continue to be key purchasers of commercial property taking advantage not only of favourable exchange rates but market declines which effectively gives them up to a 60% discount on 2007 values.
- 13.20 Private investor interest for small lots (less than £2,000,000) has returned quite strongly, helped by the very low base rate which has seen yields harden to unprecedented levels of the last 2 years. Institutional interest has also returned strongly with funds now fiercely competing for prime assets.
- 13.21 There remain relatively few forced sellers at the moment, despite an increase in receiverships and some market commentators are anticipating that, in particular institutional funds, will be disposing of secondary portfolio assets to enable them to take advantage of purchasing new investments that further diversify their respective portfolios.
- 13.22 Relatively high commercial property yields continue to contrast with low gilt yields and borrowing costs. Equivalent yields, in most cases, now provide a significant

Cont'd/...

184 KENNINGTON PARK ROAD, LONDON SE11 4BU
20 STANNARY STREET, LONDON SE11 4AA
22-26 STANNARY STREET, LONDON SE11 4AA

gap over gilt yields and 5-year Swap rates. Whilst borrowing costs may be low in theory, the availability of debt finance remains constrained for secondary property, but can be secured at the prime end of the market.

- 13.23 Current yield levels are still attractive on a risk adjusted basis and in comparison to long term averages, suggesting that property is still attractively priced in the long-term context. Of course, in the short term, rising default and void rates, suppressed occupational demand, the influx of vacant space on the market and empty rate costs are all contributing to falling market rental valuations and are clearly a major concern. This is causing a disparity in yields, which is being driven purely by the quality of income stream and covenant status, an overriding requirement for all investors at this current point in time.
- 13.24 The risk to this outlook remains very cautious still. The pricing of property derivatives suggests that recent positive sentiment will not be sustained although we may now have seen the bottom of the market in terms of valuations. Pricing suggests that the performance of property over the next 5 years is still anticipated to be relatively weak with significant premiums being factored in over the long term IPD average. With so much uncertainty surrounding the economic outlook until a return to more normal credit conditions occur, many speculators remain cautious for the foreseeable future.

Consideration of the Subject Premises

- 13.25 Our research on this occasion into the local market, present us with a picture of considerable activity having taken place locally, over the last 9-12 months. Prima facie, this would imply that the market is improving. Many of the transactions in that timescale, however, have been kept confidential, in that the full details of each transaction have not been made known.
- 13.26 Our interpretation of these circumstances is that landlords are still very anxious to let vacant space, in a still difficult market, and have had to make concessions, that they otherwise may not have given, if the economic outlook had been better. Tenants have thus been able to secure terms which when analysed closely, strongly suggest that there is still considerable negative pressure on levels of value in the local office market, despite the level of activity seen.
- 13.27 One issue which is having an adverse effect on levels of office rental value, is the increased burden of empty rates. Recent changes in legislation mean Landlords with empty properties find themselves having to pay empty rates in full, as relief from the burden of payment is now minimal. Losing this burden is thus an increasing factor in discussions with potential tenants, and undoubtedly influences terms. This issue and its' effects is not restricted purely to the office market.
- 13.28 One other aspect of the current market is that demand for vacant office freeholds seems to have fallen recently. This we feel is due to reasons mainly linked with the ability to raise finance for such a purpose. This is an issue within many aspects of the property market, but particularly so on properties where no income is being

