

Diminution: a plain vanilla case explained by Peter Beckett and Terry Davis

How a diminution valuation works in an imaginary claim with only one effective difference between the parties

ATTACHMENTS

Check the attachments (the two-digit number in the footer is a version number. When we get the inevitable corrections, we'll add a 1 and produce a new series)

Exhibit	Title	Pages
1	Final positions	1
2	Contractual Claim and shortcut valuation	1
3	Valuation summary	1
4	Landlord's valuation	5
5	Tenant's valuation	5

In a real-world case, of course, there would also be:

6	The Scott Schedule	n
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but, to simplify, not here. You'll have to trust us when we say that Exhibit 2 faithfully summarises all you need to know about the detailed claim.

BACKGROUND

In order to make this "plain vanilla" exposition as simple as possible, a lot of the complicating detail of real-world cases has been removed:

- The claim relates to a small office building in a viable office location. The lease came to an end on 25 March 2013.
- The claim is in relation to covenants for repair only, and is therefore capped by "limb 1" of s18(1) of the Landlord and Tenant Act 1927¹. (What we mean by the expression "The Contractual Claim" below (and on the attachments) is the claim the Landlord would have under the terms of the Lease were there no s18(1)).
- The tenant had a standard full repairing and insuring ("FRI") lease of the whole.
- The landlord now has the freehold in possession.
- Peter (Beckett) acts for the Landlord; Terry (Davis) acts for the Tenant.
- The parties have agreed everything except two things - an unheard of situation in the real world, but that's what we assume. The differences relate to: the new ceiling that was going to be put in once the lease expired; and time losses (in the Contractual Claim only).

¹ Damages for breach of a covenant to keep or put premises in repair during the currency of a lease, or to leave or put premises in repair at the termination of a lease shall in no case exceed the amount (if any) by which the value of the reversion (whether immediate or not) in the premises is diminished owing to the breach of such covenant ...

You can follow how the differences feed through into the valuation by following the yellow highlighting on:

Exhibit	Title	Pages
2	Contractual Claim and shortcut valuation	
3	Valuation summary	
4	Landlord's valuation	2 and 3*
5	Tenant's valuation	2 and 3*

* *There are other differences on Page 3, but these are all merely mathematical consequences of the two highlighted differences. Also, ignore the pink highlighting for now.*

Notice that the difference on time losses in the Contractual Claim disappears on assessment of the diminution in value, so the only effective difference between the parties is the ceiling.

Easiest to start at the top level and drill down:

EXHIBIT 1: FINAL POSITIONS

At the simplest possible level, Exhibit 1 tells us that the two valuers disagree and that diminution in value, in classic valuers' fashion, is:

	But say
Landlord	235,000
Tenant	180,000
Difference	55,000
<i>Reason</i>	<i>Essentially suspended ceiling</i>

There's your answer: if you're bored, or you don't want to know how we got there, that's it! It'll be for the Court to say who's right.

If you're slightly less bored, you can see from the full table on this Exhibit that, although the Contractual Claim is £510,000-ish or £300,000-ish, depending on who you believe, the loss to the landlord is some £235,000 or £180,000, again depending whose side you prefer. A few other interesting points, even without drilling down into the detail:

- The "Shortcut valuation" gives a fair approximation of the full diminution.
- There's "Essentially" no difference between the parties at either valuation level, except in relation to the ceiling.
- The difference between the parties shrinks when valuation comes in (although it may not always do), even using the "Shortcut" method.
- The difference between the parties shrinks further when the full diminution valuation is calculated (although it may not always do).
- The claim is the lowest of the three measures: Contractual Claim, shortcut valuation and full diminution valuation.

Now, for those who are not yet bored - indeed are eager to understand how we got there:

EXHIBIT 2: SUMMARY OF SCOTT SCHEDULE AND SHORTCUT VALUATION

This one-page exhibit tells you what is and isn't agreed.

