

ASSET BUSINESS PLAN

Property Name:	World Business Centre 4, Newall Road, Heathrow	Year:	2021/2022
Freeholder:	Spelthorne Borough Council	Portfolio:	Investment

FUTURE PERFORMANCE - KEY PROPERTY DATA

Financial Year	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	3 Yr Average	5 Year Average
Predicted Net Rental Income pa						£0	£0
Predicted Vacancy Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0%	0%
Rent Variance from Base Case	-	-	-	-	-		
Sinking Fund Balance	£603,000	£1,022,000	£1,503,000	£1,998,000	£2,509,000	£1,042,667	£1,527,000

Key Asset Management Initiatives (in rank order)		Target date	Impact on Income £	Capital Value Impact	Base case: Included / Not included	Probability %
1	Complete a review of the glazing system to ensure that there are no latent defects or underlying health and safety issues	Jul-21	-	£0	Y	100%
2	Explore potential to re-structure Amadeus lease on terms to be agreed	Dec-21			N	
3		Nov-22		£0	N	25%
4				£0		0%
5				£0		0%

Key ESG Initiatives (in rank order)		Target Date	Estimated Cost £	Capital Value Impact	Base case: Inc / Not inc	Probability %
1	Encourage installation of further electric charging points by tenant.	Mar-22	£0	£0	N	20%
2				£0		0%
3				£0		0%

Threats (in rank order)		Target date	Impact on Income £	Capital Value Impact	Base case: Inc / Not inc	Probability %
1	Tenant default due to extended impact of Covid on aviation industry	Mar-22	£0		N	10%
2	Tenant sublets 2nd floor at reduced rent	Mar-22	£0	£0	N	20%
3				£0		0%
4				£0		0%
5				£0		0%

Financial Year	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
Market Rent psf	£26.50	£26.50	£26.65	£26.82	£27.21	£27.67
Market Rent pa	£2,365,973	£2,365,973	£2,379,443	£2,394,823	£2,429,147	£2,470,706
Rental Growth		0.57%	0.65%	1.43%	1.71%	1.48%

RECOMMENDATION

Asset Management Strategy for Next 12 Months

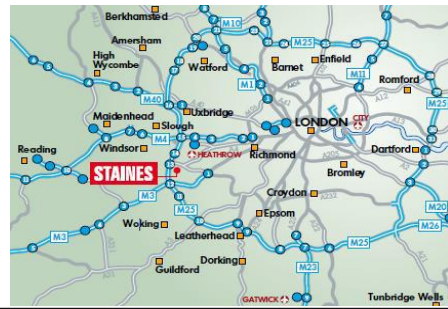
World Business Centre 4 is a modern office building which is entirely let to Amadeus IT Services UK Limited with Amadeus IT Group S.A. as surety. The tenant remains committed to the building but has expressed interest in subletting a surplus floor and has carried out minor works to the reception and common parts to enable this. In the short term it is important that we understand the reasons for multiple glazing panels failing over the last 24 months, so it is recommended that a report is commissioned to ensure no health and safety issues. We shall maintain good relationships with the tenant in order to gauge appetite for a lease extension as this will be important to preserve income and future value.

KEY ISSUE: Establish reasons for glazing failure through an independent report.

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PROPERTY CHARACTERISTICS



SubSector:	South East Offices	Region:	Thames Valley / Western Corridor
Tenure:	Freehold / Long Leasehold	Head Lease Details:	986 years from 7 July 2017
BREEAM Rating	Very Good	Service Charge pa	N/A
EPC Rating	TBC	Service Charge psf	N/A
Flood Risk	Very Low Risk	Service Charge Shortfall	N/A
Rateable Value	£1,480,000		
Current Valuation	£46,000,000	£ psf	£515
Achievable Sale Price as % of current valuation	100.00%		% of Total Portfolio by Value
% Owned	100.00%		4.78%
		% of Fund by Value	5.07%
		Insurance Valuation	£24,648,200
		Valuation Date	26/09/2020

Property Details					Tenancy Details					
Date of acquisition	Sep-17	Acquisition Price			£47,248,000					
	Mar-18	Mar-19	Mar-20	Mar-21	Tenancy	15 year lease expiring 28 November 2032				
Net Income	£0	£0	£0	£0	Weighted average unexpired term (by income)	11.67 years				
Initial Yield	4.87%	4.90%	4.90%	5.00%	£ pa	% Primary Use	% Secondary Use	% Car Park Use	% Turnover	
Equivalent Yield		4.90%	4.74%	4.90%	Passing Rent	£2,457,623	100%	0%	0%	0%
Year End Valuation		£47,000,000	£45,800,000	£46,000,000	Market Rent	£2,370,000	100%	0%	0%	0%
					Building Occupancy	100%				
Physical Property Details					Development Appraisal - Approved Base Case					
Floor Area	89,282 sq ft	8,294 sq m	Building Age	2017	Start Date		Notes on Development:			
Site Area	2.05 acres	0.83 hectares			PC date		Only complete if a development is approved or in progress			
Specification	Grade A specification including open plan floor plates, raised floors, suspended ceilings, carpet tiling, LG7 compliant lighting, air conditioning. A full height central atrium allows natural light to all floors.				Rent free period					
					Rent commencement date					
					Site Price					
					Construction Cost					
					Professional fees					
Condition	Very good.				Finance Costs					
Date of Last Refurb	N/A				Total Costs					
No of Parking Spaces	141 spaces (1:633 sq ft)				Costs incurred to date					
					Estimated Relative Out-performance					
Asset Strengths					Asset Weaknesses					
Fully let to single tenant on full repairing lease with 11.67 years unexpired lease term					Lack of amenities in the vicinity; location dominated by office use (plus airport related car parking and hotels), therefore offering limited amenities for the benefit of the staff					
New standalone Grade A office completed in 2017					Recent letting activity in the locality has focused on smaller floor plates within multi-let office buildings					
Located immediately north of the Northern Perimeter Road and adjacent to the A4 Bath Road, providing excellent access to the M4 and M25 motorways										
Opportunities					Threats					
Heathrow may further benefit from Crossrail linking West London to East London					Brexit uncertainty and the impact of Covid-19 could cause a scale back in tenant operations in the UK (this is their main office outside of their headquarters in Madrid)					
Global travel may recover and improve the tenant's financial position					Increased local market competition with other schemes coming forwards providing comparable space in terms of quality leading to supply exceeding demand.					
					The parent company is listed on the Spanish stock market and is headquartered in Madrid. The share price fell with Covid-19 impact which may impact future space decisions					

