Optivo Finance PLC

Report & Valuation of a portfolio of 2305 units for Loan Security Purposes for Optivo Finance PLC.

8 July 2022

File Ref: 605424

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For the attention of:
Uwaila Avan-Nomayo
Manager – Transaction Team

Dear Sirs,

BORROWER: OPTIVO FINANCE PLC

VALUATION OF HOUSING STOCK FOR LOAN SECURITY PURPOSES – 2305 PROPERTIES IN THE MIDLANDS, LONDON AND SOUTH EAST REGIONS

In accordance with the instructions contained in your letter to us dated 25 April 2022 as confirmed in our letter to you dated 2 May 2022, we have inspected the property and made such enquiries as are sufficient to provide you with our opinion of value on the bases stated below. Copies of our letter of confirmation are enclosed at **Appendix 6.**

We draw your attention to our accompanying Report together with the General Assumptions and Conditions upon which our Valuation has been prepared, details of which are provided at the rear of our report.

We trust that our report meets your requirements, however should you have any queries, please do not hesitate to contact us.

Yours faithfully

For and on behalf of Savills (UK) Limited

Andy Garratt FRICS
RICS Registered Valuer
Director

James Crawford MRICS
RICS Registered Valuer
Surveyor

Contents

1. Instructions and Terms of Reference

1.1. Instructions & Terms of Reference

Further to instructions received from Optivo dated 25th April 2022 and our confirmation of instructions letter dated 2 May 2022 we now have pleasure in reporting to you the following valuations and advice for the purposes of assessing secured lending on the subject properties to Optivo (the Borrower).

1.2. Basis of Valuation

In accordance with your instructions, we have provided an assessment of the Market Value ("MV") of the Properties subject to the tenancies and shared ownership leases and the Existing Use Value for Social Housing ("EUV-SH") of the tenanted properties.

Existing Use Value for Social Housing is defined by the Royal Institution of Chartered Surveyors ("RICS") at UK VPGA 7 as:

"Existing use value for social housing (EUV-SH) is an opinion of the best price at which the sale of an interest in a property would have been completed unconditionally for a cash consideration on the valuation date, assuming:

a) a willing seller
b) that prior to the valuation date there had been a reasonable period (having regard to the nature of the property and the state of the market) for the property marketing of the interest for the agreement of the price in terms and for the completion of the sale
c) that the state of the market, level of values and other circumstances were on any earlier assumed data of exchange of contracts, the same as on the date of valuation
d) that no account is taken of any additional bid by a prospective purchaser with a special interest
e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion
f) that the property will continue to be let by a body pursuant to delivery of a service for the existing use
g) that the vendor would only be able to dispose of the property to organisations intending to manage their housing stock in accordance with the regulatory body's requirement
h) that properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession and
i) that any subsequent sale would be subject to all the same assumptions above"

Market Value (MV) is defined in IVS 104 paragraph 30.1 as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

1.3. Additional Advice

1.3.1. Aggregate Market Value

In accordance with your instructions we have calculated the aggregate Market Value of the housing stock, assuming vacant possession, as at the date of this report.

Please note that this figure cannot be regarded as a valuation since in practice the housing stock, which is subject to tenancies, could not be sold to another RP for this amount. The figure is provided for illustrative purposes only and is given with nil reliance.

1.4. General Assumptions and Conditions

All our valuations have been carried out on the basis of the General Assumptions and Standard Conditions set out in **Appendix 7** of this report.

1.5. Valuation Date

Our opinions of value are as at the date of this report. The importance of the valuation date must be stressed as property values can change over a relatively short period of time.

1.6. Purpose of Valuation

We understand that our valuation is required for loan security purposes in connection with an existing facility granted to the Borrower.

1.7. Proposed Loan Terms

You have not provided us with details of the loan terms. Although we comment on the suitability of the Property as loan security, we do so generally and not in the context of specific loan terms as we are not qualified to do so.

1.8. Conflicts of Interest

We confirm that Savills (UK) Limited does not have a material connection or involvement with the subject property or any other parties and there are no other factors that could limit the valuer's ability to provide an impartial and independent valuation. Accordingly, we are reporting on an objective and unbiased basis.

1.9. Valuer Details and Inspection

The due diligence enquiries referred to below were undertaken by Andrew Garratt FRICS and James Crawford MRICS. The valuations have also been reviewed by Catherine Wilson MRICS.

A representative sample of the properties was inspected externally in May 2022 by Savills.

All those above with MRICS or FRICS qualifications are also RICS Registered Valuers. Furthermore, in accordance with VPS 3.7, we confirm that the aforementioned individuals have sufficient current local and national knowledge of the particular market and the skills and understanding to undertake the valuation competently.

1.10. Extent of Due Diligence Enquiries and Information Sources

The extent of the due diligence enquiries we have undertaken and the sources of the information we have relied upon for the purpose of our valuation are stated in the relevant sections of our report below.

In summary Optivo has provided the following:

Full stocklist including postcodes and net rents per week;

EWS1 details and related cost assessments

1.11. Liability Cap

Our letter confirming instructions at **Appendix 6** includes details of any liability cap.

1.12. RICS Compliance

This report has been prepared in accordance with The RICS Valuation – Global Standards (incorporating the IVSC International Valuation Standards) effective from 31 January 2022 together, where applicable, with the UK National Supplement effective 14 January 2019, together the ‘’Red Book’’.

2. The Properties

2.1. The Properties

2.1.1. Location and Description

The stock is a mixture of houses, bungalows and flats dating from Pre-1920s to Post-2000. Whilst locations vary, many properties are located within good proximity of reasonable transport links and amenities.

