Optivo Finance plc

Report & Valuation of 2,241 General Needs Rented and Shared Ownership Flat and Houses in Greater London, the South East and Midlands Regions

savills

23 August 2021

File Ref: 478624

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For the attention of Uwaila Avan-Nomayo

Optivo Finance plc (as “Issuer”)
Grosvenor House
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For the attention of: Jennifer Burns, Property Charging Manager

Dear Sir/Madam,

ISSUER:	**OPTIVO FINANCE PLC**
NOTE TRUSTEE:	**PRUDENTIAL TRUSTEE COMPANY LIMITED**
SECURITY TRUSTEE:	**PRUDENTIAL TRUSTEE COMPANY LIMITED**
REPORTING COMPANY:	**SAVILLS (UK) LIMITED**

REVALUATION OF HOUSING STOCK FOR BOND SECURITY PURPOSES – 2,241 UNITS (INCLUDING 415 NIL VALUE UNITS)

In accordance with the instructions contained in our letter to you dated 23rd April 2021, we have made such enquiries as are sufficient to provide you with our opinion of value on the bases stated below. A copy of our letter of confirmation is enclosed at **Appendix 1.**

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

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

Yours sincerely,

For and on behalf of Savills (UK) Limited

Andrew Garratt BA FRICS FCIH
RICS Registered Valuer
Director

Catherine Wilson BSc (Hons) MRICS
RICS Registered Valuer
Director

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1. Instructions and Terms of Reference

1.1. Instructions & Terms of Reference

Further to our confirmation of instructions letter dated 23rd April 2021 we now have pleasure in reporting to you the following valuations and advice for the purposes of reviewing secured lending on the subject properties to Optivo (the Issuer).

1.2. Basis of Valuation

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

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

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

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

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

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

1.3. Additional Advice – Aggregate Market Value

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

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

1.4. General Assumptions and Conditions

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

1.5. Valuation Date

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

1.6. Purpose of Valuation

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

1.7. Conflicts of Interest

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

1.8. Valuer Details and Inspection

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

A representative sample of the properties was inspected externally in April 2021 by Richard Hague Tech RICS.

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

1.9. Extent of Due Diligence Enquiries and Information Sources

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

1.10. Liability Cap

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

1.11. RICS Compliance

This report has been prepared in accordance with the RICS Valuation – Global Standards (incorporating the IVSC International Valuation Standards) effective from 31 January 2020 together, where applicable, with the UK National Supplement effective 14 January 2019, together the ''Red Book'.

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2. The Properties

2.1. The Properties

2.1.1. Location and Description

The Properties to be valued comprise 2241 units (including 415 Nil Value units) in various activity categories and locations detailed in **Table 1** below.

Table 1: Stock Location

Local Authority	General Needs Social	General Needs Affordable	HOPS Social	Supported Housing Social	Other*	SO	Nil Value	% Spread
LONDON								
Bromley	88	6						**4%**
Croydon	166	5		1	79	80	59	**17%**
Enfield	32						1	**1%**
Haringey	18		13					**1%**
Kensington and Chelsea	8							**0%**
Lambeth	434	3				1	144	**26%**
Lewisham	105	11	32	4	9	11	45	**10%**
Merton	63	1						**3%**
Southwark	189	11	41	1	46	56	137	**21%**
Sutton	4				17	43	3	**3%**
Wandsworth	18	1		3		2	6	**1%**
SOUTH EAST								
Dartford					14			**1%**
Eastbourne	30	12						**2%**
Gravesham	42	2						**2%**
Rother	12							**1%**
Swale	32	12				21	4	**3%**
MIDLANDS								
Birmingham	24							**1%**
Daventry	5							**0%**
Northampton	10							**0%**
Solihull	8						16	**1%**
TOTAL	**1288**	**64**	**86**	**9**	**165**	**215**	**415**	**100%**

*Source: Optivo *includes a variety of clad buildings – please see Section 2.1.4*

The stock comprises of a mixture of groups/clusters of houses and/or flats, and some individual street properties. These may generally be described as being of a fairly common style or appearance bearing in mind the age and design.

