SEE A BRIGHTER WAY

Value and Risk Advisory

Valuation report

Client: M&G Trustee Company Limited

Property: 2,622 Affordable Housing units owned by Southern Housing

Date: May 2025

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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 28 May 2025.

Jones Lang LaSalle Limited has been instructed to value a portfolio of 2,622 properties for loan security purposes.

Properties

The portfolio comprises 2,162 social housing units located across the South East, the East Midlands, Greater London and the West Midlands. From our inspections, the properties are a mixture of ages and of traditional brick, concrete and steel construction.

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 460 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.

In accordance with our instructions we have inspected the exterior of 20% of the units (and 5% of the interior of those 20%) in the Portfolio and have valued the remaining 80% of the Portfolio on a desktop basis (section 3).

Valuations

The valuation date is 01 May 2025.

Our valuation of the 630 properties being valued on the basis of Existing Use Value for Social Housing (“EUV-SH”), in aggregate, at the valuation date is:

£76,980,000
(seventy six million, nine hundred and eighty thousand pounds)

Our valuation of the 1,532 properties being valued on the basis of Market Value subject to Tenancies (“MV-T”), in aggregate, at the valuation date is:

£427,730,000
(four hundred and twenty seven million, seven hundred and thirty thousand pounds)

Our indicative valuation of the 2,162 properties on the basis of Market Value subject to Vacant Possession (“MV-VP”), in aggregate, at the valuation date is:

£860,260,000
(eight hundred and sixty million, two hundred and sixty 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	51	EUV-SH	£8,820,000	-	£17,720,000
GN Affordable Rent	83	MV-T	£14,780,000	£21,040,000	£29,450,000
GN Social Rent	222	EUV-SH	£23,960,000	-	£87,635,000
GN Social Rent	1,300	MV-T	£151,840,000	£381,690,000	£604,800,000
HOP self-contained	132	MV-T	£9,860,000	£21,720,000	£33,875,000
Supported & shared amenities	6	MV-T	£280,000	£480,000	£1,230,000
Supported self-contained	11	MV-T	£1,130,000	£2,800,000	£4,135,000
Shared Ownership	357	EUV-SH	£44,200,000	-	£81,415,000
Total	**2,162**		**£254,870,000**	**£427,730,000**	**£860,260,000**

Portfolio Analysis

Location

- the properties within the portfolio are located across the South East of England, the East Midlands, Greater London and the West Midlands.

Description

- the majority of properties (c. 60.1%) in the portfolio are of General Needs social rent tenure, with the remainder falling under General Needs affordable rent, Housing for Older Persons self-contained, Supported and shared amenities, Supported self-contained and Shared Ownership.
- the majority of properties (c. 69.4%) in the portfolio are flats.
- The average rent for properties in the portfolio is £145.28 pw.

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.

Tenancy Summary Income Profile

- the majority of the rented properties (circa 94.63%) are let on assured tenancies;
- there are 97 units let on secure tenancies;
- the portfolio includes 357 properties that are subject to Shared Ownership leases; and;
- the total annual income that Southern Housing receives from the portfolio is £16,333,373.

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;
- 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; and
- Based on local authority waiting lists, There is excess demand for affordable housing properties across the localities within the portfolio.

Weaknesses

- the age of some 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.

Threats

- The social housing sector's financial performance is weakening due to increased spending on existing homes and higher interest rates;
- The strongest financial pressures are seen in London and other urban areas with large numbers of flats still needing building safety works.
- RPs' spending on repairs and maintenance is at record levels and development plans are being scaled back due to financial constraints;
- There is an increased focus both within the sector and the media on tenant safety and service delivery. Failure to deliver quality services or engage with tenants effectively can harm tenants and damage reputation.

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.

Suitability for Loan Security

Your instructions require us to comment on whether the properties we have valued to 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.

We have included the following sensitivity analysis at Appendix 4:

- increase in discount rates;
- a projected fall in house prices and market rents; and
- an increase in management and maintenance costs.

Information Requiring Clarification

- The borrower has been unable to provide EPC ratings for 363 properties in the portfolio.

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.

Based on our knowledge of the sale of tenanted stock between RPs, and considering the specific attributes of the subject portfolio, we would anticipate a marketing period of six to twelve months.

From our inspections, there are 3 blocks of 3 – 5 storeys 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.