OCCUPIER DEFAULT RISK

Tenants Details		D&B Rating		Payment History			Risk of Default
Tenants Name	Company Registration No:	2020	2021	Payment timing	In Arrears Yes/No	Guarantor / Deposit	Low / Medium / High
Amadeus IT Services UK Limited	2276684	3A1	3A2	On time	No	Yes	Low

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Future Performance Assumptions

RENT	The passing rent was set in 2017 and equates to £27.50 per sq ft. The most recent letting at WBC2 was in January 2020 at £26 per sq ft for a floor comprising 7,200 sq ft. Rental values for comparable office accommodation in the locality range from £22.50 per sq ft to £26 per sq ft. There is currently no office accommodation under construction in Heathrow and Uxbridge but 1.1m sq ft of office space is in the development pipeline, which equates to 16% of total stock.							
Rental Growth Rates - FY	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026		3 Year Average	5 Year Average
REFL Sector Forecast	-0.1%	0.9%	1.7%	1.9%	1.7%		0.9%	1.2%
Adjusted Asset Forecast	0.6%	0.6%	1.4%	1.7%	1.5%		0.9%	1.2%
Headline Rent psf	£26.50	£26.65	£26.82	£27.21	£27.67		£26.66	£26.97
Net Income pa	£0	£0	£0	£0	£0		£0	£0
Increase / Shortfall from Contractual Position	£0	£0	£0	£0	£0		£0.00	£0.00

CAPITAL EXPENDITURE	The building is less than three years old and is let to a single occupier on a full repairing and insuring lease. There is no anticipated capital expenditure. A report on the reasons for 10+ glazing panels failing since practical completion is to be commissioned, with a budget cost of £10,000. There will be some consultancy fees payable to C&W who have been monitoring completion of snagging works, estimate £5,000.							
Financial Year	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026		3 Year Average	5 Year Average
Capital Expenditure	£0	£0	£0	£0	£0		£0	£0
Irrecoverable Revenue Expenditure	£15,000	£0	£0	£0	£0		£5,000	£3,000

Future Performance Analysis Summary

Our base case assumptions are that the tenant remains operational and continues to pay the rent for the duration of the lease. No void costs or capex are therefore incurred during the model.									
Financial Year	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026		3 Year Average	5 Year Average
Net Income £	£0	£0	£0	£0	£0	£0		£0	£0
Rental Value £	£2,370,000	£2,365,973	£2,379,443	£2,394,823	£2,429,147	£2,470,706		£2,380,079	£2,408,018
Rental Value Growth		0.65%	1.43%	1.71%	1.48%	0.00%		1%	1.05%
Sector Benchmark		0.91%	1.74%	1.89%	1.67%	0.00%		2%	1.24%
Relative Performance		-0.26%	-0.30%	-0.17%	-0.19%	0.00%		-0.25%	-0.19%
Capital Value	£46,000,000	£44,145,680	£43,541,057	£43,440,975	£43,435,411	£43,435,411		£43,709,237	£43,599,707
Capital Value Growth		-4.03%	-1.37%	-0.23%	-0.01%	0.00%		-1.88%	-1.13%
Sector Benchmark		-1.27%	0.63%	1.13%	0.90%	0.00%		0.16%	0.28%
Relative Outperformance		-2.76%	-2.00%	-1.36%	-0.91%	0.00%		-2.04%	-1.41%
Sinking Fund Allocation	£212,000	£419,000	£481,000	£495,000	£511,000		£370,667	£423,600	
Sinking Fund Utilised	£15,000	£0	£0	£0	£0		£5,000	£3,000	
Sinking Fund Balance	£603,000	£1,022,000	£1,503,000	£1,998,000	£2,509,000		£1,042,667	£1,359,455	

Asset Manager's Summary

The property is a modern, self contained office headquarters building in a prominent location close to Heathrow Airport. It provides Grade A office accommodation and is let to a secure covenant with surety for a term certain of just under 12 years. Amadeus have expressed a desire to sublet one of their floors (c 20,000 sq ft) which is currently surplus to requirements, and agents are marketing the space. A number of snagging issues following practical completion have now been rectified, including water ingress to the basement car park and replacement of glazing panels due to suspected Nickel Sulphide Inclusion (NSI). However, the fact that over 10 panels have now failed warrants further investigation and we are seeking to appoint an independent consultant to provide a review of the glazing on the building to ensure that there are no safety issues.