The properties fall within an age group circa 1850 to 2010, the majority being circa 1935. Overall, the stock appeared to be in fair condition bearing in mind age and type.
The stock contains medium rise and high rise flats of 5+ storeys. Please refer to section 2.1.4 'Clad and Multi-Occupancy Buildings'

The schemes are largely situated in reasonable to good residential locations but with some properties in to close proximity of commercial properties. Locations vary, but most stock is within good proximity of reasonable transport links and amenities.

The spread of the stock is shown by the map at **Appendix 5.**

A selection of photographs is at **Appendix 4.**

2.1.2. Property Types

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

Table 2: Property Types and Tenure

Type	Flats & Maisonettes	Houses & Bungalows	Total
General Needs Affordable	34	29	63
General Needs Social	882	406	1288
Housing for Older Persons	86	-	86
Supported Housing Social	8	1	9
Other*	164	-	164
Shared Ownership	106	109	215
Grand Total	**1280**	**545**	**1825**

Excluding 415 Nil Value Units which include play areas and pump stations among others.

*Source: Optivo *includes a variety of clad buildings – please see Section 2.1.4*

Please refer to **Appendix 1** for a full summary breakdown of all of the schemes and property types, together with summary rental income data. **Appendix 3** includes a full list of the properties.

2.1.3. Condition

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

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

2.1.4. Clad and Multi-Occupancy Buildings

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

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

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

Table 31: Clad and Multi Occupied Buildings

Block Type	Units
1-4 storeys (low rise)	653
5-6 storeys (medium rise)	284
>6 storeys (high rise)	34
TOTAL	**971**

Source: Optivo

As the above table demonstrates 971 units are affected.

Where EWS1 forms are not required:

Having regard to the RICS Guidance Note, further information has not been requested in this instance. This decision is based on our limited inspection / desktop assessment carried out for valuation purposes and is not a guarantee that works will not be required. In so doing, we are not offering any advice as to the necessity for EWS1 forms and neither the individuals preparing the valuation, nor this firm, shall have any liability to you, or any third party with whom you share the valuation, for any losses or potential losses arising directly and solely as a result of any inaccuracies in, or otherwise in any way related to, the assessment of the requirement for an EWS1 Form(s).

Where EWS1 forms are required and have been supplied:

In arriving at our valuation, we have relied on the EWS1 form(s) prepared by professionally qualified third party/parties. In so doing, we are not offering any advice as to the accuracy, completeness or fitness for purpose of the EWS1 Form(s) and neither the individuals preparing the valuation, nor this firm, shall have any liability to you, or any third party with whom you share the valuation, for any losses or potential losses arising directly and solely as a result of any inaccuracies in, or otherwise in any way related to, the EWS1 Form(s).

Where EWS1 forms are required and have **NOT** been supplied:

Further information has been requested but has not been supplied. It is plausible that the cost of remediation works could exceed the value of the properties and as such we have adopted a Nil or Null Value approach as appropriate to the security. We would be happy to review our valuation when the information is available.

We have had detailed discussions with Optivo regarding the above categorisation of the individual blocks within the portfolio. Circa 93 per cent of the portfolio falls outside the immediate scope of the RICS guidance. For those units that are covered by the RICS Guidance we have categorised the units as provided above and applied the latest estimates of costs from Optivo in respect of anticipated remediation costs and which form part of Optivo's internal business planning processes as a Regulated Housing Association. Such costs are the best estimates at the date of report and have been applied at face value without adjustment and can be subject to change as fire safety works are implemented. Such changes will affect our opinion of value and we refer to our comments in Section 6.1.1 of this report.

2.1.5. Asbestos and Deleterious Materials

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

2.1.6. Services

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

2.2. Environmental Considerations

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

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

2.3. Energy Act 2011

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

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

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

2.4. Fire

Optivo confirm that, where applicable, Fire Risk Assessments ('FRAs") have been undertaken where required and are within date, and that the properties comply with all relevant standards and regulations. Our valuation is prepared on this assumption. Please also see our comments at Section 2.1.4 and Section 6.1.1.

