SEE A BRIGHTER WAY

Valuation Advisory

Client: M&G Trustee Company Limited

Property: 1,852 Affordable Housing units owned by Southern Housing

May | 2023

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Appendices

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M&G Trustee Company Limited (in its capacity as Security Trustee and Bond Trustee)
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FAO: Tony Petrou

30 May 2023

Job Ref: 920000000316298

Dear Sirs

1,852 Affordable Housing units owned by Southern Housing

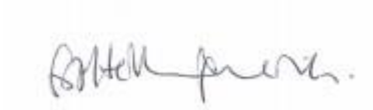
We are pleased to attach our report in connection with the above.

If you have any questions about this report or require any further information, please contact Fiona Hollingworth (fiona.hollingworth@jll.com; 07788 715533).

This report is confidential to the parties to which this report is addressed and to their professional advisors and is for the use of those parties only. Consequently, no responsibility is accepted to any third party in respect of the whole or any part of its contents.

Before the report or any part of it is reproduced or referred to in any document, circular or statement, our written approval as to the form and context of such publication must be obtained.

Yours sincerely



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Yours sincerely

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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 30 May 2023.

Jones Lang LaSalle Limited has been instructed to value a portfolio of 1,852 properties for loan security purposes.

Properties

The portfolio comprises 1,560 social housing units located across the South East, East Midlands, Greater London and West Midlands. From our inspections, the properties are a mixture of ages.

The portfolio contains a mixture of different tenures as summarised in the table overleaf and set out in greater detail in section 3 of this report.

In addition, there are 292 units in the portfolio which either form ancillary accommodation or have been sold on long leases or fully staircased. Southern Housing's interest in these units is considered to be de minimis for the purpose of this exercise and so they have been included at nil value. Furthermore, please note that these properties have not been included in any unit counts or other statistics in this report.

We have inspected the exterior of all units in the portfolio and have seen a representative sample of around 10.0% internally (section 3).

Valuations

The valuation date is 25 May 2023.

Our valuation of the 289 properties being valued on the basis of Existing Use Value for Social Housing ("EUV-SH"), in aggregate, at the valuation date is:

£26,665,000
(twenty six million, six hundred and sixty five thousand pounds)

Our valuation of the 1,267 properties being valued on the basis of Market Value subject to Tenancies ("MV-T"), in aggregate, at the valuation date is:

£325,360,000
(three hundred and twenty five million, three hundred and sixty thousand pounds)

Our valuation of the 4 Market Rent properties being valued on the basis of Market Value ("MV"), in aggregate, at the valuation date is:

£1,400,000
(one million, four hundred thousand pounds)

Our indicative valuation of the 1,560 properties on the basis of Market Value subject to Vacant Possession ("MV-VP"), in aggregate, at the valuation date is:

£590,145,000
(five hundred and ninety million, one hundred and forty five thousand pounds)

The following table summarises our opinions of value (section 6):

Category	Units Count	Basis of Valuation	EUV-SH	MV-T	MV-VP Retained Equity
GN Affordable Rent	1	EUV-SH	£70,000	-	£220,000
GN Affordable Rent	69	MV-T	£12,780,000	£19,200,000	£29,600,000
GN Social Rent	83	EUV-SH	£5,730,000	-	£20,370,000
GN Social Rent	1,057	MV-T	£104,940,000	£289,920,000	£477,895,000
HOP self-contained	42	EUV-SH	£4,100,000	-	£7,980,000
HOP self-contained	77	MV-T	£4,430,000	£4,750,000	£6,770,000
HOP shared amenities	15	MV-T	£940,000	£1,410,000	£2,870,000
Market Rent	4	MV	-	£1,400,000	£1,560,000
Supported self-contained	15	EUV-SH	£1,270,000	-	£4,600,000
Supported self-contained	49	MV-T	£4,580,000	£10,080,000	£17,650,000
Shared Ownership	148	EUV-SH	£15,495,000	-	£20,630,000
Total	**1,560**		**£154,340,000**	**£326,760,000**	**£590,145,000**

Portfolio Analysis

Strengths:

- 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 Registered Providers of social housing ("RPs") in the respective areas;
- the level of rental income is, in aggregate, below the relevant levels of Local Housing Allowance (LHA) 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;
- 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; and
- EUV-SH values are likely to maintain their current levels as stock transactions within the sector and access to debt markets continue to take place, albeit with more hesitancy due to market fluctuations.

There is excess demand for affordable housing properties across the localities within the portfolio as summarised by the following data.

Households on local authority waiting lists:

Region	Waiting list
East of England	108,000
South East	150,000
East Midlands	72,000
Greater London	244,000
West Midlands	99,000

Based on current levels of affordable housing supply (new build) across the localities within the portfolio, the following table summarises the number of households on the waiting list for every new property being built:

Region	No. of Households
East of England	39
South East	28
East Midlands	31
Greater London	45
West Midlands	36

Weaknesses:

- the age of the properties mean they require continued investment in order to be able to maintain the same level of rental income in the long term;
- downward pressure on house prices in the medium-term and falling transaction volumes could impact upon values going forward; and
- there are short-term risks for RPs' income not supported by housing benefit and a greater number of voids and arrears.

Opportunities:

- increased efficiencies are continuing to be driven by mergers between RPs;
- rationalisation of RPs' stock allowing for more efficient asset management;
- investment of REITs and other funds into the sector as whole; and
- reactive changes to working conditions and government policy could drive further efficiencies in the sector and wider economy in the longer-term.