Table 1: Stock Location

Local Authority	Lon GN AFF	Lon GN SOC	SE GN AFF	SE GN SOC	Lon & SE HOP	Mids GN SOC	Mids GN AFF	Mids HOP	Sup	SO	Total No' of Units	% Spread
Arun				184						2	**187**	**8%**
Birmingham						70	1	105			**176**	**8%**
Bromley	3	73									**76**	**3%**
Bromsgrove						17					**17**	**1%**
Canterbury			3	44							**47**	**2%**
Croydon	19	209								20	**251**	**11%**
East Northamptonshire						63					**63**	**3%**
Eastbourne			1	31							**32**	**1%**
Enfield	7	45			34					7	**93**	**4%**
Greenwich	22	19			41					15	**97**	**4%**
Hastings			8	167							**176**	**8%**
Lambeth	4	107									**116**	**5%**
Lewisham	8	67							3		**80**	**3%**
Medway				7							**7**	**0%**
Merton	12	52							2	22	**91**	**4%**
North Warwickshire						10					**10**	**0%**
Reigate and Banstead				6							**6**	**0%**
Rother			4	104						5	**114**	**5%**
Solihull						11					**11**	**0%**
Southwark	6	103									**109**	**5%**
Sutton	7	44							1		**52**	**2%**
Swale			10	160					20		**207**	**9%**
Tandridge			1	15	8						**24**	**1%**
Tower Hamlets		58									**58**	**3%**
Wandsworth	2	33							11		**46**	**2%**
Westminster		8									**8**	**0%**
Worthing				151							**151**	**7%**
TOTAL	**90**	**818**	**27**	**869**	**83**	**171**	**1**	**105**	**37**	**71**	**2305**	**100%**
% Spread	**3.9%**	**35.5%**	**1.2%**	**37.7%**	**3.6%**	**7.4%**	**0.0%**	**4.6%**	**1.6%**	**3.1%**	**100.0%**	

Source: Optivo

There are in addition a further 38 units at Nil Value

The spread of the stock is shown by the map at **Appendix 5.** A selection of photographs is at **Appendix 4.**

2.1.2. Property Types

The properties can be summarised by type and tenancy type/tenure as follows:

Table 2: Property Types and Tenure

Value Group	Houses & Bungalows	Flats & Maisonettes	Total	% of Total
Lon GN AFF	9	81	90	4%
Lon GN SOC	238	576	814	35%
SE GN AFF	18	9	27	1%
SE GN SOC	679	190	869	38%
Lon & SE HOP	0	83	83	4%
Mids GN SOC	140	31	171	7%
Mids GN AFF	0	1	1	0%
Mids HOP	7	98	105	5%
Sup	1	35	36	2%
GN Clad etc	0	0	0	0%
SO	14	57	71	3%
Nil Value	0	0	38	2%
Total	**1106**	**1161**	**2305**	**100%**

Source: Optivo

Please refer to **Appendix 2** for a full summary breakdown of all of the schemes and property types, together with summary rental income data.

2.1.3. Condition

As instructed, we have not carried out a structural survey. However, we can comment, without liability, that during the course of our inspections for valuation purposes, we observed that the Properties appear to be generally in reasonable condition.

Apart from any matters specifically referred to in this report, we have assumed that the Properties are free from structural faults, or other defects and are in a good and lettable condition internally. The report is prepared on this assumption.

2.1.4. Multi-Storey, Multi-Occupancy Buildings

Following the Grenfell Fire tragedy in June 2017, the Ministry of Housing, Communities and Local Government (MHCLG) published 'Advice for Building Owners of Multi-Storey, Multi-Occupied Residential Buildings' (the consolidated advice note (CAN)) in January 2020. The CAN outlines the advice of the MHCLG's Independent Advisory Panel on building safety for owners of domestic residential blocks of flats and extends the scope of previous advice, covering external wall systems, including balconies and other attachments, and applies to all buildings irrespective of height.

Following publication of the MHCLG's advice the RICS produced a Guidance Note 'Valuation of properties in multi-storey, multi-occupancy residential buildings with cladding' 1st edition, March 2021 (the RICS Guidance Note), which came into effect on 5th April 2021. In forming our opinion of value we have had regard to both the CAN and the RICS Guidance Note.

For the purposes of valuation approach, the RICS Guidance Note categorises multi-storey buildings by storey height, 1-4 storeys (low rise), 5-6 storeys (medium rise) and more than 6 storeys (high rise). The table below reflects this categorisation as applied to the subject portfolio.

Table 31: Multi-Storey, Multi-Occupancy Buildings

Block Type	Units	Percentage Spread
1-4 storeys (low rise)	1,110	49%
5-6 storeys (medium rise)	1,189	51%
TOTAL	**2,305**	**100%**

Our valuation is reported on the basis that the property falls outside the RICS Guidance Note on the Valuation of multi-storey, multi occupancy residential blocks of flats with cladding. Having regard to the RICS Guidance Note and our limited inspection carried out for valuation purposes, we confirm that the building has cladding and/or balconies but further information has not been requested about whether remediation works may be required as the building falls outside the scope of current RICS advice at the time of this valuation. However, this decision is not a guarantee that works will not be required in the future. Notwithstanding these comments, where works costs have been provided by Optivo as part of their internal Business Planning processes we have taken these costs at face value and deducted them from the valuation pending works completion.

2.1.5. Asbestos and Deleterious Materials

We have prepared our valuation on the assumption that in the construction or alteration of the properties no use was made of any deleterious or hazardous materials or techniques. We recommend that your legal advisors confirm that any deleterious materials, including asbestos, that may have been present, have either been removed or safely encapsulated in accordance with relevant legislation.

2.1.6. Services

No detailed inspections or tests have been carried out by us on any of the services or items of equipment, therefore no warranty can be given with regard to their purpose. We have valued the Properties on the assumption that all services are in full working order and comply with all statutory requirements and standards.

2.2. Environmental Considerations

We have valued the Properties on the assumption that they have not suffered any land contamination in the past, nor are they likely to become so contaminated in the foreseeable future. However, should it subsequently be established that contamination exists at the Properties, or on any neighbouring land, then we may wish to review our valuation advice.

We have assumed there to be no adverse ground or soil conditions and that the load bearing qualities of the site are sufficient to support the building constructed thereon.

2.3. Energy Act 2011

The provisions of the Energy Act 2011 make it unlawful to sell or let commercial or residential properties without an EPC rating, or with an EPC rating of F or G (the lowest 2 grades of energy efficiency).