2.5. Town Planning

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

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

2.6. Title and Tenure

2.6.1. Title

We have been provided with a historic schedule of restrictions which were provided by another valuation firm at the time of original charging. We have not seen the certificates of title and rely upon the schedule of restrictions at face value informing our opinion of value.

2.6.2. Tenancies

We have been supplied with copies of the standard tenancy agreements (Assured Shorthold Tenancy – Market Rent, Affordable Rent, Fixed Service Charge, and Variable Service Charge), all of which are in a standard format. Under the assured tenancy agreement rent can be reviewed once a year to an open market level. The tenant has the usual rights of appeal to the local Rent Assessment Committee.

Under the secure tenancy agreement rent is reviewed every 2 years with reference to the local Rent Officer.

2.6.3. Shared Ownership Leases

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

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

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

2.7. Lotting

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

2.8. Rental Income

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

Table 4: Gross Rental Income (correct as at date of this report)

Tenure Type	Gross Rent £
General Needs Social	£8,060,791
General Needs Affordable	£502,289
HOPS Social	£485,307
Supported Housing Social	£55,430
Other*	£960,162
Shared Ownership	£795,689
Total	**£10,859,667**

Excludes Nil Value Units

*Source: Optivo (*includes a variety of clad buildings for which we have followed the guidance as set out by the RICS)*

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

Table 5: Rent Levels 21/22 £ per week net

Property Type	Current Rent	Comparative Local Rent	Local Housing Allowance	Market Rents
General Needs Soc	£120.35	£119.82	£296.83	£311.29
General Needs Aff	£150.93	£106.39	£234.93	£254.05
HOPS Soc	£108.52	£104.13	£264.10	£257.26
Supported Housing Soc	£118.44	£110.20	£273.02	£306.22
Other*	£113.67	£109.02	£248.07	£251.44
Average	**£122.38**	**£109.91**	**£263.39**	**£276.05**

Excludes Shared Ownership and Nil Value Units

Source: Optivo

3. Market Commentary

3.1. General Summary

3.1.1. Economy

In common with other economies around the world, the UK economy suffered in 2020 as the COVID-19 pandemic was the dominant feature of the global economy. The UK Government increased borrowing to put in place significant support measures for the economy and businesses which should go some way to reduce the impact of the pandemic, however it is evident the economic impact will be significant.

Following a steep contraction during the first lockdown in April 2020, the ONS estimates UK GDP grew by 4.1% in the three months to November 2020. This reflects the easing of lockdown measures and some economic recovery. UK GDP fell by 2.6% in November 2020, with the second lockdown having a far smaller economic effect than the first. December 2020 is likely to show some economic growth. Current estimates anticipate a contraction in GDP growth of 9.8% in 2020 overall and negative GDP growth in Q1 2021 due to some post-Brexit adjustment and the third lockdown.

However the vaccine programme is being rolled out quickly in the UK and significant economic recovery in anticipated from Q2 2021 onwards. The short-term negative economic impact of lockdowns should be outweighed by the potential positive long-term health and economic impacts from controlling the virus and restoring confidence.

The Bank of England base rate is expected to remain at 0.1% for the foreseeable future and rise only gradually thereafter as the MPC attributes down-side risk to uncertainty regarding the COVID-19 pandemic's effect on future unemployment.

3.1.2. Housing Market – General

The pace of change in the UK housing market during 2020 was surprising. For seven and a half weeks from 23rd March to 13th May, the housing market was effectively in lockdown and transaction activity was severely suppressed. Since reopening, several factors caused a wave of activity in the market. Behavioural changes encouraged some occupiers to trade up the housing ladder, incentivised by the current stamp duty holiday, while others looked to move as they reassessed their work-life balance. In addition, there continued to be residual pent up demand in the market, supported by the highest level of mortgage approvals in almost 14 years in November 2020. Total growth for 2020 was 7.3%, the highest in six years, which is unlike the pattern seen in any other recessionary period.