Threats:

- the current cost of living crisis could result in changes in government policy or further interventions, such as the introduction of a rent freeze, a further period of rent cuts or changing the Rent Regime;
- as a result of the Hackitt Review and other influences, the social housing sector is undertaking extensive investigations and works around fire and building safety, and the required scope of such works might change over time; and
- current high levels of global inflation could have a prolonged effect on the cost of materials and labour required to carry out any repairs and maintenance work on existing stock.

Suitability of Security

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

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 M&G Trustee Company Limited is applying in making this assessment.

However, we confirm that, in our opinion, should M&G Trustee Company Limited 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.

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.

Subject to the information presented within this report, and at the values formally reported, we are satisfied to recommend to M&G Trustee Company Limited that this portfolio is suitable for security purposes.

Lender Action Points

We have relied upon the rent and tenancy information provided by Southern Housing as being accurate. If required, we would recommend that the tenancy agreements and current rental income information provided therein is verified for accuracy by a solicitor.

From our inspections and desktop research, there are 6 blocks of 3 or 4 storeys or more where we have queried the construction of the external wall system and whether potentially combustible cladding or timber balconies are present.

We understand that Fire Risk Assessments have been commissioned and carried out at all of these blocks by Southern Housing and any remedial cost estimates for work still to be completed, and where they are felt to be appropriate, have been included in our valuations and are set out in Section 3.4.

Our inspections are for valuation purposes only, no invasive vegetation was noted during the course of our inspections, however, we cannot confirm if it has been or is present on site.

Sensitivity Analysis

The table below shows the potential effect on value of a 0.5% increase in discount rate on each of our valuations:

Category	Basis of Value	EUV-SH	MV-T
GN Affordable Rent	EUV-SH	£70,000	-
GN Affordable Rent	MV-T	£12,350,000	£18,920,000
GN Social Rent	EUV-SH	£5,890,000	-
GN Social Rent	MV-T	£97,490,000	£276,950,000
HOP self-contained	EUV-SH	£3,760,000	-
HOP self-contained	MV-T	£4,060,000	£4,500,000
HOP shared amenities	MV-T	£870,000	£1,320,000
Market Rent	MV	£206,550,000	£800,000
Supported self-contained	EUV-SH	£1,160,000	-
Supported self-contained	MV-T	£4,610,000	£10,030,000
Shared Ownership	EUV-SH	£206,550,000	
Total		**£543,360,000**	**£312,520,000**

We have also provided an indication of the impact on each of our valuations of:

- Costs of management increasing by 10.0%; and
- Costs of all repairs increasing by 10.0%.

These are set out in the following table:

Category	Basis of Value	Management plus 10% (EUV-SH)	Management plus 10% (MV-T)	Repairs plus 10% (EUV-SH)	Repairs plus 10% (MV-T)
GN Affordable Rent	EUV-SH	£70,000	-	£70,000	-
GN Affordable Rent	MV-T	£13,380,000	£19,760,000	£13,210,000	£19,740,000
GN Social Rent	EUV-SH	£6,330,000	-	£6,120,000	-
GN Social Rent	MV-T	£105,250,000	289,910,000	£102,420,000	£289,390,000
HOP self-contained	EUV-SH	£4,040,000	-	£3,930,000	-
HOP self-contained	MV-T	£4,330,000	£4,690,000	£4,110,000	£4,560,000
HOP shared amenities	MV-T	£920,000	£1,390,000	£880,000	£1,360,000
Market Rent	MV	£263,950,000	£840,000	£262,410,000	£850,000
Supported self-contained	EUV-SH	£1,250,000	-	£1,210,000	-
Supported self-contained	MV-T	£4,970,000	£10,460,000	£4,840,000	£10,420,000
Shared Ownership	EUV-SH	£263,950,000	-	£263,410,000	-

Category	Basis of Value	Management plus 10% (EUV-SH)	Management plus 10% (MV-T)	Repairs plus 10% (EUV-SH)	Repairs plus 10% (MV-T)
Total		**£668,440,000**	**£327,050,000**	**£661,610,000**	**£326,320,000**

Furthermore, we have provided an indication of the impact on each of our MV-T valuations of:

- Market Value with Vacant Possession reducing by 10.0%;
- Market Rents ("MR") falling by 10.0%; and
- Market Value with Vacant Possession and Market Rent falling by 10.0%.

These are set out in the following table:

Category	Basis of Value	MV-VP reduced by 10% (EUV-SH)	MV-VP reduced by 10% (MV-T)	Market Rents falling by 10% (EUV-SH)	Market Rents falling by 10% (MV-T)
GN Affordable Rent	EUV-SH	£70,000	-	£70,000	-
GN Affordable Rent	MV-T	£13,480,000	£18,960,000	£13,480,000	£18,860,000
GN Social Rent	EUV-SH	£6,450,000	-	£6,450,000	-
GN Social Rent	MV-T	£106,750,000	£275,930,000	£106,750,000	£278,980,000
HOP self-contained	EUV-SH	£4,100,000	-	£4,100,000	-
HOP self-contained	MV-T	£4,430,000	£4,590,000	£4,430,000	£4,310,000
HOP shared amenities	MV-T	£940,000	£1,390,000	£940,000	£1,250,000
Market Rent	MV	£263,950,000	£850,000	£263,950,000	£850,000
Supported self-contained	EUV-SH	£1,270,000	-	£1,270,000	-
Supported self-contained	MV-T	£5,030,000	£9,990,000	£5,030,000	£10,000,000
Shared Ownership	EUV-SH	£263,950,000	-	£263,950,000	-
Total		**£670,420,000**	**£311,710,000**	**£670,420,000**	**£314,250,000**

Stock

The stock is summarised by count of unit type as follows:

