

OKKC

KNOX COURT

CARDIFF

WELL LET OFFICE INVESTMENT IN CARDIFF CITY CENTRE

KNOX COURT, 10 FITZALAN PLACE, CARDIFF, CF24 0TL



INVESTMENT SUMMARY

- A well let city centre investment opportunity in Cardiff, the capital city of Wales and one of the major regional centres in the UK.
- Situated in the heart of the city centre, in an established office location and within close proximity to prime retail and leisure amenities.
- The asset comprises 60,274 sq ft of headquarter office accommodation, arranged over ground and five upper floors.
- Let in its entirety to the 5A 1 covenant of Legal & General Assurance Society Limited on a renewed 10-year lease. The property provides a minimum unexpired lease term of 10.4 years to expiry and 3.6 years to break.
- Current passing rent is £860,000 per annum (£14.27 per sq ft), increasing in the reversionary lease commencing 29 September 2019 to £1,130,000 per annum (£18.75 per sq ft), with the first year at a reduced rent of £990,000 per annum (£16.42 per sq ft). The vendor will top up the rent to £1,130,000 per annum.
- Freehold.
- We are instructed to seek offers in excess of **£11,670,000 (Eleven Million, Six Hundred and Seventy Thousand Pounds)**, which represents an attractive **Net Initial Yield of 9.00%**, after deducting purchasers costs of 7.62%, and a capital value of **£194 per sq ft**.

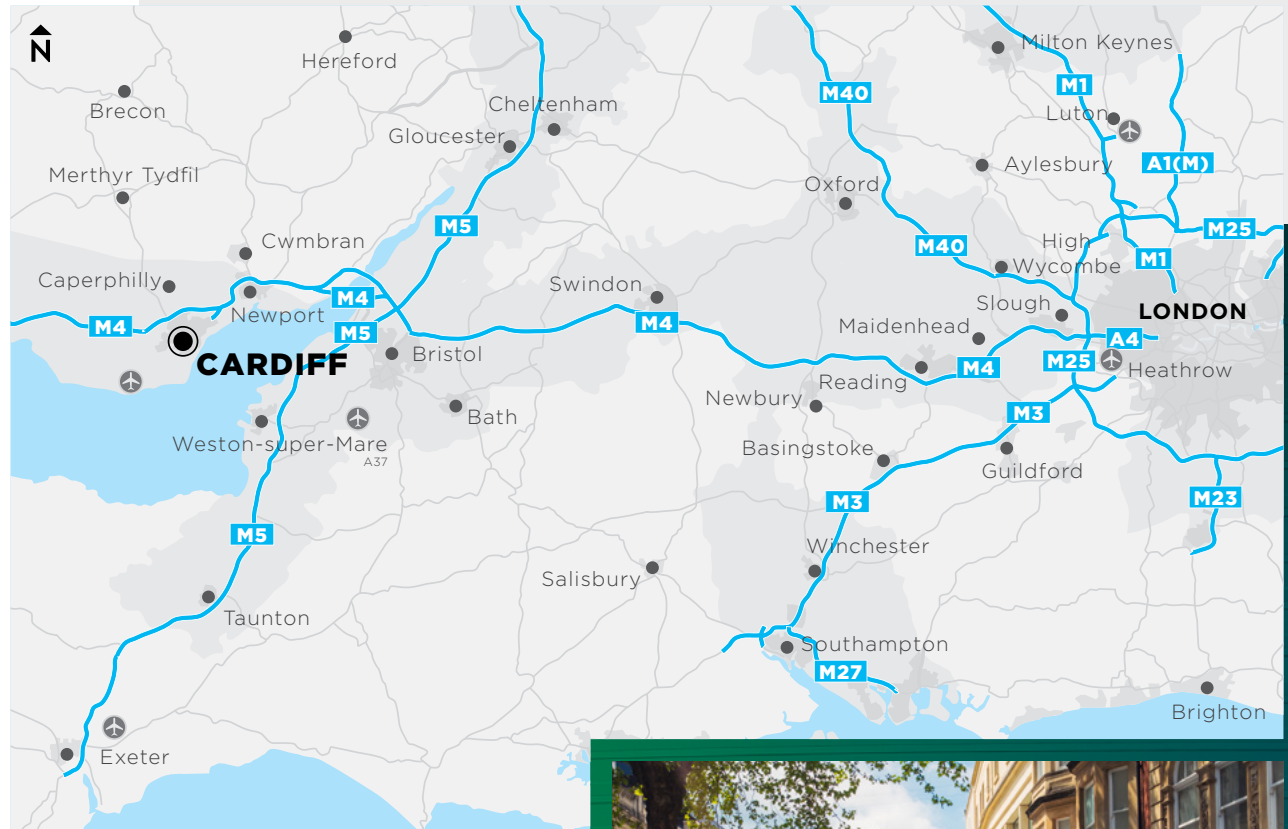
LOCATION

Cardiff is the capital city of Wales, strategically located approximately 150 miles (240km) west of London, 106 miles (171km) south west of Birmingham and 43 miles (69km) west of Bristol.

