Valuation Advisory

Optivo

Revaluation of 1,209 Affordable Housing Units for Loan Security Purposes

7 | 2018

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Security Trustee and Bond Trustee)
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FAO: Tony Petrou

4 July 2018

Dear Sirs

Revaluation of 1,209 Affordable Housing Units Owned by Optivo

We are pleased to attach our report in connection with the above.

If you have any questions about this report or require any further information, please contact Fiona Hollingworth BA MRICS (fiona.hollingworth@eu.jll.com; 0207 087 5973).

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Yours faithfully

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Yours faithfully

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Executive Summary

This summary should be read in conjunction with the main body of our report. Section numbers are supplied where relevant.

Introduction

The date of this report is 4 July 2018.

Jones Lang LaSalle Limited has been instructed to value a portfolio of 1,209 properties which are charged as security in favour of Prudential Trustee Company Limited (the "Security Trustee") for itself and Optivo Finance PLC (the "Issuer"). The portfolio is broken down as follows (section 3):

- 57 general needs units (restricted) (section 4);
- 1,065 general needs and sheltered units (unrestricted) (section 4);
- 28 shared ownership units (section 5);
- 1 market rent unit (section 6);
- 23 supported units (section 7); and
- 35 units which have either been sold on long leases, or are commercial units, and are included at nil value.

We have carried out a desktop valuation of this stock and have not inspected them. We carried out a full valuation of this portfolio in 2017.

Valuations

The Valuation Date is 12 June 2018.

Our opinions of value, expressed in aggregate, are as follows (section 8):

Category	Unit Count	EUV-SH	MV-T	MV-VP (retained equity)
Restricted general needs units	57	£4,170,000	N/A	£13,530,000
Unrestricted general needs & sheltered units	1,065	£80,880,000	£176,180,000	£325,445,000
Shared ownership units	28	£2,690,000	N/A	£4,679,500
Market rented units	1	N/A	£340,000	£400,000
Supported units	23	£920,000	£1,470,000	£2,680,000
Total	1,174	£88,660,000	£177,990,000	£346,735,000

We confirm that, in our opinion, should the Security Trustee become a mortgagee in possession of this portfolio of properties, then it would be possible to achieve a sale of the residential properties either to another Registered Provider of Social Housing (RP) that would be at a price at least equivalent to our valuation on the basis of EUV-SH, or, in principle, to a private purchaser at a price equivalent to our valuation on the basis of MV-T.

Stock

The stock is summarised as follows:

Property Type	Unit Count
Studio flat	4
1 bed flat	310
2 bed flat	261
3 bed flat	46
4 bed flat	8
6 bed flat	1
2 bed house	183
3 bed house	275
4 bed house	39
5 bed house	13
6 bed house	4
1 bed bungalow	5
2 bed bungalow	23
3 bed bungalow	2
Total	1,174

The following table(s) provide a summary of the assumptions made in our valuations:

Assumptions: General Needs Restricted

Assumption	EUV-SH
Discount rate (income)	6.25%
Management costs	£650
Management cost growth inflator	0.5%
Total repairs costs (Year 1)	£1,350
Repair cost growth inflator	1%
Rental income growth - houses (Year 1)	1%
Rental income growth - flats (Year 1)	1%
Bad debts and voids (Year 1)	2%

Assumptions: General Needs & Sheltered Unrestricted

Assumption	EUV-SH	MV-T
Discount rate (income)	6%	7.75%
Discount rate (sales)	N/A	9.75%
Sales rate (houses)	N/A	3%
Sales rate (flats)	N/A	3%
Management costs	£650	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,350	£2,650
Repair cost growth inflator	1%	1%
Rental income growth - houses (Year 1)	1%	32.4%
Rental income growth - flats (Year 1)	1%	32.8%
Bad debts and voids (Year 1)	2%	8.0%

Assumptions: Shared Ownership

Assumption	EUV-SH
Discount rate (income)	5.5%
Discount rate (sales)	8.0%
Management Costs	4% of Gross Income
Sales rate (yrs 0-1)	1 tranche sales p.a.
Sales rate (yrs 2-6)	2 tranche sales p.a.
Sales rate (yrs 7-40)	1 tranche sales p.a.
Sales rate (yrs 41-50)	0 tranche sales p.a.
Rental growth (all years)	0.5%

Assumptions: Supported

Assumption	EUV-SH	MV-T
Discount rate (income)	6.5%	8.25%
Discount rate (sales)	N/A	10.25%
Sales rate (houses)	N/A	3%
Sales rate (flats)	N/A	2%
Management costs	£725	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,375	£2,700
Repair cost growth inflator	1%	1%
Rental income growth - houses (Year 1)	1%	20.3%
Rental income growth - flats (Year 1)	1%	21.1%
Bad debts and voids (Year 1)	4%	8.0%

This summary should be read in conjunction with the remainder of the valuation report and must not be relied upon in isolation.

Contents

1 Introduction

1.1 Background

1.1.1 Optivo ('the Client') has instructed Jones Lang LaSalle Limited ("JLL") to prepare a valuation of 1,209 properties owned by Optivo ('the Chargor'). In addition there are 35 properties that have been included at nil value.

1.2 Compliance

1.2.1 Our valuations have been prepared in accordance with the current RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors and the RICS Valuation - Professional Standards UK, January 2014 (revised April 2015) (commonly known as the "Red Book").