Property Type	Units
Studio flat	70
1 bed flat	376
2 bed flat	643
3 bed flat	181
4 bed flat	7

Property Type	Units
1 bed house	1
2 bed house	51
3 bed house	145
4 bed house	45
5 bed house	10
1 bed bungalow	20
2 bed bungalow	11
Total	**1,560**

Locations

The properties within the portfolio are located across the South East, East Midlands, Greater London and West Midlands as shown in the table below:

County	Units
Greater London	1,255
Kent	1
Northamptonshire	90
Surrey	15
Warwickshire	34
West Midlands	118
West Sussex	47
Total	**1,560**

EUV-SH Assumptions: Rented Properties

The following table provides a summary of the assumptions made in our rented valuations:

Assumption	EUV-SH
Rental income growth - (Year 1)	1.0%
Bad debts and voids (Year 1)	2.3% - 2.5%
Management costs (average per unit)	£648
Management cost growth inflator	0.50%
Total repairs costs (Year 1)	£850 - £1,875
Repair cost growth inflator	1.00%
Discount rate (income)	5.50% - 5.75%

MV-T Assumptions: Rented Properties

The following table provides a summary of the assumptions made in our rented MV-T valuations:

Assumption	MV-T
Rental income growth - houses (Year 1)	20.4% - 21.3%
Rental income growth - flats (Year 1)	12.4% - 22.0%
Sales rate (houses)	4.0%
Sales rate (flats)	2.5% - 3.5%
Bad debts and voids (Year 1)	8.0%
Management costs	10.0%
Total repairs costs (Year 1)	£3,000 - £3,825
Repair cost growth inflator	1.00%
Discount rate (income)	7.50% - 7.75%
Discount rate (sales)	7.50% - 8.25%

Assumptions: Shared Ownership

The following table provides a summary of the assumptions made in our shared ownership valuation:

Assumption	EUV-SH
Discount rate (income)	4.75%
Discount rate (sales)	7.50%
Management Costs	3.0% of Gross Income
Sales rate (yrs. 0-2)	3 tranche sales p.a.
Sales rate (yrs. 3-15)	5 tranche sales p.a.
Sales rate (yrs. 16-30)	4 tranche sales p.a.
Sales rate (yrs. 31-50)	3 tranche sales p.a.
Rental growth (all years)	0.50%

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

1 Introduction

1.1 Background

Jones Lang LaSalle Limited has been instructed to value a portfolio of 1,852 properties which are charged as security in favour of M&G Trustee Company Limited (the "Security Trustee") (hereafter "M&G"), for itself and Optivo Finance PLC (the "Issuer") ("Southern Housing"). This valuation report will be relied upon by M&G to help determine whether the properties continue to provide suitable and adequate security for a loan.

1.2 Compliance

Our valuations have been prepared in accordance with the current RICS Valuation – Global Standards, incorporating the IVS, and the RICS Valuation – Global Standards – UK National Supplement published by the Royal Institution of Chartered Surveyors (commonly known as the "Red Book").

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

This report has been prepared by Nancy Fenton BSc under the supervision of Fiona Hollingworth MRICS (Valuer Number: #0099707). It has been countersigned by Joanne Hooper MRICS (Valuer Number: #0857250).

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

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

The valuation date is 25 May 2023.

1.3 Instructions

Our report is prepared in accordance with our General Terms and Conditions of Business (Appendix 1).

We have been instructed to prepare our valuations on the following bases:

- Existing Use Value for Social Housing ("EUV-SH");
- Market Value subject to existing Tenancies ("MV-T"); and
- Market Value assuming Vacant Possession of the retained equity.

1.4 Certificates of Title

We have previously reviewed the draft Certificate of Title and top up letter for the Portfolio issued by Devonshires Solicitors LLP to be dated 22 March 2018 (the "Property Documents") and can confirm that our valuations fully reflect the disclosures contained therein. In particular, in respect of each unit which we have valued on the basis of MV-T, we can confirm that (based on our review of the Property Documents) such units may be disposed of by or on behalf of the Security Trustee on an unfettered basis (meaning subject to existing tenancies disclosed in the Property Documents but not subject to any security of interest, option or other encumbrance or to any restriction preventing or restricting its sale to, or use by, any person for residential use).

From our review of the Property Documents, 141 units are subject to restrictions that would be binding on a mortgagee in possession and therefore we have valued them on the basis of EUV-SH only.

For the avoidance of doubt, we have valued the remainder of the Portfolio, except those units mentioned above and marked as shared ownership, on the basis of MV-T.

1.5 Professional Indemnity Insurance ("PII")

Save in respect of our liability for death or personal injury caused by our negligence, or the negligence of its employees, agents or subcontractors or for fraud or fraudulent misrepresentation (which is not excluded or limited in any way):

- we shall under no circumstances whatsoever be liable, whether in contract, tort (including negligence), breach of statutory duty, or otherwise, for any loss of profit, loss of revenue or loss of anticipated savings, or for any indirect, special or consequential loss arising out of or in connection with this report; and
- our total liability in respect of all losses arising out of or in connection with this report whether in contract, tort (including negligence), breach of statutory duty, or otherwise, shall not exceed £75,000,000. This amount shall be an aggregate cap on our liability to all relying parties together.

1.6 The Stock Rationalisation Market – EUV-SH Transactions

As you will be aware, an active market exists for the sale of tenanted stock between RPs. This can be driven by strategic decisions about the type and location of accommodation that RPs wish to provide, and the viability of investing in properties to bring them up to the required standards.

Where competition is generated, a market has emerged in which RPs bid against one another on price. The resulting values, even though presented on an EUV-SH basis, tend to be in excess of base EUV-SH values that might be expected for balance sheet or loan security purposes.