Properties classified as low cost rental accommodation under section 69 of the Housing and Regeneration Act where the Landlord is a private registered provider of social housing, or where the landlord is a body registered as a social landlord under Chapter 1 or Part 1 of the Housing Act 1996, fall under the exemptions for the legislation.

However the properties would be required to be compliant in the event that they were in private ownership following enforcement of the security. We have valued on the assumption that the properties are compliant.

Where available, Optivo have provided us with EPC ratings. 79% of the stock have an EPC rating of grade A – E. Circa 20.6% do not currently have an EPC rating and o.4% have a rating of grade F or G. We have provided the EPC ratings on our property schedule at **Appendix 2**. Overall the EPC ratings are in keeping with expectations of the stock given its age, type and condition. For those unit s with EPC of For G we have limited value to EUV-SH. The Market Values and Market Rents applied take these characteristics into consideration and we anticipate that a reasonable to good demand for the stock could be anticipated assuming on-going maintenance and investment in the stock.

2.4. Fire

Optivo confirm that, where applicable, Fire Risk Assessments (‘FRAs”) have been undertaken where required and are within date, and that the properties comply with all relevant standards and regulations. Our valuation is prepared on this assumption. We have applied remediation costs provided by Optivo in respect of Fire Safety works to Cordelia Street and Upper North Street London E14.

2.5. Town Planning

In the context of this valuation it is not practical to make planning enquiries for all the properties. We have therefore assumed that there are no pending planning applications or other planning issues likely to adversely affect the subject properties. We have not made specific planning enquiries for each site.

We have also assumed that the relevant consent for any extensions and alterations works to the properties have been obtained and fully complied with. We advise that your solicitors confirm the properties are currently being used in line with their consented planning use and that construction fully met building regulation requirements.

2.6. Title and Tenure

2.6.1. Title

We have not been provided with details of title in respect of the 1185 units charged previously and valued by another valuation firm. We have assumed for the purposes of this report that each property has good and marketable title and that there are no restrictions or covenants that would adversely affect our opinion of value.

For the 1120 properties we have reviewed historic certificates of title from the date of original charge and reflected our opinion of the disclosures in our valuations. **Appendix 2** provides details of the properties that we consider should be restricted.

2.6.2. Tenancies

We have been supplied with copies of the Borrower's standard tenancy agreements, all of which are in a standard format. Under the assured tenancy agreement rent can be reviewed once a year to an open market level. The tenant has the usual rights of appeal to the local Rent Assessment Committee.

2.6.3. Shared Ownership Leases

We have been supplied with the a copy of the standard shared ownership lease which is granted for a term of 99 -125 years. The leaseholder is responsible for all repairs. The leases allow staircasing by the leaseholders whereby they can purchase additional blocks of equity at market value.

The clauses of most importance to the valuer are the level of specified rent, which is set at the leases inception, and the rent review provisions. The rent review provisions in the shared ownership leases have a variety of provisions, generally following accepted norms; older leases have an RPI plus 2%, RPI plus 1%. More modern leases will specify RPI or RPI plus 0.5%.

Full details of the rents payable, the equity held by the Borrower and rent review provisions are set out in **Appendix 2**.

2.7. Lotting

You have instructed us to value the properties as a single lot.

2.8. Rental Income

The net annual rental income currently produced by the properties, before deductions, is shown in the following table broken down by tenure.

Table 4: Net Rental Income (correct as at June 2022)

Value Group	Gross Rent £ pa
Lon GN AFF	£840,862
Lon GN SOC	£5,443,695
SE GN AFF	£171,699
SE GN SOC	£5,013,120
Lon & SE HOP	£486,483
Mids GN SOC	£932,847
Mids GN AFF	£4,349
Mids HOP	£479,016
Sup	£109,240
GN Clad etc	£0
Shared Ownership	£498,684
Nil Value	£0
Total Rental Income	**£13,979,995**

Source:Optivo

Average net rent levels, on a 52 week year basis, are shown below, as derived from the property schedule sent to us by the Borrower:

Table 5: Rent Levels 22/23 £ per week net

Value Group	Current Rent £
Lon GN AFF	£179.67
Lon GN SOC	£127.98
SE GN AFF	£122.29
SE GN SOC	£110.94
Lon & SE HOP	£112.72
Mids GN SOC	£104.91
Mids GN AFF	£83.63
Mids HOP	£87.73
Sup	£56.78
Average	**£117.79**

Source: Optivo

3. Market Commentary

3.1. General Summary

3.1.1. Economy

In common with other economies around the world, the UK economy suffered in 2020 as the COVID-19 pandemic was the dominant feature of the global economy. As a result, the UK Government increased borrowing to put in place significant support measures for the economy and businesses, and to reduce the impact of the pandemic.

Around two years on from declaring the COVID-19 pandemic in March 2020, we are facing another impact on the global economy due to the invasion of the Ukraine by the Russian military on 24 February 2022.

The war in Ukraine, and its direct and indirect consequences, dominates the financial world. Oil and energy prices have been pulled higher, as have wheat, corn and sunflower oil. In addition, a rise in Omicron cases in China has triggered a major lockdown, impairing the supply and transport of goods to the rest of the world. This is all expected to accentuate the peak in global inflation and have an adverse impact on economic activity. Global GDP forecasts for 2022 have been marked down and some economists are beginning to talk about recession.

On 5 May 2022, the BOE raised its Bank Rate by 25 basis points to 1.0%, the fourth increase in a row. The MPC's rationale for its fourth consecutive increase is, according to their statement, "global inflationary pressures have intensified sharply following Russia's invasion of Ukraine. This has led to a material deterioration in the outlook for world and UK growth. These developments have exacerbated greatly the combination of adverse supply shocks that the United Kingdom and other countries continue to face. Concerns about further supply chain disruption have also risen, both due to Russia's invasion of Ukraine and to Covid-19 developments in China."

The Bank of England forecast for inflation to peak at 10.2% in Q4 2022. While the BOE is not forecasting a technical recession in 2023, it does expect growth to be much lower than previously thought because of the squeeze on costs of living.