Cardiff benefits from excellent road links and can be accessed from four junctions of the M4 motorway (29-33). Cardiff International Airport is located 12 miles (19km) to the south west of Cardiff city centre and offers scheduled flights to a number of European destinations. Cardiff Central railway station provides intercity rail services to London Paddington approximately twice an hour, with a journey time of two hours.

Cardiff has established itself as one of the UK's premier business locations, attracting numerous national and global companies, including Admiral Insurance, Eversheds, Zurich, Atradius, Legal & General, Deloitte, BT and the BBC.

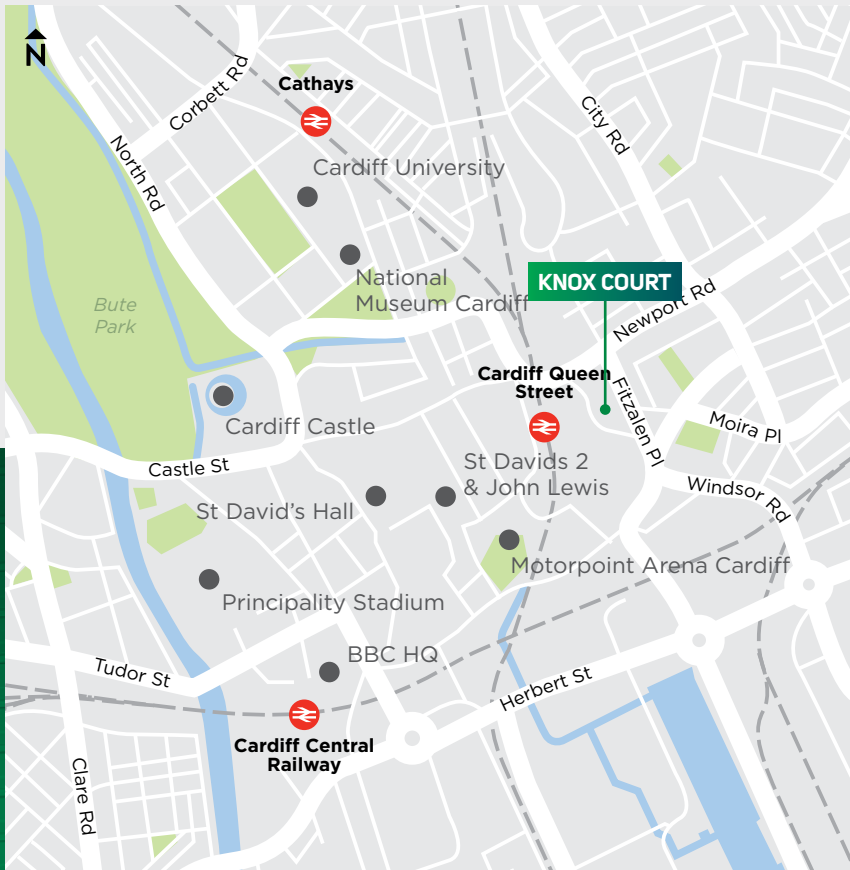
Cardiff is a popular tourist destination, attracting millions of visitors every year. There are numerous attractions, including the iconic Millennium Stadium, Cardiff Castle, Cardiff Bay and the Cardiff International Sports Village. The city has a reputable retail core, including St. David's 2 Shopping Centre, which was completed in 2009. This development, together with the original St David's, comprises a combined 1.4 million sq ft of retail space, including a 260,000 sq ft John Lewis store, elevating Cardiff firmly into the top ten of the UK's retail hierarchy.



SITUATION

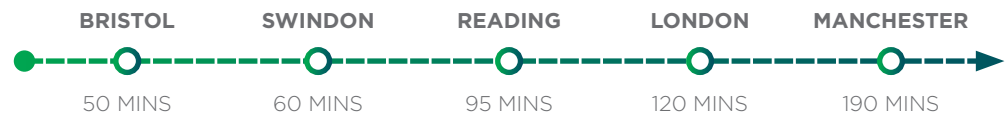
Knox Court forms part of an established city centre business location in Cardiff. The property boasts a prominent frontage onto the A4160, which provides a direct route onto Newport Road, an arterial road both through Cardiff city centre and out to the east of the city.

The property is located within proximity to Queen Street railway station and within walking distance of Cardiff's prime retail and leisure pitch situated on Queen Street.



CONNECTIVITY (TRAIN TIMES CONNECTIVITY LINE)

National Rail times from Cardiff:



Cardiff's connectivity will be improved further by the main rail line electrification project due to be completed by 2020, providing faster journey times between Cardiff and London.