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)	2.25% - 2.5%
Management costs (average per unit)	£727
Management cost growth inflator	0.50%
Total repairs costs (Year 1)	£2,059 - £3,170
Repair cost growth inflator	1.00%
Discount rate (income)	5.00% - 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)	12.6% - 15.5%
Rental income growth - flats (Year 1)	13.6% - 14.7%
Sales rate (houses)	3.5% - 25.0%
Sales rate (flats)	2.5% - 15.0%
Bad debts and voids (Year 1)	8.0%
Management costs	10.0%
Total repairs costs (Year 1)	£4,059 - £5,170
Repair cost growth inflator	1.00%
Discount rate (income)	7.25% - 7.75%
Discount rate (sales)	7.25% - 8.00%

Assumptions: Shared Ownership

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

Assumption	EUV-SH
Discount rate (income)	5.75%
Discount rate (sales)	7.75%
Management Costs	3.0% of Gross Income
Sales rate (yrs. 0-2)	10 tranche sales p.a.
Sales rate (yrs. 3-7)	13 tranche sales p.a.
Sales rate (yrs. 8-25)	12 tranche sales p.a.
Sales rate (yrs. 26-50)	5 tranche sales p.a.
Rental growth (all years)	0.50%

This Overview forms part of the Valuation Report dated 28 May 2025 and should not be read in isolation.

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M&G Trustee Company Limited (formerly Prudential Trustee Company Limited) (in its capacity as Security Trustee and Bond Trustee)

10 Fenchurch Avenue

London EC3M 5AG

FAO: Tony Petrou

28 May 2025

Dear Sirs

Terms of Reference Addressee: M&G Trustee Company Limited (formerly Prudential Trustee Company Limited) (in its capacity as Security Trustee and Bond Trustee)

Portfolio ("The Portfolio"): 2,622 Affordable Housing units owned by Southern Housing

Reliance:

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.

Liability:

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.

Borrower: Southern Housing

Tenure: Freehold/Leasehold

Valuation Date: 01 May 2025

Instruction Date: 25 June 2024

Instruction and Purpose of Valuation: Our report is prepared in accordance with the Security Trustee's formal instructions, and our General Terms and Conditions of Business (Appendix 1).

Basis of Valuation: 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").

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");
- Market Value assuming Vacant Possession ("MV-VP") – on a non-reliance basis; and
- Market Value assuming Vacant Possession of the retained equity.

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

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.

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.

Inspection: In accordance with our instructions, we have inspected 20% of the schemes externally and a representative sample of 5.0% of the stock was inspected internally. Our inspections were carried out between 12 April 2025 and 13 April 2025.

We understand that we saw representative parts of the Portfolio and we have assumed that any physical differences in parts we did not inspect will not have a material impact on value.

Personnel: This report has been prepared by Louise Grenfell under the supervision of and countersigned by Fiona Hollingworth MRICS (Valuer Number: #0099707).

The report is also countersigned by Marc Burns, a Director of JLL and 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.

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

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

Status: In preparing this valuation we have acted as External Valuers, subject to any disclosures made to you.

Disclosure: We have previously disclosed to you any recent involvement in this property.

Assumptions: As instructed, we have made the following Special Assumptions:

- the definition of Market Value set out in VS3.2 (with a special assumption that the Properties are subject to existing tenancies).

Sources of Information: We have relied upon the description, tenancy type and current rental income provided to us by Southern Housing and we have been unable to verify the accuracy of that data.

Market Value: Our valuation of the 630 properties being valued on the basis of Existing Use Value for Social Housing ("EUV-SH"), in aggregate, at the valuation date is:

£76,980,000
(seventy six million, nine hundred and eighty thousand pounds)

Our valuation of the 1,532 properties being valued on the basis of Market Value subject to Tenancies ("MV-T"), in aggregate, at the valuation date is:

£427,730,000
(four hundred and twenty seven million, seven hundred and thirty thousand pounds)

Purchaser's Costs:

We have not allowed for purchaser's costs.