1.2.2 Our valuations may be subject to monitoring by the RICS and have been undertaken by currently Registered RICS Valuers.

1.2.3 This Report has been prepared by Fiona Hollingworth BA MRICS (Valuer Number: #0099707) under the supervision of Richard Petty FRICS (Valuer number: #0089005), Head of Affordable Housing and a Director of JLL.

1.2.4 In accordance with PS 2.3 of the Red Book, we confirm that we have sufficient knowledge and skills to undertake this valuation competently.

1.2.5 We can confirm that no conflict of interest has occurred as a result of our production of this report.

1.2.6 The date of valuation is 12 June 2018.

1.3 Instructions

1.3.1 Our report is prepared in accordance with Optivo's formal instruction and our General Terms and Conditions of Business (Appendix 1).

1.3.2 We are instructed to prepare our valuations on the basis of Market Value subject to Existing Tenancies ("MV-T") or Existing Use Value for Social Housing ("EUV-SH") where the former is not applicable because of restrictions on the use of the properties.

1.3.3 We have valued on these bases, unless otherwise stated in this report.

1.4 Professional Indemnity Insurance ("PII")

1.4.1 We will maintain for a period of six years following the date of delivery of the Valuation PII with a well-established insurance office or underwriter of repute at a level adequate for the purpose of this report for as long as such insurance remains available at commercially reasonable rates and terms (it being our duty to use all reasonable endeavours to obtain such terms and rates). Such insurance shall be written to cover our obligations to you and the Borrower. We shall immediately inform the Security Trustee as soon as we become aware that any such PII is not being maintained in accordance with this report or for any reason becomes void or unenforceable.

1.4.2 In accordance with our terms of engagement or as otherwise agreed in writing, we confirm that our legal liability under this instruction will be capped at £50 million in aggregate, notwithstanding the amount set out in our terms and conditions included at Appendix 1. We further confirm that we hold sufficient professional indemnity insurance.

1.5 Portfolio

1.5.1 The portfolio comprises the following properties as described in section 3, schedules of which form Appendix 2:

- 57 general needs (restricted) units;
- 1,065 general needs and sheltered (unrestricted) units;
- 28 shared ownership units;
- 1 market rented unit; and
- 23 supported units.

1.5.2 In addition there are 35 units in the portfolio which have been sold on long leases or fully staircased. Optivo's interest in the properties is considered to be de minimis for the purpose of this exercise and so they are included at nil value. Please note that these units are not included in any unit counts or other statistics in this report.

1.6 Changes to Social Housing Rental Growth from March 2016

1.6.1 As the Security Trustee will be aware, under Section 23 of The Welfare Reform and Work Act 2016 ("the Act"), all Registered Providers are required to reduce their rents charged on social housing by 1% each year, for four years from 2016 up to and including 1st April 2019.

1.6.2 Social housing, as defined in the Housing and Regeneration Act 2008, includes all forms of housing let at below market rents, however Shared Ownership and Low Cost Home Ownership is expressly excluded from the Act, together with other property in the ownership of RPs which is listed as exceptions in The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016 ("the Regulations"). These include, but are not limited to:

- intermediate rent accommodation (defined in the Regulations to include inter alia properties let on sub-market rents, let on Assured Shorthold Tenancies which have not previously been let at social rents and are not let at Affordable Rent);
- specialised supported housing (defined in the Regulations to include inter alia supported housing of bespoke design in which a high level of support is offered to tenants);
- temporary social housing (meaning low cost rental accommodation made available to a person who is homeless, within the meaning of the Housing Act 1996;

- student accommodation;
- accommodation where the rent registered under the Rent Act 1977 is lower than the social rent rate;
- care homes; and
- accommodation where the rent payable by the tenant was temporarily reduced or waived for any period during the previous relevant year.

1.6.3 Supported Housing was exempt from the first year of cuts but rents will be reduced by 1% for the remaining years up to and including 2019.

1.6.4 It was announced by the government on 4 October 2017 that once the period of cuts has ended, in April 2020, Registered Providers will be allowed to increase their rents by CPI plus 1%, in line with the rent regime previously introduced in April 2015. However, as will be evident from the recent shifts, there can be no absolute certainty over government policy on the rent regime and there is therefore a degree of risk that we may see further changes by April 2020.

1.6.5 This heightened risk is reflected in the discount rate applied to this valuation. However, this component of risk is not new – there has always been an element of legislative or regulatory risk in social housing valuations, where gross and net rental incomes are assessed over a long period; and this risk has always been reflected in the discount rates applied to valuations.

1.6.6 However, the Act includes provisions for either a mortgagee in possession, or a receiver, and its successor in title (which could be either a Registered Provider or a non-regulated purchaser) to be exempt from the need to make future cuts after the date of acquisition. These exceptions are contained in Section 24 of the Act.

1.6.7 In our opinion, neither a mortgagee in possession (or receiver), nor any purchaser acquiring stock from the same, would choose to implement rent cuts over the period 2016-2019; and would actively use a legal right to avoid reducing the gross rental income from a housing portfolio. We have therefore prepared our valuation on the basis of EUV-SH on the express assumption that no further reductions in rent would be made after the hypothetical sale at the valuation date. This is consistent with our reading of the Act and with the interpretation of the Act by the Regulator of Social Housing (RSH) (previously the Homes and Communities Agency (HCA)) which would, in effect, be powerless to prevent even a Registered Provider from choosing not to reduce rents over this period.