Although this may appear hard to justify, the underlying rationale is as follows:

- the bidding price is still much less than the cost of development;
- the marginal cost of taking additional units into management, in an area where the acquiring RP already has stock, justifies a financial model based on relatively low costs for management, repairs and maintenance;
- the judgement of all-round risk formed by the acquiring RP, as reflected in the discount rate, is often lower (and the rate therefore keener) than would be acceptable to either a funder or an auditor in a balance sheet context;
- the price is worth paying to achieve strategic objectives around increasing a presence in a particular area or market; and/or
- the price may be supported by future void sales and/or changes of tenure (for example, from Social Rent to Affordable Rent).

1.7 Deregulatory Measures

A package of deregulatory measures for which the primary legislation was the Housing & Planning Act 2016 came into force on 6 April 2017. These are very significant for the UK social housing sector, as they give RPs greater freedom in terms of commercial decision making than they have ever previously enjoyed in terms of the reduced ability of the regulator to prevent asset management actions.

The deregulatory measures introduced, give RPs the freedom to dispose of assets without the regulator's consent, either with or without tenants in place. Disposals include the grant of leases and the creation of charges when assets are pledged as security for loan security purposes.

There are already early signs that these measures are having an effect on RPs' thinking, and on their business plans, as they begin to adopt a more commercial approach to asset management as one of the tools at their disposal to respond to the greater financial pressures and expectations upon them. For example, through our day to day work, we are beginning to see more analytical requirements in terms of asset management decisions, around investment, remodelling and sale; and an element of sales being built into some stock rationalisation bids.

To be clear this does not mean that RPs are in any way sacrificing their fundamental social ethos. Rather, it is a recognition that, as for any charitable organisation, making best use of its assets to enable it to meet its charitable objectives is an obligation rather than an option; and that commercial behaviour is not at all incompatible with a strong social ethos, within a framework of strong governance.

As mentioned, some RPs are steadily starting to build in an element of void sales into some stock rationalisation bids, however in accordance with our instructions, we have not considered or built in any rate for sales of void properties within our EUV-SH valuations.

1.8 Market Conditions

As at the date of valuation and at the time this report was drafted, there are several negative factors recognised as influencing real estate markets, exerting downward pressure on asset values and reducing liquidity. These include:

Global Economy

The wider global economy continues to face challenges that cumulatively contribute to cost inflation, interest rate changes and consumer confidence thereby resulting in a more volatile transactional market. Issues in the banking and financial services sectors may prove to exacerbate an already volatile situation.

Market activity

Real estate markets can mostly be described as functioning but there is reduced transaction activity and the sentiment of buyers and sellers across some markets has been impacted. These factors have led to softer pricing across all sectors. There is a general perception and expectation of continued changes, and there is a risk that continued volatility, coupled with changes in debt costs, will have a direct impact on pricing as yields continue to evolve. There remains evidence of wide bid spreads, price renegotiations and transactions taking a long time to complete, which all add to the market dynamics.

Ukraine

The war in Ukraine is continuing and its wider long-term implications remain unknown. At the present time, certain locations within Europe are facing difficult investment market conditions as a direct result of the war.

This explanatory note has been included to ensure transparency and to provide further insight of the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly, we highlight the critical importance of the valuation date and advise you to keep the valuation under regular and early review.

2 Methodology

2.1 Valuation Model

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

For the purposes of our valuation, we have split this portfolio by tenure in order to reflect the different risks and opportunities associated with each business stream.

Copies of each of our cashflow summaries are attached to the report at Appendix 3.

Against the income receivable for each property, 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. We have assumed an appropriate level of future growth in these costs (expenditure inflation).

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

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

A location plan of the portfolio is provided as Appendix 4.

2.3 Inspections

We derived our inspections strategy by giving full regard to:

- the geographical spread of the stock;
- the concentration (and thereby its exposure to risk); and
- the property types.

We have satisfied ourselves as to the quality of location and the general condition of and level of fixtures and fittings provided to the properties, and we have derived our valuation assumptions accordingly.

In accordance with our instructions, we have inspected all schemes externally and a representative sample of around 10.0% of the stock was inspected internally. Our inspections were carried out between 20 May 2023 and 25 May 2023.

A representative selection of photographs is provided as Appendix 5.

2.4 Market Research

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 Southern Housing's rents; and
- analysing data provided by Southern Housing.

3 General Commentary

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

- address;
- unit type and bedroom number;
- tenancy type;
- equity retained; and
- net weekly rent.

3.1 Locations

The properties within the portfolio are located across the South East, East Midlands, Greater London and West Midlands as shown in the table below:

County	Units
Greater London	1,255
Kent	1
Northamptonshire	90
Surrey	15
Warwickshire	34
West Midlands	118
West Sussex	47
Total	**1,560**

A location plan of the portfolio is provided at Appendix 4.

3.2 Property Types

The following table summarises the unit types within the portfolio.

Property Type	Units
Studio flat	70
1 bed flat	376
2 bed flat	643
3 bed flat	181
4 bed flat	7
1 bed house	1
2 bed house	51

Property Type	Units
3 bed house	145
4 bed house	45
5 bed house	10
1 bed bungalow	20
2 bed bungalow	11
Total	**1,560**

3.3 Condition

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

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

Age	House	Flat	Bungalow	Total
Pre-1919	69	180	-	**249**
1920-1949	30	10	-	**40**
1950-1979	33	642	-	**675**
1980s	43	49	-	**92**
1990s	50	242	31	**323**
2000s	27	107	-	**134**
Post 2020	-	47	-	**47**
Total	**252**	**1,277**	**31**	**1,560**

From our inspections the properties a mixture of traditional brick/concrete and steel construction under pitched, tile or slate-clad roofs. Windows are of timber/uPVC casement or sash frames and the majority of the properties appear to be double-glazed.

