



# PERSPECTIVE<sup>22</sup>

WHERE ARE WE HEADING?  
WHAT DOES THE FUTURE HOLD?  
MEETING TOMORROW'S CHALLENGES



## SHARING A VISION FOR THE FUTURE



ALAN PEMBERTON

Our start point is to build from a position of strength. We have increased our investment in the practice and are now not only stronger but have a better appreciation of growth opportunities. You have told us which service lines you value and we have a clear vision about the future.

Our key clients have maintained their commitment to us throughout. Workload has been, and remains, very healthy, particularly in core services such as Technical Due Diligence (TDD) and dilapidations. Instructions on major office refurbishments are on the increase and we have been working closely with many of our clients to develop bespoke sustainability audits to help meet and surpass their targets.

We have moved our Guildford and London operations to prestigious new offices. The Guildford move gave us the opportunity

to negotiate a green lease, which has given us some unique insights into adopting and implementing green leases. Our London office is now in the City, which places us in amongst many of our distinguished property investment clients.

This confidence and clarity has translated into an ambitious 5 year plan to double our turnover. We will achieve this by building on the service delivery culture prevailing within the practice, becoming more innovative and integrated into your requirements, offering our expertise to new clients and by adding and developing more consultancy talent.

We are focusing on specific service line strengths to meet your needs. These include TDD for existing building and construction projects, dilapidations, project management and sustainability as well as niche services such as expert witness and heritage conservation.

This commitment to growth and development is well under way. We have opened an office in Manchester combining local 'on-the-ground' knowledge with national strengths and resource.

This balance of experience, innovation and strong embedded service ethic has attracted new clients such as Land Securities who have appointed us to provide Project Management advice whilst Lend Lease Retail have awarded us with instructions at their Bluewater, Touchwood and

Golden Square shopping centres. Relationships with long term clients such as PRUPIM, Aviva Global Investors, Tesco, ING Real Estate, RBS, Legal & General and The Crown Estate remain strong.

Occupier clients with significant property assets, in particular those in the logistics and retail sectors have increased their reliance upon our Outsourced Property Director service; TFT Consult.

We continue to evolve and embrace new ideas and best practice. However, we recognise the importance to you of our independent, non-aligned status and this will continue.

We will always be judged by performance, individually and collectively, but with our resolute commitment to improving service delivery and people development TFT will to achieve our vision for the future. Your views are important to us – please do let me have your opinion.

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**Alan Pemberton**  
**Managing Partner**  
**Tuffin Ferraby Taylor**  
**[apemberton@tftconsultants.com](mailto:apemberton@tftconsultants.com)**

WE CONTINUE TO EVOLVE  
AND EMBRACE NEW IDEAS  
AND BEST PRACTICE



# BRINGING INFORMED PRUDENCE TO A COMMERCIAL WORLD

DAVID MANN  
TECHNICAL DUE DILIGENCE

while it is very much more than a new term for an old service, building surveying skills are still at its core and clients are relying on our expertise and resources to capitalise on this escalating trend.

This has been mirrored in the growing needs of investors and their teams involved in property transactions who demand unambiguous reports in terms of risks and cost liabilities. For example, where we identify a shortfall in occupier repairing liability, capital and revenue expenditure requirements are scheduled to assist in assessing the financial viability of the purchase.

The benefit of good TDD is not only at the acquisition stage but also has on-going value as a tool to inform asset management throughout the life of the building.

This long term objective view is underpinned by the need for prompt yet meticulous technical and professional reaction. We recently completed a portfolio acquisition of 8 properties totalling 25,000m<sup>2</sup> in Covent Garden for a major property investment fund. The TDD process was cleared within one week which enabled the client to evaluate the property and proceed with a full understanding of the asset within the timescale imposed by the vendor.

The outlook for property acquisition and disposal is extremely good although relatively low transaction levels are leading to a feeding frenzy for the better sites: these quality assets coming on to the market are attracting intense interest from investors.

The inevitably tight timescales require prompt, reasoned and commercially focused advice which also incorporates a more all-encompassing approach to

property appraisal such as where sustainability issues might affect investment values in the future.

The expiry of 25 year leases is leading to a large number of buildings coming on to the market needing refurbishment. The TDD process needs to identify where refurbishment requirements will make a deal marginal and in these cases, provide the purchasers with a valuable negotiating tool. Where property maintenance has been neglected due to budgetary pressures, leading to a backlog of outstanding repairs, a combination of detailed inspection, thorough document review and broader understanding of the proposed transaction will identify problem areas.