Savills Research anticipated that Q1 2021 is likely to see a strong level of activity as buyers rushed to beat the March stamp duty deadline – however this has now been extended. The pace of recovery during the rest of 2021 will depend on the state of the wider economy but on balance Savills expect the five year outlook for UK prices to be around 15%, albeit with regional variations depending on major sectors of employment. The house price growth forecast for 2021 was originally set at zero, however the pace of the UK Housing market as resulted in a re-forecast and mainstream markets are now expected to grow by 4% in 2021.

The Government has recently extended notice periods for evictions to 6 months and confirmed no evictions will be enforced in local lock-down areas. No direct financial support for tenants has been given to date. However rental values tend to be more resilient than capital values during a downturn, and Savills Research expect rents to remain relatively resilient in the coming months and years. There may be modest falls in private sector rents paid over the next year as rental growth generally shows a correlation with income growth, with growth accelerating again as income growth returns.

3.1.3. Social Housing and Residential Investment Markets

The impact of the COVID-19 pandemic on sales transactions between Registered Providers has been limited. Registered Providers are working hard to support and safeguard their tenants and staff at this time. Thorough stress testing has been carried out with particular focus on rent arrears and bad debts, voids and operational costs, with some business plans updated, but impacts are expected to be relatively limited and many paused repair and development programmes have now re started. Sales transactions have continued to take place over the past six months, market activity remains steady and there has been no discernible impact on pricing.

Activity in the residential investment market has gradually resumed over the past three months and increasing numbers of transactions are taking place at pre-pandemic pricing/yields. Levels of rent collection and occupancy rates are also at pre-pandemic levels.

3.1.4. Residential Property Forecasts

After unexpectedly strong house price growth in 2020, Savills' most recent house price forecasts show continuing house price growth over the next five years. It is likely that much of the recent momentum in the market will be dampened by the impact of the COVID-19 pandemic during the second half of 2021, the extent of which is difficult to predict. We expect the pace of the subsequent recovery to vary across regions.

Our latest five year forecast for mainstream residential property is shown in the table below.

Table 6: UK House Price 5-Year Forecasts % pa

Region	2021	2022	2023	2024	2025	5-Year
London	2.5%	4.5%	2.0%	2.0%	1.0%	**12.6%**
South East	5.0%	4.5%	2.5%	2.5%	1.5%	**17.0%**
West Midlands	4.5%	5.5%	5.0%	4.0%	3.0%	**24.0%**
UK	**4.0%**	**5.0%**	**4.0%**	**3.5%**	**3.0%**	**21.1%**

Source: Savills

The rental market has always varied across the country, but the impact of the COVID-19 pandemic has driven this variation to new heights, with annual rental growth to December 2020 at +2.6% for the East of England but -8.3% for London. The pandemic, and related lockdowns, has meant a unique combination of factors have disrupted the relationship between supply and demand, causing rental falls in some city centre markets but supporting the market for larger properties in other locations.
As the vaccination programme is rolled out we expect the mainstream market to progressively normalise; reversing some of the COVID-19 pandemic specific trends seen in 2020. In time, we expect rental growth to become primarily dictated by growth in incomes, much as it has done in the past. But, given the prospects for the wider economy, we foresee a period when the mainstream rental market remains price sensitive, to be followed by a burst of stronger rental growth that is predicted for 2022.