3.1.2. Housing Market – General

Savills latest Housing Market Update (May 2022) reports house prices rose by 0.3% in April, taking annual house price growth to 12.1%, continuing a string of double digit growth for six consecutive months, according to Nationwide. The rapid level of house price inflation unmatched by income growth has squeezed affordability. The ratio of house prices to earnings reached a new high of 8.9 for England & Wales, compared to 7.7 in 2019, report the ONS.

The cost-of-living crisis is adding to affordability concerns, with banks building the higher costs into their checks on borrowers. Lenders expecting lower availability of mortgages in Q2 2022 outweighed those expecting increased lending by 22%, according to the Bank of England credit conditions survey. And the BoE has also increased the base rate to 1.0%, the fourth rise in five months. All of these factors will erode mortgage affordability and limit future house price growth.

Increased supply of homes for sale could also help take some heat out of the market, eventually. The number of homes on the market has increased in each of the first three months of 2022, reverting to normal seasonal trends, according to TwentyCi. But that number is still 44% down on pre-pandemic levels and it could take many months to recover to more normal levels. So strong house price growth is therefore likely to continue over the short term.

Low supply is not holding back market activity, with transactions in March totalling 111k, 12% above 2017-19 levels for the month. Demand from buyers remains strong, according to the RICS, and this is still converting into sales. Sales agreed remained 18% higher than pre-pandemic levels in April, according to TwentyCi. So high numbers of sales will continue for the next few months at least.

Rents are also rising quickly, driven by a lack of supply. They increased 11.0% in the year to March, up 1.0% month on month. Renewed investment by buy-to-let landlords may help to ease the shortage over coming months. New buy-to-let loans granted in February were 37% above the pre-pandemic average, according to UK Finance. And this supported the recent uptick in landlord instructions reported in the latest RICS survey. This will slow the rate of rental growth.

House price growth was strongest in Merthyr Tydfil and Pendle in Lancashire which saw annual growth of 22% and 21% respectively.

3.1.3. Residential Property Forecasts

Savills' most recent house price forecasts (May 2022) suggest UK mainstream house prices will rise 12.9% by 2026. Our latest five year forecast for mainstream residential property is shown in the table below.

Table 6: Nominal House Price Forecasts – Mainstream Markets May 2022

Region	2022	2023	2024	2025	2026	5-Year
London	3.5%	-1.0%	0.5%	1.0%	1.0%	5.0%
South East	6.0%	-1.5%	1.0%	1.5%	1.5%	8.6%
East Midlands	8.5%	-1.0%	2.0%	2.5%	3.0%	15.7%
East of England	6.0%	-1.5%	1.0%	1.5%	1.5%	8.6%
North East	9.0%	-0.5%	2.0%	2.5%	3.5%	17.4%
North West	10.0%	-0.5%	2.0%	2.5%	3.5%	18.4%
Scotland	8.5%	-1.0%	2.0%	2.5%	3.0%	15.7%
South West	7.5%	-1.5%	1.5%	2.0%	2.5%	12.4%
Yorkshire and The Humber	10.0%	-0.5%	2.0%	2.5%	3.5%	18.4%
Wales	10.0%	-1.5%	2.0%	2.5%	3.5%	17.2%
West Midlands	8.5%	-1.0%	2.0%	2.5%	3.0%	15.7%
UK	**7.5%**	**-1.0%**	**1.5%**	**2.0%**	**2.5%**	**12.9%**

**Source Savills Research   * Note these forecasts apply to average prices in the secondhand market. New Build prices may not move at the same rate*

The average UK house price has risen strongly in early 2022, increasing by 5.0% in the first four months of the year, according to the Nationwide index. This has been driven by a continued imbalance between demand and supply, which will maintain growth in the short term, despite strengthening economic headwinds. As a result, we expect prices to rise in the order of 7.5% in 2022.

The strong price growth of the past two years (20% to the end of April), rising interest rates and a marked cost of living squeeze, have eroded affordability, especially in those markets where borrowers require a high mortgage relative to their income. This leaves limited capacity for further price growth, so we expect growth in the following four years of just 5.1%, across the country as a whole. As part of this we expect modest price falls next year as the heat comes out of the housing market.

This assumes that the Bank of England base rate is 1.75% in 2026. Should the bank relax mortgage affordability stress tests, as it has indicated it might, this would provide modest additional capacity for price growth. However, if interest rates rise higher than is currently being projected, capacity for price growth will be quickly eroded, and the prospect of price falls becomes more likely. Regionally, we continue to expect the strongest price growth to be seen in the North of England and the weakest in the mainstream markets of London, despite a potential short-term boost as demand refocuses on urban locations. Over this period we expect the prime market to outperform the mainstream market, as wealthier buyers are less impacted by the cost of living crisis and interest rate rises.

Please refer to **Appendix 3** for a full, detailed market commentary.

3.2. Market Rental Commentary

Savills UK Housing Market Update (May 2022) reports that rents grew 11.0% in the 12 months to March across the UK, according to Zoopla. This was the strongest rental growth since at least 2011, although month on month growth is starting to slow. Growth was widespread across the country, but particularly strong in London, the West Midlands and Wales. However growth has been decelerating in the majority of regions over the past 3-months, with the lowest growth in Scotland at 1.1%.

Central London experienced the strongest annual rental growth, with the City of London, Kensington & Chelsea and Westminster the top performers, but rents there are now just 2.5%, 4.1% and 5.3% above their pre-pandemic level. Much of the growth seen has been making up the falls experienced during 2020 and early 2021. Outside of London, Purbeck in Dorset and Torfaen in south Wales saw the next strongest growth, at 21% and 17% respectively.

Table 7: Five-year forecasts for mainstream rents - November 2021

Region	2022	2023	2024	2025	2026	5 years to 2025
UK rental growth	5.50%	3.70%	3.20%	3.20%	3.00%	19.90%
London Rental	6.50%	4.00%	3.50%	3.50%	3.00%	22.20%
UK excluding London	5.00%	3.50%	3.00%	3.00%	3.00%	18.80%
UK income growth	3.90%	3.50%	3.10%	3.10%	3.00%	17.60%

Source: *Savills Research, Oxford Economics.*

Beyond a rent rebound in 2022, we expect rents to resume their long-term correlation with income growth. That means we expect UK rents to rise by 19.9% over the next five years, in line with expectations for incomes. In London we expect rental growth in 2022 will regain much of the ground lost in 2020, boosting the five-year outlook. There, we expect rents to be 22.2% higher at the end of 2026 than where they are today.

