

UPPER TRIBUNAL (LANDS CHAMBER)



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TRIBUNALS, COURTS AND ENFORCEMENT ACT 2007

*RATING – valuation – large distribution warehouse – treatment of passing rent – comparable rents and assessments – mixed age building – adjustments for height and first floor accommodation – quantum – end allowance – appeal allowed in part – rateable value determined at £1,675,000*

IN THE MATTER OF AN APPEAL AGAINST A DECISION OF THE  
CAMBRIDGE VALUATION TRIBUNAL

BETWEEN

JAMES EDWARD ALLEN  
(Valuation Officer)

Appellant

and

FREEMANS plc

Respondent

Re: Warehouse and premises  
Freemans plc  
Ivatt Way  
Peterborough  
PE3 7HA

Before: A J Trott FRICS

Sitting at Procession House, 110 New Bridge Street,  
London EC4V 6JL on 19 and 20 May 2008 and at  
43-45 Bedford Square, London WC1B 3AS on 2-4 June 2009

*Michael Gibbon*, instructed by H M Revenue & Customs Solicitor's Office, for the Appellant  
*Richard Glover QC*, instructed by Gordons LLP, on behalf of the Respondent

The following cases are referred to in this decision:

*Lotus and Delta v Culverwell (VO) and Leicester City Council* (1976) RA 152  
*Austin Motor Co. Ltd. v Woodward (VO)* (1968) 15 RRC 3  
*Trevail (VO) v C&A Modes Ltd.* (1967) 13 RRC 194  
*British Telecommunications plc v Broadway (VO) (No.2)* [1996] RA 297  
*F W Woolworth & Co. Ltd. v Christopher (VO)* (1972) 17 RRC 341

The following cases were referred to in argument:

*Pointer v Norwich Assessment Committee* [1922] 2 KB 471  
*Marks v Easthaugh* [1993] RA 11

## **DECISION**

### **Introduction**

1. This is an appeal by the Valuation Officer against a decision of the Cambridgeshire Valuation Tribunal dated 12 December 2006 determining the assessment in the 2005 local non-domestic rating list of the Warehouse and Premises, Freemans plc, Ivatt Way, Peterborough PE3 7HA at a rateable value of £850,000. The premises had been entered in the 2005 rating list with a rateable value of £1,770,000. The material day and the effective date for the purposes of the entry are 1 April 2005.

2. Mr Michael Gibbon appeared for the appellant and called Mr Anthony John Barker and Mr Simon Wright as witnesses of fact and Mr James Edward Allen BSc MRICS, a rating valuer with the Eastern Specialist Rating Unit of the Valuation Office Agency, as an expert witness. Mr Allen was authorised to act on behalf of Mr M Catley as Valuation Officer for the purposes of the appeal.

3. Mr Richard Glover QC appeared for the respondent and called Mr Andrew Oswald Sharpe and Mr Colin Dwight Mackie as witnesses of fact and Mr Philip Joseph Long, senior partner of Philip Long and Co, as an expert witness.

4. I made an accompanied inspection of the appeal hereditament on 19 May 2008. I made further accompanied inspections of 11 comparable properties on 9, 10 and 25 September, 5 November and 8 December 2008. Seven of the inspections were internal. I also made an unaccompanied external inspection of a comparable property at South Ockendon on 17 October 2008. The last of the written closing submissions were received on 30 July 2009.

### **Facts**

5. The appeal hereditament is a large distribution warehouse located to the north west of Peterborough city centre approximately 1km from the main A47 Stoke Parkway ring road and 12km from junction 17 of the A1(M) by dual carriageway. Vehicular access is from Ivatt Way which connects to the Gresley Way dual carriageway at a roundabout immediately to the north west of the site.

6. The property was designed and built by Freemans in 1968 on land owned by Peterborough City Council. The total floorspace built at that time was 79,876 sqm. There were two subsequent extensions; 22,876 sqm in 1981 and 1,993 sqm in 1991, making a total floorspace of 104,745 sqm. The accommodation comprises warehousing, ancillary offices and canteen, covered external loading areas, plant rooms, a maintenance crib, nursery block, club house, site maintenance facilities and a security block.

7. The accommodation built in 1968 is a steel frame structure with walls and roof made from precast concrete panels. The majority of the 1968 warehouse (29,880 sqm) has a clear height of 7.0m to the underside of the main steel beam and an eaves height of 8.63m. The northern part of the 1968 warehouse has a concrete first floor (18,176 sqm) serviced by goods lifts. The clear height of the ground floor below the first floor is 3.49m and that of the first floor itself is 3.06m. A firewall divides the two storey warehouse accommodation from the full height area whilst another firewall divides the full height area north to south in a 60%/40% split by area. The warehouse areas are fully heated by warm air blowers and are fully sprinklered.

8. The main offices (two storey) and the canteen (single storey) are situated on the northern elevation of the 1968 warehouse and are of the same general construction. Both the offices and the canteen have plastered walls, suspended ceilings and a ducted heating and ventilation system. They have smoke detectors but not sprinklers. The upper floors are served by a passenger lift and stairs.

9. The nursery block is a free standing single storey steel frame structure located to the north of the 1968 warehouse. It has precast concrete walls and roof. Originally used as a crèche facility for employees it was subsequently converted into IT offices with plastered walls and suspended ceilings. They are heated and have smoke detectors but not sprinklers. Adjoining the nursery block to the east is a two storey club house and site maintenance building, also of steel frame construction with precast concrete panel walls and roof. The upper ground floor was fitted out as a member's club part of which was converted into offices in 2005. The club rooms are heated and have smoke detectors but not sprinklers. The lower ground floor is an unplastered unheated maintenance store with a clear height of 2.75m. A small part of the lower ground floor is used as dog kennels, a store and toilets. To the east of the clubhouse an area previously used as tennis courts was converted in late 2005 into a secure parking compound.

10. At the entrance to the site is a single storey steel frame security block with precast concrete walls and roof. It is plastered and heated but not sprinklered. All vehicular and pedestrian access to the site is controlled through this building.

11. In 1981 the main warehouse was extended westwards towards Gresley Way. The extension, which amounts to 22% of the total accommodation, is of steel frame construction with insulated profiled metal clad walls and roof. It is both heated and sprinklered. A total of 9,351 sqm of the 1981 extension is full height, with a clear height of 7.74m and an eaves height of 8.56m. The northern end of the 1981 warehouse extension is two storey and is divided from the full height extension by a firewall. The first floor warehouse (5,457 sqm) has a clear height of 3.06m whilst the ground floor warehouse (5,477 sqm) has a clear height of 3.52m.

12. Also in 1981 a staff shop was added adjacent to the nursery block. It is of steel frame construction with brick and block walls under an insulated profiled metal roof.

13. In 1991 a parcel sorting hall was added to the west of the 1968 warehouse and to the north of the two storey part of the 1981 extension. The 1991 extension, which amounts to 2% of the total accommodation, is of steel frame construction with insulated profiled metal clad walls and roof. It is both heated and sprinklered. The eaves height is 5.18m. There are 17 dock levellers below a cantilevered canopy on the northern elevation and a further three on the southern elevation.

14. On 16 February 1972 Freemans entered into a lease with Peterborough City Council for a term of 99 years from 24 June 1969 at an initial rent of £23,779.25 per annum. There were rent reviews every 21 years, the last of which took place in 1990 when the rent was reviewed to £750,000 per annum. The next rent review was due in 2011. The rent review provisions were contained in the Second Schedule of the 1972 lease which provided for the determination of the “revised rent” by a surveyor nominated by the President of the RICS in the event that the parties failed to reach agreement. Such a surveyor was to act as a valuer (expert) rather than an arbitrator and was to “exclude from his calculations all together the value of the buildings which have been erected by the Lessee [Freemans] and all tenants trade fixtures fittings and plant and machinery”. In their statement of agreed facts the parties said that “in this way, the rent determined represented the open market value of the site excluding the buildings (ie the ground rent).” The parties also say that: “Additionally the rent review clause provides for upward or downward reviews.” (In fact the review clause states that after 21 years the rent shall not be less than the initial rent of £23,779.25 per annum but shall otherwise be calculated in accordance with the Second Schedule.)

15. On 29 November 2003 Freemans plc surrendered the 1972 lease and entered into a new full repairing and insuring lease with Peterborough City Council. The new lease is for a term of 34 years from 30 November 2003 at an initial rent of £850,000 per annum for the first five years, £1,150,000 per annum for the following five years (starting on 30 November 2008) and £1,350,000 for the following five years (starting on 30 November 2013). Thereafter the rent is to be reviewed in accordance with clause 6 of the new lease. That clause provides that for each five year review period commencing on 30 November 2018 the rent would be the higher of £1,350,000 per annum or the base rent of £850,000 per annum increased by the proportionate rise in the all items index of retail prices excluding mortgage interest payments (RPIEX) from the month preceding the expiry of 1 December 2003 to the month preceding the relevant review date. The expression “demised premises” under the new lease is defined as that 35.723 acres (14.5 hectares) of land including any building or other structure (including roads, car parks, landscaping, tanks and any other development) existing as at the date of the new lease or erected thereon during the term. It also includes the fences and walls that surround the premises, all fixtures and fittings (whether or not fixed at the beginning of the term), all plant and conducting media and all additions, alterations and improvements to the premises.

## **The issues**

16. The parties identified the following as the issues in this appeal:

- (a) The reliance to be placed upon the rent passing under the new lease dated 29 November 2003.
- (b) The level of value to be applied to the warehouse and other accommodation.
- (c) The amount of the end allowance, if any, that should be applied to the appeal property.