Table 7: Five-year forecast for mainstream rents

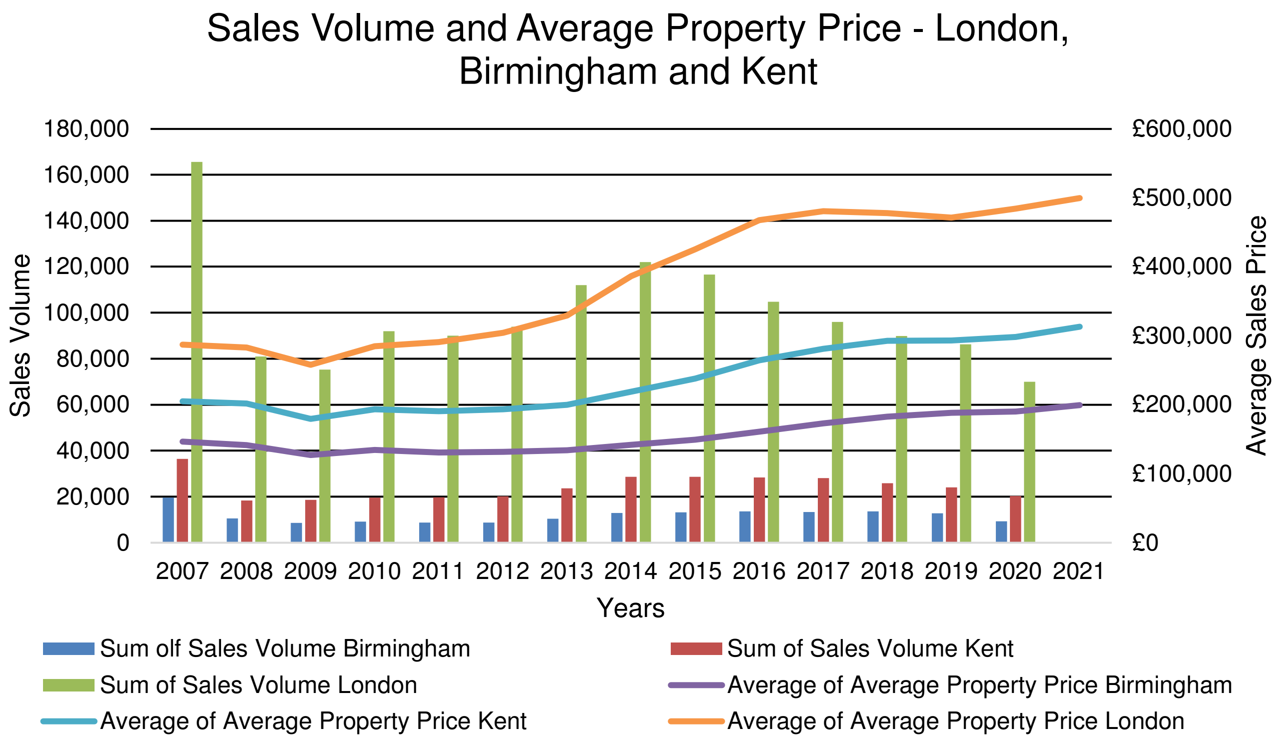
Region	2021	2022	2023	2024	2025	5 years to 2025
UK Rental Growth	0.8%	4.5%	3.7%	3.5%	3.5%	17%
London Rental Growth	1.5%	5.5%	4.0%	3.5%	3.5%	19.3%
UK Excluding London Rental Growth	0.4%	4.0%	3.5%	3.5%	3.5%	15.9%
UK Income Growth	0.5%	5.2%	3.8%	3.5%	3.3%	17.3%

Source: Savills

3.2. Local Market Conditions

In common with most of the UK, the housing market in London, Birmingham and Kent suffered difficult market conditions and falling values from 2007 to 2009 as a result of poor economic conditions. The market began to recover in 2013 with values exceeding the 2007 peak in 2014. This is illustrated by the Land Registry data in Graph 1 below.

Graph 1: Sales Volume and Average Property Price – London, Birmingham and Kent



Rightmove reports that properties in London had an overall average price of £798,758 over the last year. The majority of sales in London during the last year were flats, selling for an average price of £622,880. Terraced properties sold for an average of £950,510, with semi-detached properties fetching £1,081,380. Overall, sold prices in London over the last year were 6% up on the previous year and 9% up on the 2017 peak of £735,240.

However, it is also reported that properties in Birmingham had an overall average price of £216,993 over the last year. The majority of sales in Birmingham during the last year were semi-detached properties, selling for an average price of £231,086. Terraced properties sold for an average of £185,734, with flats fetching £156,022. Overall, sold prices in Birmingham over the last year were 6% up on the previous year and 9% up on the 2018 peak of £198,496.