3.3. Local Market Conditions

The average property price has increased over the last 10 years in 27 locations. Average prices paid are now between 67% and 78% above prices recorded in 2012. This is illustrated by the Land Registry data shown in the chart below.

Region	Average Price 2012	Average Price 2022	Price Movement £	% Price Movement
East Midlands	£136,102	£240,329	£104,227	77%
West Midlands	£143,615	£240,528	£96,913	67%
South East	£218,487	£384,966	£166,479	76%
London	£294,360	£523,666	£229,306	78%

Sales volumes are between 24% and 48% below the rate recorded in 2012 as shown

Region	Sales Volume 2012	Sales Volume 2022	Volume Movement	% Volume Movement
East Midlands	3545	2677	-868	-24%
West Midlands	3769	2893	-876	-23%
South East	8297	5513	-2784	-34%
London	6531	3427	-3104	-48%

From our conversations with agents in the areas where the Properties are located it is apparent that the market is active, particularly for houses and good sized bungalows. Investor and private occupier demand is reasonably strong. Flats are more difficult to sell. The private rental market is active and there is solid demand for good quality rented property.

3.4. Indicative Vacant Possession Values and Indicative Market Rents

The table below shows the average indicative vacant possession values and indicative Market Rents that we have adopted for the properties included within the valuation, summarised by type and bedroom number.

Table 8: Indicative Vacant Possession Values and Market Rents

Type	Beds	No of Units	Average Indicative 100% VP	Average Weekly Market Rent
Flat	0	5	£128,000	£155
	1	619	£214,000	£215
	2	464	£296,000	£275
	3	91	£419,000	£355
	4	12	£496,000	£425
Flat Total		**1191**	**£264,000**	**£250**
House	1	22	£195,000	£180
	2	372	£282,000	£250
	3	616	£332,000	£300
	4	77	£458,000	£390
	5	15	£487,000	£445
	6	5	£681,000	£545
House Total		**1107**	**£325,000**	**£290**
Grand Total		**2298**	**£293,000**	**£270**

Source: Savills

Further details of indicative vacant possession values and indicative Market Rents can be found on the property schedule at **Appendix 2**.

4. Valuation Advice

4.1. Existing Use Value For Social Housing (EUV-SH) – Valuation Approach

4.1.1. Approach to EUV-SH

EUV-SH for loan security assumes the property will be disposed of by a mortgagee in possession to another Registered Provider ("RP") who will continue the use of the properties for social housing. These organisations will calculate their bid according to their projected income and outgoings profile which they would estimate the properties would produce under their management. This basis assumes rents will remain affordable to those in low paid employment and that all vacant units will be relet on the same basis.

We consider that the appropriate method of valuation is to use a discounted cash flow ("DCF"). The DCF allows us to project rental income and expenditure over the term of the cash flow to arrive at an annual surplus or deficit, which is then discounted to a net present value.

However it is also necessary to consider comparable transactional evidence where available.

4.1.2. Principal DCF Variables

The DCF assumptions are derived from information received from the RP and economic data. The table below sets out our principal assumptions. More detailed discussion on discount rate, adopted rent levels and rental growth is contained in the following sections.

Table 9: DCF Variables

EUV-SH DCF Variable	Assumption			Year	Variable Amount	Source
Current rent	£56.78	-	£179.67	Current	Average £ Per Week	HA
Convergence Rent	£56.78	-	£179.67	Current	Average £ Per Week	Savills
Voids and bad debts	2.00%	-	2.50%	Average	% Real	Savills
Turnover	5.00%	-	6.00%	Average	% Real	Savills
Management costs	£800	-	£950	Average	Average per unit/pa	Savills
Cyclical, Void & Responsive Maintenance	£800	-	£800	Average	Average per unit/pa	Savills
Programmed Maintenance	£1,000	-	£1,000	Average	Average per unit/pa	Savills
Rental Inflation	1.35%	-	3.35%	Year 1	% Real	Savills
	0.00%	-	2.00%	Year 2		
	1.00%	-	3.00%	Year 3		
	1.00%	-	3.00%	Year 4		
	1.00%	-	1.04%	Long Term		
Maintenance cost inflation	- 2.20%	-	1.00%	Year1 - Long Term	% Real	Savills
Management cost inflation	1.00%	-	1.00%	Year1 - Long Term	% Real	Savills
Discount rate	4.50%	-	5.75%	All Years	% pa Real	Savills

4.1.3. Discount Rate

The discount rate is probably the most important variable in the model since it determines the net present value of future predicted income and expenditure flows for the subject stock. There is no fixed rule for determining the most appropriate rate to be adopted in a discounted cash flow. Our role as valuers is to interpret the way in which potential purchasers of the stock would assess their bids. The market for this stock will be within the RP sector.

Effectively, the discount rate is an expression of the long-term cost of borrowing for an acquiring organisation, the availability of free funds for purchase purposes and the risks implicit in the property portfolio concerned. Our emphasis is on the trend in the risk profile over time relative to other alternative investments. The current level of long-term interest rates and the overall cost of funds is reflected in our valuation. In addition to considering the cost of funds, we also need to make an allowance for the risk which attaches to our cashflow assumptions – some of which may be subject to a higher degree of risk than those generally made in the business plans. The trend in the risk profile is considered on a case-by-case basis, having regard to the attractiveness of the stock for investment purposes. The majority of recent Bond issuances have been oversubscribed.

Currently, the yield on 30 year Gilts is around 2.46**%.** This is in effect the risk free discount rate. Spreads and Coupon Rates on Housing Association long dated, rated and unrated bonds are shown below. It is important to acknowledge that these are the rates at the margin and average costs of funds to Housing Associations are higher than this.