### **The VT decision**

17. The VT said that there were two issues for determination; firstly, the standing of the new lease dated 29 November 2003 and, secondly, to what extent, if any, the consideration agreed at that time should be reflected in the rateable value. It found that the 1972 lease was a ground lease whereas the 2003 lease was an FRI lease of the premises including the buildings. It concluded that the 2003 lease should be taken into account when considering the rateable value.

18. The VT heard evidence from both parties as to the approach it should take to the rent. It concluded:

“We are mindful of the principles established in *Lotus and Delta v Culverwell (VO) and Leicester City Council* (1976) RA 152 which said that the rent on the hereditament should be taken as the starting point. The more closely the circumstances under which this rent was agreed both as to time and subject matter the more weight should be attached to it. The rents of similar properties if available should also be looked at, as should the assessments of other comparable properties. In the light of all that evidence an opinion can be formed as to the value of the appeal property.

As we have already said, we disagree with the Valuation Officer and do not accept that the rent passing on the appeal property can be or should be ignored. We have also established that we accept that the rent agreed was a commercial rent, albeit that it was not tested in the open market. The rent was agreed close to the antecedent date of valuation for this valuation list. We are convinced of the appellant’s argument that little help can be gained from looking at the rents or assessments of much smaller properties in the Peterborough area. Of the local comparables the largest is only in the order of 60% of the size of the appeal property, whilst the vast majority are much smaller. Of the national comparables each side has been able to find assessments that support their point of view. We are therefore convinced that by far the strongest evidence as to the value of the appeal property is the actual rent passing.

Mr Long [for the ratepayer] has presented a valuation based on an analysis of that rent which gives an assessment of rateable value of £850,000 and we accept that valuation. We recognise that this will result in a large reduction in the present rateable value, and so we feel we must take one more step in considering the assessment. That is to step back and look and consider is this assessment justifiable? We are of the opinion it is, we believe the Valuation Officer has failed to take account of the fact that in the modern market this building would not be considered fit for purpose by the majority

of potential users. Whilst it does have a value, its greatest value is to Freemans because of their existing established use and workforce. How much is it worth to Freemans? The answer of course is in [the] rent that was agreed as neither party was compelled to accept.

The issue was also raised that this level of assessment is lower than that agreed for the previous list. The new rental agreement was not reached until more than five years after the antecedent valuation date for the 2000 list. The building is now five years older, is almost unique in the area and it is therefore quite wrong to assume that because a value was set in one list the principle behind it must remain in force in perpetuity. In 2003 the whole basis of the letting was changed and the valuation must reflect that change and the rental value agreed by the parties.”

19. The VT found for the ratepayer and confirmed the assessment of £850,000 according to Mr Long’s analysis. This was based upon an annual rental figure of £10.50 per sqm for the full height accommodation, £9.00 per sqm for the ground floor under the first floor, £6.85 per sqm for the first floor and £4.20 per sqm for the second floor and mezzanine accommodation. This gave a figure based upon a total floorspace of 104,745 sqm of £950,236 from which a 10% end allowance was made for “fragmentation and layout” to give a rounded assessment of £850,000.

### **The case for the appellant**

20. The appellant argued that the VT had fundamentally erred in its determination and that the rateable value should be Mr Allen’s figure of £1,760,000. Whilst Mr Allen accepted the principle set out in *Lotus and Delta* that the actual rent on a hereditament should be the starting point for the determination of rateable value, he had consistently argued that the rent passing under the 2003 lease was not relevant because that lease was simply a re-gearing of the 1972 ground lease and was of no assistance to the Tribunal. It could be rejected on one of two analytical bases, which both came to the same thing:

- (a) the passing rent under the 2003 lease was not an open market rent of the sort that the Member had in mind in the first principle set out in *Lotus and Delta* and was therefore irrelevant; or
- (b) whilst it was accepted that it was rent and therefore regard could be had to it, the circumstances in which it came to be agreed meant that no weight should be attached to it.

21. The factual background to the surrender of the 1972 lease and the grant of the new lease in 2003 was given on behalf of the appellant by Mr Wright and Mr Barker. Mr Wright explained that at the time the new lease was negotiated he was employed as a Senior Estates Surveyor by Peterborough City Council. He had assisted Mr Tony Chapman, the Head of Property Services. Mr Chapman subsequently died and the council’s solicitor who was dealing with the matter at the time, Mr Nicholas Williams, was no longer employed by the council. Mr Wright was therefore the only officer currently employed by the City Council who was directly involved in the transaction.

22. Mr Chapman agreed the main principles of the transaction with Freemans and approved the terms of the new lease which he then asked Mr Wright to document. Preliminary discussions took place between Mr Chapman and Mr Colin Mackie of Mackie and Partners as early as 2002. Mr Wright was not directly involved in those discussions but he understood that they arose from a strategic property review that was undertaken by Freemans. Mr Wright reviewed the history of the ensuing negotiations from which he drew, inter alia, the following conclusions:

- (i) Both parties to the 2003 agreement initially proposed that a new ground lease should be put in place.
- (ii) The rent under the new lease was agreed as a series of stepped rents. After 29 November 2018 the rent on review would have regard to the movement in RPIEX. No regard was to be had to open market rental value upon rent review.
- (iii) The rent agreed under the new lease did not reflect the open market value of the land and buildings.

23. Mr Wright said that he had been unable to find any correspondence that referred to an offer by Freemans to surrender the 1972 lease upon payment of a capital sum to the City Council. He had not been involved in any such discussions and Mr Chapman had said nothing about them to him.

24. Mr Barker is the director in charge of the Peterborough office of Barker Storey Matthews and has practised in the area since 1980. His practice (but not him personally) advised the council in respect of the 1990 rent review under the 1972 lease and Mr Wright asked him in November 2002 to summarise how the previous rent review had been settled. Thereafter Mr Chapman instructed him in September 2003 to advise and recommend on the grant of a new lease to Freemans. Those instructions attached a letter from Mr Mackie, acting on behalf of Freemans, to Mr Chapman dated 20 August 2003 in which Mr Mackie proposed:

“Our clients would take a 20-year ground lease in respect of the current site area, with five year rent reviews, on a similar basis to the existing lease.”

25. Mr Barker did not have direct contact with Mr Mackie at any stage. All negotiations with Mr Mackie were handled by either Mr Chapman or Mr Wright. Mr Barker’s role was entirely to advise on the heads of terms agreed between the parties.

26. In a letter from Mr Wright to Mr Mackie dated 19 November 2003 which summarised the heads of terms of the agreement reached between the parties Mr Wright said that:

“At the end of the 15<sup>th</sup> year of the term and at three yearly intervals thereafter, the rent will be reviewed on an upwards only basis to the higher of:

- (i) increase based on the RPIEX or equivalent, or
- (ii) open market ground rental value.”



In an e-mail to Mr Williams dated 20 November 2003 Mr Wright said that:

“reference to open market ground rent as an alternative basis of valuation is to be deleted. Review will only be to RPIEX.”

Mr Mackie confirmed this in a letter to Mr Wright dated 24 November 2003:

“(3) You have agreed to delete the open market ground rental value applicable to the 15<sup>th</sup> year and we will rely on RPIEX or equivalent.”

27. Mr Barker said that he was not aware that the rent finally agreed was on the basis of the rack rental value of the land and buildings. At no time did his client ask him to provide a rental valuation on this basis. The new lease made no reference to disregarding tenant’s improvements. Mr Barker believed that this reference had been deleted when it was agreed that the rent review provisions would only be geared to RPIEX movements and not to market rental value. To the best of his knowledge it was never the intention of the parties to renew the lease at the full open market value of the land and buildings; instead there was to be a re-gearing of the existing ground rent.

28. Mr Allen concluded from the factual evidence that the rent fixed under the 2003 lease was not an open market rent in accordance with the rating hypothesis. It was not reliable and no weight should be placed upon it when calculating the rateable value of the appeal hereditament. To illustrate this he analysed the stepped rent payable under the 2003 lease for its first 15 years by calculating the constant (equivalent) rent that it represented and compared it to the 2000 rating list entry of £1,620,000. The constant rent so calculated was approximately £1,061,000 or 35% less than the 2000 rateable value.

29. He felt that this result demonstrated that the 2003 lease rent was not an open market rent for two reasons. Firstly, since 2001 Peterborough had seen considerable growth in its warehousing sector. In March 2003 a new 86,000 sqm IKEA warehouse and call centre opened at Kingston Park whilst in July 2003 Debenhams had applied for planning permission for a new 68,000 sqm warehouse directly opposite IKEA. This opened in June 2005. In 2005 and 2006 there were speculative developments of 48,000 sqm of warehousing at unit 3 Kingston Park and 12,000 sqm of warehousing off Morley Way. The local road network had continued to improve whilst labour costs in the area were highly competitive with the national average. Such developments had strengthened Peterborough’s position as a national, rather than a regional, distribution hub.

30. Secondly, Mr Allen compared the result of his analysis against the increase between the 2000 list rateable values and 2005 list rental evidence for four comparable Peterborough properties. The increases ranged from 8.7% to 46.2%. He also compared his analysis against the change in the rateable values between the two rating lists of three comparable Peterborough properties identified by Mr Long. These showed increases of between 2.3% and 9.8%. Mr Allen said that a decrease of 35% was “way out of line with what would normally be expected.” His proposed 2005 list rateable value for the appeal hereditament of £1.76m was an

increase of 8.6% over its 2000 list rateable value which was in line with that of the comparable evidence.