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- generated. There still appears to be an appetite in the general area for tenanted office property freeholds, sold as investments which are wholly income producing.
- 13.29 Hence, the current valuation is being carried out against a market place for this type of asset where values may now have reached their lowest level. Continuing issues within the market mean that levels of value still remain under pressure, despite the official line that growth has returned to the economy.
- 13.30 Looking at transactions then in the immediate vicinity, one particular landmark building in the vicinity, in which this firm has had previous dealings, has produced two or three lettings in the last 9 to 12 months of particular interest to the current valuation. This building is the former Hackney Carriage Works at the top of Brixton Road, near its junction with Camberwell New Road, a matter of two or three minutes walk south of the subject property. Briefly, this extensive group of former industrial buildings, with ancillary low rise office space, has been refurbished over the last few years, primarily to provide high quality office accommodation. Like the subject premises, this property was originally built for use other than the office uses to which it is now put. One transaction at the comparable, in Canterbury Court, concerned some 10,500 square feet of space, on second and third floors, the letting taking place in August 2009. This was of completely refurbished space, although no air conditioning was installed, with the tenant agreeing as a term of the lease to install at their own expense such a facility. A small amount of car parking was included, and the tenant was given a break at year four, on a ten year lease, with upward only rent reviews every five years. The rent equated to some £18 per square foot, net of any uplift that the landlord would be able to charge, for the air conditioning, when it became a landlord's fitting at the first rent review.
- 13.31 We see this letting as significant, in terms of date, and particularly size of space, in that this letting is of a size of office space within the same bracket as that at the subject property. Canterbury Court is certainly more prominent than the subject unit, and probably to a roughly similar specification, although we anticipate that Kennington Park Road would be slightly better in terms of specification. Canterbury Court is less fragmented in terms of layout than Kennington Park Road.
- 13.32 Earlier in the year (2009) the same agent, in the same building, let 6,000 square feet of space at a similar rental agreed of some £18 per square foot, although this letting was also agreed as part of a surrender of another lease within the same building.
- 13.33 Looking slightly further afield, at 89 Albert Embankment just to the west, some 7,400 square feet of tenth floor space in a multi-storey 1970s office block, was let earlier this year, at a rental of some £20 per square foot, gross of incentives. This letting was of wholly unrefurbished space, with a 50% rent free spread over each of two years, based on a ten year lease with a break at year five, for the tenant, subject to six months notice. Based on the terms as set out, and up to the first break, we analyse the headline rent to be no more than some £17 per square foot overall.

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- 13.34 No. 89 Albert Embankment is a very prominent building, overlooking the Thames, and within reasonable walking distance of the Palace of Westminster. We anticipate that fully refurbished space in this building would let in excess of rental values which we feel could be justified on the subject property, given the lack of prominence that the subject building has, its fragmented overall layout, compared to that envisaged for No. 89 Albert Embankment, and also Canterbury Court.
- 13.35 Turning to capital transactions, there has been little in the immediate area of any significance, recently. Just to the north, however, close to London Bridge, Nos. 52-54 Southwark Street was sold in August 2009, for some £6.75M, at a yield of some 7.67%, the building being multi-let, and extending to some 21,000 square feet of space. The property had seven floors, being a terraced building with good prominence.
- 13.36 Older space at No. 1 Leathermarket Street, SE1, sold in June 2009 for a yield of some 8.7%, the achieved price being some £525,000, and both sides as with Southwark Street, were advised in the transaction. We would not expect the subject property to be any poorer than the yield achieved here, and probably should be slightly stronger. We would anticipate that Kennington Park Road would not be as strong as Southwark Street, due to the latter being fully let.
- 13.37 Applying these comparables to the subject property, leads us to conclude, that a value not in excess of £16 per square foot on the main space overall, can be justified, with a yield of say no better than 8.25%. This approach has to be applied to the increased floor area, but the net overall result is to give a figure slightly lower than that reported last time, at £2,350,000.

14.00 VALUATION

- 14.01 Subject to the foregoing, we are of the opinion that the Existing Use Value of the freehold interest in the property with vacant possession, as at the date of this report for your accounting purposes is as follows:

Existing Use Value:

£2,350,000 (Two Million Three Hundred and Fifty Thousand Pounds)

184 KENNINGTON PARK ROAD, LONDON SE11 4BU
20 STANNARY STREET, LONDON SE11 4AA
22-26 STANNARY STREET, LONDON SE11 4AA**Land and Building Split:**

ADDRESS	LAND	BUILDING	TOTAL
184 Kennington Park Road	£320,000	£655,000	£975,000
20 Stannary Street	£180,000	£370,000	£550,000
22-26 Stannary Street	£235,000	£590,000	£825,000
Total	£735,000	£1,615,000	£2,350,000
Say	£735,000	£1,615,000	£2,350,000

14.02 We consider that the most appropriate method of sale would be by private treaty and that completion could be achieved within a period of 12 months.