The table below shows the activity in the bond market in the last 12 months. It is notable that during the first quarter of 2022 Spreads have widened.

Table 10: Rated Bonds

Date	RP	Sustainability Type	Years	Notional Raised £m	Coupon Rate %	Spread %
April-22	Hexagon	Sustainable Bond	26	250	3.63	1.67
Apr-22	Jigsaw	Sustainable Bond	30	360	3.38	1.57
Feb-22	Peabody	Sustainable Bond (UoP)	12	350	2.75	1.25
Jan-22	L&Q	Sustainable Bond	10	300	2.00	0.87
Oct-21	Southern Housing	Sustainable Loan (UoP)	15	300	2.38	1.30
Sep-21	Platform	Sustainable Loan (UoP)	20	250	1.93	0.87
Sep-21	Stonewater	Sustainable Loan (UoP)	15	250	1.63	0.85
Sep-21	Clarion	Sustainable Loan (UoP)	30	300	1.88	0.93
Jul-21	Metropolitan	Sustainable Loan (UoP)	15	250	1.88	1.15
Jul-21	Anchor Hanover	Sustainable Loan (UoP)	30	450	2.00	0.95
Jul-21	Flagship Group	Sustainable Loan (UoP)	40	250	1.88	0.95
May-21	Notting Hill Genesis	Sustainable Loan (UoP)	15	250	2.00	1.00
May-21	Beyond Housing	Sustainable Loan (UoP)	30	250	2.13	0.90
May-21	Paradigm Housing	Sustainable Loan (UoP)	30	350	2.25	0.88

Source: Savills

The supply of traditional long term (25 or 30 year) funding has diminished and is only available from a handful of lenders. Shorter term traditional funding (5–7 years) and funding with in-built options to re-price margins at a future date are commonplace, introducing a degree of re-financing risk to business plans.

Taking the above into account, but notwithstanding this, many business plans are typically being run at nominal interest rates at 'all-in' long term (30 year) cost of funds including margin of around 4-5%, reflecting the availability of long term finance from the capital markets but also future refinancing risk. This is a significant factor in the Discount Rate applied.

Given the sustained reduction in funding costs our view is that for good quality, generally well located stock, a discount rate between 4.25% and 4.75% real is appropriate (over a long-term CPI inflation rate of 2%). A greater margin for risk will be appropriate in some cases. We would expect to value poorer stock at rates around 5.0% to 6.0% real. On the other hand, exceptional stock could be valued at rates around 3.5% to 4.0% real. We would stress our cashflows are run in perpetuity and not over 30 years.

We have adopted a discount rate of between 4.5% and 5.25% real over an assumed CPI inflation rate of 2.0% (Long Term Bank Of England Target Rate). This is the rate applied over the cashflow run in perpetuity.

For your information our valuation implies a real discount rate over a 30 year cashflow of 2.15% to 3.29%.

4.1.4. Social Rents – Savills "Convergence" Rents and Rental Growth

Registered Providers are required to set their Social Rents in accordance with Rent Standard Guidance issued by the Regulator of Social Housing. The Guidance sets out a formula for calculating most Social rents which reflects property values, local earnings and bedroom size. From April 2020 the new Rent Policy Statement will apply which allows for existing rents to rise at CPI+1%.

Some latitude is given in that rents for new lettings can be no more than 5% higher than their formula level. For sheltered and supported properties the margin is extended to +10%. The rents produced by the formula are net of service charges. Service charges are expected to be charged over and above the rents and to reflect what is actually being provided to tenants.

Mortgagees in possession and their successors in title are not bound by the provisions of the Rent Standard. In theory, therefore, a purchaser could base a bid for the properties on rents up to open market levels as permitted under the terms of the tenancy agreements. However any RP purchaser would need to set rents that are consistent with its objectives as a social housing provider.

We therefore believe that a purchaser in a competitive transaction is likely to set rents at a level which he considers are the maximum affordable to those in low paid employment locally. We assume they would intend to charge such rents for new tenants and increase existing rents to a sustainable and affordable rent over a reasonable period.

The average rents across the General Needs Social charged stock are set out below, along with the current formula rents and our assessed sustainable affordable rent or "convergence" rent. We have adopted the convergence rents in our valuation.

Table 11: Current, Formula and Convergence Rents 22/23 (£ pw – 52 Weeks)

Value Group	Current Rent £	Target Rent £	Comparative Local Rent	Local Housing Allowance	Market Rent £	Current as % of Market
Lon GN AFF	£179.67	£179.67	£113.91	£277.48	£319.57	56%
Lon GN SOC	£127.98	£127.98	£121.69	£304.74	£327.01	39%
SE GN AFF	£122.29	£122.29	£98.72	£176.95	£241.53	51%
SE GN SOC	£110.94	£110.94	£104.85	£189.87	£252.32	44%
Lon & SE HOP	£112.72	£112.72	£100.19	£251.72	£183.68	61%
Mids GN SOC	£104.91	£104.91	£99.98	£149.78	£189.30	55%
Mids GN AFF	£83.63	£83.63	£81.73	£120.82	£128.64	65%
Mids HOP	£87.73	£87.73	£83.11	£123.12	£143.01	61%
Sup	£56.78	£56.78	£99.87	£202.14	£185.21	31%
GN Clad etc						
Average	**£117.79**	**£117.79**	**£109.72**	**£232.19**	**£268.82**	**44%**

Source: Optivo & Savills

We have assumed all rents will converge to our convergence rent in between 2 and 6 years' time.

In the long term, in order to maintain consistent levels of rent affordability, the maximum possible rate of rent growth will be growth in local household incomes which is currently predicted to be 3% pa over the next 10 years in this area. We have therefore assumed that after they have converged rents will increase at CPI + 1% per annum.

We have relied on the current and formula rents if appropriate supplied by the Borrower in carrying out this valuation. We have not carried out any validation of or research into the rents supplied.