Finally, last year most property sales in Kent involved terraced properties which sold for on average £328,842. Semi-detached properties sold for an average price of £394,169, while detached properties fetched £594,661. Kent, with an overall average price of £394,913, was similar in terms of sold prices to nearby East Sussex (£389,026), but was cheaper than Surrey (£600,814) and West Sussex (£418,197). The priciest area within Kent was Speldhurst (£1,033,250) and the least expensive was Queenborough (£199,176). During the last year, sold prices in Kent were 8% up on the previous year and 10% up on 2018 when the average house price was £358,738.

Nationwide HPI Index Q1 2021 reports that Greater London had a 4.8% annual change in this quarter, as the average house price fell to £482,576. The Greater London exceeds the UK average house price at £231,644. The West Midlands had a 6.2% annual increase in this quarter, achieving an average house price of £208,806. The UK average house price of £231,644 exceeds the West Midlands. Finally the Outer South East had a 7.2% annual increase in this quarter, achieving an average house price of £298,804. The Outer South East exceeds the UK average house price at £231,644.

The Rightmove tracker Q4 2020, expresses that Greater London rental market has decreased from the previous quarter. The average rent in Greater London fell by 1.7% to £1,966 pcm from £1,932 pcm between Q3 and Q4 in 2020. Furthermore, there was an annual change of -6.4% in Greater London with the average price in Q4 2019 at £2,065 pcm. In contrast, the West Midlands rental market has increased from the previous quarter. The average rent in the West Midlands increased by 1.4% to £859 pcm from £871 pcm between Q3 and Q4 in 2020. Furthermore, there was an annual change of 4.9% in the West Midlands with the average price in Q4 2019 at £830. Similarly, the South East rental market has increased from the previous quarter. The average rent in the South East rose by 0.5% to £1,373 pcm from £1,379 pcm between Q3 and Q4 in 2020. Furthermore, there was an annual change of 0.9% in the South East with the average price in Q4 2019 at £1,366 pcm.

3.3. Vacant Possession Values

Table 8 below shows the average vacant possession values for the properties included within the valuation summarised by type and bedroom number.

Table 8: Vacant Possession Values

Savills Property Type	Bedrooms	Average VP Value
Houses and Bungalows	1	£360,000
	2	£331,000
	3	£394,000
	4	£514,000
Average VP value of all Houses & Bungalows		£379,000
Flats and Maisonettes	1	£285,000
	2	£310,000
	3	£388,000
	4	£431,000
Average VP value of all Flats & Maisonettes		£312,000

Source: Savills

Further detail of vacant possession values can be found on the property schedule at **Appendix 3**.

3.4. Market Rents

Table 9 below shows the average rental values for the properties included within the valuation summarised by type and bedroom number.

Table 9: Average Market Rents

Savills Property Type	Bedrooms	Average Market Rent £ pcm
Houses and Bungalows	1	£1,300
	2	£1,235
	3	£1,408
	4	£1,798
Average Market Rent of all Houses & Bungalows		£1,365
Flats and Maisonettes	1	£1,105
	2	£1,278
	3	£1,625
	4	£1,798
Average Market Rent of all Flats & Maisonettes		£1,278

Source: Savills

4. Valuation Advice

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

4.1.1. Approach to EUV-SH

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

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

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

4.1.2. COVID-19 Pandemic: Impact on DCF Variables

Registered providers are expecting void loss to rise in 2020/21 due to the practical difficulties of reletting property that falls vacant while restrictions persist. A counter-balance to this will be that fewer properties are likely to relet. Arrears and bad debts are also likely to rise as some tenants are unable to pay their rent. We have modelled a rise in voids and bad debts over 2021/22 to 3.25% returning to our long term assumption of 2.50% in 2022/23.

4.1.3. Principal DCF Variables

The DCF assumptions are derived from information received from the RP and economic data. **Table 10** below sets out our principal assumptions. More detailed discussion on discount rate, adopted rent levels and rental growth is contained in the following sections.