2 Methodology

2.1 Valuation Model

2.1.1 We have undertaken our valuation of the housing stock using fully explicit discounted cashflow models, over a 50-year period, with the net income in the final year capitalised into perpetuity.

2.1.2 Against the income receivable for each portfolio, we have made allowances for voids and bad debts; the costs of management and administration; major repairs; cyclical maintenance; day-to-day repairs; and for future staircasing (where applicable). We have assumed an appropriate level of future growth in these costs (expenditure inflation).

2.1.3 We have then discounted the resulting net income stream at an appropriate rate which reflects our judgement of the overall level of risk associated with the long term income. A more detailed explanation of the discount rate is included in section 4.

2.2 Information Provided

2.2.1 The principal source of background data for the portfolio has been the rent roll for each property provided by Optivo. This detailed the number and type of units, the rent payable, and equity retained by the association (where applicable).

2.2.2 This information was supplemented with our market research and other data we have gathered from similar instructions undertaken recently and involving comparable stock. From these sources we have collated information on the following:

- rents;
- bad debts, voids and arrears;
- cost of maintenance and repairs; and
- management and administration expenses.

2.2.3 A location plan of the portfolio is provided as Appendix 3.

2.3 Inspections

2.3.1 We have carried out a desktop valuation of this stock in accordance with our instructions.

2.4 Market Research

2.4.1 In arriving at our valuation, we have undertaken a comprehensive programme of research to supplement our knowledge and understanding of the properties. This has included:

- researching local vacant possession values through conversations with local estate agents together with internet research and using RightmovePlus, a bespoke tool for comparable evidence;
- examining local benchmark affordable rents and comparing these with Optivo's rents; and
- analysing data provided by Optivo.

3 General Commentary

3.1.1 Schedules summarising the following data for each property within the portfolio form Appendix 2 of this report:

- address;
- unit type;
- equity retained; and
- gross weekly rent.

3.2 Locations

3.2.1 The properties are located in Greater London and the South East as shown in the table below. A location plan of the portfolio is provided at Appendix 3:

Counties/Boroughs	Unit Count
East Sussex	324
Greater London	686
Kent	127
Surrey	37
Total	1,174

3.3 Property Types

3.3.1 The following table summarises the different property types within the portfolio:

Property Type	Unit Count
Studio flat	4
1 bed flat	310
2 bed flat	261
3 bed flat	46
4 bed flat	8
6 bed flat	1
2 bed house	183
3 bed house	275
4 bed house	39

Property Type	Unit Count
5 bed house	13
6 bed house	4
1 bed bungalow	5
2 bed bungalow	23
3 bed bungalow	2
Total	1,174

3.4 Condition

3.4.1 We have not carried out a condition survey, this being outside the scope of our instructions.

3.4.2 The properties in the portfolio are a mixture of ages as shown in the table below:

Age	Unit Count
Pre-1919	471
1920-1949	37
1950-1979	113
1980-1999	410
Post-2000	143

3.4.3 Based on our inspections, we are satisfied that the properties we inspected internally, are being maintained to an acceptable social housing standard, in line with RSH regulatory requirements and commensurate with the likely demands of the target tenant group.

3.4.4 Overall we have assumed that each property has a useful economic life of at least 50 years provided that the properties continue to be properly maintained in the future.

3.5 Caveats and Disclaimers

3.5.1 In carrying out our valuations we have made assumptions relating to the following factors which are either beyond the remit of our instructions, or for which we have not received information:

- ground conditions;
- environmental considerations;
- planning;

- tenure;
- titles; and
- nomination agreements.

3.5.2 These factors are discussed in section 10.

4 General Needs Commentary

4.1.1 There are 1,122 general needs and sheltered properties in the portfolio, broken down as shown in the table below. 57 of the units are subject to disclosures that would be binding on a mortgagee in possession and therefore we have valued them on the basis of EUV-SH only.

Bedrooms	Houses/Bungalows	Flats	Total	%age
0	-	4	4	0.4%
1	5	288	293	26.1%
2	200	237	437	38.9%
3	277	46	323	28.8%
4+	56	9	65	5.8%
Total	538	584	1,122	100%
%age	48.0%	52.0%	100%	

4.2 Tenancies

4.2.1 The majority of the properties (99%) are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements. The remaining 11 units are let on secure tenancies.

4.3 Rental Income

4.3.1 The total gross rent receivable from the general needs properties in the portfolio amounts to £6,577,800 per annum (based on a 52-week year). A breakdown per property is included within the schedule at Appendix 2.

4.3.2 We are unable to verify the accuracy of the rent roll provided to us by Optivo.

4.3.3 According to the Valuation Office, the Local Reference Rent (LRR) is the 30th centile point between what in the local Rent Officer's opinion are the highest and lowest non-exceptional rents in a given Broad Rental Market Area. This analysis looks at local properties and differentiates by bedroom number but not by property type (i.e. houses and flats). These statistics are used as a reference for housing benefit and are a good indication of rent levels which are affordable in a given area.