The property ages and construction methodology have been factored into the assumptions we have made regarding voids, discount rates and repairs and maintenance.

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.

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.

3.4 Fire Safety

Our valuations have been provided in accordance with the RICS' Guidance Note: "*Valuation of properties in multi-storey, multi-occupancy residential buildings with cladding, 1st Edition March 2021*" (the 'Guidance Note'), effective from 5 April 2021.

The purpose of the Guidance Note is to help valuers undertaking valuations of domestic residential blocks of flats in the UK for secure lending purposes. It sets out criteria for buildings of different heights that can be used to identify where possible remediation work to cladding for fire safety purposes is likely to be required and may materially affect the value of the property.

We understand from Southern Housing and our inspections that there are 6 blocks of 3 or 4 storeys in the portfolio where we have queried the construction of the external wall system and whether potentially combustible cladding or timber balconies are present.

We understand that these blocks have all been reviewed by Southern Housing and Fire Risk Assessments been carried out where necessary. Southern Housing has provided us with remedial cost estimates for these 6 blocks, and we have deducted these costs from our valuations. The blocks in question are:

The blocks in question and associated works are summarised in the following table:

Scheme	Units	Age	Storeys	Repairs and Cost
Leadale Wharf, Watermint Quay, London, N16 6DN	15	1990s	3	£1,085,000
Ava House, Polthorne Grove, London, SE18 7AS	5	2000s	4	£697,500
Mill Court, Merton Road, London, SW18 5AE	30	2000s	3	£1,976,250
Odyssey House, Garratt Lane, London, SW17 0GS	15	Post 2020	4	£1,007,500
Insight House, Garratt Lane, London, SW17 0GT	18	Post 2020	4	£1,007,500
Baker House, Handcroft Road, London, CR0 3LE	22	Post 2020	4	£1,860,000

3.5 Energy Performance Certificates (EPCs)

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 RPs.

3.6 Climate Change Risk and Net Zero Carbon

Global warming targets set in the Paris Agreement are 1.5-2.0º Celsius above pre-industrial levels. Even the lower end of this range will produce significant changes to global climate systems, including extreme heat or cold events, higher frequency and severity of precipitation or drought, and sea level rise. Therefore, the level of physical climate-related risk of the subject property is likely to fluctuate over its useful life. High levels of climate risk could affect occupier and investor demand, as well as ability to obtain building insurance.

There is an increased focus on Environmental, Social & Governance (ESG) criteria for investment across all asset classes, including real estate. There are also various new, ESG-focused funds entering the real estate market. As a result, the value of property assets of all types is likely to be increasingly affected over time by long term, sustainability challenges. We note that, under the Paris Agreement, the 2050 vision is for all buildings, both new and existing, to be net zero carbon across the whole life cycle. As an interim ambition, the agreement envisages that all new buildings should be able to achieve zero carbon in operations, and aim to reduce carbon emissions by 40%, by 2030,

To achieve the best sustainability credentials and, in particular, to achieve Net Zero Carbon specification, the cost of a refurbishment of a building is currently higher than it would be for a refurbishment which fell short of the standards. However, given the speed at which both the legislation and ESG requirements are advancing, there is a risk that, within the next ten years, further capital expenditure will be required. However, such costs may be mitigated in the future through the principles of the Circular Economy, with a greater focus on recycling materials, and the development of more flexible buildings which can be refurbished and adapted to alternative uses more economically.

Therefore, in terms of cashflow, we anticipate that the technological advances, combined with the increased supply of products and competition, will lower these costs over time and we have not, at this stage, included in our valuation any additional allowance for costs to support the move to net zero carbon over the period covered by our valuation models.

4 Valuation Commentary – Rented Stock

4.1 Introduction

There are 1,412 rented affordable housing properties in the portfolio. These are summarised in the table below.

Category	Units	% of the Portfolio
GN Affordable Rent	70	5.0%
GN Social Rent	1,140	80.5%
HOP self-contained	119	8.5%
HOP shared amenities	15	1.0%
Market Rent	4	0.5%
Supported self-contained	64	4.5%
Total	**1,412**	**100%**

4.2 Tenancies

The majority of the rented properties (circa 96.25%) are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements. The remaining 53 units are let on secure tenancies.

4.3 Rental Income

The following table summarises the total income that Southern Housing receive from the portfolio annually:

Category	Annual Income	Average Rent
GN Affordable Rent	£823,094	£226.12
GN Social Rent	£7,993,766	£134.85
HOP self-contained	£717,137	£115.89
HOP shared amenities	£83,270	£106.76
Market Rent	£70,679	£339.80
Supported self-contained	£464,645	£139.62
Total	**£10,152,591**	**£138.27**

The Statistical Data Return ("SDR") is an annual online survey completed by all private RPs of social housing in England. The latest return for 2021/22 provides the average social rents charged by all RPs for general needs and sheltered/supported properties. The following table compares Southern Housing's average rents with the average sector rents in the same localities:

Region	Average Sector Rent - General Needs	Borrower General Needs	Average Sector Rent – Affordable Rent	Borrower Affordable Rent	Average Sector Rent - Supported	Borrower Sheltered & Supported
East Midlands	£82.65	£108.97	£112.90	-	£83.72	-
West Midlands	£86.53	£110.57	£115.32	£113.36	£88.82	£103.15
East of England	£98.51	£95.62	£143.63	-	£93.50	-
Greater London	£116.16	£137.99	£198.79	£227.76	£108.29	£135.42
South East	£105.42	£126.39	£163.92	-	£96.89	-

According to the Valuation Office Agency, LHA is set at 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.