31. Having rejected the use of the actual rent under the 2003 lease Mr Allen turned to evidence of rents and assessments of comparable properties both locally and, in the case of large distribution warehouses, further afield. He also reviewed the comparable evidence relied on by Mr Long. Mr Allen's approach was to value the different ages of accommodation at the appeal hereditament by reference to comparable evidence of similar aged properties, ie 1960s, 1980s and 1990s buildings. He explained that in each case he had devalued comparables by what he described as "a factorised line by line approach", an approach that was adopted nationally by the Valuation Office Agency as the method of choice. It gave transparency in devaluations and valuations and applied common factors to the accommodation to allow the comparison of main space prices. It was preferred to the overall method employed by Mr Long in which the rent was divided by the total area to give an overall rent per unit area.

32. Under the factorisation approach each type of floorspace within a distribution warehouse, such as main ground floor storage space, higher floor level storage space, offices, loading bays, workshops etc, was given a factor either above or below unity (which was allocated to the main space). Further adjustments were made to reflect whether the building had heating, air conditioning or sprinklers, the default assumption being a warehouse with heating but without air conditioning or sprinklers. A final adjustment was made in respect of height. Mr Allen said that for older (pre 1980s) properties the standard eaves height under his approach was assumed to be in the range 3.5m to 6.1m. Between 6.1m and 9m, 10% was added "on a sliding basis." Above 9m, 1% was added per metre of height. If the eaves height was below 3.5m then 10% was deducted on a sliding scale down to 2.5m. For more modern (1980s onwards) properties a standard eaves height of 10m was assumed. Each factor was then applied to the relevant type and amount of floorspace to give an "equated area". The rent was then divided by the equated area to give a rent per square metre expressed in terms of main space.

33. From his detailed analysis of the comparable evidence using the factorisation approach Mr Allen reached the following conclusions:

- (i) The base price for the 1968 built accommodation was £16 per sqm (heated but unsprinklered).

He relied in particular upon the rental evidence at the TNT Storage Depot (now B&Q), Burton-on-Trent (a 15 year lease from 1 April 2003 of a 1930s built warehouse with an area of 94,463 sqm and a devalued main space rent of £19.32 per sqm) and the Littlewoods (now Next) distribution warehouse in Bury (a 10 year lease from 22 March 2005 of a 1960s built property with an area of 47,663 sqm and a devalued main space rent of £27.77 per sqm). He calibrated the rental value of these older comparables against modern warehouse accommodation in Burton-on-Trent and Bury. Thus the TNT Storage Depot was worth 38% of modern warehouse accommodation in Burton-on-Trent, this discount reflecting the difference in size, age, quality and height between the buildings. Applying this discount to the base price of £39.15 per sqm of modern

warehouse accommodation in Peterborough (the comparable assessment of the Royal Mail sorting centre in Papyrus Road) Mr Allen said that the equivalent figure for the appeal hereditament would be £14.88 per sqm which was directly comparable to his adopted base price of £16 per sqm. A similar exercise for the Littlewoods comparable showed a discount of 42% which, when applied to the base price of the Royal Mail sorting centre in Peterborough, produced an equivalent figure for the appeal hereditament of £22.70.

The third main comparable that Mr Allen relied upon when estimating the base price of the 1960s accommodation was the agreed 2005 list assessment of Peter Black Logistics in Leicester, a 1960s purpose built distribution warehouse with 93,073 sqm of accommodation. The devaluation of the agreed rateable value showed a base price between £19.50 and £22.00 per sqm (depending upon the quality of the accommodation). Mr Allen considered that the quality and layout of this building was inferior to, but its location superior to, that of the appeal hereditament. He adjusted by 22% for location by comparing a 1991 purpose built distribution shed at Centurion Way Leicester (with a 2005 list base price of £50 per sqm) against the Royal Mail building in Peterborough (£39.15 per sqm). Applying this discount to the base price of Peter Black gave a location adjusted comparable for the appeal hereditament of £15.21 per sqm to £17.16 per sqm.

- (ii) The base price of the 1981 accommodation was £25 per sqm and that of the 1991 accommodation was £30 per sqm.

He relied in particular upon two comparable assessments, Ashfordby Storage and Haulage at Melton Mowbray (appeal agreed with Rapleys) and Wilkinsons' National Distribution Centre and head office at Worksop (VT decision, Wilkinsons represented by Colliers CRE). The former was a 65,902 sqm 1980s purpose built warehouse with later additions in 2005. The latter was a 155,408 sqm 1994 purpose built distribution warehouse with later additions. The base price of the early 1980s warehouse at Ashfordby was £31.50 per sqm (reflecting a 10m eaves height), whilst that of the later 1980s accommodation was £35 per sqm and the modern 2005 building £38.50 per sqm. Mr Allen took £25 per sqm for the base price of the appeal hereditament. This reflected a lower eaves height (6m) but disregarded the superior position of Freemans in Peterborough compared to Melton Mowbray. Similarly the figure of £30 per sqm for the 1991 accommodation at the appeal hereditament was less than that of the more modern floorspace at Ashfordby. This figure was also supported by the base price of £34 per sqm at Wilkinsons', another building with a 10m eaves height but a more remote location than Freemans. He also drew support from two other comparables. Firstly, the rental evidence and the compiled list appeal (agreed with Atisreal) of the Royal Mail Centre in Peterborough (rent £39.33 per sqm for main space, base price £39.15 to reflect 10m high eaves and no sprinklers). Secondly, the compiled list appeal (agreed with King Sturge) for the 1980s built warehouse with 1990 additions (totalling 33,165 sqm) at Harris Logistics, Grantham (base price of £36.10 per sqm and £38 per sqm for the 1980s and 1990s accommodation respectively, reflecting 10m eaves height and no sprinklers).

- (iii) Applying the base prices to the relevant floor areas and adjusting for the adopted factors gave a total rateable value for all the buildings of £1,843,689. The agreed rateable value of £11,841 for plant and machinery was added to this figure to give an overall rateable value of £1,855,530.
- (iv) Freemans operated a modern distribution warehouse practice from the appeal property but the property itself was not modern and had not been valued as though it was. An end allowance of 5% was appropriate to reflect the cramped nature of the Freemans site, its mixed age and piecemeal development. This was consistent with the 2000 rating list. Mr Allen said that where the rental evidence upon which he relied, particularly the rents at the TNT property at Burton-on-Trent and Littlewoods at Bury, formed the basis of an assessment, that assessment would have taken any disabilities into account to a certain degree. The properties at Burton and Bury had disabilities similar to those at Freemans and therefore because he had based his valuation upon those rental comparables he had already reflected the disabilities in the adopted price. The Peter Black property at Leicester had disabilities on a par with those at Freemans and no end allowance had been made in its assessment to reflect them. Mr Allen reviewed five rental comparables and 10 comparable assessments to see whether an end allowance had been made. In each of the rental comparables the rental devaluation reflected any disabilities present. Of the seven comparable assessments of warehouses three had an end allowance; Ashfordby at Melton Mowbray (5%), Ford Motor Company at Daventry (15%) and the former Kays Catalogue Warehouse at Bransford Road, Worcester (5%). The allowances reflected the mixed ages and layout of the buildings. Each of the three comparable assessments of large factories had an end allowance (two at 10% and one at 11%). Under these circumstances Mr Allen considered that his 5% end allowance was generous.

Applying a 5% end allowance to the overall rateable value gave a valuation of £1,762,753 which he rounded to £1,760,000. As a final check Mr Allen compared his valuation on an overall basis, excluding plant and machinery and the end allowance, against the 8 rental comparables and comparable assessments where the hereditaments had substantial elements of 1960s accommodation. The overall figure for Freemans was £17.60 per sqm. That of the comparables ranged between £16.90 to £31 per sqm with six values above £17.60 and two below.

- (v) There should be no allowance for quantum.

Mr Allen said that there was no clear evidence of a quantum effect on any of the large (20,000 sqm plus) distribution warehouses that he had dealt with in either the 2000 or 2005 rating lists. He referred to discussions that he had had with Erdman Lewis Rating about the 2000 valuation list assessment of Freemans where he had successfully defended against an argument for quantum by citing evidence of two lettings at the Peter Black warehouse. The larger letting of 53,500 sqm to Woolworths was at a higher rent than the smaller letting of 30,000 sqm to Peter Black. He also compared the assessments in the 2005 list of the Hotpoint (82,336 sqm) and Perkins (175,776 sqm) factories in

Peterborough. There was no difference in their respective base prices due to a quantum allowance. Mr Allen also dealt with the specific evidence on quantum raised by Mr Long. He pointed out that the area of the Alltruck unit at the Peter Black warehouse was slightly understated by Mr Long and that it formed a separate stand alone building to the north of the site having been built in 1982 with an eaves height of 6.42m. The Peter Black warehouse was a 1960s building with an eaves height of 5m. Mr Allen said that the difference in base price between the two hereditaments reflected age and height as well as size. The difference between the rental values of units 1,3B and 6 (£32.97 per sqm) and units 2A/3A (£35.51 per sqm) at Peter Black, which were both lettings in December 2005, was due to the fact that Peter Black was effectively forced to take unit 6 as it would otherwise have been land locked by the other units. It did not fully utilise this space and this was reflected in the rent paid. The difference had nothing to do with a quantum allowance. Mr Long's comparison between Parkfield Precision Components and Perkins Engineering reflected factors other than quantum. Mr Allen noted that the assessment of Parkfield had increased by 35% between the 2000 and 2005 rating lists whereas that of Perkins had only increased by 9.8%. In any event Mr Allen said that there was no price differential between the Perkins factory and Freemans for similar aged buildings.

- (vi) The rateable value in the 2005 list should be £1,760,000.

### **The case for the respondent**

34. Mr Sharpe is the Director of Procurement and Facilities at Otto UK Limited. The respondent, Freemans Plc, is part of the Otto UK Group of Companies and Mr Sharpe has responsibility for managing the respondent's properties, including the appeal property.