4.3.4 The following table sets out a comparison of Optivo's average rents with the average LRRs in the portfolio and also our opinion of Market Rents in the same areas (rents are shown on the basis of 52 weeks):

Bedrooms	Optivo's Properties	Average LRRs	Market Rent
1	£97.07	£257.94	£210
2	£111.95	£299.87	£260
3	£122.84	£335.83	£290
4	£141.09	£425.20	£375
Average	£112.70	£305.79	£265

4.3.5 The prevailing passing rents are approximately 37% of the average LRRs for the properties.

4.3.6 In addition, we have looked the passing rents as a proportion of local net weekly earnings as reported by the Office of National Statistics in its Annual Survey of Hours and Earnings. The average passing rent equates to approximately23% of the average net weekly earnings for Greater London of £522.16. This, in our opinion, demonstrates that the rents being charged by Optivo are affordable.

4.4 EUV-SH – Rental Growth

4.4.1 In accordance with section 1.7.7 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

4.5 MV-T – Rental Growth

4.5.1 Passing rents are currently below market levels, resulting in good prospects for future rental growth when considering the market value of the portfolio.

4.5.2 We have assumed that it will take approximately 3 years for assured rents to increase to market levels and thereafter for rents to rise at 1% (real) per annum. The average increase we have modelled is 32.4% per year for houses and 32.8% per year for flats.

4.6 Outgoings

4.6.1 In forming our opinion of the net rental income the portfolio will generate we have considered the following outgoings:

- bad debts and voids;
- management costs; and
- repair and maintenance costs.

4.6.2 We emphasise that, under the definitions of the bases of valuation we have been instructed to adopt, we are not valuing Optivo's stewardship of the stock – rather we are assessing what a hypothetical purchaser in the market would pay for the stock, based on the market's judgement of the capabilities of the portfolio.

4.6.3 The assumptions we have made in our appraisal reflect our opinion of the view the market would adopt on the future performance of the portfolio. In forming our opinion, we have had regard to other recent valuations we have undertaken of comparable stock.

4.7 Bad Debts and Voids

4.7.1 We have incorporated into our valuation the potential for future voids and bad debts. The rate applied is similar to allowances used by other RPs providing a management and maintenance service in the areas where the properties are situated.

4.7.2 Any loss of income for void properties is reflected in a deduction made from the gross rental income. Similarly we have also made an allowance for bad debts.

4.7.3 In our EUV-SH valuations we have adopted a rate for bad debts and voids of 2% of gross income for the portfolio.

4.7.4 In our MV-T valuation, we have adopted a rate of 8% of gross income for the first 3 years of our MV-T cashflow, 6% in years 4 and 5 and 4% in all years thereafter.

4.7.5 This is because we are assuming greater increases in rents than a social landlord would impose. In our opinion, these rent increases would inevitably be reflected in a higher level of voids and bad debts than would otherwise be the case. The associated risk has been factored into our MV-T discount rate.

4.8 Management Costs

4.8.1 We have adopted rates for management and administration, based on our experience of other RPs operating in similar areas to Optivo. Our rates are shown below and are subject to an annual inflator of 0.5% over inflation for the duration of the cashflow reflecting long-term earnings, growth predictions and potential management savings.

4.8.2 We have adopted a rate of £650 per unit for management and administration in our valuation on the basis of EUV-SH.

4.8.3 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

4.9 Repairs and Maintenance

4.9.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.

4.9.2 The following table sets out the various assumptions we have made in our cashflows. Both of our appraisals assume that these costs will inflate at 1% (real) per annum.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£650	£2,000
Cyclical repairs – Year 1	£350	£325
Day-to-day repairs	£350	£325
Total	£1,350	£2,650

4.9.3 We have adopted higher costs for major repairs in the first 2 years of our MV-T model as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let on the open market. After this initial period, our costs settle to a lower level as shown below:

Years	Major Repairs Costs
Years 1-2	£2,000
Years 3-5	£750
Years 6-10	£675
Years 11-15	£700
Years 16-20	£725
Years 21- 25	£750
Year 26 onwards	£775

4.10 Relet and Sales Rates

4.10.1 Our EUV-SH model allows for a rate at which secure tenancies are relet as assured tenancies. We have adopted rates of 3% (houses) and 5% (flats) and have assumed that those properties will be relet at the prevailing average target rent. In addition, we have included an allowance for incidental voids as outlined in section 4.7.

4.10.2 Following announcements made in the Budget delivered on 8 July 2015 we anticipate that the tenants of some of the properties within the Portfolio may in future have either the Right to Buy (RTB) or the Right to Acquire (RTA). The National Housing Federation (NHF) put an offer to Government in September 2015 in which it proposed the implementation of an extended RTB on a voluntary basis (VRTB). This offer was described as a compromise with a view to securing the independence of housing associations and the best deal on compensation (for discounts) and flexibilities (the ability to refuse the RTB in relation to certain properties). In the Autumn Statement 2016 it was announced that the Government would fund a large-scale regional pilot of the RTB for housing association tenants. It is expected that over 3,000 tenants will be able to buy their own home with RTB discounts under this extended pilot scheme. The pilot scheme, which is expected to run for one year, is aimed at testing two aspects of the voluntary agreement that the original pilots did not cover, namely:

- one-for-one replacement; and

- portability of discounts.

4.10.3 However, the government is yet to announce the specific terms and locations of this pilot and, more broadly, the wider terms of the overall extension of RTB and therefore any consideration of the impact of RTB or RTA on valuations would be speculative. We consider it imprudent to reflect additional value from capital receipts and we have therefore assumed that neither RTB nor RTA will be available to exercise at the date of valuation.