Confidentiality and Publication:

Finally, and in accordance with our normal practice we confirm that the Report is confidential to the party to whom it is addressed for the specific purpose to which it refers. No responsibility whatsoever is accepted to any third party and neither the whole of the Report, nor any part, nor references thereto, may be published in any document, statement or circular, nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

Yours sincerely

Louise Grenfell
Apprentice Surveyor
For and on behalf of
Jones Lang LaSalle Limited

Yours sincerely

Fiona Hollingworth MRICS
Director - Affordable Housing
For and on behalf of
Jones Lang LaSalle Limited

Yours sincerely

Marc Burns
Director - Affordable Housing
For and on behalf of
Jones Lang LaSalle Limited

Yours sincerely

Joanne Hooper MRICS
Director - Affordable Housing
For and on behalf of
Jones Lang LaSalle Limited

1. Introduction

1.1. Background

M&G Trustee Company Limited (the "Funder") (hereafter the "Security Trustee") has instructed Jones Lang LaSalle Limited ("JLL") to prepare a valuation of 2,622 properties owned by Southern Housing (the "Borrower") ("Southern"). This valuation report will be relied upon by the Security Trustee 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 Louise Grenfell under the supervision of and countersigned by Fiona Hollingworth MRICS (Valuer Number: #0099707).

The report is also countersigned by Marc Burns, a Director of JLL and 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 and that we have had no involvement with the subject properties within the previous 12 months. We further confirm that JLL will not benefit from the instruction other than by the valuation fee.

The valuation date is 01 May 2025.

1.3. Instructions

Our report is prepared in accordance with the Security Trustee's formal instructions, and 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");
- Market Value assuming Vacant Possession ("MV-VP") – on a non-reliance basis; and
- Market Value assuming Vacant Possession of the retained equity.

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

1.4. Certificates of Title

We have previously reviewed the Certificate of Title for the portfolio issued by Devonshires Solicitors LLP ("the Certificate") 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 Certificate and the Report) such units may be disposed of by or on behalf of the Funder on an unfettered basis (meaning subject to existing tenancies disclosed in the Certificate 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 Certificates, 273 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. Liability

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. Regulation

Southern is regulated by the Regulator of Social Housing (RSH). The RSH is a non-departmental public body that oversees social housing providers in England. It was established in 2018 and is sponsored by the Ministry of Housing, Communities and Local Government. The RSH's primary responsibilities include monitoring and regulating registered social housing providers to ensure they meet certain standards of governance, financial viability, and value for money. They also provide guidance and support to social housing providers and publish information on the performance of the sector.

The RSH in England provides ratings to social housing providers based on their financial viability, governance and consumer standards (from 1 April 2024). Southern is currently rated as follows:

Registered Provider	Governance Rating	Viability Rating	Consumer Regulation Rating	Last Update
Southern Housing	G1	V2	C2	August 2024

A package of deregulatory measures for which the primary legislation was the Housing & Planning Act 2016 came into force on 6 April 2017. These were very significant for the UK social housing sector, as they gave 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.

Since the commencement of this legislation, RPs have adapted their business plans and have adopted 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, this is now a key part 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 have in any way sacrificed 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.

Whilst this is now a common part of RP asset management strategy, in accordance with our instructions, we have not considered or built in any rate for sales of void properties within our EUV-SH valuations.

1.7. Market Conditions

In light of the recent decisions made by the United States' government to impose varying import tariffs on all countries globally, there is a degree of uncertainty as to how this will impact the wider economy both globally and in the UK, and real estate markets. In recognition of the potential for market conditions to change rapidly as a result of these recent and emerging policy decisions, we highlight the critical importance of the valuation date. We confirm that the conclusions in our report are valid at that date only, and advise that you should keep the valuation under regular 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. We have further split the portfolio geographically by region to reflect the different markets in which the properties are located and the associated risks and opportunities.

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. This detailed the number and type of units, the rent payable, tenancy type, and equity retained by the association (where applicable).

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.

A location plan of the portfolio is provided as Appendix 5.

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 20% of the schemes externally and a representative sample of 5.0% of the stock was inspected internally. Our inspections were carried out between 12 April 2025 and 13 April 2025.

A representative selection of photographs is provided as Appendix 7.

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

3. General Commentary

3.1. Property Schedules

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;
- EPC rating; and
- equity retained.

3.2. 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
East Sussex	54
Greater London	1,841
Kent	120
Leicestershire	5
Northamptonshire	41
West Midlands	78
West Sussex	23
Total	**2,162**

The properties in this portfolio are located across a variety of environments, including inner city, suburban, and rural residential settings. Inner city locations benefit from proximity to a wide range of retail, cultural, and employment opportunities, as well as comprehensive public transportation networks including buses, trains, and underground services. Suburban areas typically offer a balance of residential housing with local shopping parades, schools, and parks, supported by regular bus routes and train lines into city centres. Rural locations are characterised by lower population density and greater distances to services, with amenities often concentrated in small towns or villages. Transport in these areas may rely more heavily on personal vehicles, with infrequent bus services connecting to larger regional centres.