35. Mr Sharpe explained that the buildings at the appeal property had been purpose built for Freemans mail order business and were used for receiving and storing goods, picking and collation, packing and dispatching as well as for receiving and dealing with returns. Mr Sharpe said that by 2003 the use of the ground and first floor levels, both with restricted heights, was not acceptable. He explained that modern distribution logistics required a much higher eaves height for stacking goods and for all floorspace to be at ground level. He said that the design of the premises was old fashioned and not readily useable for modern practice.

36. A business review was undertaken in 2002 in which the implications of the long leasehold interest in the appeal property were considered as part of a future warehouse strategy. Following the acquisition of Freemans by Otto there were two warehouses for handling collateable products, the appeal property and a more modern facility at Listerhills in Bradford which had a bay storage facility with a height of 20m. Only one such facility was required and Listerhills was preferred.

37. Mr Sharpe described the advantages of the Listerhills site in detail and said that its productivity per unit was far superior to that of the appeal property. Some £17m had been invested at Peterborough but it was still not as productive as Listerhills. Early in 2004 it was decided to move all collateables to Listerhills and this was completed by November 2004. Collateables represented 60% to 70% of the Peterborough operation. Once they had moved to Listerhills the workforce at Peterborough was reduced from 1,200 to approximately 500. Some 32,500 sqm of floorspace became vacant. To utilise the space third party contracts were taken on for Debenhams, Lands End (returns) and, from October 2006, Readers Digest. These contracts occupied some 6,000 sqm of the vacated space. Mr Sharpe explained that all non-collateable work was now being moved to Bradford and that the appeal property would be closed at the end of September 2009.

38. The respondent was concerned about the forthcoming rent review in 2011. It feared a repeat of the previous rent review in 1990 when the rent had increased by over 3000%. Freemans was faced with the prospect of being burdened with a financially unsustainable lease for a further 66 years of a building that was unsuitable for modern distribution practice. In order to achieve future certainty the respondent entered into negotiations with the City Council for a surrender of the existing lease and the grant of a new lease. Mr Mackie had said that the reviewed rent in 2011 could be as high as £6m. Such a figure would have wiped out any profit from the operation at the appeal property. Mr Sharpe estimated that the most Freemans as a business could afford to pay at the next rent review was £1.65m per annum.

39. Mr Mackie was retained to advise the board on the options available to the respondent and was asked to take forward with the City Council the regrant of a new commercial lease. Mr Sharpe said that the respondent also asked the council to consider a surrender of the lease with Freemans vacating the site. He understood from Mr Mackie that the council were not prepared to consider such a straight surrender. Mr Sharpe attended some, but not all, of the meetings that Mr Mackie had with the council. Mr Sharpe said that at all times the late Mr Chapman had been concerned to secure the maximum value for the council and that from Mr Sharpe's point of view the negotiations were at arms length.

40. Mr Sharpe described the propensity of part of the site to flood. He said that it flooded every two years because the drainage on the railway (eastern) side of the site was inadequate. In 1998 flooding damaged a newly installed floor which cost £1m to repair.

41. Mr Mackie is a director of CDM (Properties) Limited which trades as Mackie and Partners. He was instructed in September 2002 to advise on his understanding of the rent review provisions within the 1972 lease, having seen a copy of a report on the lease prepared by Freemans' solicitors, Addleshaw Booth and Co. They advised that the 1972 lease included the land and the buildings and that there was a full tenant's repairing covenant and a covenant requiring the landlord's consent to alterations to the main structure. Mr Mackie said that although the lease was not a ground lease, the rent review provisions specifically provided that the value of the buildings was to be excluded in determining the rent. He said that the possibility of a rent increase, still nine years away in 2002, was deemed to be an unacceptable

risk, compounded by the fact that the buildings were “not fit for purpose” and given the long outstanding term of the lease.

42. Faced with these problems Mr Mackie devised a strategy paper in March 2003 which outlined six options to be explored with the council:

- (i) The potential surrender of the 1972 lease.
- (ii) Vacating the site and relocating to a smaller purpose built facility in Peterborough, thereby protecting local jobs.
- (iii) Change the planning brief for the site to allow Freemans and the council to maximise the redevelopment opportunity.
- (iv) Assign the 1972 lease.
- (v) Redevelop part of the site for operational use and then restructure the 1972 lease to allow beneficial development of the remainder of the site.
- (vi) Do nothing and await the rent review.

43. Mr Mackie said that during his ensuing negotiations with Mr Chapman there was no discussion of comparable rents or comparable properties. He said that he had put to Mr Chapman the option of Freemans surrendering the lease and vacating the site but that Mr Chapman was not prepared to contemplate this. The negotiations were completed on 29 November 2003 with the signing of the new lease.

44. During cross examination Mr Mackie explained that the figure of £6m that he had said in his strategy document could be the rent at the next review had been expressed as part of a risk assessment exercise and that he had not valued the property or looked at comparables. It was a crystal ball gazing exercise designed to look at the scenario of the future of the company if rents rocketed. He confirmed that he had proposed a total surrender of the 1972 lease at his first meeting (alone) with Mr Chapman. Mr Chapman had said that his was a “dealing office” and that he would evaluate the best deal for the council. He turned down the offer to surrender the 1972 lease.

45. Mr Long is the senior partner of Philip Long and Co, surveyors and valuers of Worcester. He had qualified as a chartered surveyor in 1981 (but had subsequently given up his membership) and had dealt with valuations for rating purposes for 27 years. He gave expert valuation evidence. Such evidence had changed since the VT hearing at which Mr Long had argued, and the VT had accepted, that the initial rent of £850,000 under the 2003 lease was the best evidence of the rateable value. In the respondent’s reply to the appellant’s statement of case the respondent contended for a rateable value of £1,210,000 with effect from 1 April 2005. This figure was adopted in Mr Long’s first expert report dated 13 March 2008. In both the reply and Mr Long’s first report this figure was based upon an analysis of the 2003 lease by reference not just to the initial rent of £850,000 but also to the stepped rents of £1,150,000

from 2008 and £1,350,000 from 2013. Mr Long said that the “equivalent rental” of these stepped rents was £1,101,306. He then added 5% “for loss of upward and downward reviews” and a further 5% for the “onerous length of [the new] lease” of 34 years. This gave an adjusted rent of £1,211,436 which he rounded down to £1,210,000.

46. Mr Long then prepared what he described as a devaluation of the figure of £1,210,000 in order to show the levels of rent that it implied (£18.90 per sqm for the full height warehouse, £10.50 per sqm for the reduced height ground floor warehouse and £5 per sqm for the first floor warehouse). He said in cross examination that (despite what was said in his first report) he had not derived this devaluation by reference to the comparables that were attached to the respondent’s reply. Mr Long explained that he had used the comparables as a cross check and not for the purposes of a valuation.

47. In his rebuttal report dated 11 April 2008 Mr Long reviewed the comparables relied upon by Mr Allen. He emphasised that Mr Allen’s analysis failed to reflect the predominance at the appeal property of the original 1960s building, 25% of which was at first floor level and 50% of which had less than 3.7m eaves height. He also said that he remained of the opinion that the 2003 lease of the appeal property, freely negotiated between the parties, was the best evidence of value and he remained convinced that £1,210,000 was the correct rateable value for the appeal hereditament. He stated that:

“If, as the Valuation Officer asserts, the open market rental value of the property is £1,760,000 I do not understand why the council did not attempt a payment from Freemans to surrender the ground lease and relet the property for a much higher rental than was agreed with Freemans.”

That the council did not do this was due, in Mr Long’s opinion, to their fear that the property would be extremely difficult to relet.

48. Mr Long rejected Mr Allen’s reliance upon a comparison between the 2000 and 2005 rating lists. He considered that the reference to the AVD for the former list was irrelevant to the value of the appeal and comparable properties as at 1 April 2003. There was relevant rental and comparable evidence closer to the valuation date. Mr Long pointed out that not all of the comparables used had shown an increase in rateable value between the two lists and cited the example of the Kay’s Mail Order Warehouse in Worcester, the rateable value of which had fallen by 9%.

49. Mr Long changed his opinion in his supplemental report dated 29 April 2008 which he prepared having seen Mr Allen’s rebuttal report. He said at paragraph 3:

“It is apparent from Mr Allen’s rebuttal report that he thinks that I have not made it clear how I use the comparable properties in my analysis. The purpose of this statement is to try and ensure that my analysis of the comparables is clear to all. On the basis of the 2003 lease between Freemans and Peterborough Council I remain of the opinion that my valuation of £1,210,000 in my report of 13 March 2008 is sustainable. However I have reconsidered the comparable evidence in the light of



information provided by the Valuation Officer in his e-mails to me on Friday 25 April when more details of the comparable properties were provided. I have looked again at this evidence together with my own evidence and on the basis of the comparable evidence without reference to the rent under the 2003 lease I value the rateable value of the property at £1,335,000.”

50. During cross examination Mr Long explained the apparent contradiction between his previous valuation, based on the 2003 lease rent, remaining “sustainable” whilst at the same time supporting a higher revised valuation, based on comparables, of £1,335,000. He said that what he was trying to do in looking at the comparables was:

“... to double check my calculation in regard to the rent. I still believe the rental is the best evidence, but the problem I have, and it is a problem any valuer would have, is how you quantify the additions you make to the rental ....

... what I have to try and do, though, is try and make sure that my opinion of value based on the rental is sustained by my comparable evidence. ....

... when I made the adjustments to the rental [the equivalent rental of £1,101,306], as I said to you, I made 5% additions for the two factors I mentioned [lost of upward and downward rent reviews and onerous length of lease]. I cannot prove whether 5% for each factor is correct; it may be 10% for each factor. If I add 20% to the virtual rent, I would get to about £1.31m ... what I am saying is that if you look at the whole picture, the rental and the comparables, it is around £1.28m to £1.3m odd. I have tried to favour the Valuation Officer at £1,335,000....