4.10.4 In our MV-T cashflow of the unrestricted properties we have assumed that some of the units which become void are sold on the open market and have included sales rates of 3% per annum for houses and 3% per annum for flats.

4.11 Discount Rate

4.11.1 Our cashflow valuations are based on constant prices and therefore explicitly exclude inflation. The chosen discount rate reflects our judgement of the economic conditions at the time of the valuation and the level of risk involved in each cashflow, taking all factors and assumptions into account. To determine the risk involved we have looked at:

- the sustainability of the existing rental income;
- the likely rate of future rental growth;
- the condition of the portfolio;
- the level of outgoings required to maintain the maximum income stream;
- the likely performance of the portfolio in relation to its profile and location;
- the real cost of borrowing; and
- the long-term cost of borrowing.

4.11.2 For our EUV-SH valuations we have adopted discount rates of between 6 and 6.25% on net rental income.

4.11.3 In our MV-T model we have adopted a higher rate on rental income to reflect additional risk resulting from the significant rental growth that we have assumed during the first 3 years. In addition, we have adopted a higher rate on income from sales to reflect the additional premium on the yield which an investor would expect from a sales income stream.

4.11.4 We have adopted discount rates of 7.75% (rental income), and 9.75% (sales) for our MV-T cashflow.

4.12 Market Value subject to Vacant Possession (MV-VP)

4.12.1 We have undertaken research into MV-VPs in locations covered by the portfolio. We have assessed the average value of dwellings on a property by property basis. The values adopted are based on comparable research and reflect the diversity of the stock and the different areas.

4.12.2 The average MV-VP of the general needs properties in the portfolio is £302,100.

4.13 House Price Growth

4.13.1 We have assumed house prices will grow in real terms at 0% in the first 3 years of our cashflow models and in the long term at a rate of 1% per annum.

5 Shared Ownership Commentary

5.1.1 There are 28 shared ownership properties within the portfolio. Optivo currently owns 62.7% of the equity in the units and a rent is charged on this percentage.

5.2 Rental Levels

5.2.1 According to the information provided by Optivo, the average gross weekly rental level is £79.33 against the average retained equity. All rents are expressed on the basis of 52 rent weeks per year.

5.3 Rental Growth

5.3.1 The RSH's restriction on future rental growth through section 2.4.5 of the Capital Funding Guide allows a maximum of 0.5% real growth per annum only. The imposition of this formula effectively constrains the net present value of the cashflow to the basis of EUV-SH.

5.3.2 It should also be noted that although, in general, rents in the sector will be linked to CPI, the rents for shared ownership properties will grow as set out in the signed leases for each property. We have not had sight of these leases and assume that they have the standard rent review provisions (upwards only, indexed linked at RPI plus 0.5%) set out in the model shared ownership lease, published by the National Housing Federation.

5.3.3 We have grown rents at a rate of RPI plus 0.5% in line with this guidance and the terms of the existing leases.

5.4 Outgoings

5.4.1 In forming an opinion of the net rental income the portfolio will generate, we have allowed 4% of gross rental income for management.

5.5 Voids and Bad Debts

5.5.1 We understand that all of the properties are now let and so we would not expect any voids going forward. We have allowed for the incidence of bad debts in the discount rate.

5.6 Repairs and Maintenance

5.6.1 We have assumed any repair obligations will lie with the leaseholders. We would expect that repair/renewal, day-to-day and cyclical maintenance would be required to keep the stock in its present condition. However, we have assumed that, where appropriate, service charge income fully covers expenditure.

5.7 Discount Rate

5.7.1 For our EUV-SH valuation we have adopted a discount rate of 5.5% on the rental income and 8.0% on sales.

5.8 Market Value subject to Vacant Possession (MV-VP)

5.8.1 The average MV-VP of the shared ownership properties in the portfolio is £266,800.

5.9 Rate of Sales

5.9.1 We have adopted what we would expect to be a long-term sustainable rate of sales of further tranches over the 50 years of our cashflow model. We have assumed that equity is sold in 25% tranches.

5.9.2 The rates we have adopted in our cashflows are as follows:

Years	Tranche sales p.a.
Years 0-1	1
Years 2-6	2
Years 7-40	1
Years 41-50	0

5.9.3 It is difficult to judge when tenants will purchase additional tranches so the income from sales proceeds has been discounted at a higher rate, in line with section 5.7, to reflect the additional risk of realising the value. However, it should be noted that in our valuation, the majority of the value (circa 57%) is attributed to the rental income.

6 Market Rented Commentary

6.1.1 There is 1 market rented unit within portfolio, a 1 bedroom flat in East Dulwich, London.

6.1.2 We have undertaken research into the vacant possession value for the property, and have applied a discount to the vacant possession value to reflect the existing assured shorthold lease.

7 Supported Unit Commentary

7.1 Introduction

7.1.1 There are 23 supported units in the portfolio, of which 20 units are located in Bridge House, Bridge Road, Kent. The remaining units are in South London.

7.2 Tenancies

7.2.1 All of the properties are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements.

7.3 Rental Income

7.3.1 The total gross rent receivable from the supported portfolio amounts to £102,014 per annum (based on a 52-week year). A breakdown per property is included within the schedule at Appendix 2. The average gross weekly rent is £85.30.