14.03 These valuations should be read in conjunction with the Terms and Conditions as set out in this report and also the Terms and Conditions as set out in our letter of confirmation instructions. We draw your attention specifically to the confidentiality and non-disclosure provisions.

Yours faithfully,

Report prepared by:

Brian P. Watkins BA (Hons) MRICS FCI Arb
Director

For and on behalf of

STILES HAROLD WILLIAMS

Authorised by:

Jonathan S Dickman BSc (Hons) MRICS ACI Arb
Director

For and on behalf of

STILES HAROLD WILLIAMS

APPENDIX A

CAVEATS & ASSUMPTIONS

NOTE

**THE FOLLOWING CAVEATS & ASSUMPTIONS FORM
AN INTEGRAL PART OF THIS REPORT INsofar AS THEY
ARE APPLICABLE TO THE SUBJECT PROPERTY & UNLESS
SPECIFIC COMMENT IS MADE TO THE CONTRARY IN THE
FIRST SECTION OF THIS REPORT**

CAVEATS & ASSUMPTIONS

INSPECTION

We have undertaken a visual inspection of the exterior and interior of the property to the extent to which it is accessible with safety and without undue difficulty. We have not carried out a building survey or inspected those parts of the property which are covered, unexposed or inaccessible and such parts are assumed to be in good repair and condition.

We have not tested the electrical, heating or other services and we have assumed that the services are connected to the main supplies and that they conform to necessary regulations.

Purchasers are advised that before completing any exchange of formal contracts, they should arrange for a building survey and for contractors to carry out an independent test on all the services including a full drainage test to ensure that no major defects or remedial works are required.

In preparing the report, unless otherwise stated, the following assumptions have been made and which we have no duty to verify:

- (a) that no deleterious or hazardous materials or techniques were used in the construction of the property or have since been incorporated;
- (b) that inspection of those parts which have not been inspected would neither reveal material defects nor cause us to alter the valuation materially;
- (c) that no exceptional problems would be encountered in construction with regard to the nature of the subsoil, underground services and site conditions etc; and
- (d) that the property complies in all respects with all legislation, statutory provisions and regulations relating to its construction, use and occupation and that no notices are outstanding against the property.

MEASUREMENTS

All measurements are carried out in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors. In the event of dimensions or areas being calculated from plans or other sources, this has been stated in the report.

GENERAL ASSUMPTIONS

Unless otherwise stated, all items normally associated with the valuation of land, business and buildings are included in the valuation and reinstatement costs to the extent that they existed at the date of inspection, including:

Fixed space heating, domestic hot water system, lighting, mains services supplying these, sprinkler systems and associated equipment, water, electricity, gas and steam circuits not serving industrial or commercial processes, substation buildings, lifts and permanent structures including crane rails where forming an integral part of the building structure, suspended ceilings, drains, sewers and sewerage plants not primarily concerned with treating trade effluent, air conditioning except where part of a computer installation or primarily serving plant and machinery, carpets and fixed demountable partitions except where these are tenant's fixtures.

Cont'd/...

ENVIRONMENTAL CONSIDERATIONS

We do not undertake any environmental testing as part of a normal valuation inspection and will therefore usually report that our enquiries have not revealed any contamination affecting the property or neighbouring property, which would affect the valuation. However, should it be established subsequently that contamination exists at the property or on any neighbouring land or that the premises have been or are being put to any contaminative use, this might reduce the values reported.

When valuing a property where we suspect contamination may exist this has been reported.

DISABILITY DISCRIMINATION ACT 1995 (DDA)

The Disability Discrimination Act introduces new laws and measures aimed at ending discrimination that many disabled people face, and gives disabled people new rights in the areas of employment and access to goods, facilities and services. This can impact on the value of the property interest. Under the Act, disability is given a wide definition incorporating most long-term and substantial impairments. Its scope is broad-ranging, and includes such diverse ailments as asthma, dyslexia, visual impairment and problems with mobility.

Employers are under a duty to make reasonable changes to practices and procedures within the workplace to enable disabled people to do their jobs. This may extend to making physical alterations to the workplace. These provisions came into force in 1996, and further provisions come into effect in October 2004, when Part III of this Act, covering the provision of goods, services and facilities directly to the public, came into force. A service provider now has to take reasonable steps to remove, avoid or alter any physical feature that makes it impossible, or unreasonably difficult, for a disabled person to make use of services, or make changes to practices, policies or procedures in the service provision.