... I looked at the rental, but I have to make adjustments to that rental. Now, those adjustments are purely subjective. If those adjustments are increased, you can get to £1.31m. If the end allowance is increased, you get to £1.28m. I mean, I am trying to obviously come to a figure that looks sensible in relation to rental and is obviously comparing with the comparable properties. ....

... I have tried to look at it in one way and then another way, to try to be fair, to try and come to a figure that looks sustainable, not only in relation to the rental but in relation to the comparable properties as well.” [Extracts from transcript, 4 June 2009, pages 29 to 31].

51. Mr Long supported his revised valuation of £1,335,000 by three main comparables in respect of the 1960s accommodation:

- (i) Peter Black Logistics, Leicester (agreed assessment).

Mr Long said that this was his key comparable. It was a purpose built 1960s distribution warehouse of similar size (93,073 sqm) and height (5m) to the appeal property. It enjoyed a better location than Freemans and also had the benefit of being divisible into three units. Mr Long had agreed the valuation for the 1990 and 1995 rating list. Mr Long accepted Mr Allen’s allowance of 22% to reflect the locational difference and applied this to the figure used to value the

poorer quality Peter Black's warehouse accommodation, adjusted to allow for sprinklers (£20.50 per sqm). This gave an equivalent value of £15.99 for Freemans. He then reduced this figure by 5% to £15.20 per sqm to allow for the lower height of the 1960s Freemans' accommodation (3.5m) that was under the first floor. Finally, he increased the rate of £15.99 per sqm by 3% to reflect the 7m clear height of the majority of the 1960s Freemans' warehouse. This gave a (rounded) value of £16.50 per sqm. He adopted the respective values of £15.20 (reduced floor height) and £16.50 per sqm (full floor height) in his valuation.

(ii) TNT Storage Depot, Burton-on-Trent (rental comparable).

Mr Long accepted Mr Allen's analysis of the reverse premium (9 months rent free period) to the first review which gave a base price of £17.79 per sqm. He then made upward adjustments for heating (2.5%) and sprinklers (5%) and downward adjustments for height (5%) and location (20%) to give a comparable figure of £14.69 per sqm for the value of warehouse space within Freemans with an eaves height of 3.5m heated and sprinklered. This compared to his adopted figure of £15.20 per sqm.

(iii) Littlewoods, Bury (rental comparable).

Mr Long used this comparable as a check and considered it to be of less importance than the other two comparables because of its distance from the appeal property. He accepted Mr Allen's analysis of the reverse premium (9 months rent free period) to the first review which gave a base price of £25.26 per sqm (having adjusted for an area of hard standing). He then deducted 6% in respect of the difference in height between Littlewoods (6m) and Freemans (3.5m), 22% to reflect the superior location of Littlewoods, 10% in respect of size (Freemans being more than twice the size of Littlewoods) and 5% in respect of time (presumably because the Littlewoods' letting was two years after the AVD for the 2005 list). This gave a figure of £14.41 per sqm which compared with Mr Long's adopted figure for Freemans of £15.20 per sqm for warehouse space of 3.5m eaves height.

52. The base prices of £15.20 per sqm and £16.50 per sqm that Mr Long derived from the analysis of his three main comparables (which he supported with analysis of eight other properties) were used to value not only the 1960s accommodation but also the 1980s and 1990s accommodation (the latter being valued at £16 per sqm, presumably because of its lower height of 5.18m). His was an overall approach to the valuation, adopting prices that reflected the value of the hereditament as a whole rather than an amalgam of three different aged buildings/extensions. He had stood back and looked at the nature of the hereditament which was dominated (76%) by the 1960s warehousing. That determined its character. Mr Allen relied upon his consistency of approach but in three instances where hereditaments comprised buildings of different ages, Perkins Engines in Peterborough, Burch House, Peterborough and Ford at Daventry, the Valuation Officer appeared to adopt Mr Long's overall approach rather than attribute different values to the different ages of buildings as he had done at Freemans.

53. Mr Long accepted that there was very little evidence of quantum allowances above 20,000 sqm but he justified such an allowance for Freemans by comparing the assessment of a garage and premises let to Alltruck with that of the neighbouring Peter Black warehouse. The Alltruck unit (taken by Mr Long as 2,192 sqm) was assessed at £37.44 per sqm whereas Peter Black (93,072) was assessed at £20.50 per sqm (with sprinklers). Mr Long said that “This shows an allowance for size of 45%.” He also referred to three lettings of units in Peter Black’s and argued that there was a gradation in rental values according to size, falling from £38.40 per sqm for 23,680 sqm of accommodation (unit 2B) to £35.51 per sqm for 33,286 sqm (units 2A/3A) and £32.97 per sqm for 35,281 sqm (units 1/3B and 6). Finally, Mr Long compared the letting of Parkfield Precision Components, an inter war factory in Peterborough of 14,828 sqm, with the assessment of the Perkins Engine factory in Peterborough of 175,776 sqm. Adjusting for sprinklers and height Mr Long said that the rent at Precision Components was £16.96 per sqm compared with the Perkins assessment of £11.74 per sqm, a quantum allowance of 30%.

54. Mr Long used this evidence to justify making quantity allowances to two of his comparables. Firstly, he made a 10% deduction for size when analysing the rental evidence at Littlewoods, which had an area of 47,663 sqm compared with the appeal property’s 104,745 sqm. Secondly, he made a 40% deduction for size when analysing the assessment of a small factory and premises (3,612 sqm) at 38-40 Ivatt Way, Peterborough.

55. Mr Long said that there was very little useful evidence of comparable first floor warehousing on the scale of Freemans. Such floorspace had access and floor loading problems and poor eaves height. At Freemans fork lift trucks could not be used on the first floor, the load bearing capacity of which was one tenth of that of the ground floor. The first floor at Freemans had a height of 3.06m and comprised a quarter of the total warehouse floor plate. It was served by two (later said to be three) goods lifts and required 2000 trips to fill it. Unlike a mezzanine floor, which was flexible and removable, the concrete first floor at Freemans was permanent and could not be removed. Mr Long said that to take the mezzanine walkways/storage in Freemans at 20% of the base price but the first floor accommodation at 65% of the base price as Mr Allen had done made no sense. Such comparable evidence as existed showed values of first floor accommodation of between £4.50 per sqm to £6.97 per sqm but these were in respect of much smaller areas, both absolutely and relatively, compared with Freemans. Mr Long valued the first floor warehouse accommodation at £5.50 per sqm.

56. In his supplementary report Mr Long adopted an end allowance of 5%. He said that there were five reasons for making such an allowance. Firstly, the property was badly fragmented with varying eaves heights and piecemeal development. The main comparables, Peter Black, TNT Storage and Littlewoods, did not suffer from these disadvantages. Secondly, the appeal property suffered from flooding during periods of heavy rain. Thirdly, there were fire walls dividing the two storey accommodation from the full height area, the full height accommodation in a 60/40 north/south split and between the 1981 extension and the full height warehouse. Fourthly, there was no designated lorry parking area which resulted in lorries parking on the perimeter road and causing obstructions. Finally, the ancillary facilities such as the nursery block, club house, staff shop etc were at some distance from the main part of the warehouse. Considering these factors and looking at the end allowances that had been made in

five of the parties' comparables (ranging from 5% to 15%) Mr Long said that a 5% allowance was appropriate.

**Conclusions: the rent payable under the 2003 lease.**

57. The parties agree that the propositions put forward by this Tribunal, Mr J H Emlyn Jones FRICS, in *Lotus and Delta* are relevant to this appeal. The Tribunal said that:

- “(i) Where the hereditament which is the subject of consideration is actually let that rent should be taken as a starting point.
- (ii) The more closely the circumstances under which the rent is agreed both as to time, subject matter and conditions relate to the statutory requirements ... the more weight should be attached to it.
- ....
- (v) In the light of all the evidence an opinion can then be formed of the value of the appeal hereditament, the weight to be attributed to the different type of evidence depending on the one hand on the nature of the actual rent and, on the other hand, on the degree of comparability found in other properties.
- ....”

58. The appeal hereditament was let under the 1972 lease which was surrendered, and a new lease granted in November 2003. The VT accepted that the initial rent of £850,000 passing under the new lease was the best evidence of rental value and it determined that this figure should be the rateable value. In my opinion it was wrong to do so. Even if the rent under the 2003 lease was the best and/or only evidence that fell to be considered then the VT were wrong not to have taken into account the future stepped rental increases at the 5 and 10 year rent reviews. It should have considered the equivalent (constant) rent rather than the initial rent. The respondent recognises this in its reply and in Mr Long's subsequent expert reports. Mr Long says that the equivalent rent (before adjustments) should be £1,101,306. Mr Allen says it should be £1,060,439. Mr Long gives no explanation as to how he calculated his figure whereas Mr Allen provides full details. I accept Mr Allen's calculation.

59. The 2003 lease was not a new letting to a party who was fresh to the scene. It resulted from a surrender of the 1972 lease and needs to be considered in that context. The respondent submits that before this surrender and regrant was negotiated it had asked the City Council to take a complete surrender of the 1972 lease so that Freemans could vacate the site. The respondent says that if the council believed that the open market value of the appeal hereditament was truly £1.76m it would have accepted such a surrender and relet the property for that amount. In the contemporary documents the only direct reference to such a surrender is in Mr Mackie's strategy document dated 11 March 2003 where it appears as one of six options. Elsewhere the documents refer to a surrender and simultaneous grant of a new lease

and to the re-gearing of the existing lease. There are no documents that state in terms either that Freemans offered, or that the City Council refused, a straight surrender of the 1972 lease.