7.3.2 We are unable to verify the accuracy of the rent roll provided to us by Optivo.

7.4 EUV-SH - Rental Growth

7.4.1 As you will be aware, the HCA required RPs to restructure their rents from prevailing levels to target rents by 2012, later extending this policy for some RPs. In accordance with section 1.7.7 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare and Work Act would increase rents by CPI + 1% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

7.5 MV-T Rental Growth

7.5.1 We have assumed that it will take approximately 3 years for assured rents to increase to market levels and thereafter for rent increases to rise at RPI plus 1% per annum. The average increase we have modelled is 20.3% for houses and 21.1% for flats.

7.6 Bad Debts and Voids

7.6.1 For our valuation on the basis of EUV-SH we have adopted a rate for bad debts and voids of 4.0% of gross income in all years of the cashflow.

7.6.2 In our MV-T valuation, we have adopted a rate of 8.0% of gross income for the first 3 years of our MV-T cashflow, 5.0% in years 4 and 5 and 5.0% in all years thereafter.

7.7 Management Costs

7.7.1 We have adopted a rate of £725 per unit for management and administration in our valuation on the basis of EUV-SH.

7.7.2 We have assumed that a mortgagee in possession would expect to spend 10% of rental income in our valuation on the basis of MV-T.

7.7.3 We have assumed that this unit cost will increase at a rate of CPI plus 1% for the duration of the cashflow.

7.8 Repairs and Maintenance

7.8.1 The following table below sets out the various assumptions we have made for our cashflows. Our appraisals assume that these costs will inflate by 1% in real terms each year.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£675	£2,000
Cyclical repairs – Year 1	£350	£350
Day-to-day repairs	£350	£350
Total	£1,375	£2,700

7.9 Sales Rate

7.9.1 In our MV-T cashflow we have assumed that properties could be sold individually by a funder in possession. We have included sales rates 3.0% per annum for houses and 2.0% per annum for flats.

7.10 Discount Rate

7.10.1 For our EUV-SH valuation of the supported portfolio, we have adopted a discount rate of 6.5% on net rental income.

7.10.2 We have adopted discount rates of 8.25% (rental income), and 10.25% (sales) for our MV-T cashflow.

8 Valuation

8.1 Background

8.1.1 We have prepared our valuations on the following bases:

- Existing Use Value for Social Housing ("EUV-SH");
- Existing Use Value for Social Housing (with shared ownership sales);
- Market Value subject to existing Tenancies ("MV-T"); and
- Indicative Market Value assuming Vacant Possession ("MV-VP").

8.1.2 Our valuations have been prepared in accordance with the RICS Red Book.

8.1.3 Apportionments of the valuations have been calculated as arithmetic apportionments and are included in the schedules at Appendix 2. This is a portfolio valuation, and no valuation of individual properties has been performed.

8.1.4 In forming our opinion of the value of the portfolio as a whole, we have neither applied a discount for quantum nor added a premium to reflect break-up potential.

8.1.5 The definitions of the bases of valuation are set out in full in section 9 of this report.

8.2 General Needs Restricted

8.2.1 Our valuation of the 57 general needs properties (restricted), in aggregate, on the basis of EUV-SH is:

£4,170,000
(four million, one hundred and seventy thousand pounds)

8.2.2 Our indicative valuation of the 57 general needs properties (restricted), in aggregate, on the basis of MV-VP is:

£13,530,000
(thirteen million, five hundred and thirty thousand pounds)

8.3 General Needs and Sheltered Unrestricted

8.3.1 Our valuation of the 1,065 general needs and sheltered (unrestricted), in aggregate, on the basis of EUV-SH is:

£80,880,000
(eighty million, eight hundred and eighty thousand pounds)

8.3.2 Our valuation of the 1,065 general needs and sheltered (unrestricted), in aggregate, on the basis of MV-T is:

£176,180,000
(one hundred and seventy six million, one hundred and eighty thousand pounds)

8.3.3 Our indicative valuation of the 1,065 general needs and sheltered properties (unrestricted), in aggregate, on the basis of MV-VP is:

£325,445,000
(three hundred and twenty five million, four hundred and forty five thousand pounds)

8.4 Shared Ownership

8.4.1 Our valuation of the 28 shared ownership properties, in aggregate, on the basis of EUV-SH at the valuation date is:

£2,690,000
(two million, six hundred and ninety thousand pounds)

8.4.2 Our indicative valuation of the 28 shared ownership properties, in aggregate, on the basis of MV-VP (of the retained equity) at the valuation date is:

£4,679,500
(four million, six hundred and seventy nine thousand, five hundred pounds)

8.5 Market Rent

8.5.1 Our valuation of the 1 market rent property, on the basis of MV-T at the valuation date is:

£340,000
(three hundred and forty thousand pounds)

8.5.2 Our indicative valuation of the 1 market rent property, on the basis of MV-VP at the valuation date is:

£400,000
(four hundred thousand pounds)

8.6 Supported Housing Units

8.6.1 Our valuation of the 23 supported housing units, in aggregate, on the basis of EUV-SH at the valuation date is:

£920,000
(nine hundred and twenty thousand pounds)

8.6.2 Our valuation of the 23 supported housing properties, in aggregate, on the basis of MV-T at the valuation date is:

£1,470,000
(one million, four hundred and seventy thousand pounds)

8.6.3 Our indicative valuation of the 23 supported housing units properties, in aggregate, on the basis of MV-VP at the valuation date is:

£2,680,000
(two million, six hundred and eighty thousand pounds)

8.7 Reinstatement Cost

8.7.1 We have also prepared a broad indication of the aggregate reinstatement cost of the portfolio of 1,174 properties, as guidance for insurance purposes. It should not be used directly to calculate the premium that would be paid to insure this portfolio of properties.