WHAT IS AGREED AT THE CONTRACTUAL CLAIM LEVEL

Everything is agreed at the Contractual Claim level, except the Landlord thinks he is entitled to claim time losses at this level, notably loss of rent. So the breaches, their remedy, and the costing of that remedy, are all agreed. (Ever heard of that happening?)

WHAT IS AGREED AT THE VALUATION LEVEL (SUPERSESSION)

Everything is agreed at the valuation level too, except in relation to the ceiling.

The valuers have agreed that the contractual obligation to repair the WCs and the reception area is superseded. The landlord and any likely buyer of the freehold would have wanted to upgrade those parts of the building even if they had been in fully covenanted order. Note in passing that covenanted order is the right perspective on supersession: if the tenant had done what he covenanted to do, would it have made any difference? If the answer is "no", the item is fully superseded.

The resulting supersession is most easily seen by looking at the "Contractor's costs" line, Landlord's "Dilution/supersession" column. Both sides accept that £30,000 (£36,000, once we add contractor's preliminaries, overheads and profit) of the Contractual Claim is superseded, and the Landlord can't claim it.

WHAT ISN'T AGREED AT THE CONTRACTUAL CLAIM LEVEL

There's only one thing: time losses. These disappear when valuation comes in anyway but, for the record:

- The Landlord says it would take time, once the lease ended, to prepare for and execute the agreed works, and he should be compensated for the resulting loss of time.
- The Tenant says the Landlord didn't have a new prospective tenant standing by, so he can't claim this.

WHAT ISN'T AGREED AT THE VALUATION LEVEL (SUPERSESSION)

This is the shortcut approach to the Landlord's loss. The only effective disagreement between the parties relates to the new suspended ceiling the Landlord has put in since the lease ended:

- The Landlord says the old ceiling was in such disrepair that he was forced to repair it. The only practical and/or economic way of doing that was to replace it.
- The Tenant agrees it was in substantial disrepair, but it was an old-fashioned fibreboard ceiling in a crude, exposed 1,200 x 600 grid unsuited to the modern LG7 standard of lighting. The Landlord has replaced it with a metal tiled ceiling in a modern, hidden 600 x 600 grid, well suited to LG7, and he would have done this even if the Tenant had returned the old ceiling to him in covenanted order. The contractual obligation to repair that ceiling is therefore superseded.

The disputed supersession is most easily seen by looking at the "Contractor's costs line, Tenant's "Dilution/supersession" column. Both sides accept that the value of this point is

the cost of repairing or replacing the ceiling: £45,000 before we add contractor's preliminaries, overheads and profit. The differences between the parties from that point onward are consequential - the absolute numbers depend on the difference over the ceiling, but the percentages to be applied to any given level of cost are agreed.

Everything you see on this one-page exhibit (down to the "TOTAL Scott Schedule" line) will feed into the formal, fully-worked diminution valuations.

EXHIBIT 3: VALUATION SUMMARY

So it's a comfort to see that the valuers have agreed almost everything:

WHAT IS AGREED

Pass over the "Other works" and "resultant supersession" columns. Almost unheard of this - but the valuers have agreed floor area! They have also agreed: ERV (estimated rental value) of the finished product; and yield (the return an investor would want to buy in that ERV). They agree all the "Constant factors in the valuations" and even, apart from the disputed ceilings, the scope of "Other works" - the works the wise Landlord will want to do, but which the Tenant (equally wise, no doubt) did not covenant to do.

Staggeringly, they sort of agree the value the building would have had had it been returned to the Landlord in covenanted order (Valuation A). They don't actually agree the number, because of the difference over the ceiling as explained above. If the ceiling is the Landlord's responsibility, not the Tenant's (as the Tenant claims), then obviously the value of the building with those works not yet done will be a bit lower than if (as the Landlord claims), the tenant would have done them in compliance. However, the valuers for the two parties are professionals - not in the sense of saying "I'm a professional" on their CVs and at cocktail parties, but in the sense of helping each other, their clients and the courts, by agreeing what the position will be if they are wrong: in other words "if you're right about the ceiling, even though I don't think you are, then the figure is correct".