As a wholly independent practice, we stand apart from the sales process. This impartial stance and 'Technically diligent, commercially aware' approach bring tangible results to those who rely on our informed prudence within a complex and highly dynamic market.

**For more information contact**

**David Mann**

**[dmann@tftconsultants.com](mailto:dmann@tftconsultants.com)**

The property world is changing rapidly. Merely reporting on the condition of a building's fabric is not enough in the emerging climate of risk-averse property transactions. A new more rigorous approach has been gradually evolving over the last 5 years which takes into account wider elements to enable you to make a more informed decision when acquiring or disposing of property. This methodology is called Technical Due Diligence.

Technical Due Diligence (TDD) can be defined as 'the process of research, inspection, analysis and discovery in which a prospective purchaser, occupier or financier gathers information about the physical characteristics of a property'. However,

David Mann chaired the RICS working party which developed its influential 'Building Surveys and Technical Due Diligence of Commercial Property' Guidance Note





# IMPLEMENTING SUSTAINABILITY

## — ACT NOW OR PAY LATER

### MAT LOWN SUSTAINABILITY

Property owners and occupiers are faced with many decisions on the road towards a greener future. Should they wait or be pro-active now? Is the driving force the need to save money or growth, or both? What opportunities are there, what is sustainable best practice and where are the returns on going green?

The road also throws up logistical challenges such as funding and budgetary constraints, the dynamics of the landlord & tenant relationship and government legislation. Building types, such as historic buildings present their own unique set of challenges. There are also apparent barriers to a more sustainable existence such as the constraints of the FRI lease.

Against this uncertainty and confusion, I see TFT's role is to act as guide and pathfinder.

Whether responding to changes in policy or legislation, obtaining best value sustainability recommendations to support property decisions or reinforcing corporate social responsibility through implementing sustainable options, a trusted adviser is needed to appraise and manage the works.

With the commercial value of these building works being rated through environmental assessment methods such as EPCs, Code for Sustainable Homes, BREEAM certification and RICS's Ska methodology, and with these becoming increasingly recognised, the market is becoming more alert to the cost savings that can be achieved by adopting a more environmentally friendly fit-out, even on smaller projects. With buildings having up to 40 fit-outs during their lifetime and these estimated to account for 11% of all construction spend, surveyors will need to bring on more suitably trained resources. At TFT we have accredited BREEAM and Ska assessors and continue to review and balance these resources to suit market needs.

Other opportunities, such as Feed In Tariffs bring issues of photo-voltaic integration and the occupier's perspective into focus requiring a wider, more holistic approach to implement sustainability programmes.

Whether planning and implementing now in anticipation of future criteria or building in sustainability now for competitive advantage in a tough commercial market, the need for good strategic advice and sensitive implementation is critical. Delayed activity often means greater cost all round in the long run.

So benefiting from a sustainable future is all about acting today. If commercial property owners anticipate regulatory and market changes now, cost effective sustainability solutions can be implemented and these owners could be at a competitive advantage in the future. Those owners and investors who do not keep up with the changes may even find themselves stuck with obsolete and unlettable properties.

The need for qualified sustainability advice as part of a wider programme means

that we are often approached through existing relationships or recommendations.

We speak on the subject at various sustainability forums, covering a spread of issues from the validity and implementation of new technologies to Green Leases and have also created in-house sustainability education programmes for clients. We are also active members of the UK Green Building Council and the AECB.

**For more information contact**  
**Mat Lown**  
[mlown@tftconsultants.com](mailto:mlown@tftconsultants.com)

**THE NEED FOR QUALIFIED  
SUSTAINABILITY ADVICE AS  
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OR RECOMMENDATIONS**

Mat Lown is a member of the RICS Sustainability in Existing Buildings Practice Standard Working Group and a lead author of the Sustainability Guidance Note used by RICS members. He is also Head of Sustainability at TFT.



The under-supply of new office stock following the dip in 2008, together with the record number of lease expiries in office space developed in the late 1980's boom has provided major opportunities to refurbish secondary stock to meet the demand for good quality office space.

Property investors are also increasingly looking to refurbish, sub-divide, extend or amalgamate existing retail space in response to changing occupier demand, particularly in out-of-town retail and shopping centres.

As lending eases and exchange rates improve, demand for industrial space is growing as clients look to asset management opportunities with existing stock.

Strong technical building surveying experience and sound project management, lead consultant and employer's agent skill sets are in demand for these refurbishments and alterations.