8.7.2 We consider the aggregate reinstatement cost of the portfolio to be in the order of:

£210,000,000
(two hundred and ten million pounds)

8.8 Suitability as Security

8.8.1 Your instructions require us to comment on whether the properties we have valued continue to provide adequate security for the loan.

8.8.2 It is difficult for any valuer, without being asked to consider a specific credit or risk assessment policy, to make an absolute, unqualified statement that those assets will provide suitable security because our instructions do not explain what criteria the Security Trustee is applying in making this assessment.

8.8.3 However we confirm that, in our opinion, should the Security Trustee become a mortgagee in possession of this portfolio of properties, then it would be possible to achieve a sale to another RP that would be at a price at least equivalent to our valuation on the basis of EUV-SH or, in principle, to a private purchaser at a price equivalent to our valuation on the basis of MV-T as set out in our Report. However, the valuation assumes implicitly that a purchaser could obtain debt finance on commercially viable terms to facilitate a purchase of the portfolio. Furthermore, we have identified the following attributes of the portfolio which should assist the Security Trustee in its assessment:

- given the divergence between property prices and local average earnings, demand for these properties should be sustainable in the medium to long term;
- the level of rental income for all areas is broadly in line with other RPs in the respective areas;
- the level of rental income is, in aggregate, below the LRRs for each region;
- the EUV-SH and MV-T values per unit and percentage relationships to MV-VP, are at levels appropriate to the current climate, having regard to the portfolio's location and composition; and

- we have made conservative assumptions with regard to the respective rent and sales contributions to the valuations of the shared ownership units and they are not overly dependent on proceeds from sales.

8.8.4 With the above factors in mind, and with specific regard to the continuing need for well-maintained social housing accommodation, we believe it reasonable to conclude an acceptable demand for a portfolio of this nature from commensurate social housing landlords and private institutional investment firms.

8.8.5 Subject to the information presented within this Report, and at the values formally reported, we are satisfied to recommend to the Security Trustee that this portfolio is suitable for security purposes.

9 Bases of Valuation

9.1.1 Our valuations have been prepared in accordance with the RICS Red Book.

9.2 Existing Use Value for Social Housing

9.2.1 The basis of Existing Use Value for Social Housing is defined in UKVS 1.12 of the Red Book as follows:

"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 willing seller;*
- *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 proper marketing of the interest for the agreement of the price and terms and for the completion of the sale;*
- *that the state of the market, level of values and other circumstances were on any earlier assumed date of exchange of contracts, the same as on the date of valuation;*
- *that no account is taken of any additional bid by a prospective purchaser with a special interest;*
- *that both parties to the transaction had acted knowledgeably, prudently and without compulsion;*
- *that the property will continue to be let by a body pursuant to delivery of a service for the existing use;*
- *that at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements;*
- *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*
- *that any subsequent sale would be subject to all the same assumptions above."*

9.3 Market Value

9.3.1 The basis of Market Value is defined in VPS 4.4 of the Red Book as follows:

"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."

9.3.2 Market Value subject to Tenancies is in accordance with the above definition, with the addition of the point below:

"That the properties would be subject to any secure or assured tenancies that may prevail, together with any other conditions or restrictions to which property may be subject."

9.4 Expenses

9.4.1 No allowance is made in our valuations for any expenses of realisation.

9.5 Tax

9.5.1 No allowance is made in our valuations for any liability for payment of Corporation Tax, or for any liability for Capital Gains Tax, whether existing or which may arise in the future.

9.6 VAT

9.6.1 Our valuations are exclusive of VAT on disposal.

10 Sources and Verification of Information

10.1 General

10.1.1 We have relied upon the description, tenancy type and current rental income provided to us by the Borrower and we have been unable to verify the accuracy of that data.

10.2 Tenure

10.2.1 We have assumed that the Borrower holds long leasehold or freehold interests in these properties unless otherwise stated in this report.

10.3 Title

10.3.1 We have not carried out our own investigations of title and our valuations have assumed good title, free from onerous covenants and other encumbrances other than as set out in this report.

10.3.2 We assume unless informed to the contrary or unless otherwise stated in this report, that each property has a good and marketable title; that all documentation is satisfactorily drawn; and that there are no encumbrances, restrictions, easements or other outgoings of an onerous nature, which would have a material effect on the value of the interest under consideration, nor material litigation pending. Where we have been provided with documentation we recommend that reliance should not be placed on our interpretation without verification by your lawyers. We have assumed that all information provided by the client, or its agents, is correct, up to date and can be relied upon.

10.4 Nomination Agreements

10.4.1 Our valuations are prepared on the basis that there are no nomination agreements. If any nomination rights are found to be in existence, they are assumed not to be binding on a mortgagee in possession unless otherwise stated in this report

10.5 Measurements/Floor Areas

10.5.1 We have not measured the properties, this being outside the scope of a valuation of a portfolio of this nature, unless otherwise stated in this report.

10.5.2 However, where measurements have been undertaken, we have adhered to the RICS Code of Measuring Practice, 6th edition, except where we specifically state that we have relied on another source. The areas adopted are purely for the purpose of assisting us in forming an opinion of capital value. They should not be relied upon for other purposes nor used by other parties without our written authorisation.