WHAT IS NOT AGREED

As already seen when looking at the shortcut method, just the new suspended ceiling and whether it did, or did not, supersede the Tenant's obligations in relation to the ceiling.

Now, for those of you who are not even capable of boredom - yes, for you unfortunate souls:

EXHIBITS 4 AND 5: THE FORMAL, FULLY-WORKED DIMINUTION VALUATIONS

These valuations consist of five pages:

Page	Content
1	Diminution: Valuation A minus Valuation B
2	Valuation A: covenanted condition
3	Valuation B: actual condition
4	Reconciliation
5	Timings

Even those who have come this far have a boredom threshold somewhere, so you hardly need to look at pages 4 and 5. Page 4 is just to convince pedants like the two valuers in this case that the valuation is internally consistent. Page 5 (timings) is fully agreed.

If you look at the first line on page 1 of each of these exhibits, you'll note first that the two Valuations A - valuations in compliance (or covenanted order) are pretty well agreed, and if you look at them in the "professional" sense suggested above, fully agreed - to the pound! You can see the full workings on page 2 of each valuation. Anyone who has ever done a development appraisal will recognise these workings: they are residual valuations. Instead of starting with a known price to be paid and trying to work out whether a profit can be made (development appraisal), these take a level of profit as given and try to work out the value of the "site" (residual valuation).

Now for the fiddly stuff; it all occurs on page 3 - Valuation B, the value of the building in its actual state, not fully in compliance with covenants:

Colour	Meaning
Pink	Agreed differences between both Valuations A and both Valuations B
Yellow	Differences between Landlord and Tenant

Compare the two Valuations B. You can see that, with one exception, the valuers have even agreed the appropriate differences between Valuations A and B. The only difference between them is the £45,000 difference in their view of the ceiling (£54,000 when preliminaries, overheads and profit are included).

Note that, in relation to both kinds of difference, there are several other figures that are different, but all of them can be traced back to originating differences between valuations or between the parties.

One warning - against premature approximation. All the numbers are spuriously precise. They're correct, though. Approximate too early in the valuations, and you run the risk of burying the very thing you're looking for. Approximate to a sensible market-like figure right at the end - right back to the results figures shown on Exhibit 1, figures it will now be apparent are drawn from the calculations we've just been going through.

CONCLUSION: WHY CAN'T LIFE BE LIKE THIS?

Many complications: leasehold; less than FRI; continuing subtenants; refurbishment; huge disagreements at the Contractual Claim level; other dilution; deeper analysis; multiple futures. None of these affect the basic, simple logic much.

It's the detail that buries the logic; try to keep a clear head, and apply the principles.

Peter Beckett for the Landlord; Terry Davis for the Tenant
A small office building in a viable office location
Final positions

Party	Valuer	Contractual Claim	Shortcut valuation	Diminution valuation as cap	Claim	But say
Landlord	Beckett	509,297	243,600	236,824	236,824	235,000
Tenant	Davis	300,128	180,960	180,246	180,246	180,000
Difference		209,169	62,640	56,578	56,578	55,000
<i>Note on differences</i>		<i>Entirely time losses</i>	<i>Entirely suspended ceiling</i>	<i>Suspended ceiling and minor adjustments</i>	<i>Essentially suspended ceiling</i>	<i>Essentially suspended ceiling</i>