The DDA outlaws discrimination against disabled people in recruitment and employment and in the provision of goods, facilities and services. It is not known whether an access audit has recently been undertaken for the subject property in relation to the DDA and services provided and without sight of such an audit it is not possible to comment on the full extent of the deficiencies, if any, in the services provided with regard to the DDA.

You may wish to commission specialist investigations in this regard. We can provide this additional advice if you so wish for an additional fee.

CONTROL OF ASBESTOS AT WORK REGULATIONS

We do not undertake any asbestos audit or register as part of a normal valuation inspection and unless we have information to the contrary, we have assumed that there are no asbestos-related issues which would affect the valuation. Should it be established subsequently that there is a cost implication relating to the presence of asbestos at the property, this might reduce the values reported.

We have valued assuming that the "Control of Asbestos at Work Regulations 1987" as amended in 1992 and 1998 have been adhered to. We are not qualified to advise as to whether or not an asbestos audit or register have been properly undertaken.

Cont'd/...

VERIFICATION OF TITLE

Unless otherwise expressly agreed we have relied upon information provided by the client and other professional advisers relating to tenure, leases and all other relevant matters. We have assumed that good Title can be shown and that the property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoing. It is understood that if a Report on Title is subsequently obtained which is in conflict with our report, it will be referred to us for further consideration. No responsibility or liability is accepted for the true interpretation of the legal position of the lender and other parties. Any interpretation of legal documents and legal assumptions should be checked by the client or suitably qualified person, if it is to be relied upon.

The Landlord & Tenant Act 1987 gives certain rights to residential tenants to acquire the freehold interest in a property, where the landlord intends to dispose of his interest and where more than 50% of the floor space is in residential use. If these circumstances apply we assume that these rights do not adversely affect the valuation of the property.

TENANTS

Although we have reflected the general market understanding of a tenant's status in the valuation, we have made only limited enquiries about the financial status of the tenant, and rely upon the client to advise us where there appear grounds for concern. In the context of investment property where the tenant covenant is significant, such assumptions that affect the valuation approach have been commented upon in the Valuation Considerations Section of the report. We have assumed that appropriate enquiries were made when leases were originally exchanged or when consent was granted to tenants to assign or underlet, and that tenants are not in breach of covenant.

TOWN PLANNING, HIGHWAYS & OTHER STATUTORY REGULATIONS

We have made such informal, verbal planning and highways enquiries which are appropriate and possible in the circumstances. It is an assumption that the property and its value are unaffected by any matters which would be revealed by a local search and replies to the usual enquiries and that neither the property nor its condition, nor its use, nor its intended use is, or will be, unlawful. It is recommended that verification is obtained from your solicitors that:

- (a) our findings in respect of planning and highways matters are correctly stated in the report;
- (b) the property is not adversely affected by any other decisions made or conditions prescribed by Local Authorities; and
- (c) the property complies with all other statutory regulations.

Where the operation of a business is dependent upon some form of Statutory Licence we will have inspected same and have reported any material conditions thereto. If documentation is not available has been reported and we have stated any assumptions made.

REINSTATEMENT COST

We have not carried out a formal assessment of the current cost of reinstatement of the buildings and our opinion is given solely as a guide and is indicative only.

Our opinion is based on our measured areas and average rebuilding cost data, assuming the buildings are in their present form or that buildings under construction will be completed as proposed.

Our figure is on a day one basis and includes an allowance for the costs of demolition, clearance and professional and statutory fees. No allowance has been made for cost inflation, loss of rent, cost of alternative accommodation, cost of treatment or removal of contamination or Value Added Tax except on fees.

Our indicative figure should not be relied upon and is for informal guidance only.

COSTS AND TAX

Where appropriate allowance has been made in our valuation for a purchaser's costs of acquisition but no allowance has been made for expenses of realisation or for any taxation that may arise on disposal or acquisition.

The valuation excludes any Value Added Tax that may be payable either on disposal or acquisition or any Value Added Tax that may be payable on any passing rental.