4.1.5. Affordable Rents

In certain circumstances, RPs are able to offer new assured tenancies at intermediate rents at up to 80% of the market rent – such rents are known as 'Affordable' as opposed to 'Social' rents. The ability to charge the higher rents is dependent upon the RP having a Development Framework contract with the HCA or a Short Form Agreement where they are not in the Development Framework.

There are currently 118 Affordable Rent properties within the stock. The current average rent for these properties is £165.72 per week. This is about 44% lower than the market rents on the same properties. These properties have been included in our valuation at their current Affordable Rent levels.

Under the Rent Standard the rents payable for Affordable Rent tenancies increases annually by CPI plus 1% per annum. Rents are rebased to market rent upon the granting of a new tenancy. We have assumed that a purchaser from a mortgagee would increase existing Affordable Rents in line with movements in market rents over the long term.

Market rents tend to increase in line with household incomes. Income growth forecasts for the portfolio are currently 3% per annum. We have therefore assumed that rents will increase at CPI + 1% pa.

4.2. Market Value Subject to Tenancies (MV-STT) – Valuation Approach

4.2.1. Valuation Methodology – MV-STT

We assess the MV-STT in two ways; firstly by applying a discount to Market Value with Vacant Possession ("MV-VP") and secondly by applying a yield to rental income.

The valuation of properties and portfolios subject to Assured and Secure tenancies is carried out with reference to comparable evidence from the sales of similar tenanted portfolios and individual units, and sold subject to Protected Tenancies or Assured Shorthold Tenancies. There is an established body of evidence from portfolios traded on the open market to which we can refer.

Investors tend to base their bid on their ability to "trade out" individual units at Market Value assuming vacant possession over time. In locations where there is a limited market or where a property is difficult to trade, owing to style or market conditions, investors will base their bid on rental return compared to capital cost.

The discount to MV-VP ranges from 10% for prime property to 50% where market conditions are difficult. Typical rates are around a 20% to 30% discount to MV-VP for properties subject to AST tenancies.

The yield applied to net income varies from 5% or less for prime property, to 7% or more for poorer locations. This equates to a yield on gross income (after deductions for management, maintenance & voids) of between 7% to 10% and possibly higher for Sheltered accommodation.

The Residential Investment market is currently robust and having discussed the portfolio with agents active in the market we expect that the properties would attract reasonable demand if brought to the market.

Recent sales evidence which is relevant to this valuation includes the following transactions:

Table 13: Residential Investment Sales Evidence

Portfolio Description	No. of Properties	Date of sale	Price per unit achieved	Net yield %
Portfolio 1	Circa 350	September 2019	£344,380	4.06%
Portfolio 2	Circa 260	February 2019	£408,755	4.05%
Portfolio 3	Circa 295	January 2020	£329,932	4.11%

Source Savills

The discount and yield applied in our valuations has been adjusted to reflect the additional security of tenure RP tenants benefit from.

4.2.2. Principal Assumptions – MV-STT

We have considered the above in arriving at our valuation. The yield and other principal assumptions adopted are set out below.

Table 14: MV-STT Assumptions

Variable	Variable	Year	Amount
Gross Annual Rental Income*	£	Current	£30,410,000
Voids	% of Rent Debit p.a.	All years	5%
Management	% of Rent Debit p.a.	All years	10%
Maintenance	% of Rent Debit p.a.	All Years	15%
Net Yield Applied	%	All Years	4.6%

Source: Savills

**Note: market rent assumed*

4.3. Shared Ownership – Valuation Approach

4.3.1. General

Optivo have a portfolio of 71 properties subject to Shared Ownership leases in charge. They retain around 65% of the equity in their properties, overall. Please see **Appendix 2** for details of the properties, shares held and rental income produced.

4.3.2. Valuation Approach

Shared Ownership property produces a rental income dependant on the percentage owned by the leaseholder and the percentage retained by the lessee. As leaseholders have a stake in the property, arrears and default are comparatively rare and landlords can retrieve management costs. Maintenance does not erode rental income as the leaseholder is responsible.

Shared Ownership property thus produces good quality, low risk rental income on the share retained. In addition capital receipts can arise when the leaseholder decides to acquire the whole or a portion of the remaining equity, which usually happens when they decide to sell and move on, or on the occurrence of default.

We use a discounted cashflow model designed for the valuation of Shared Ownership property which projects future rent and outgoings to arrive at a net present value. This cashflow can be tested with a variety of staircasing and default scenarios.

In this case we have assumed that all service costs can be recouped through service charges and that management income and the management charge equals the management expenditure.

We have applied a discount rate of 3.75% real reflecting the very secure nature of Shared Ownership income.

4.3.3. Shared Ownership Valuations Principal DCF Assumptions

Our principal valuation assumptions are as follows:

Table 15: Shared Ownership Assumptions

Variable	Unit of Cost	Year	Variable Amount
Discount rate	%	Year 1	3.75%
Average rent	£ pw	Current	£135.07
Management cost	£ pu/pa	All Years	£150
MV-VP	£ average – Retained equity	Current	£256,000

Source: Savills

5. Valuations

5.1. Valuations

Our valuations are as follows. Please note that this summary must only be read in conjunction with the rest of this report and all Appendices.

5.1.1. Existing Use Value – Social Housing (EUV-SH) – Rented Properties – after Fire Safety remediation costs

The aggregate EUV-SH of the freehold or Long Leasehold interest in the 319 properties for loan security purposes is:

£29,746,000 (Twenty Nine Million Seven Hundred and Forty Six Thousand Pounds)

5.1.2. Market Value – Subject to Tenancies (MV-STT) – Rented Properties - after Fire Safety remediation costs

The aggregate MV-STT of the freehold or Long Leasehold interest in the 1877 properties for loan security purposes is:

£407,268,000 (Four Hundred and Seven Million Two Hundred and Sixty Eight Thousand Pounds)

Scheme by scheme valuations are listed at **Appendix** 2. Those figures must not be used as a basis for lending until your lawyers have confirmed clear title to us.

5.1.3. Market Value – Shared Ownership Leases - after Fire Safety remediation costs

The Market Value subject to Shared Ownership leases of the 71 Shared Ownership properties is **£13,666,000 (Thirteen Million Six Hundred and Sixty Six thousand Pounds)**.