FUTURE CARDIFF REGENERATION

Cardiff City Council and the Welsh Government have acknowledged that the future growth of the Welsh economy is dependent on a strong and vibrant capital city. The enterprise zone is just one of numerous initiatives that form part of a detailed master plan for the city which will vastly improve the infrastructure and boost the economic profile of Cardiff to firmly consolidate its position as one of the major regional centres in the UK. These initiatives include:



Cardiff Capital Regional City Deal

In March 2016, Cardiff was one of ten local councils to sign the Cardiff Capital Regional City Deal (CCR). The CCR is a regional investment vehicle aiming to bring together region wide infrastructure projects. With a gross value of £1.2 billion, projects include the electrification of the South Wales Valley rail network, a metro system worth £734 million, creation of 25,000 jobs in the region and a new innovation hub development.



Cardiff Central Enterprise Zone

The established Cardiff Central Enterprise Zone is centred on the Cardiff Central railway station and is the only enterprise zone in the UK dedicated to attracting and growing the financial and professional services sector.



Central Square

The commitment from Legal & General to the Central Square regeneration scheme reflects the improving confidence in Cardiff as a centre of growth and opportunity. The scheme will have a potential capital value of circa £400 million when fully completed. The first phase of office development, One Central Square, was completed in Q1 2016, while the BBC Wales relocation of its 165,000 sq ft headquarters building, which forms the centre of this regeneration area, is under construction, with occupation targeted by the end of 2019. Rents of £25 per sq ft are being achieved there.



Brains Brewery Redevelopment

Rightacres and SA Brains & Co have formed a joint venture to redevelop the site, which is just south of Cardiff Central station. The site could accommodate up to two million sq ft of developments, including offices, apartments and leisure. The new site will be known as Central Quay and will further transform Cardiff city centre.

South Wales should also see significant benefit from the recent removal of the Severn Bridge tolls, which is expected to bring further economic growth and occupational demand for South Wales, especially given its low occupational costs when compared with its nearest rival, Bristol.

DESCRIPTION

Knox Court comprises a headquarters office building constructed in 1996 and has been occupied since by L&G. The property is arranged over ground and five upper floors and provides 53 car parking spaces, reflecting an excellent car parking ratio of 1:1,137 sq ft. (New build in Cardiff city centre is now reflecting 1:3,000)

ACCOMMODATION

The following measurements have been provided by the vendor:

FLOOR	(SQ FT)	(SQ M)
Basement	161	14.96
Ground	9,438	876.82
First	9,848	914.90
Second	10,202	947.79
Third	10,211	948.63
Fourth	10,211	948.63
Fifth	10,203	947.88
TOTAL	60,274	5,599.61

ASSET MANAGEMENT

We consider there to be a number of asset management opportunities as follows:

- Remove breaks with existing tenant.
- Refurbish and re-let, if the tenant were to vacate.
- Potential to construct two additional floors, subject to planning.



Please note no screens or people were permitted in the photography of the building.

TENANCY

The property is let in its entirety to Legal & General Assurance Society Limited who currently occupy the building until 28 September 2019. They have renewed their occupation with a reversionary 10-year lease, starting 29 September 2019. The unexpired lease term is, therefore, 10.4 years to expiry and 3.6 years to break. The reversionary lease details are outlined below:

TENANT	AREA (SQ FT)	LEASE START	BREAK	RENT REVIEW	LEASE EXPIRY	RENT PER ANNUM	RENT (£PSF)	1954 ACT
Legal & General Assurance Society Limited	60,274	29/09/2019	01/12/2022 (T)* 01/02/2023 (L)	29/09/2024	28/09/2029	£1,130,000	£18.75	Inside

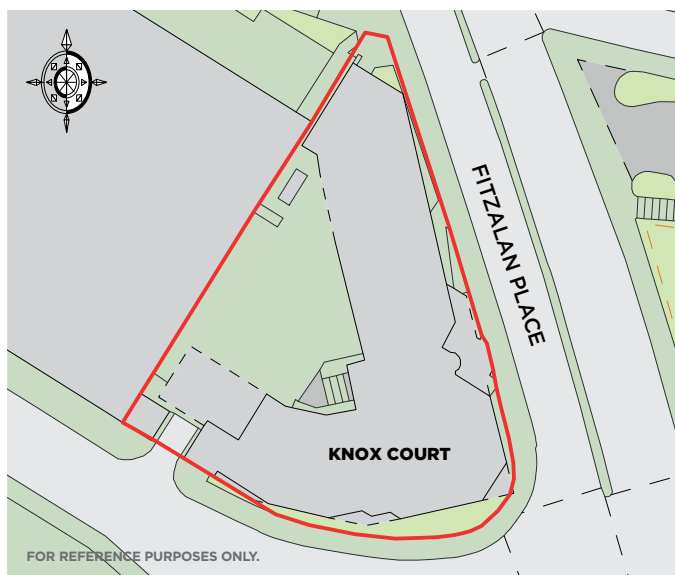
The current rent passing until the lease expiry on 28 September 2019 is £860,000 per annum, reflecting £14.27 per sq ft. The tenant also has the benefit of a reduced rent for the first year of the reversionary lease of £990,000 per annum, reflecting £16.42 per sq ft. At the second year of the reversionary lease, the rent will increase to £1,130,000 per annum.