A location plan of the portfolio is provided at Appendix 6.

3.3. Property Types

The following table summarises the unit types within the portfolio.

Property Type	Units
Room	6
Studio flat	21
1 bed flat	628
2 bed flat	633
3 bed flat	189
4 bed flat	31
1 bed house	4
2 bed house	217
3 bed house	350
4 bed house	66
1 bed bungalow	8
2 bed bungalow	9
Total	**2,162**

3.4. 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	Room	Total
1950-1979	1	57	-	-	**58**
1980s	22	327	-	-	**349**
1990s	299	551	-	-	**850**
2000s	227	397	10	-	**634**
2010s	88	170	7	6	**271**
Total	**637**	**1,502**	**17**	**6**	**2,162**

From our inspections the properties are primarily of traditional brick, concrete and steel construction under pitched, tile or slate-clad roofs. Windows are of 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.

3.5. Fire Safety

Our valuations have been provided in accordance with the RICS' Guidance Note: "Valuation approach for properties in multi-storey, multi-occupancy residential buildings with cladding, 2nd Edition December 2023" (the 'Guidance Note'), effective from 1 January 2024.

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.

From our inspections and desktop research, there are 3 blocks of 3 - 5 storeys where we have queried the construction of the external wall system and whether potentially combustible cladding or timber balconies are present.

Southern Housing has provided us with remedial cost estimates where these are still to be completed and felt to be appropriate, and we have included these costs in our valuations. Furthermore, we have factored the additional risk outlined above into the discount rates we have applied when valuing these properties.

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

Scheme	Units	Age	Storeys	Repairs and Cost
Cygnus Court, 850 Brighton Road, London, CR8 2FB	33	2000s	5	No remedial costs required
Atwater Close, London, SW2 2PQ	12	1950-1979	4	No remedial costs required
55 Sangley Road, London, SE6 2DT	9	2010s	3	£68,889 per flat

3.6. 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.

However, Southern has confirmed the EPC rating applicable for 1,799 properties in the portfolio which are summarised in the table below:

EPC Rating	Units
B	86
C	1,240
D	446
E	26
F	1
Unknown	363
Total	**2,162**

These ratings are included in the valuation schedule at Appendix 2.

We note that some of the properties have an EPC rating of F or G which falls below the minimum EPC threshold required for lettings in the private rental market. However, we have valued these properties on the basis of EUV-SH or MV-T (where appropriate).

In respect to properties that have been valued on the basis of MV-T, we have made an allowance of between £3,109 and £4,270 in each of the first 2 years of our cashflow to bring the properties up to the minimum regulatory EPC standard (E) that must be achieved before they can be let as Market Rent.

3.7. 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 1,805 rented affordable housing properties in the portfolio. These are summarised in the table below.

Category	Units	% of the Portfolio
GN Affordable Rent	134	7.5%
GN Social Rent	1,522	84.5%
HOP self-contained	132	7.5%
Supported & shared amenities	6	0.5%
Supported self-contained	11	0.5%
Total	**1,805**	**100%**

4.2. Tenancies

The majority of the rented properties (circa 94.63%) are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements. The remaining 97 units are let on secure tenancies.

4.3. Rental Income

RPs must set rents in accordance with the Statement on Rents for Social Housing (the "Policy Statement") which is published on the MHCLG website. The Policy Statement sets out the government's policy on rents from 1 April 2024 to 31 March 2025.

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

Category	Annual Income	Average Rent
GN Affordable Rent	£1,451,105	£208.25
GN Social Rent	£11,981,901	£151.39
HOP self-contained	£846,058	£123.26
Supported & shared amenities	£29,584	£94.82
Supported self-contained	£84,993	£148.59
Total	**£14,393,640**	**£153.35**

The Statistical Data Return ("SDR") is an annual online survey completed by all private RPs of social housing in England. The latest return for 2023/24 provides the average social rents charged by all RPs for general needs and sheltered/supported properties. The following table compares Southern'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	£86.05	£127.01	£119.12	-	£87.99	-
West Midlands	£89.92	£132.71	£121.10	-	£93.70	£102.72
Greater London	£121.09	£153.05	£206.48	£219.93	£113.92	£133.48
South East	£109.77	£143.90	£172.23	£187.33	£101.06	-

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'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.