Peter Beckett for the Landlord; Terry Davis for the Tenant											
A small office building in a viable office location											
Contractual Claim and shortcut valuation											
				Landlord				Tenant			
				Contractual	Dilution/ supersession	Survival		Contractual	Dilution/ supersession	Survival	
Prime costs:											= originating difference
General repairs				30,000	0	30,000		30,000	0	30,000	
Decorations				40,000	0	40,000		40,000	0	40,000	
Reinstatement				60,000	0	60,000		60,000	0	60,000	
WCs				20,000	20,000	0		20,000	20,000	0	
Reception area				10,000	10,000	0		10,000	10,000	0	
Suspended ceilings				45,000	0	45,000		45,000	45,000	0	
Contractor's costs				205,000	30,000	175,000		205,000	75,000	130,000	
Preliminaries, overheads and profit @		20.00%		41,000	6,000	35,000		41,000	15,000	26,000	
TOTAL prime costs				246,000	36,000	210,000		246,000	90,000	156,000	
Fees:											
Preparation		2.50%		6,150	900	5,250		6,150	2,250	3,900	
Supervision		12.50%		30,750	4,500	26,250		30,750	11,250	19,500	
CDM co-ordination		1.00%		2,460	360	2,100		2,460	900	1,560	
TOTAL ex VAT				285,360	41,760	243,600		285,360	104,400	180,960	
Plus VAT		0.00%		0	0	0		0	0	0	
TOTAL Scott Schedule				285,360	41,760	243,600		285,360	104,400	180,960	
Consequential losses:											
Loss of rent	54	weeks @	£150,000	155,769				0			
Insurance premium	54	weeks @	£2,000	2,077				0			
Other irrecoverable costs	54	weeks @	£3,000	3,115				0			
Rates	41	weeks @	£48,510	38,248				0			
TOTAL basic claim				484,569				285,360			
Negotiation fees plus VAT		5.00%		24,228				14,268			
Solicitors' costs to date				500				500			
TOTAL claim ex interest				509,297				300,128			
Interest	67	weeks @	5.00%	32,810				19,335			
TOTAL due to date	(08-Jul-14)	542,107				319,463			

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuation summary

		Factors						Valuation		
Val	Approach	Other works (£) *	Resultant ft²	Resultant supersession	ERV (£/ft²)	ERV (£pa)	Yield	A (compliance)	B (actual)	Diminution
Landlord's valuer's view										
L1	Peter Beckett	60,000	7,500	36,000	20.00	150,000	6.50%	1,427,548	1,190,724	236,824
Tenant's valuer's view										
T1	Terry Davis	105,000	7,500	90,000	20.00	150,000	6.50%	1,370,970	1,190,724	180,246
C: constant factors in the valuations				D: scope of "Other works" *				Landlord	Tenant	
	Date of valuation	25-Mar-13		Reconfigure and refurbish WCs				25,000	25,000	
	Date of calculation	8-Jul-14		Reconfigure and refurbish reception				35,000	35,000	
	Acquisition cost rate (ex SDLT)	1.75%		Change fibreboard suspended ceilings to metal				0	45,000	
	Sale cost rate	2.00%						60,000	105,000	
	Supervision fees (including CDM)	13.50%								
	Letting fees as % of ERV	10.00%								
	Marketing costs	£2,500								
	Legal fees on letting as % of ERV	5.00%								
	VAT rate	0.00%								
	Profit as % of GDV	20.00%								
	Interest rate	5.00%								
	Insurance premium	£2,000	per annum							
	Other irrecoverable costs	£3,000	per annum							
	Empty rates **	£48,510	per annum							
				* Costs exclusive of preliminaries, overheads and profit						
				** Rateable value:	£105,000	@ the rate of	46.20	p in the £		

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuations: Landlord

Diminution in the value of the landlord's reversion

Valuation A: value in compliance with covenants	1,427,548
Valuation B: value in actual condition	<u>1,190,724</u>
Diminution in the value of the landlord's reversion	<u><u>236,824</u></u>

Peter Beckett for the Landlord; Terry Davis for the Tenant
A small office building in a viable office location
Valuations: Landlord
Valuation A: assuming Tenant's compliance with covenants

Sale to the Investor

1	Estimated rental value ("ERV")		150,000
2	Years' purchase in perpetuity at:	6.50%	15.3846
3	Investment value		2,307,690
4	Investor's acquisition costs at:	6.75%	145,920
5	Gross development value ("GDV")		2,161,770
6	Sale costs at:	2.00%	43,235
7	Net sale proceeds		2,118,535