The following table sets out a comparison of Southern Housing's average rents with the average LHA in the portfolio and also our opinion of Market Rents for comparable properties in the same areas (rents are shown on the basis of 52 weeks). A breakdown per property is included within the schedule at Appendix 2.

Category	Average Passing Rent	Average LHA	% of LHA	Average Market Rent	% of Market Rent
GN Affordable Rent	£226.12	£294.09	76.9%	£412.37	54.8%
GN Social Rent	£134.85	£306.84	43.9%	£433.13	31.1%
HOP self-contained	£115.89	£183.05	63.3%	£137.94	84.0%
HOP shared amenities	£106.76	£295.49	36.1%	£182.64	58.5%
Market Rent	£339.80	£268.97	126.3%	-	-
Supported self-contained	£139.62	£277.11	50.4%	£327.68	42.6%

We have relied upon the rental information provided by Southern Housing.

4.4 Affordability

In addition, we have looked at the passing rents as a proportion of local net weekly earnings as reported by the Office of National Statistics in its provisional 2021 Annual Survey of Hours and Earnings. The results for each of the regions in our valuations are shown in the table below and, in our opinion, demonstrate that the rents being charged by Southern Housing are affordable.

Region	Average Weekly Earnings	General Needs	General Needs as %age	Affordable Rent	Affordable Rent as %	Sheltered & Supported	Sheltered/Supp as %
East Midlands	£434.82	£108.97	25.1%	-	-	-	-

Region	Average Weekly Earnings	General Needs	General Needs as %age	Affordable Rent	Affordable Rent as %	Sheltered & Supported	Sheltered/Supp as %
West Midlands	£465.23	£110.57	23.8%	£113.36	24.4%	£103.15	22.2%
East of England	£456.91	£95.62	20.9%	-	-	-	-
Greater London	£625.05	£137.99	22.1%	£227.76	36.4%	£135.42	21.7%
South East	£486.16	£126.39	26.0%	-	-	-	-

4.5 EUV-SH Rental Growth

We have modelled rental growth of 1.0% in the first year of our cashflow, and rental growth of CPI plus 1% in all years thereafter into perpetuity.

4.6 MV-T Rental Growth

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

We have assumed that it will take between 1 and 7 years for assured rents to increase to market levels and thereafter for rents to rise at 1% (real) per annum. In making our assumptions regarding the number of years and annual increases, we have had regard to typical gross and net yields on private residential portfolios of a similar age profile and in comparable locations.

The number of years' growth and average increases we have modelled per year for houses and flats in each of our valuations are shown in the cashflow summaries at Appendix 3.

4.7 Relet Rates

Our EUV-SH model allows for a rate at which secure tenancies are relet as assured tenancies. The annual rates of tenancy turnover experienced by housing associations vary considerably between localities and between different property types. In regard to assured tenancies, national turnover rates are typically within the range of 5.0% to 11.0%, with higher rates of turnover in the North than in the South.

The rates that we have adopted are set out in the table below, 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 4.11.

Property Type	Relet Rate
House	5.0%
Flat	5.0%
Room	5.0%

4.8 Sales Rates

In accordance with section 1.7, we have not included the sale of any void units under the deregulatory measures introduced by the Housing and Planning Act 2016 in any of our EUV-SH valuations.

In our MV-T cashflows we have assumed that some of the units which become void are sold on the open market. In establishing the sales rates, we have had regard to Land Registry's information on the number of sales and average prices across the same localities over the past 12 months.

The average sales rates we have applied per annum for houses and flats are shown in the table below:

Category	Annual Sales Rates	Sales (Year 1)
Sales rate (houses)	4.0%	8
Sales rate (flats)	2.5% - 3.5%	35

The above figures equate 989 sales in total over 50 years. This, in our view, is a sustainable level of sales which would not adversely impact local house prices or marketability.

4.9 Right to Buy

We anticipate that the tenants of some of the properties within the portfolio may 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. The Voluntary Right to Buy ("VRtB") 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 VRtB in relation to certain properties).

The Government has funded two regional pilot schemes of VRtB for housing association tenants. The initial pilot scheme in 2016, involved five housing associations and was expected to offer 3,000 tenants the ability to buy their own home. A second pilot scheme across the Midlands ran for a period of two years from August 2018, aimed at testing two aspects of the voluntary agreement that the initial pilot scheme did not cover, namely:

- one-for-one replacement; and
- portability of discounts.

A full evaluation of the second pilot was published in February 2021. There were 44 housing associations involved in the pilot, resulting in a total of 1,892 homes being sold or sales in the final stages of completion by 30 April 2020. Data on the construction of replacement homes will be updated on an annual basis.

The government will now evaluate new pilot areas and announce more details in due course.

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 Outgoings

In forming our opinion of the net rental income generated by the portfolio, we have considered the following outgoings:

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

We emphasise that, under the definitions of the bases of valuation we have been instructed to adopt, we are not valuing Southern Housing'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.

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.

4.11 Bad Debts and Voids

We have incorporated into our valuations the potential for future voids and bad debts. Any loss of income for both void properties and bad debts is reflected in a deduction made from the gross rental income.

The rates applied take into consideration the figures in the 2021 Global Accounts data provided by the Regulator of Social Housing and are similar to allowances used by other RPs providing a management and maintenance service in the areas where the properties are situated.