We have relied upon the rental information provided by Southern.

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 2023 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 are affordable.

Region	Average Weekly Earnings	General Needs	General Needs as %age	Affordable Rent	Affordable Rent as %	Sheltered & Supported	Sheltered/Supp as %
East Midlands	£479.06	£127.01	26.5%	-	-	-	-
West Midlands	£500.77	£132.71	26.5%	-	-	£102.72	20.5%
Greater London	£677.84	£153.05	22.6%	£219.93	32.4%	£133.48	19.7%
South East	£534.51	£143.90	26.9%	£187.33	35.0%	-	-

4.5. EUV-SH Rental Growth

We have modelled rental growth of CPI plus 1% in our EUV-SH valuation models 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 4 and 10 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 1.6, 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)	3.5% - 25.0%	19
Sales rate (flats)	2.5% - 15.0%	37

The above figures equate 1,164 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"). However, 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'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 2024 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 2024 Global Accounts data shows that across the whole affordable housing sector, RPs have lost approximately 0.59% of their gross income through bad debts and 1.76% through void losses. The void losses reflect a decrease from 0.66% in the 2023 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. 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 2024 Global Accounts, the average cost of management across the sector is £1,279 per unit and the average management cost for Southern is £1,329 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 £727 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 2024 Global Accounts, the total average cost of carrying out major repairs, planned and routine maintenance across the sector is £3,029 per unit and the average maintenance cost for the Borrower is £2,397 per unit. The Global Accounts average figure for the sector is an increase of 13.8% on the 2023 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	£1,805
Cyclical repairs	Year 1	£425
Day-to-day repairs	Year 1	£479
Total Average Costs	**Year 1**	**£2,709**

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 5.00% 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 4-10 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 7.25% and 7.75% (rental income), and between 7.25% and 8.00% (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 4.

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	£317,000	£381,000	-
GN Social Rent	£551,000	£413,000	£375,000
HOP self-contained	-	£257,000	-
Supported & shared amenities	-	-	-
Supported self-contained	£595,000	£354,000	-

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 2024. The rates are split by region and are shown in real terms in the following table:

Region	2025	2026	2027	2028	2029
United Kingdom	0.9%	1.7%	2.4%	1.4%	1.0%
East Midlands	1.4%	2.2%	1.4%	0.9%	0.5%
West Midlands	2.4%	3.2%	1.9%	0.9%	0.5%
Greater London	-0.1%	1.2%	2.9%	2.9%	2.0%
South East	-0.1%	1.7%	3.4%	2.9%	1.5%

5. Valuation Commentary – Shared Ownership

5.1. Introduction

There are 357 shared ownership properties within the portfolio. Southern currently owns 56.54% 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, the average gross weekly rental level is £104.49 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.

On 12 October 2023, the government introduced a series of reforms to shared ownership rents. These reforms apply to the leases of new shared owners who purchase homes delivered through the Affordable Homes Programme and through the planning system via Section 106 developer contributions, with certain exceptions. They also apply to the leases of new shared owners who purchase a leasehold interest in their homes through the Right to Shared Ownership and Rent to Buy schemes.

As a part of these reforms, it was announced that from 12 October 2023, rents for new shared owners can instead be increased once a year by no more than the Consumer Prices Index (CPI) plus 1%. This reform brings shared ownership rents into line with the limit that normally applies to annual rent increases in other forms of social housing.

The reforms apply to the leases of new shared owners who purchase a leasehold interest in their homes through the Right to Shared Ownership or Rent to Buy schemes on or after 12 October 2023. If the sale of a leasehold interest in a home on shared ownership terms through either of these schemes is agreed before 12 October 2023, then they are exempt from these reforms.

We have not had sight of the individual leases for the shared ownership properties within this portfolio; however, Southern has confirmed that the shared ownership properties within this portfolio are subject to the previous version of the model shared ownership lease and include rent review provisions that allow upwards only, indexed linked annual rent increases at RPI plus 0.5%.

Accordingly, we have increased rents at a rate of RPI plus 0.5%, in accordance with 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 5.75% on the rental income and 7.75% 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 £231,532.