Project costs (except those related to the site)

8	Scott schedule work		0
9	Less supersession		0
10	Net cost of work attributable to the outgoing tenant		0
11	Work not attributable to the outgoing tenant *		72,000
12	Supervision fees on lines 10 and 11 at:	13.50%	9,720
13	Letting fees as % of ERV:	10.00%	15,000
14	Legal fees on letting as % of ERV	5.00%	7,500
15	Marketing costs		2,500
16	VAT on lines 10-16 at:	0.00%	0
17	Total cost of work and lettings		106,720
18	Interest on the work for:	42 weeks at 5.00%	3,300
19	Insurance premium	50 weeks at £2,000 per annum	1,923
20	Other irrecoverable costs	50 weeks at £3,000 per annum	2,885
21	Void rates	37 weeks at £48,510 per annum	34,517
22	Profit to purchaser at:	20.00% on project costs	360,295
23	Total deductions unrelated to purchase price		509,640
24	Gross cost		1,608,895

Project costs related to the site

25	Interest for project length:	58 weeks at 5.00%	84,987
26	Purchase cost including acquisition costs		1,523,908
27	Acquisition costs at:	6.75%	96,360
28	Valuation A: in compliance, Purchaser pays		1,427,548

Interest rate **5.00%**

Date of valuation

Date of calculation **8-Jul-14**

* inclusive of preliminaries, overheads and profit

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuations: Landlord

Valuation B: in actual condition

Originating differences from Valuation A

Difference between the parties

Sale to the Investor

7 Net sale proceeds per line 7 on Valuation A 2,118,535

Project costs (except those related to the site)

8	Scott schedule work				246,000	
9	Less supersession				36,000	
10	Net cost of work attributable to the outgoing tenant				210,000	
11	Work not attributable to the outgoing tenant *				72,000	
12	Supervision fees on lines 10 and 11 at:	13.50%			38,070	
13	Letting fees as % of ERV:	10.00%			15,000	
14	Legal fees on letting as % of ERV	5.00%			7,500	
15	Marketing costs				2,500	
16	VAT on lines 10-16 at:	0.00%			0	
17	Total cost of work and lettings					345,070
18	Interest on the work for:	45	weeks at	5.00%		13,849
19	Insurance premium	58	weeks at	£2,000	per annum	2,231
20	Other irrecoverable costs	58	weeks at	£3,000	per annum	3,346
21	Void rates	45	weeks at	£48,510	per annum	41,980
22	Profit to purchaser at:	20.00%	on project costs			360,295
23	Total deductions unrelated to purchase price					766,771
24	Gross cost					1,351,764

Project costs related to the site

25	Interest for project length:	66	weeks at	5.00%		80,666
26	Purchase cost including acquisition costs					1,271,098
27	Acquisition costs at:	6.75%				80,374
28	Valuation B: in actual state, Purchaser pays					1,190,724

* inclusive of preliminaries, overheads and profit

Peter Beckett for the Landlord; Terry Davis for the Tenant							
A small office building in a viable office location							
Valuations: Landlord							
Reconciliation of the valuations to the Contractual Claim							
Comparison							
	Contractual claim before interest					509,297	
	Diminution before rounding					236,824	
	Difference					272,473	
		Valuation A	Valuation B	Diminution effect	Contractual claim	Difference	Comment
Valuation reduces the claim							
	Cost of compliance works	0	210,000	210,000	246,000	36,000	Supersession
	Supervision and CDM co-ordination	9,720	38,070	28,350	33,210	4,860	Linked to supersession
	VAT	0	0	0	0	0	
	Insurance premium	1,923	2,231	308	2,077	1,769	
	Other irrecoverable costs	2,885	3,346	461	3,115	2,654	
	Rates	34,517	41,980	7,463	38,248	30,785	
Valuation introduces new factors							
	Interest on the work	3,300	13,849	10,549	0	-10,549	
	Interest on purchase price	84,987	80,666	-4,321	0	4,321	
	Acquisition costs	96,360	80,374	-15,986	0	15,986	
Valuation eliminates							
	Preparation of schedule	0	0	0	6,150	6,150	
	Negotiation of claim	0	0	0	24,228	24,228	
	Solicitors' costs	0	0	0	500	500	
	Loss of rent	0	0	0	155,769	155,769	
Comparison with the Contractual Claim						272,473	