The vendor will top-up the rent to £1,130,000 per annum for the remainder of the existing term and the reduced rent period.

* The tenant has a reinstatement obligation dating back to 1996, with the exception of certain permitted works.

SITE

The site measures approximately 0.48 acres (0.19 hectares).



NOTE:- Reproduced from the Ordnance Survey Map with the permission of the Controller of H.M. Stationery Office. © Crown copyright licence number 100024244 Savills (UK) Ltd. Note:- Published for the purposes of identification only and although believed to correct accuracy is not guaranteed.

COVENANT



Legal & General (L&G) is one of the largest financial services sector employers in Wales, with a workforce in Cardiff of approximately 2,000 employees spread across the subject property and nearby Brunel House, which is multi-let and situated at 2 Fitzalan Road.

Legal and General Assurance Society Limited have a D&B rating of 5A 1 representing a 'minimum risk of business failure'. A summary of their latest financial results is shown below:

	31 DEC 2017	31 DEC 2016	31 DEC 2015
Total Revenue	£8,527,000,000	£20,358,000,000	£6,864,000,000
Profit / (Loss) Before Taxes	£1,519,000,000	£1,283,000,000	£1,462,000,000
Net Assets	£5,873,000,000	£6,141,000,000	£5,595,000,000

Legal & General is a significant investor in the Cardiff property market and the city centre regeneration. This is evidenced by their involvement in the £400m Central Square redevelopment scheme and their recent forward funding of the redevelopment of the Westgate Street Post Office / Park Gate building into a new 165-bed luxury hotel. This regular investment into the city's development demonstrates L&G's continued commitment to the city, both occupationally and as a property investor.

CARDIFF OCCUPATIONAL MARKET

Cardiff's office market has a heavily constrained supply, as a result of strong demand for Grade A office accommodation in the city centre combined with a lack of new development and the removal of secondary stock for alternative uses. Headline prime office rents in Cardiff city centre are currently £25 per sq ft, agreed at Central Square.

Cardiff is also expected to see continued rental growth in Grade B offices. The under-supply of quality stock has driven rental growth of over 30% for the best refurbished space. Good quality refurbished office stock has recently achieved rents of £23 per sq ft, but this remains significantly cheaper than other regional city centres, such as Bristol and Birmingham.



Please note no screens or people were permitted in the photography of the building.

CARDIFF INVESTMENT MARKET

Cardiff has seen a sustained period of economic and demographic growth, which has attracted substantial investment into the region. Forecasts show that Cardiff is expected to continue to outperform the national average, with improving employment rates and the population predicted to grow by 25% in the next 15 years.

During 2018, Cardiff saw total commercial investment volumes of £408 million, 34% above the 5-year average and of which 84% of investment was in the office sector.

The table below shows recent comparable investment transactions in Cardiff, relevant to Knox Court:

ADDRESS	DATE	PRICE	NIY	PRICE PSF	TERM CERTAIN	AREA (SQ FT)	PURCHASER
Capital Tower, Cardiff	Sep-18	£25.1m	7.5%	£201	3.3	124,375	Trinova Real Estate
Cardiff Waterside	Jan-18	£84.5m	8.3%	£210	4.3	402,309	Global Mutual Properties
2 Callaghan Square	Mar-18	£14.9m	6.0%	£329	4.5	45,208	Daily Mail Pension Fund
St Patrick's House	Feb-18	£14.2m	6.9%	£275	9.0	51,500	Schroders (Regional Office PUT)
2 Capital Quarter	Jan-18	£23.2m	6.4%	£274	7.8	84,759	Tesco Pension Fund

TENURE

Freehold.

EPC

D86. Available upon request.

VAT

The property is elected for VAT and as such we anticipate that the transaction will be able to be treated as a TOGC (Transfer of a Going Concern).

CAPITAL ALLOWANCES

Further information provided upon request.

PROPOSAL

We are instructed to seek offers in excess of **£11,670,000 (Eleven Million, Six Hundred and Seventy Thousand Pounds)**, which represents an attractive **Net Initial Yield of 9.00%**, after deducting standard purchaser's costs of 7.62%, and a **capital value of £194 per sq ft**.

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