10.5.3 Where floor areas have been provided to us, we have relied upon these and have assumed that they have been properly measured in accordance with the Code of Measuring Practice referred to above.

10.6 Structural Surveys

10.6.1 Unless expressly instructed, we do not carry out a structural survey, nor do we test the services and we, therefore, do not give any assurance that any property is free from defect. We seek to reflect in our valuations any readily apparent defects or items of disrepair, which we note during our inspection, or costs of repair which are brought to our attention. Otherwise, we assume that each building is structurally sound and that there are no structural, latent or other material defects.

10.6.2 In our opinion the economic life of each property should exceed 50 years providing the properties are properly maintained.

10.7 Deleterious Materials

10.7.1 We do not normally carry out or commission investigations on site to ascertain whether any building was constructed or altered using deleterious materials or techniques (including, by way of example high alumina cement concrete, woodwool as permanent shuttering, calcium chloride or asbestos). Unless we are otherwise informed, our valuations are on the basis that no such materials or techniques have been used.

10.8 Site Conditions

10.8.1 We do not normally carry out or commission investigations on site in order to determine the suitability of ground conditions and services for the purposes for which they are, or are intended to be, put; nor do we undertake archaeological, ecological or environmental surveys. Unless we are otherwise informed, our valuations are on the basis that these aspects are satisfactory and that, where development is contemplated, no extraordinary expenses, delays or restrictions will be incurred during the construction period due to these matters.

10.9 Environmental Contamination

10.9.1 Unless expressly instructed, we do not carry out or commission site surveys or environmental assessments, or investigate historical records, to establish whether any land or premises are, or have been, contaminated. Therefore, unless advised to the contrary, our valuations are carried out on the basis that properties are not affected by environmental contamination. However, should our site inspection and further reasonable enquiries during the preparation of the valuation lead us to believe that the land is likely to be contaminated we will discuss our concerns with you.

10.10 Energy Performance Certificates (EPCs)

10.10.1 We have not been provided with copies of any Energy Performance Certificates by the borrower. The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 make it unlawful for landlords in the private rented sector to let properties that have an EPC rating of F or G, from 1 April 2018. The Regulations do not apply to the majority of properties owned by Registered Providers. Based on our inspections and our wider knowledge of energy ratings within the social housing sector, we do not consider this issue to present a material valuation risk.

10.11 Market Rental Values

10.11.1 Our assessment of rental values is formed purely for the purposes of assisting in the formation of an opinion of MV-T and is generally on the basis of Market Rent, as defined in the "the Red Book". Such figures should not be used for any other purpose other than in the context of this valuation.

10.12 Insurance

10.12.1 Unless expressly advised to the contrary we assume that appropriate cover is and will continue to be available on commercially acceptable terms.

10.13 Reinstatement Value

10.13.1 The figure provided in section 8.7 is a broad indication of the cost of reinstating the property to the current specifications provided without liability. The floor areas we have adopted in order to arrive at these figures are an average for each type of dwelling only. We have neither measured the property for this purpose nor been provided with floor areas.

10.13.2 Our figures are based on a limited inspection carried out for market valuation purposes (by a Valuation Surveyor rather than a Building Surveyor) and, therefore, our inspections of the structures are inadequate for a reliable reinstatement figure to be obtained.

10.13.3 Our figures for reinstatement cost assessment have been derived by reference to the BCIS Guide to Building Prices. To this figure a regional variation adjustment has been made then an amount has been added for professional fees, demolition, site clearance and VAT.

10.13.4 Our figures are based on general prices and indices at the date of valuation which are subject to fluctuation. Reinstatement figures should be therefore reviewed at regular intervals to allow for any inflationary tendencies. No allowance has been made in our figures for inflation during the insurance year or any subsequent construction period. Similarly, we have not included an allowance for any loss of rent during the reconstruction period.

10.13.5 Our figures do not include any allowances for any items which might more appropriately be considered to be plant and machinery.

10.13.6 We have not considered details of the insurance policy in place. Our figure should not be relied upon. If reliance is required it will be necessary for our building surveyors to be instructed to undertake a detailed inspection and consideration of the structure and form of construction of the buildings, and to provide a specific report.

10.14 Planning

10.14.1 We have prepared our valuations on the basis that each property exists in accordance with a valid planning permission.

10.15 Outstanding Debts

10.15.1 In the case of property where construction works are in hand, or have recently been completed, we do not normally make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favour of contractors, subcontractors or any members of the professional or design team.

10.16 Services

10.16.1 We do not normally carry out or commission investigations into the capacity or condition of services. Therefore we assume that the services, and any associated controls or software, are in working order and free from defect. We also assume that the services are of sufficient capacity to meet current and future needs.

10.17 Plans and Maps

10.17.1 All plans and maps included in our report are strictly for identification purposes only, and, whilst believed to be correct, are not guaranteed and must not form part of any contract. All are published under licence and may include mapping data from Ordnance Survey © Crown Copyright. All rights are reserved.

10.18 Compliance with Building Regulations and Statutory Requirements

10.18.1 Unless otherwise stated in our report none of the properties are of 6 storeys or more or are subject to any remedial works in the wake of the Grenfell Tower disaster of June 2017. We have therefore assumed that the properties conform to the Fire Precaution Regulations and any other statutory requirements.

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