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuations: Landlord

Assumed timings

	A: in compliance		B: actual	
	Weeks	Week	Weeks	Week
Lease expires	0	0	0	0
Preparation of schedule of works	2	2	2	2
Planning consent	0	2	0	2
Instructions to proceed	1	3	1	3
Receipt of tenders	4	7	4	7
Tender report	1	8	1	8
Instructions to proceed	1	9	1	9
Contractor on site	4	13	5	14
Contract period	7	20	14	28
Letting - agreed	26	46	26	54
- completion	4	50	4	58
Investment - marketing	4	54	4	62
- completion	4	58	4	66
Total	58		66	
Cost of works financed for	42 weeks		45 weeks	
Insurance premium paid for	50 weeks		58 weeks	
Other irrecoverable costs paid for	50 weeks		58 weeks	
Empty rates paid for	37 weeks		45 weeks	

NOTE: A complex case may justify a DCF analysis in substitution for the above. Circle Developer uses such an analysis.

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuations: Tenant

Diminution in the value of the landlord's reversion

Valuation A: value in compliance with covenants	1,370,970
Valuation B: value in actual condition	<u>1,190,724</u>
Diminution in the value of the landlord's reversion	<u><u>180,246</u></u>

Peter Beckett for the Landlord; Terry Davis for the Tenant
A small office building in a viable office location
Valuations: Tenant
Valuation A: assuming Tenant's compliance with covenants

Sale to the Investor

1	Estimated rental value ("ERV")		150,000
2	Years' purchase in perpetuity at:	6.50%	15.3846
3	Investment value		<u>2,307,690</u>
4	Investor's acquisition costs at:	6.75%	145,920
5	Gross development value ("GDV")		<u>2,161,770</u>
6	Sale costs at:	2.00%	43,235
7	Net sale proceeds		<u>2,118,535</u>

Project costs (except those related to the site)

8	Scott schedule work		0
9	Less supersession		<u>0</u>
10	Net cost of work attributable to the outgoing tenant		0
11	Work not attributable to the outgoing tenant *		<u>126,000</u>
12	Supervision fees on lines 10 and 11 at:	13.50%	17,010
13	Letting fees as % of ERV:	10.00%	15,000
14	Legal fees on letting as % of ERV	5.00%	7,500
15	Marketing costs		2,500
16	VAT on lines 10-16 at:	0.00%	<u>0</u>
17	Total cost of work and lettings		168,010
18	Interest on the work for:	42 weeks at 5.00%	5,775
19	Insurance premium	50 weeks at £2,000 per annum	1,923
20	Other irrecoverable costs	50 weeks at £3,000 per annum	2,885
21	Void rates	37 weeks at £48,510 per annum	34,517
22	Profit to purchaser at:	20.00% on project costs	<u>360,295</u>
23	Total deductions unrelated to purchase price		<u>573,405</u>
24	Gross cost		<u>1,545,130</u>

Project costs related to the site

25	Interest for project length:	58 weeks at 5.00%	<u>81,619</u>
26	Purchase cost including acquisition costs		<u>1,463,511</u>
27	Acquisition costs at:	6.75%	<u>92,541</u>
28	Valuation A: in compliance, Purchaser pays		<u><u>1,370,970</u></u>

Interest rate **5.00%**

Date of valuation

Date of calculation **8-Jul-14**

* inclusive of preliminaries, overheads and profit

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuations: Tenant

Valuation B: in actual condition

Originating differences from Valuation A

Difference between the parties

Sale to the Investor

7 Net sale proceeds per line 7 on Valuation A 2,118,535

Project costs (except those related to the site)