For the avoidance of doubt the EUV-SH of shared ownership properties is equivalent to their MV.

5.1.4. Valuation Summary

Table 16: Valuation Summary

	EUV-SH	MV-STT
General Needs and Supported Rented	£29,746,000	£407,268,000
Shared Ownership	£13,666,000	-
Total	**£43,412,000**	**£407,268,000**

5.2. Market Conditions: Conflict in Ukraine

Following the invasion of the Ukraine by the Russian military on 24 February 2022, there has been an immediate impact on the global economy due, in part, to sanctions imposed on Russia, Russian businesses and Russian individuals, rising oil and gas prices and the restriction of exported goods from Ukraine and Russia. It remains to be seen what impact this will have on the UK economy, including inflation and interest rates, and the property markets. We continue to monitor the situation closely and in due course, it may be appropriate for us to reflect further on our market commentary and any potential impact on value. Accordingly we stress the importance of the valuation date. For the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined in the RICS Valuation – Global Standards, but (in the case of a draft report) we reserve the right to amend our valuation in the light of market changes up to the issuance of our final report.

5.3. MULTI STOREY BUILDINGS

Following the Grenfell Fire tragedy in June 2017, there has been a considerable focus on the safety of tall buildings where people sleep, concentrated on those of 18 metres or greater in height, albeit the scope is likely to extend to those of lower height in multiple occupation. Measures taken by the Government have included much stricter control of potentially combustible materials in external wall systems, and effectively a wholesale review of Building Regulations. Whilst the full details of the new Building Regulations regime are awaited, uncertainty may exist regarding any remedial works that might be required to the subject property and any impact on our reported [MV-STT] [EUV-SH] subsequent to the valuation date.

We would therefore draw your attention to Section 2.1.4 of this report that sets out the due diligence, assumptions and caveats upon which the valuation of the multi storey blocks has been prepared. Where appropriate we have also made recommendation for further technical expert advice to be obtained by you prior to making any decision based upon this valuation.

5.4. Additional Advice

5.4.1. Lending Against MV-STT

With reference to section 2.4 on Tenure, it is essential that before lending on MV-STT your lawyers confirm that the properties are capable of being let at a Market Rent, or disposed of free from restrictions, should you take possession. If there are enforceable “Housing Restrictions” in title, planning approval, s.106 agreements or by separate Nomination agreements, that, for example, limit disposal only to Registered Providers or contain binding contractual nominations, then the correct valuation basis is EUV-SH and not MV-STT.

We must also stress that it is up to you to assess the terms of the loan and the amount of lending based on the valuations herein. We have set out the current rental income at **Appendix 1** but make no warranty that the current income is sufficient to support lending against MV-STT either on individual valuation groups or against the whole portfolio.

5.4.2. Indicative Reinstatement Cost for Building Insurance Purposes

You have sought from us an indication for insurance purposes of the current reinstatement cost of the building(s) in an identical form using modern materials and techniques as if it was to be totally destroyed in accordance with current Building Regulations and other statutory requirements.

This we are pleased to provide below, but must state that this is given solely as a guide as a formal estimate for insurance purposes can only be given by a quantity surveyor or other person with sufficient current experience of replacement costs. We confirm that the property has not been inspected by such a person, and therefore the cost estimate below is provided without liability.

No allowance has been made for inflation over the policy, design or rebuilding periods, nor have we made any allowance for loss of rent. On this basis, therefore, we would estimate the reinstatement cost on a day-one basis as at the date of this report is as follows:

The indicative reinstatement cost for building insurance purposes of the 2305 properties is £300m.

5.5. Lotting and Value Disaggregation

We have valued the properties as a single lot. As a result **we have not assessed individual valuations for each property.** We have, however, provided a disaggregation of the overall valuation figures by reference to the appropriate rent and these figures are shown on the property schedule at **Appendix 2**.

It is very important to note that the per unit figures shown in the schedule should not be regarded as individual valuations of the properties. They are provided as indicative figures for administrative purposes only. They should not be used for any other purpose, including disposals or re-assessment of security, without our prior written approval.

6. Suitability, Liability & Confidentiality

6.1. Suitability as Loan Security

6.1.1. Lender's Responsibility

It is usual for a valuer to be asked to express an opinion as to the suitability of a property as security for a loan, debenture or mortgage. However, it is a matter for the lender to assess the risks involved and make its own assessment in fixing the terms of the loan, such as the percentage of value to be advanced, the provision for repayment of the capital, and the interest rate.

In this report we refer to all matters that are within our knowledge and which may assist you in your assessment of the risk.

We have made subjective adjustments during our valuation approach in arriving at our opinion and whilst we consider these to be both logical and appropriate they are not necessarily the same adjustments which would be made by a purchaser acquiring the properties.

Where we have expressed any reservations about the property we have reflected these in the valuation figure reported. However it may be that the purchasers in the market at the time the property is marketed might take a different view.

6.1.2. Suitability as Security

We consider that the Properties provide good security for a loan secured upon it, which reflects the nature of the Properties, our reported opinions of value and the risks involved.

6.2. Verification

This report contains many assumptions, some of a general and some of a specific nature. Our valuations are based upon certain information supplied to us by others. Some information we consider material may not have been provided to us. All of these matters are referred to in the relevant sections of this report.

We recommend that the Bank satisfies itself on all these points, either by verification of individual points or by judgement of the relevance of each particular point in the context of the purposes of our valuations. Our Valuations should not be relied upon pending this verification process.

6.3. Confidentiality

The valuations herein are provided for you for loan security purposes in connection with a loan to Optivo Finance PLC. **They cannot be relied upon for any other purpose**, including accounts valuations, disposal, stock swap, calculation of 1999 valuations for rent restructuring purposes.

In accordance with the recommendations of the RICS, this report is provided solely for the purposes stated above. It is confidential to and for the use only of the party to whom it is addressed and no responsibility whatsoever is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

We trust the above is acceptable for your purposes, should you have any queries, please do not hesitate to contact us.

Yours faithfully

For and on behalf of Savills (UK) Limited

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