60. The witness evidence is more revealing. Mr Wright said in his witness statement that he was unable to find any correspondence on file in respect of the outright surrender of the 1972 lease and that he believed that “this may have been considered and rejected by [Mr Chapman] prior to my involvement”.

61. Mr Barker said in cross examination that as far as he was aware “the option of a surrender was not on the table”. He went on to say that a comparison between the passing rent of £750,000 and the value of the site for redevelopment was “never discussed in those terms.” Had a surrender been an option he said that he would have compared the value of the present and proposed interests.

62. On the other hand Mr Sharpe said that he had some recollection of a surrender being discussed at a meeting with Mr Chapman. However Mr Sharpe acknowledged that this issue was not his responsibility. He said that Freemans had to rule out the possibility of surrendering the lease and walking away from the site and it was Mr Mackie’s job to advise on whether this was possible because Freemans had an option in 2003 to relocate the non-collateable part of its operation to its Ingleby Road site in Bradford. Mr Mackie had told Mr Sharpe that surrender “is not on the agenda” at which stage other options were considered. Had Freemans been able to surrender in 2003:

“...then we would have done, dependent on what sort of premium we would have to pay for all that. But as that was ruled out, our option then was to move to a more commercial lease ....”

63. Mr Mackie said in his witness statement that he put the option of an outright surrender of the 1972 lease to Mr Chapman but that he was not prepared to contemplate it. Mr Gibbons in his submissions is critical of Mr Mackie’s oral evidence describing it in significant respects as being “evasive and self serving” and “highly unsatisfactory” and referring to “the incoherence of his oral evidence when compared with the documents ....”.

64. I do not share Mr Gibbons’ declamatory criticism of Mr Mackie’s evidence. The evidence of Mr Mackie and Mr Sharpe seems to me to be consistent on the point and they are the only two witnesses with direct knowledge of what was said to and by Mr Chapman at the various meetings that took place between the City Council and Freemans. Neither Mr Wright nor Mr Barker was in attendance. I am satisfied that the possibility of an outright surrender of the 1972 lease was raised with Mr Chapman although there is no evidence that it was pursued vigorously or persistently or that all of those involved knew about it (neither Mr Wright nor Mr Barker were aware of it).

65. I do not accept that Mr Chapman’s apparent rejection of the offer to surrender necessarily indicates that the City Council thought that the open market rental value of the property was

not £1.76m or at least significantly higher than the initial or equivalent rents under the new lease. Importantly, neither Mr Barker nor Mr Mackie was instructed to undertake such a valuation. Mr Mackie said that during the course of negotiations there was no discussion of comparable rents or comparable properties. Mr Barker when asked in cross examination whether the £850,000 per annum plus five yearly uplifts under the new lease was the most the council could get for the property in September 2003 said that was “completely incorrect.” It appears that neither of the parties’ valuers had any expressed view about the open market rental value of the land and buildings.

66. The specific figure of £1.76m was not an issue between the City Council and Freemans because at the time the negotiations for a surrender and re-grant took place during 2003 that figure was not in the rating list and would presumably not have been known by the parties. The appellant in this appeal was, of course, not involved in any of the discussions about the surrender and re-grant of the 1972 lease. There is nothing in the evidence to suggest that the City Council had any informed view about the open market rental value of the land and buildings at the appeal property at that time. It seems to me that Mr Chapman’s refusal to consider an outright surrender was more likely to have been based upon the difficulty of re-letting the property and the consequent rental void rather than an objective view about the open market value of the land and buildings.

67. It also appears likely that the City Council were concerned not to lose an existing major employer. The political effects of doing so are referred to in a note of a meeting prepared by Nicholas Williams of the City Council’s legal department on 14 November 2003 in which he says:

“This possibility of surrender could obviously have an effect on the budgets within the council if it took place, and a political effect.”

Mr Sharpe said that the chief executive of the City Council attended meetings with Freemans “to have a cup of tea and a chat” with one of Peterborough’s major employers.

68. In my opinion the 1972 lease was a ground lease. The wording of the rent review clause specifically excludes the value of the buildings as was noted in Addleshaw Booth’s Report on Title sent to the respondent in September 2002. The contemporary documents from both parties make reference to a ground lease. The negotiations between the parties proceeded on the basis that the new lease would be a re-gearing of the 1972 lease but on modern commercial terms. Both sides appeared to believe that they were in a weak negotiating position because of the possible outcome of the next rent review under the 1972 lease in 2011. Freemans had been advised by Mr Mackie in his strategy paper dated 11 March 2003 that the value on review “could rise to an annual rent of over £6,000,000”. In a note to the Otto Board prepared by Mr Sharpe on 5 November 2003 one of the concerns about the 1972 lease was:

“... that the rent in 2011 would significantly increase (£2m to £8m)”

Under “other options considered” Mr Sharpe said:

“(a) Stay as now – it is only worth continuing the existing lease if the rent did not exceed £1.65m in 2011, the rent is certainly expected to go to £2m plus”.

Mr Mackie explained in cross-examination that these figures were not a valuation but a “risk assessment exercise” although no explanation was given as to how they had been calculated. However they were plainly relied upon by Mr Sharpe as indicative of the respondent’s likely future rental liability.

69. The City Council on the other hand took a different view. Mr Barker, in a letter to Mr Wright dated 24 September 2003 said:

“My initial view is that the current ground rent payable is higher than open market rental value and therefore it may be necessary to factor in a lower rent at review”.

In a cash flow analysis attached to the letter Mr Barker showed the reviewed rent at £700,000.

70. Mr Wright expressed the City Council’s surprise at the deal that had been offered by Freemans in a memorandum to Tony Chapman dated 26 November 2003:

“To be blunt, we do not fully understand why Freemans have been prepared to offer the council such a good deal, rarely do tenants offer their landlords an extra £9m, and in our experience when things are too good to be true, they usually are.”

71. Both parties believed that the new lease was a benefit to them. The City Council saw the surrender and regrant as an opportunity to increase its income and retain a major employer in the City whilst Freemans saw it as giving more flexibility and a certain and reduced long term rental liability. But neither party, at any time, viewed the rent under the new lease as representing the open market value of the land and buildings at the appeal property. The new lease was not negotiated on that basis. It was a surrender and renewal in which both parties considered the proposed lease in the context of the present (1972) lease. Although there is an actual rent under the lease which was agreed close to the AVD it is not one which, in terms of its nature, can be attributed weight when considering the statutory requirements of assessing rateable value. I agree with Mr Allen that the actual rent under the new lease is not of assistance in this appeal.

## **Conclusions: valuation**

### *Open market rental value*

72. The parties are in significant agreement about which comparables are the most relevant but differ in three main respects. Firstly, whether the appeal property should be valued as an amalgam of different aged parts, each valued by reference to comparables of its own age (Mr Allen), or whether it should be valued as a composite whole reflecting the predominance of the 1960s building (Mr Long). Secondly, the adjustment to be made to rental value for the first floor accommodation. Mr Allen deducts 35% whilst Mr Long deducts 67%. Thirdly, the

treatment of warehouse height. Mr Allen adjusts the rental value by a sliding scale which he applies (for older accommodation) where the eaves height falls outside a standard range of 3.5m to 6.1m. Mr Long applies three values; £16.50 per sqm for full height accommodation (taken as 7m for the 1968 building and 7.7m for the 1981 building) and £15.20 per sqm for reduced height (ground floor) accommodation (3.5m). He takes £16 per sqm for the 1991 building (5.18m).

73. There is little apparent difference between the parties regarding the basic price of the 1960s warehouse accommodation. Both parties adopt £16 per sqm and a height adjustment of 3% in respect of the full height (7m) accommodation (although Mr Long makes this adjustment in relation to a clear height at Peter Black's of 5m whilst Mr Allen makes the adjustment to the upper end of his range of standard eaves height, namely 6.1m). This gives a (rounded) height adjusted rental value of £16.50 per sqm. However Mr Long's figure already allows for sprinklers (being derived from the comparable assessment of £20.50 per sqm at Peter Black's where such an adjustment had already been made) whilst Mr Allen's figure does not.

74. I have considered all of the rental and comparable assessment evidence that both parties have assiduously produced and I have had particular regard to Peter Black Logistics, TNT at Burton on Trent and Littlewoods at Bury. Mr Long says of Peter Black that:

“the bulk of the warehouse is valued at £20.50 to reflect sprinklers and an eaves height of over 5 metres [ie a base price of £19.50 per sqm]”

He adopts £20.50 per sqm as the basis of the valuation of the appeal hereditament. I do not accept the accuracy of Mr Long's comment. The majority of the floor space (60%) at Peter Black is valued at the higher base price of £22 per sqm. The weighted average value for the total accommodation (before adjustments) is £21 per sqm. Adjusting for location on the agreed basis gives an equivalent base price for the appeal hereditament of £16.38 per sqm. I therefore conclude that Mr Allen's base price of £16 per sqm for the 1960s accommodation at the appeal hereditament (adjusted only for location) is reasonable. Mr Allen argues that Peter Black is of better quality and layout than Freemans. Mr Long denies this and also says that Peter Black has the advantage of divisibility. In my opinion there is no material difference between the two properties in terms of the 1960s accommodation.

75. The two rental comparables, TNT and Littlewoods, show values ITMS which are higher than the figure of £16 per sqm. How much higher depends upon how the reverse premium is analysed in each case. Mr Long analyses the premiums by calculating the annual equivalent rent over 5 years rather than 10 years because:

“I do not believe it is likely that there will be a nil increase at the first rent review.”