8	Scott schedule work				246,000	
9	Less supersession				90,000	
10	Net cost of work attributable to the outgoing tenant				156,000	
11	Work not attributable to the outgoing tenant *				126,000	
12	Supervision fees on lines 10 and 11 at:	13.50%			38,070	
13	Letting fees as % of ERV:	10.00%			15,000	
14	Legal fees on letting as % of ERV	5.00%			7,500	
15	Marketing costs				2,500	
16	VAT on lines 10-16 at:	0.00%			0	
17	Total cost of work and lettings					345,070
18	Interest on the work for:	45	weeks at	5.00%		13,849
19	Insurance premium	58	weeks at	£2,000	per annum	2,231
20	Other irrecoverable costs	58	weeks at	£3,000	per annum	3,346
21	Void rates	45	weeks at	£48,510	per annum	41,980
22	Profit to purchaser at:	20.00%	on project costs			360,295
23	Total deductions unrelated to purchase price					766,771
24	Gross cost					1,351,764

Project costs related to the site

25	Interest for project length:	66	weeks at	5.00%		80,666
26	Purchase cost including acquisition costs					1,271,098
27	Acquisition costs at:	6.75%				80,374
28	Valuation B: in actual state, Purchaser pays					1,190,724

* inclusive of preliminaries, overheads and profit

Peter Beckett for the Landlord; Terry Davis for the Tenant							
A small office building in a viable office location							
Valuations: Tenant							
Reconciliation of the valuations to the Contractual Claim							
Comparison							
	Contractual claim before interest					509,297	
	Diminution before rounding					180,246	
	Difference					329,051	
		Valuation A	Valuation B	Diminution effect	Contractual claim	Difference	Comment
Valuation reduces the claim							
	Cost of compliance works	0	156,000	156,000	246,000	90,000	Supersession
	Supervision and CDM co-ordination	17,010	38,070	21,060	33,210	12,150	Linked to supersession
	VAT	0	0	0	0	0	
	Insurance premium	1,923	2,231	308	2,077	1,769	
	Other irrecoverable costs	2,885	3,346	461	3,115	2,654	
	Rates	34,517	41,980	7,463	38,248	30,785	
Valuation introduces new factors							
	Interest on the work	5,775	13,849	8,074	0	-8,074	
	Interest on purchase price	81,619	80,666	-953	0	953	
	Acquisition costs	92,541	80,374	-12,167	0	12,167	
Valuation eliminates							
	Preparation of schedule	0	0	0	6,150	6,150	
	Negotiation of claim	0	0	0	24,228	24,228	
	Solicitors' costs	0	0	0	500	500	
	Loss of rent	0	0	0	155,769	155,769	
Comparison with the Contractual Claim						329,051	

Peter Beckett for the Landlord; Terry Davis for the Tenant

A small office building in a viable office location

Valuations: Tenant

Assumed timings

	A: in compliance		B: actual	
	Weeks	Week	Weeks	Week
Lease expires	0	0	0	0
Preparation of schedule of works	2	2	2	2
Planning consent	0	2	0	2
Instructions to proceed	1	3	1	3
Receipt of tenders	4	7	4	7
Tender report	1	8	1	8
Instructions to proceed	1	9	1	9
Contractor on site	4	13	5	14
Contract period	7	20	14	28
Letting - agreed	26	46	26	54
- completion	4	50	4	58
Investment - marketing	4	54	4	62
- completion	4	58	4	66
Total	58		66	
Cost of works financed for	42 weeks		45 weeks	
Insurance premium paid for	50 weeks		58 weeks	
Other irrecoverable costs paid for	50 weeks		58 weeks	
Empty rates paid for	37 weeks		45 weeks	

NOTE: A complex case may justify a DCF analysis in substitution for the above. Circle Developer uses such an analysis.