The 2022 Global Accounts data shows that across the whole affordable housing sector, RPs have lost approximately 0.55% of their gross income through bad debts and 1.79% through void losses. The void losses reflect a decrease from 0.61% in the 2021 data whilst bad debts have remained at similar levels over the same period.

In our MV-T valuations 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.

The rates we have adopted for bad debts and voids as a percentage of gross income for each of our EUV-SH and MV-T valuations are shown in the cashflow summaries at Appendix 3.

4.12 Management Costs

We have adopted rates for management and administration based on our experience of other RPs operating in similar areas to Southern Housing. Our rates are subject to an annual inflator of 0.5% (real) for the duration of the cashflow reflecting long-term earnings, growth predictions and potential management savings.

From the information provided in the 2022 Global Accounts, the average cost of management across the sector is £1,112 per unit and the average management cost for Southern Housing is £1,575 per unit.

In arriving at our opinion of value, we are assessing what a hypothetical purchaser in the market would pay for the properties, and in our experience, bids are likely to reflect a marginal approach to management costs. That is, the incremental cost to the organisation of managing the acquired stock is likely to be significantly less than the organisation's overall unit cost. Furthermore, a growth in stock numbers could give rise to potential economies of scale, rationalisation of services and other efficiencies which would reduce unit costs.

Taking the above into account, we have adopted an average rate of £648 per unit for management and administration in our valuations on the basis of EUV-SH.

We have assumed that a mortgagee in possession would expect to spend 10.0% of rental income on management and administration in our valuations on the basis of MV-T.

4.13 Repairs and Maintenance

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.

We have been provided with Stock Condition Survey data and a 30 year Planned Maintenance Programme for each of the properties by the Borrower and have incorporated these costs into our valuations.

From the information provided in the 2022 Global Accounts, the total average cost of carrying out major repairs, planned and routine maintenance across the sector is £2,299 per unit and the average maintenance cost for the Borrower is £2,536 per unit. The Global Accounts average figure for the sector is an increase of 19.8% on the 2021 Edition.

The above figures are broad averages; costs will vary according to a property's age, type, size and form of construction. In particular, the profile of expenditure will be different for a newly built property compared to an older property. The former should only require modest routine maintenance over the first 5 to 10 years of its life, with major repairs only arising from years 15 to 20. Hence there is a low start cost profile, rising steeply in the medium term, whilst an older property is likely to have a flatter profile with a higher starting point.

In accordance with section 3.3 we have had due consideration to the age and construction type for each of the tenure types in our valuations.

The following table sets out the average cost assumptions we have made in the first year of our EUV-SH cashflows. All of our appraisals assume that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	Period	Rented Properties
Major repairs and renewals	Year 1	£933
Cyclical repairs	Year 1	£399
Day-to-day repairs	Year 1	£424
Total Average Costs	**Year 1**	**£1,756**

We have adopted higher costs for major repairs in the first 2 years of our MV-T valuations as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let in the private residential market. After this initial period, our costs settle to a lower level similar to the costs used in our EUV-SH valuation.

The repairs and maintenance assumptions used in each of our valuations are shown in the cashflow summaries appended to this report.

4.14 Discount Rate

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.

For our EUV-SH valuations of the rented properties we have adopted real discount rates of between 5.50% and 5.75% on net rental income.

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 1-7 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.

We have adopted real discount rates of between 7.50% and 7.75% (rental income), and between 7.50% and 8.25% (sales) for our MV-T cashflows.

The discount rates we have used in each of our valuations are shown in the cashflow summaries at Appendix 3.

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

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.

The average MV-VP of flats and houses in each of our cashflows are as shown in the table below:

Category	Average MV-VP (Houses)	Average MV-VP (Flats)	Average MV-VP (Bungalows)
GN Affordable Rent	£433,000	£439,000	£220,000
GN Social Rent	£514,000	£428,000	£194,000
HOP self-contained	-	£124,000	-
HOP shared amenities	-	£191,000	-
Market Rent	-	£390,000	-
Supported self-contained	-	£355,000	-

4.16 House Price Growth

We have included house price growth in accordance with the rates set out in JLL's Residential Forecasts issued in November 2022. The rates are split by region and are shown in real terms in the following table:

Region	2023	2024	2025	2026	2027
United Kingdom	-11.5%	-1.0%	2.0%	3.0%	3.0%
East Midlands	-11.5%	0.0%	3.5%	3.0%	2.0%
West Midlands	-12.5%	0.0%	3.0%	3.0%	2.5%
Greater London	-9.5%	0.5%	2.0%	3.0%	4.0%
South East	-3.0%	1.0%	1.5%	2.0%	3.0%

5 Valuation Commentary - Shared Ownership

5.1 Introduction

There are 148 shared ownership properties within the portfolio. Southern Housing currently owns 51.34% of the equity in the units and a rent is charged on this percentage.

5.2 Rental Levels

According to the information provided by Southern Housing, the average gross weekly rental level is £102.37 against the average retained equity. All rents are expressed on the basis of 52 rent weeks per year.

We have not included the value of any current or future ground rent income in our valuations.

5.3 Rental Growth

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.

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.

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

In forming an opinion of the net rental income generated by the portfolio, we have allowed 3.0% of gross rental income for management.

5.5 Voids and Bad Debts

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

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

For our EUV-SH valuation we have adopted a discount rate of 4.75% on the rental income and 7.5% on sales.

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

The average MV-VP of the retained equity in the shared ownership properties in the portfolio is £157,184.

5.9 Rate of Sales

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 25.0% tranches.