Table 10: DCF Variables

DCF Variable	Assumption	Year	Variable Unit	Source
Current Rent	£80.48 - £150.93	Current	£ pw	RP
Maximum Affordable "Convergence" Rent	£80.48 - £150.93	Current	£ pw	Savills
Voids and Bad Debts	2.58%	Average	% real	Savills
Turnover	4.00%	Average	% real	Savills
Management Costs	£900	Average	£ pu/pa	Savills
Cyclical & Responsive Maintenance Costs	£850	Average	£ pu/pa	Savills
Programmed Maintenance Costs	£1000	Average	£ pu/pa	Savills
Rental Inflation	0.60% - 2.60%	Year 1	% real pa	Savills
	1.00% - 3.00%	Year 2	% real pa	Savills
	1.00% - 3.00%	Year 3	% real pa	Savills
	1.00% - 2.29%	Year 4	% real pa	Savills
	1.00%	Long Term	% real pa	Savills
Maintenance Cost Inflation	1.00%	Year 1 – Long Term	% real pa	Savills
Management Cost Inflation	1.00%	Year 1 – Long Term	% real pa	Savills
Discount Rate	4.50% - 5.25%	All years	% real pa	Savills

4.1.4. Discount Rate

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

Effectively, the discount rate is representative of both the long-term cost of borrowing for an acquiring organisation and the risks implicit in the property portfolio concerned. The current level of long-term interest rates and the overall cost of funds must be reflected in our valuation. In addition to considering the cost of funds, we also need to make an allowance for the risk which attaches to our cashflow assumptions – some of which may be subject to a higher degree of risk than those generally made in the business plans. The margin for risk needs to be considered on a case-by-case basis, having regard to the nature of the stock.

Currently, the yield on 30 year Gilts is around 1.31%. This is in effect the risk free discount rate. Yields on Housing Association long dated, rated and unrated bonds are running typically around 2.00% to 2.5% (Source: Social Housing, March 2021).

Activity in the bond market over the past year includes the public rated issues in August 2020 of Hyde 1.75% (1.30% Spread), Platform 1.625% (0.97% Spread), April 2020 of Sanctuary 2.375% (1.70% spread), October 2019 of Sovereign 2.375% (1.27% spread), Wrekin Housing Group 2.50% (1.48% spread) and LiveWest 2.25% (1.40% Spread).

Since the COVID-19 crisis began there have been a number of transactions: Hyde, Platform and Sanctuary all listed above, Optivo issued a 15 year fixed rate bond with an all-in coupon of 2.857% (2.3% spread), Sanctuary a 30 year bond at a coupon of 2.375% (1.7% spread), and Guinness a 30 year bond at a coupon of 2.02% (1.45% spread).

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

Notwithstanding this, many business plans are typically being run at nominal interest rates at 'all-in' long term (30 year) cost of funds including margin of around 4-5%, reflecting the availability of long term finance from the capital markets but also future refinancing risk.

Given the sustained reduction in funding costs our view is that for good quality, generally non-problematical stock, a discount rate between 4.0% and 4.5% real is appropriate (over a long-term CPI inflation rate of 2%). A greater margin for risk will be appropriate in some cases. We would expect to value poorer stock at rates around 4.5% to 5.0% real. On the other hand, exceptional stock could be valued at rates around 3.5% to 4.0% real. We would stress our cashflows are run in perpetuity and not over 30 years.

We have adopted a discount rate of 4.50% - 5.25% real over an assumed CPI inflation rate of 2.0%.

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

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

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

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

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

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

Table 11: Current and Convergence Rents 21/22 (£ pw – 52 Weeks)

Type	Estimated Tenant Household Incomes £	Net Rent £	Savills Convergence Rent £	Savills Convergence Rent Afford. Ratio %	Market Rent £
House	£557.04	£134.51	£139.64	25.10%	£318.41
Flat	£488.03	£114.70	£122.57	25.24%	£295.65
Total	**£507**	**£120**	**£127**	**25.19%**	**£302**

Source: Optivo & Savills

The annual rent increases have been limited to 5% per annum nominal.