CONFIDENTIALITY

This report is provided for the stated purpose and for the sole use of the client. We accept responsibility to the client alone that the report has been prepared with the skill, care and diligence to be expected of a competent valuer. It is confidential to the client and his professional advisers and we accept no responsibility whatsoever to any parties other than the client. Any third parties rely upon the report at their own risk.

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

APPENDIX B

DEFINITIONS OF VALUE

DEFINITION OF VALUE

The Practice Statements of the RICS Valuation Standards 6th Edition sets out the following definitions. The relevant definitions have been adopted in the preparation of our report.

EXISTING USE VALUE (EUV)

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost.

DEPRECIATED REPLACEMENT COST (DRC)

'The current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation'

MARKET VALUE (MV)

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

MARKET RENT (MR)

The estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

SPECIAL ASSUMPTION

An Assumption that either:

- Requires the valuation to be based on facts that differ materially from those that exist at the date of valuation: or
- Is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances.

APPENDIX C

COPY OF INSTRUCTION LETTER

Brian Watkins

From: Gary.Butler@hpc-uk.org
Sent: 17 March 2010 13:40
To: Brian Watkins
Subject: Re: HPC Kennington Park Road revaluation
Attachments: pic12859.gif

Good Afternoon Brian,

All you points below are correct.
The next meeting of the Finance and Resouces committee will be at 10.30am on 29 April and it would be beneficial if you where able to attend in case any members have any questions. The deadline for the submission of papers is 19 April so we should have the details all completed by then.

Best Regards,
Gary Butler.

Brian Watkins
<bwatkins@shw.co.uk>

17/03/2010 09:45

"Gary.Butler@hpc-uk.org"
<Gary.Butler@hpc-uk.org>

To

cc

"Stephen.Hall@hpc-uk.org"
<Stephen.Hall@hpc-uk.org>, Richard
Turner <RTurner@shw.co.uk>

Subject

HPC Kennington Park Road
revaluation

Dear Gary,

This is to let you know that I am now back from annual leave, and getting on with the revised valuation. I will send to you in the next day or two a confirmation of your kind instructions, and perhaps we could speak again in the next day or two, certainly early next week, as regards progress.

I just wanted to confirm the following please, with you, on what HPC are seeking this time. I set out below my understanding :-

We will give a value of the whole as before, to include the new part at the rear.

A separate value of the front building, beyond the bridge, fronting Kennington Park Road.

A separate value on the rear portion, this to include the new section.

I would appreciate your confirmation of my understanding, and also some confirmation of the time scale, which I have as delivery by the end of the month, but ideally the draft out say by mid week next week. Do you also have a note please, whilst it is in my mind, of the Board meeting date, really with a view to being forewarned more than anything else.

Kind regards,

Brian Watkins BA (Hons) MRICS FCI Arb
Director
T: 020 8662 2713
F: 020 8662 2701
M: 07894 692426

Warning!

The deadline for submitting 2005 rating Appeals is 31 March and is almost here.

Miss this date and you could be missing out on significant backdated rates savings.

Appeals against the new 2010 Rating List can be made after 1st April.
If you would like a no obligation discussion with a member of our Rating team on any rating matter then please call us on 01293 441304...before it's too late!

(Embedded image moved to file: pic12859.gif)

Surrey and South
London Office
69 Park Lane,
Croydon,
Surrey CR0 1BY
Tel: 020 8662 2700

| Our services include: Industrial Agency ~ Office Agency ~ Retail
Agency | ~ Investment ~ Landlord & Tenant ~ Valuation ~ Residential Professional |

APPENDIX D

ENVIRONMENTAL SURVEY

Environment Summary

Flood

Yes

No

The centre of the postcode SE11 4AA is within 500m of an area potentially affected by flooding.

The centre of the postcode SE11 4AA is not within 500m of flood defences.

The centre of the postcode SE11 4AA is within 500m of an area benefiting from flood defences.

Homecheck flood and flood defence data is provided by the Environment Agency and indicates where flooding from rivers, streams or the sea is possible. It does not cover flooding from other sources like drains, burst water mains, run-off from hillsides etc

It indicates linear flood defences (such as walls and embankments) and flood water storage areas (such as reservoirs and basins) and normally covers only those built within the last 5 years to a specific standard. As a result, not all flood defences may be shown.