For Mr Long's comment to be correct there would have to be compound annual rental growth of approximately 4%. In adjusting the Littlewoods comparable he assumes rental growth of only 2.5% pa from 2003 to 2005. I prefer Mr Allen's view that the reverse premiums should be analysed over 10 years rather than 5 years. This gives a rental value ITMS of £19.32 per sqm for TNT and £27.77 per sqm for Littlewoods. Although both these rental comparables suggest a higher base price for the appeal property, I agree with Mr Allen that once Peter Black



is taken into account (which both experts agree provides strong evidence) the figure of £16 per sqm is an appropriate one to adopt.

76. Mr Long applies his base price to value all ages of warehouse accommodation, including the 1980s and 1990s buildings. There is no comparable evidence that supports this approach. The only comparables of mixed aged accommodation from the 1960s and 1980s relied upon by Mr Long is the Hotpoint factory at Morley Way, Peterborough, the Nanjing Automobile Corporation Works in Birmingham and a former Kays Catalogue Warehouse in Worcester. I find the Nanjing Works to be of no assistance for the reasons given by Mr Allen in his evidence which included the fact that the lease commenced some three years after the AVD and contained stepped rental increases and hand back provisions. Mr Long says that “this is a particularly difficult property transaction to analyse” and relies upon it primarily to demonstrate a very limited demand for large older properties. There is no transaction to analyse in respect of the Kays Warehouse and it is again relied upon by Mr Long to demonstrate the lack of demand (in 2007) for a large distribution warehouse.

77. The currently unchallenged assessment of the Hotpoint factory values the more modern 1970s and 1980s accommodation at between £23.63 and £26.25 per sqm (with heating and sprinklers) compared with the 1960s accommodation which was valued at £16.80 per sqm (with heating and sprinklers). Mr Long says in his supplemental report that the more modern 1970s and 1980s accommodation at Hotpoint is located in stand alone buildings which do not form part of a much larger warehouse as it does at Freemans. This is true of the 1970s buildings A54 and A55 but in respect of the 1980s building it is contrary to the description of the Hotpoint hereditament as it appears in the statement of agreed facts:

“Building A58 is a 1980s built steel portal frame extension to the main factory”

The 1960s Hotpoint building is therefore valued at the same rate, and on the same basis, as the 1960s warehouse accommodation at Freemans, as is the 1980s Hotpoint accommodation (£26.25 per sqm heated and sprinklered). The most relevant evidence of mixed age accommodation produced by Mr Long therefore supports Mr Allen’s approach. Notwithstanding the fact that the more modern accommodation at Hotpoint was valued at higher rates Mr Long has taken the lower value of the 1960s floorspace and applied this to all warehousing at Freemans, regardless of its age.

78. I do not accept this approach and I prefer Mr Allen’s method of valuation which places a higher value upon the more modern Freemans accommodation. Apart from the assessment at Hotpoint this approach is supported by several other mixed age comparable assessments which have been valued at different rates according to the age of the buildings (contrary to Mr Long’s suggestion, see paragraph 52 above), eg Ford Motor Company at Daventry (1960s and 2000, appeal withdrawn), Ashfordby Storage at Melton Mowbray (1980s and 2005, appeal agreed), Harris Logistics (1980s and 1990, appeal agreed), H L Foods, Wisbech (1960s and 1999, appeal withdrawn) and Perkins Engines, Peterborough (1940s, 1967, 1974, under appeal). I have already determined that the appropriate rental value for the 1960s accommodation at the appeal property is £16 per sqm (heated but not sprinklered). The equivalent rental values for the 1980s and 1990s accommodation are said by Mr Allen to be £25 per sqm and £30 per sqm.

79. There are two pieces of rental evidence for the 1980s floorspace, both of which relate to purpose built accommodation, ie not mixed aged. These are the Greeting Card Group warehouse, Peterborough, 14,922 sqm showing £33.84 per sqm in terms of main space (ITMS) as at June 2003 and Burch House, Peterborough, a warehouse of 12,697 sqm showing £28.02 ITMS as at March 2004. Both comparables reflect heating, eaves heights of 7m and 5m respectively but not sprinklers. There are also four comparable assessments of 1980s property. The Hotpoint factory in Peterborough has already been analysed above. There are two other mixed aged warehouses, Ashfordby Storage at Melton Mowbray, total area 65,902 sqm, where the 1980s floorspace (9.2m eaves height) was valued at £31.50 to £35 per sqm; and Harris Logistics, Grantham, total area 33,165 sqm, where the 1980s floorspace (10m eaves height) was valued at £36.10 per sqm. Finally at 1 Hunters Road, Corby there is an assessment of 22,933 sqm of purpose built 1980s warehouse accommodation (10m eaves height) at £35 per sqm (appeal agreed). The 1980s comparables suggest that Mr Allen's adopted price of £25 per sqm (heated, not sprinklered and with a lower eaves height than is standard for such accommodation – see paragraph 33 (ii) above) is reasonable and I accept it.

80. The main rental evidence of 1990s accommodation relied upon by Mr Allen is the letting in March 2004 of a 20,994 sqm 1994 built warehouse with 10 metres eaves at the Royal Mail Sorting Centre Peterborough. This devalues to £39.33 per sqm. There are three comparable assessments. Firstly, the decision of the VT in respect of 155,408 sqm of 1994 warehousing (10m eaves) at Worksop occupied by Wilkinsons and where the value was taken at £34 per sqm. Secondly, the Harris Logistics Warehouse with 1990s accommodation (10m eaves) devalued to £38 per sqm. Thirdly the assessment of the Royal Mail sorting centre at Peterborough at £39.15 per sqm (appeal agreed). The comparable evidence suggests that Mr Allen's adopted price of £30 per sqm (heated, not sprinklered, lower height) is reasonable and I accept it.

81. Mr Glover criticised the use of comparables of smaller stand alone buildings to value the 1980s and 1990s accommodation at the appeal property. He argued that such comparables reflected a different market to that of the Freemans building. I am satisfied that the evidence relied upon by Mr Allen is comprehensive, reliable and of assistance in valuing the subject property and that the use of an end allowance to reflect its mixed age characteristics is appropriate.

### *Quantum*

82. In *Austin Motor Co. Ltd. v Woodward (VO)* (1968) 15 RRC 3, an appeal involving a large motor manufacturing works, the Tribunal, Mr J S Daniel QC and Mr RC Walmsley FRICS, commented upon the phrase “effect of size” at 40:

“In our opinion the size of a property is a neutral attribute, incapable as such of having any rental effect; what does have a rental effect is the degree to which the property meets, or fails to meet, the requirements of its occupier.”

The Tribunal accepted that such a rental effect was produced by the demand (or lack of demand) for property of that size. It continued:

“The term ‘quantity allowance’, although convenient and much used, is misleading to the extent that it masks this essential distinction. We do not think any rental inference at all can be drawn merely from a knowledge of the size of the property being valued; to carry some significance that fact of size must in our view be coupled with other information – which often conveniently takes the form of rental evidence in respect of similar properties of about the same size.”

83. The Tribunal has found in a number of appeals involving the zoning method of valuing shops that it only requires “comparatively slender evidence” to establish a quantity allowance in the market. In *Trevail (VO) v C&A Modes Ltd.* (1967) 13 RRC 194 the Tribunal said at 204:

“Once that is done, it must be answered by positive evidence to displace it.”

(This approach was followed more recently in *British Telecommunications plc v Broadway (VO) (No.2)* [1996] RA 297 at 321, an appeal involving office premises.)

84. In *F W Woolworth & Co. Ltd. v Christopher (VO)* (1972) 17 RRC 341 the Tribunal, Mr J H Emlyn Jones FRICS, said at 350:

“The onus of proof in rating appeals as in any appellate jurisdiction lies on the appellant and it matters not whether the appellant is a ratepayer claiming a quantity allowance or a valuation officer seeking its exclusion. I can see no reason therefore for drawing a distinction between this particular field of disagreement and any other dispute based on a difference of opinion on value.”

85. In my opinion the combined effect of these decisions is as follows:

- (i) The onus of proof is on the appellant Valuation Officer to show that there should be no quantity allowance.
- (ii) In meeting that onus of proof the appellant must adduce positive evidence to displace any “comparatively slender evidence” adduced by the respondent in support of a quantity allowance.

86. I am satisfied that Mr Allen has provided adequate explanations to displace the examples relied upon by Mr Long as establishing a quantum allowance. I also attach weight to Mr Allen’s personal experience of not having conceded such an allowance in respect of any distribution warehouse above 20,000 sqm in either the 2000 or 2005 rating lists, and to his example of the lettings of two different sized units at the Peter Black warehouse. However, I do not attach significant weight to Mr Allen’s comparison between the Hotpoint and Perkins assessments. As Mr Glover points out the assessment at the former may yet be appealed (although this becomes increasingly unlikely as time goes by) and the latter is still subject to an appeal.

87. The possibility of a quantum allowance is only relevant to one of the three main comparables relied upon by both experts, namely Littlewoods at Bury. The other two such comparables, Peter Black and TNT, are both a similar size to the appeal property. Under the circumstances, as Mr Glover fairly acknowledges:

“...the debate about quantum is not on the critical path to the decision on this appeal”

It is also worth noting what Mr Long says about the Littlewoods comparable:

“I have placed less reliance on this transaction as it is located over one hundred and forty miles from the appeal property but I think it useful as a check against my opinion of value.”

88. Even had I accepted Mr Long’s quantum allowance of 10% and his other two disputed adjustments when adjusting the Littlewoods comparable, the equivalent figure for the Freemans property (using my preferred option of analysing the rent free period over ten years rather than five) would be £15.82 per sqm (adjusted for location) which supports Mr Allen’s base price of £16 per sqm for the 1960s accommodation at the appeal property.