Sustainability expertise is also called for to achieve CSR objectives and attract better tenants. A typical example of this is the £3m CAT A refurbishment of Hollywood House in Woking where our team acted as project manager, lead consultant and sustainability advisors. Adopting green measures such as district heating,

photovoltaic cells and rainwater harvesting took the building towards its BREEAM 'very good' and EPC 'B' ratings and ensured that Skanska, named the "UK's Best Green Company" by The Sunday Times, took a pre-let commitment on this building.

London and the South East have seen significant growth in the last twelve months with signs of a ripple effect spreading to the other major cities and regions in the UK. We anticipate this demand continuing for the foreseeable future and are now well placed to respond to this wider up-take with our new office in Manchester.

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**For more information contact**  
**Dan Henn**  
[dhenn@tftconsultants.com](mailto:dhenn@tftconsultants.com)

**PROJECT CONSULTANCY:  
IMAGINATIVE SOLUTIONS  
FOR A CHANGING MARKET**

**DEMAND FOR INDUSTRIAL  
SPACE IS GROWING AS  
CLIENTS LOOK TO ASSET  
MANAGEMENT OPPORTUNITIES  
WITH EXISTING STOCK**



Our approach is to encourage occupiers to think ahead and to consider dilapidations before they sign the lease. Even if this isn't incorporated into a business plan at the start of the lease, effective mitigating strategies can be advised right up to lease end.

Dilapidations are always contentious and this has been compounded by the recession. Despite the Property Litigation Association's Protocol, exaggerated claims still persist. Indeed, we have negotiated several substantial claims down to nil within the last 12 months.

Going forward, we anticipate the demand for expert dilapidations advice increasing and the need to adopt a more inclusive approach becoming widespread.

Green Lease terms will undoubtedly change the content of dilapidations claims and also how we treat the reinstatement of tenant alterations.

The future may continue to see the increased use of Schedules of Condition as a tool for easier claim negotiation and

we foresee greater Contract Administration of dilapidations works being undertaken to mitigate and prove loss.

We have recently hosted a dilapidations forum which unearthed some interesting conclusions. Firstly, that landlords were not happy with dilapidations due to intransigent tenants and the slow road to settlement. Secondly, that tenants were equally unhappy because of punitive landlords and this tortuous path to settlement. This slow expedition is a common theme for both parties and we are lobbying RICS for a swift, efficient and equitable means of resolving this, perhaps by the intervention of a third surveyor in a similar vein to the way in which rent reviews and party wall disputes are resolved, or by a short timetable to mediation.

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For more information contact  
Neil Gilbert  
[ngilbert@tftconsultants.com](mailto:ngilbert@tftconsultants.com)

The average length of commercial FRI leases has been falling since the early 1990's when the vast majority of leases were either 20 or 25 years. In their latest Annual Lease Review, the British Property Federation (BPF) found that the average FRI lease length is now just 5.4 years.

While the underlying market remains challenging, we see no change in this trend for shorter leases, more frequent tenant breaks and leases not being renewed.

These consequences, together with re-gearing and more imaginative lease terms being agreed are all leading to a strong demand for schedules of dilapidations and dilapidation assessments.

Occupiers are becoming more aware of the implications of their commercial leases, often through bitter experience, and this is leading to a greater number of instructions for Schedules of Condition. But these are not a panacea for all ills, so occupiers are also increasingly acknowledging the benefits of having a dilapidations strategy in place and also of allowing for a realistic dilapidations value in their accounts and in their business plan.

## WISDOM CONSISTS OF THE ANTICIPATION OF CONSEQUENCES

OCCUPIERS ARE BECOMING  
MORE AWARE OF THE  
IMPLICATIONS OF THEIR  
COMMERCIAL LEASES, OFTEN  
THROUGH BITTER EXPERIENCE



The role of the project monitoring surveyor is evolving in line with fluctuating market conditions and changes to the lender/borrower relationship.

The well-publicised distress of the real estate industry has led to a far more cautious approach to lending and investment. This in turn has resulted in the need for much more stringent due diligence.

Before making the decision to lend finance or invest, clients are focusing on the identification, quantification and evaluation of project and commercial risk.

These investors and lenders of real estate finance expect the involvement of the monitoring surveyor to improve investment certainty by identifying critical factors for a successful outcome at the earliest stage. The surveyor will also recommend the necessary safeguards to mitigate risk and monitor the ongoing management of

that risk. This calls for timely reporting and problem solving in conjunction with the borrower or developer before any identified issues become a threat.