The flood forecasting on homecheck.co.uk can only give a general indication of risk and is only a guide to indicate if further enquiries should be made.

If you would like to purchase a detailed property specific flood report please [email us](#)

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Please note this Summary is not for Commercial use

Subsidence

High

Medium

Low

There is a moderate potential risk of foundation damage to domestic properties from subsidence hazards within the neighbourhood of postcode SE11 4AA.

This assessment takes no account of the type of housing, or the effects of localised foundation damage from trees or other vegetation, or from other man-made hazards such as excavations or leaking drains.

If you would like to purchase a detailed property specific subsidence report please [email us](#)

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Data supplied under licence of



British Geological Survey

Please note this Summary is not for Commercial use

Radon

Yes

No

The neighbourhood of postcode SE11 4AA is not within a radon affected area.

This does not necessarily indicate the presence of Radon Gas in any particular property in this postcode.

The level of concern has been determined by homecheck.co.uk and is only a guide to indicate if further enquiries should be made.

Further advice can be obtained from the Health Protection Agency on 01235 831600.

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Coal Mining

Yes

No

The neighbourhood of postcode SE11 4AA is not within a coal mining area.

The level of concern has been determined by homecheck.co.uk and is only a guide to indicate if further enquiries should be made.

For further information and advice visit the [Coal Authority's web site](#).

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Please note this Summary is not for Commercial use

Landfill

High

Medium

Low

There are no known licensed landfill/waste processing sites within the postcode of SE11 4AA.

Information on the existence of current landfill sites is extracted from public registers maintained by the Environment Agency.
Information on past landfills is compiled from a variety of sources by Landmark Information Group and is subject to an ongoing quality assurance exercise.
The locations of landfill sites are estimated from grid references shown on the licence. The data does not include illegal dumping or fly tipping.

The level of concern has been determined by homecheck.co.uk and is only a guide to indicate if further enquiries should be made.

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Current Landfill Data Supplied under Value Added Reseller Licence. Historical Landfill data captured by Landmark Information Group.

Please note this Summary is not for Commercial use

Historical Landuse

High

Medium

Low

An analysis of Ordnance Survey Maps published between circa 1840 and the current day, in conjunction with current published surveys, indicates that the postcode of SE11 4AA has a history of past industrial use.

The level of concern has been determined by homecheck.co.uk and is only a guide to indicate if further enquiries should be made.

If you would like to purchase a detailed property specific historical landuse report please [email us](#)

© Landmark Information Group and/or its Data Suppliers.
Historical Landuse Data captured by Landmark Information Group Limited.

Please note this Summary is not for Commercial use

Pollution

High

Medium

Low

Risk to the environment in the postcode of SE11 4AA from industrial pollution may be present from a number of sources.

If you would like to purchase a detailed property specific pollution report please [email us](#)

Other Summaries

neighbourhood Summary

Now check what the quality of the area is - including crime rates, schools performance, amenities and other useful information.

[View the Neighbourhood Summary for your area](#)

Planning Summary

Could something be planned that you wouldn't want on your doorstep?
The summary helps you check the number of large and small planning applications in your area.

[View the Planning Summary for your area](#)

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APPENDIX TWO

Change in property valuations over time

£'000	22/04/2008			12/03/2009			09/04/2010		
	Land	Buildings	Total	Land	Buildings	Total	Land	Buildings	Total
184 Kennington Park Road	390	860	1,250	330	775	1,105	320	655	975
20 Stannary Street	220	500	720	190	440	630	180	370	550
22/26 Stannary Street	370	750	1,120	235	550	785	235	590	825
Total	980	2,110	3,090	755	1,765	2,520	735	1,615	2,350
Percentage movement since a year ago				Land	Buildings	Total	Land	Buildings	Total
184 Kennington Park Road				-15%	-10%	-12%	-3%	-15%	-12%
20 Stannary Street				-14%	-12%	-13%	-5%	-16%	-13%
22/26 Stannary Street				-36%	-27%	-30%	0%	7%	5%
Total				-23%	-16%	-18%	-3%	-8%	-7%