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)	10
Sales rate (yrs. 3-7)	13
Sales rate (yrs. 8-25)	12
Sales rate (yrs. 26-50)	5

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 62.98%) 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");
- Market Value assuming Vacant Possession ("MV-VP") – on a non-reliance basis; 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 630 properties being valued on the basis of Existing Use Value for Social Housing ("EUV-SH"), in aggregate, at the valuation date is:

£76,980,000
(seventy six million, nine hundred and eighty thousand pounds)

Our valuation of the 1,532 properties being valued on the basis of Market Value subject to Tenancies ("MV-T"), in aggregate, at the valuation date is:

£427,730,000
(four hundred and twenty seven million, seven hundred and thirty thousand pounds)

Our indicative valuation of the 2,162 properties on the basis of Market Value subject to Vacant Possession ("MV-VP"), in aggregate, at the valuation date is:

£860,260,000
(eight hundred and sixty million, two hundred and sixty 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	MV-T	MV-VP Retained Equity
GN Affordable Rent	51	EUV-SH	£8,820,000	-	£17,720,000
GN Affordable Rent	83	MV-T	£14,780,000	£21,040,000	£29,450,000
GN Social Rent	222	EUV-SH	£23,960,000	-	£87,635,000
GN Social Rent	1,300	MV-T	£151,840,000	£381,690,000	£604,800,000
HOP self-contained	132	MV-T	£9,860,000	£21,720,000	£33,875,000
Supported & shared amenities	6	MV-T	£280,000	£480,000	£1,230,000
Supported self-contained	11	MV-T	£1,130,000	£2,800,000	£4,135,000
Shared Ownership	357	EUV-SH	£44,200,000	-	£81,415,000
Total	**2,162**		**£254,870,000**	**£427,730,000**	**£860,260,000**

6.4. Reinstatement Cost

We have also prepared a broad indication of the aggregate reinstatement cost of the portfolio of 2,162 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:

£473,970,000
(four hundred and seventy three million, nine hundred and seventy thousand pounds)

7. Bases of Valuation

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.

When considering the valuation of properties involving transferred public subsidies and potential SDLT relief, it is crucial to note that the application of such relief is subject to complex legislative conditions and HMRC interpretations. The availability of SDLT relief can significantly impact property valuations. However, its applicability is highly dependent on specific circumstances, including (but not limited to): the nature of the original acquisition; the type of public subsidy involved; and the status of both the vendor and purchaser.

As such, valuations based on the assumption of SDLT relief may be subject to inaccuracies if all relevant conditions are not met or if HMRC's interpretation of the legislation changes. It is strongly recommended that, in the event of a transaction, professional tax advice be sought and, where uncertainty exists, non-statutory clearance from HMRC be obtained.

For the avoidance of doubt, our valuations are prepared on the explicit assumption that SDLT relief would be sought and successfully achieved by a hypothetical purchaser of the social housing properties in the portfolio. 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/Floor Areas

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.

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. Reinforced Autoclaved Aerated Concrete ("RAAC")

The presence of RAAC in buildings and its potential to fail with little or no warning is receiving media attention at the moment following the closure of schools which are considered to be at risk.

RAAC is a lightweight form of concrete commonly used in construction between the 1950s and mid-1990s. It is predominantly found as precast panels in roofs, commonly flat roofs, and occasionally in floors and walls.

Although the majority of reported cases are within education and public sector buildings, there is potential for RAAC to be present in other property types and sectors. Whether this poses a risk will depend on several factors including location, condition and quality of the original installation and each case will need to be assessed on its own merits.

Within the residential sector, the RICS advise that they expect the exposure to be low. The Regulator of Social Housing (RSH) has also said that it believes RAAC is not widespread in social housing.

We have not carried out or commissioned investigations on site to ascertain whether any building was constructed using RAAC. Unless we are otherwise informed, our valuations are provided on the basis that no such material has been used.

8.9. 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.

8.10. 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.

8.11. 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.

8.12. 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.

8.13. 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.

8.14. Insurance

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

8.15. 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.

8.16. Planning

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

8.17. The Equality Act

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

8.18. 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.

8.19. 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.

8.20. 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.

8.21. Compliance with Building Regulations and Statutory Requirements

Our valuations have been provided in accordance with the RICS' Guidance Note: "Valuation approach for properties in multi-storey, multi-occupancy residential buildings with cladding, 2nd Edition December 2023" (the 'Guidance Note'), effective from 1 January 2024.

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

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.

Value and Risk Advisory

We are value and risk advisory experts supporting you through the changing world of real estate.

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