#### *Height and floor level*

89. The experts differ as to how the valuation should be adjusted for the different heights of the appeal property. Mr Allen favours a sliding scale adjustment for heights in the older accommodation that fall outside a standard range of between 3.5m (11.5 ft) and 6.1m (20 ft) (see paragraph 32 above). This range is derived from the valuation scheme that has been used to value the appeal property. The scheme is applicable to large industrial properties over 20,000 sqm, including warehouses. The consequence of using this scheme is that Mr Allen makes no value distinction for floorspace that has a height falling within the stated range. In cross-examination he conceded that he had no rental evidence to support or contradict this approach, although he said that it had been agreed in respect of the assessment of a significant number of large properties (said by Mr Allen to be more than 20 but less than 100) in the 1995, 2000 and 2005 rating lists. Mr Long, in effect, adopts a much smaller range of heights as representing the norm. He says that whilst there is no material difference in value for heights between 5m (16.4 ft) and 6.1m, there should be a reduction in value where the height is lower than 5m.

90. Of the three main comparables relied on by the parties, both Peter Black and TNT have an eaves height of 5m. Littlewoods is higher, varying from 5.7m to 11m (70% of the warehouse floorspace). There are 9 further 1960s (or earlier) comparables for which details of the eaves height is available. Only two of those, the Hotpoint factory, which has an area of lower ground floorspace (8,529 sqm or 10% of the total) with a height of 2.5m, and the upper floors of the multi-storey warehouse at 250 Bransford Road, Worcester, which have heights varying from 3.2m to 4.6m, have a lower height than that found at Freemans. Apart from these properties the lowest eaves height appears to be 3.5m in respect of a small 1930s warehouse at the rear of the main building at HMP Service, Burton, and 4.9m in respect of part of the

Unipart distribution warehouse in Oxford. In my opinion this evidence does not support a “norm” as low as 3.5m. Heights this low appear to be unusual.

91. Following my site inspections and consideration of all of the evidence, I think that Mr Allen’s range is too wide and I do not accept that it is properly described as the “norm” for large 1960s distribution warehouses. I consider that the height range within which rental values will not vary for 1960s warehouse accommodation of the subject type is 1.5m, from 4.6m (approximately 15 ft) to 6.1m (20 ft). I accept that outside of this range the value will vary on the sliding scale suggested by Mr Allen. The upper end of the scale does not alter but at the lower end the value will decrease pro rata by 10% between 4.6m and 2.5m.

92. The parties also disagree about the valuation of the first floor floorspace. Mr Allen’s approach is to deduct 35% from the base price to reflect the disadvantages of first floor compared with ground floor warehousing. He explained that this also reflects the low height of such first floor space (3.06m). In support of his view Mr Allen referred to the assessments of the Greeting Card Group warehouse in Peterborough (appeal outstanding) and the Parkfield Precision Components factory in Peterborough (appeal withdrawn) where this discount had been applied. He also referred to the new part (2005) of the Ashfordby warehouse in Melton Mowbray where the agreed assessment showed a deduction of 20% for first floor warehousing. Mr Allen gave several examples of modern build (2000 onwards) warehouses where first floor accommodation had been provided.

93. Mr Long said that there was very little comparable evidence of first floor warehousing. He cited examples at Hotpoint (a discount of over 40%) and Goodyear Dunlop (35%) for areas of first floor accommodation that he said were very much smaller than those at Freemans where it comprised 25% of the warehouse floorspace. He valued the first floor at £5.50 per sqm, or one third of his adopted base price for the full height ground floor warehousing.

94. The appeal hereditament has an unusually large amount of first floor warehousing. None of the comparables (with the exception of the multi-storey building at 250 Bransford Road) has as much and few of them have any. This amount, both relatively and absolutely, of first floor accommodation affects the character and utility of the building as a whole. The first floor accommodation at Freemans has insufficient floor loading to allow fork lift trucks; it has a very low ceiling height of 3.06m and poor lift access. It is unattractive and ill suited for its purpose. In my opinion the value of the first floor floorspace should taken at 50% of the base price of the equivalent ground floor, full height accommodation.

*End allowance*

95. Both parties make an end allowance of 5%. Mr Allen’s allowance is for the cramped nature of the site, its mixed age and piecemeal development. He rightly points out that by using the comparables of TNT, Littlewoods and Peter Black the disabilities of those properties, which are on a par with those at Freemans, will already be reflected in the base price. Mr Long’s allowance is for the fragmentation of the site, flooding, the presence of firewalls and

the lack of designated lorry parking. I do not consider that there was sufficient evidence to establish the frequency and extent of flooding. Nor do I consider the presence of firewalls to be a disability. In my opinion an allowance of 5% is appropriate to reflect the disabilities of the appeal hereditament insofar as they are not already reflected in the base price.

### **Determination**

96. My valuation is set out in the attached Appendix and is in the sum of £1,675,000. It is therefore marginally higher than the agreed 2000 list assessment of £1,620,000. Mr Allen argued that generally the rateable value of comparable properties had increased between the 2000 and 2005 lists and that his valuation of £1,760,000 reflected this. In my opinion the fact that my valuation only shows a marginal increase between the lists is not significant. The valuation has been prepared in the light of a substantial amount of evidence that was fully analysed and tested at the hearing. My decision is based upon the facts as determined and is not influenced by the previous list entry.

97. I therefore allow the appeal in part and determine the rateable value of the appeal hereditament to be £1,675,000 with effect from 1 April 2005. The parties are now invited to make submissions on costs, and a letter relating to this accompanies this decision, which will become final once the question of costs has been determined.

Dated 7 December 2008

A J Trott FRICS

### **Appendix**

#### **Valuation of the Lands Tribunal**

**Freemans plc, Ivatt Way, Peterborough PE3 7HA**

Description	Area (m <sup>2</sup> )	Factor	£/m <sup>2</sup>	Value (£)	Remarks
<b><u>1968 Accommodation base price: £16.00 per sqm</u></b>					
1. Warehouse (1968): Loading bay	3,032.26	1.05	16.80	50942	5% sprinklers
2. Warehouse (1968): Full height (7.0m)	29,880.36	1.08	17.28	516333	5% sprinklers, 3% height <sup>1</sup>
3. Warehouse (1968): Below gallery offices (3.49m)	928.63	1	16.00	14858	5% sprinklers, minus 5% height
4. Warehouse (1968): Below upper floor (3.49m)	17,372.30	1	16.00	277957	5% sprinklers, minus 5% height
5. Amenity block (1968)	242.12	1.1	17.60	4261	10% works offices
6. Maintenance crib (1968)	1,661.60	1	16.00	26586	
7. Warehouse (1968): First floor (3.06m)	18,176.18	0.55	8.80	159950	5% sprinklers, minus 50% first floor
8. Disused gallery offices (1968)	449.92	0	0.00	0	
9. Used gallery offices (1968)	124.99	1.15	18.40	2300	5% sprinklers, 10% works offices
10. First floor plant rooms (1968)	426.43	0.55	8.80	3753	5% sprinklers, minus 50% first floor
11. Second floor plant rooms (1968)	426.43	0.3	4.80	2047	5% sprinklers, minus 75% second floor
12. Main offices/canteen (1968)	2,502.79	1.2	19.20	48054	20% offices
13. First floor main offices (1968)	1,752.20	1.2	19.20	33642	20% offices
14. Security block (1968)	143.02	1.1	17.60	2517	10% works offices
15. Nursery block (1968): IT offices	496.46	1.2	19.20	9532	20% offices
16. Clubhouse (1968)	482.56	1.2	19.20	9265	20% offices
17. Site maintenance (1968)	338.20	0.75	12.00	4058	minus 25% lower ground level
18. Mezzanine walkways	672.91	0.25	4.00	2692	5% sprinklers, minus 80% mezzanine
19. Mezzanine store adj conveyor	766.30	0.25	4.00	3065	5% sprinklers, minus 80% mezzanine
<b><u>1981 Accommodation base price: £25.00 per sqm</u></b>					
20. Staff shop (1981)	703.63	1	25.00	17591	
21. Warehouse (1981): Below upper floor (3.52m)	5477.38	1	25.00	136935	5% sprinklers, minus 5% height
22. Warehouse (1981): Loading bay	858	1.025	25.62	21982	5% sprinklers, minus 2.5% heating
23. Warehouse (1981): Full height (7.74m)	9,351.00	1.05	26.25	245464	5% sprinklers <sup>2</sup>
24. Plant room (1981)	365.8	1.025	25.62	9372	5% sprinklers, minus 2.5% heating
25. Amenities block (1981)	331.61	1.1	27.5	9119	10% works offices
26. Amenities block (1981): First floor	331.61	1.1	27.5	9119	10% works offices
27. Warehouse (1981): First floor (3.06m)	5456.7	0.55	13.75	75030	5% sprinklers, minus 50% first floor
<b><u>1991 Accommodation base price: £30.00 per sqm</u></b>					
28. Sorting facility (1991) (5.81m)	1,680.00	1.05	31.5	52920	5% sprinklers
29. Canopy to sorting facility (1991)	268.8	0.15	4.5	1210	minus 85% cantilevered canopy
30. Sorting area works office (1991): First floor	44.4	0.55	16.5	733	5% sprinklers, minus 50% first floor
Plant and machinery				11,841	Agreed
Total before adjustments				1,763,126	
Less 5% end allowance				88,156	
Rateable value				1,674,970	
Say				<b>1,675,000</b>	

**Notes:**

<sup>1</sup> Factor adjustments are summated not multiplied

<sup>2</sup> The base price already reflects the lower height of this accommodation compared with the standard (10m) eaves height for 1980s accommodation. It is not appropriate to increase this factor (as Mr Allen does) as though it were being compared with 1960s accommodation, the standard height of which has a maximum value of 6.1m.