The rates we have adopted in our cashflow are as follows:

Years	Tranche Sales p.a.
Sales rate (yrs. 0-2)	3
Sales rate (yrs. 3-15)	5
Sales rate (yrs. 16-30)	4
Sales rate (yrs. 31-50)	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 72.69%) is attributed to the rental income.

6 Valuation

6.1 Background

We have prepared our valuations on the following bases:

- Existing Use Value for Social Housing ("EUV-SH");
- Market Value subject to existing Tenancies ("MV-T"); and
- Market Value assuming Vacant Possession of the retained equity. Existing Use Value for Social Housing ("EUV-SH");
- Market Value subject to existing Tenancies ("MV-T"); and
- Market Value assuming Vacant Possession of the retained equity.

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

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.

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.

The definitions of the bases of valuation are set out in full in section 7 of this report.

6.2 Asset Value for Loan Security Purposes

Our valuation of the 289 properties being valued on the basis of Existing Use Value for Social Housing ("EUV-SH"), in aggregate, at the valuation date is:

£26,665,000
(twenty six million, six hundred and sixty five thousand pounds)

Our valuation of the 1,267 properties being valued on the basis of Market Value subject to Tenancies ("MV-T"), in aggregate, at the valuation date is:

£325,360,000
(three hundred and twenty five million, three hundred and sixty thousand pounds)

Our valuation of the 4 properties being valued on the basis of Market Value ("MV"), in aggregate, at the valuation date is:

£1,400,000
(one million, four hundred thousand pounds)

Our indicative valuation of the 1,560 properties on the basis of Market Value subject to Vacant Possession ("MV-VP"), in aggregate, at the valuation date is:

£590,145,000
(five hundred and ninety million, one hundred and forty five thousand pounds)

6.3 Asset Value by Tenure

Our valuation of each individual tenure is shown in the following table:

Category	Units Count	Basis of Valuation	EUV-SH	EUV-SH no Affordable Rent	MV-T	MV-VP Retained Equity
GN Affordable Rent	1	EUV-SH	£70,000	-	£220,000	1
GN Affordable Rent	69	MV-T	£12,780,000	£19,200,000	£29,600,000	69
GN Social Rent	83	EUV-SH	£5,730,000	-	£20,370,000	83
GN Social Rent	1,057	MV-T	£104,940,000	£289,920,000	£477,895,000	1,057
HOP self-contained	42	EUV-SH	£4,100,000	-	£7,980,000	42
HOP self-contained	77	MV-T	£4,430,000	£4,750,000	£6,770,000	77
HOP shared amenities	15	MV-T	£940,000	£1,410,000	£2,870,000	15
Market Rent	4	MV	-	£1,400,000	£1,560,000	4
Supported self-contained	15	EUV-SH	£1,270,000	-	£4,600,000	15
Supported self-contained	49	MV-T	£4,580,000	£10,080,000	£17,650,000	49
Shared Ownership	148	EUV-SH	£15,495,000	-	£20,630,000	148
Total	**1,560**		**£154,340,000**	**£326,760,000**	**£590,145,000**	**1,560**

6.4 Reinstatement Cost

We have also prepared a broad indication of the aggregate reinstatement cost of the portfolio of 1,560 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.

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

£401,640,000
(four hundred and one million, six hundred and forty thousand pounds)

7 Bases of Valuation

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

7.1 Existing Use Value for Social Housing

The basis of Existing Use Value for Social Housing is defined in UK VPGA 7 of the RICS Valuation Global Standards – UK National Supplement 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;*
- *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 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."*

7.2 Market Value

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."

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."

7.3 Expenses

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

7.4 Tax

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.

The transfer of properties between RPs is exempt from Stamp Duty Land Tax ("SDLT"). Our MV-T valuations include fees of 3.0% on individual unit sales, however we have not included SDLT or other costs of acquisition within our valuation.

7.5 VAT

Our valuations are exclusive of VAT on disposal.

8 Sources of Verification of Information

8.1 General

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.

8.2 Tenure

Unless otherwise stated in this report, we have assumed the Borrower holds a freehold interest or a long leasehold interest with not less than 80 years unexpired in the properties.

8.3 Title

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.

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.

8.4 Nomination Agreements

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

8.5 Measurements

We have not measured the properties, this being outside the scope of a valuation of a portfolio of this nature.

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.

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.

8.6 Structural Surveys

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.

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

8.7 Deleterious Materials

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.

8.8 Site Conditions

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.

8.9 Environmental Contamination

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.

8.10 Japanese Knotweed

Our inspections are for valuation purposes only, no invasive vegetation was noted during the course of our inspections, however, we cannot confirm if it has been or is present on site.

8.11 Energy Performance Certificates (EPCs)

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 RPs.

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.

8.12 Market Rental Values

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.

8.13 Insurance

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

8.14 Reinstatement Value

The figure provided in section 6.4 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.

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.

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.

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.

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

Unless otherwise stated, we have assumed the properties are neither Listed buildings nor located in a Conservation Area. If they were found to be either of these, the reinstatement value reported may be subject to a higher level of uncertainty than would generally be the case due to possible requirements of reconstructing a Listed building or building in a Conservation Area.

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.

8.15 Planning

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

8.16 The Equality Act

We have assumed the properties appear to comply with the requirements of the Equality Act 2010.

8.17 Outstanding Debts

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.

8.18 Services

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.

8.19 Plans and Maps

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.

8.20 Compliance with Building Regulations and Statutory Requirements

Our valuations have been provided in accordance with the RICS' Guidance Note: "*Valuation of properties in multi-storey, multi-occupancy residential buildings with cladding, 1st Edition March 2021*", effective from 5 April 2021.

Unless otherwise stated in our report none of the properties are of 18m or 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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