We have seen a recent increase in project monitoring instructions from both lenders and investment clients, both as a result of this cautious approach being taken to due diligence and changes to the market environment. In particular, we note an upturn in interest in the secondary property market, partially due both to low yields with prime, and a lack of volume of property transactions. There are also regulatory changes, including Solvency II, which will potentially encourage pension funds to switch from direct equity to debt investment and therefore real estate.

Sustainability is having an increasing influence both on decisions being taken by the banks to lend and investors to invest, reinforced in part by recent revisions to the RICS Red Book (Appraisal and Valuations standards handbook). Monitoring surveyors will be expected to provide this wider reporting angle to reinforce lending and investment decisions.

Our exposure to different lenders is increasing as lenders use syndicated deals, with a number of funding or even investment partners in order to reduce risk. We are also of the view that quality will become far more important for lenders (as it is now for investors), as a poor quality product will be difficult to work through should anything go wrong.

Effective due diligence will give you assurance that the investment has been examined holistically and that you are aware of the inherent risks.

Both a qualitative and cost driven approach is needed to meet the challenges of the current real estate market. The risk averse funding environment is ensuring that the monitoring surveyor will play a crucial role throughout the life of any future development.

**For more information contact**  
**Richard Aitchison**  
[raitchison@tftconsultants.com](mailto:raitchison@tftconsultants.com)


## OVERSEEN, NOT OVER-LOOKED: THE INCREASING IMPORTANCE OF PROJECT MONITORING

Richard Aitchison is a member of the RICS working group on Project Monitoring and is a major contributor to the Project Monitoring Guidance Note used by RICS members. He is also head of the Project monitoring Working Group and Head of Construction Banking Support at TFT




OUR SERVICE LINES


Focus, you said, and we did. Play to your strengths, you said, and we have. Give us what we value you said, and we are. In listening to what you told us and looking at our services, we are now concentrating on the areas where we have enough expertise and experience to be the logical choice. These areas include the 5 core service lines indicated on the preceding pages as well as more niche service lines where we have built up expertise over the years such as party wall advice, expert witness opinion and disaster response and recovery.




TECHNICAL DUE DILIGENCE




COMPLIANCE




PROJECT MONITORING




SUSTAINABILITY




PROJECT CONSULTANCY




DESIGN




DILAPIDATIONS




PROPERTY CONSULTANCY




INSURANCE ASSESSMENT



EXPERT WITNESS




DISASTER RESPONSE




PARTY WALLS

OUR MARKET SECTORS


Our main client base divides into eight main market sectors. We focus on these areas because we understand them well. We speak their language, we know the challenges they face in their marketplace and we are experienced in delivering advice and support throughout a long-term relationship




OFFICE




RETAIL




INDUSTRIAL




EDUCATION




LEISURE



HERITAGE



RESIDENTIAL



MIXED-USE

TFT IN NUMBERS

730	million pounds of construction works currently being monitored
84.5	hours of technical lectures and presentations given over the last 12 months
4	accredited Ska rating assessors
98	percent of fee earners have undertaken training in the last 12 months
9	years is the average length of staff service at TFT
42,000	square metres of office space TFT are currently refurbishing
10	of the top 20 UK Commercial Property Investors are currently our clients
8.1	million pounds of dilapidations claims dealt with in the last 12 months
5	accredited BREEAM assessors
650	percent increase in dedicated sustainability fee income in the last three years
98	percent staff retention rate in the last 12 months
6	offices in the UK
61	percent of TFT's technical staff have participated in the College of Estate Management's Sustainability Education Programme with more than a third scoring over 90% in the assessment modules
2914.4	miles run, swum, cycled, driven and abseiled for charity in the last 12 months by TFT personnel

BIRMINGHAM

8th Floor Bank House  
Cherry Street  
Birmingham B2 5AL  
+ 44 (0) 121 644 4000

BRISTOL

16 Queen Square  
Bristol BS1 4NT  
+ 44 (0) 117 934 99 00

CARDIFF

8 St. Andrews Crescent  
Cardiff CF10 3DD  
+44 (0) 29 2039 0099

GUILDFORD

65 Woodbridge Road  
Guildford GU1 4RD  
+ 44 (0) 20 3479 7777

LONDON

2 Throgmorton Avenue  
London EC2N 2DG  
+ 44 (0) 20 3479 7777

MANCHESTER

Peter House  
Oxford Street  
Manchester M1 5AN  
+ 44 (0) 161 228 2727

Photography: P3: Frans Persoon,  
P5: John Carleton, P7: Tanya Hart,  
P9: Brandon Doran, P13: Brandon Doran

Design: Bison Bison  
www.bisonbison.co.uk