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

We have relied on the current rents supplied by the Issuer in carrying out this valuation. We have not carried out any validation of or research into the rents supplied.

4.1.6. Affordable Rents

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

There are currently 72 Affordable Rent units within the stock. The current average rent for these units is £149.86 per week. This is about 40% below the market rents on the same properties. These units have been included in our valuation at their current Affordable Rent levels.

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

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

4.1.7. Sales Between Registered Providers – Transactional Evidence

Until recently evidence of sales between RPs was extremely limited – most transactions were simple transfers of engagements. However in recent years there has been a growing body of transactional evidence from competitive sales between RPs of tenanted stock. The evidence confirms RPs have a consistent tendency to pay a higher sums for some social housing portfolios than would be suggested by traditional, purely cashflow driven, EUV-SH valuations. We have been heavily involved in this emerging market and have a database of transactions covering circa 50,000 units.

Although the body of evidence is relatively small compared to the total RP stock in the UK and the market is still immature, we are able to derive a view of the prices achieved for certain kinds of stock and lot sizes. Assuming a sensible lotting of units in smaller batches of circa 100 units, bids between 5% to 30% above traditional EUV-SH levels are common for more modern stock in reasonable proximity to amenities.

In contrast it is apparent that for lots exceeding around 200 properties the prices achieved appear to be in line with the traditional, cashflow approach to EUV-SH.

In this case you have instructed us to value the properties assuming a sale as a single lot and our valuations do not therefore reflect the higher bids that can be received for small portfolios.

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

4.2.1. Valuation Methodology – MV-STT

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

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

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

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

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

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

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

4.2.2. Principal Assumptions – MV-STT

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

Table 12: MV-STT Assumptions

Variable	Variable	Year	Amount
Gross Annual Rental Income*	£	Current	£23,601,860
Voids	% of Rent Debit p.a.	All years	5%
Management	% of Rent Debit p.a.	All years	10% - 15%
Maintenance	% of Rent Debit p.a.	All Years	15%
Net Yield Applied	%	All Years	3.66% - 5%
Gross Yield	%	All Years	5.23% - 7.69%

Source: Savills

**Note: market rent assumed*

4.3. Shared Ownership – Valuation Approach

4.3.1. General

Optivo have a portfolio of 336 properties subject to Shared Ownership leases in charge. They retain around 58% of the equity in their units, overall. Please see **Appendix 3** for details of the properties, shares held and rental income produced.

4.3.2. Valuation Approach

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

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

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

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

We have applied a discount rate of 4% real reflecting the very secure nature of Shared Ownership income.

4.3.3. Shared Ownership Valuations Principal DCF Assumptions

Our principal valuation assumptions are as follows:

Table 13: Shared Ownership Assumptions

Variable	Unit of Cost	Year	Variable Amount
Discount rate	% pa Real	All years	3.75% to 4.00%
Average rent	£ pw, 100% before adjustments for share	Current	£128.23
Management cost	£ pu/pa	All Years	£150
MV-VP	£ average	Current	£346,944

Source: Savills

5. Valuations

5.1. Valuations

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

5.1.1. Existing Use Value – Social Housing (EUV-SH) – Rented Properties

The aggregate EUV-SH of the freehold or Long Leasehold interest in the 587 units for loan security purposes is:

£25,392,000
(Twenty Five Million, Three Hundred and Ninety Two Thousand Pounds)

5.1.2. Market Value – Subject to Tenancies (MV-STT) – Rented Properties

The aggregate MV-STT of the freehold or Long Leasehold interest in the 1239 units for loan security purposes is:

£325,095,000
(Three Hundred and Twenty-Five Million and Ninety-Five Thousand Pounds)

Scheme by scheme valuations are listed at **Appendix 3**. Those figures must not be used as a basis for lending until your lawyers have confirmed clear title to us.

5.1.3. Market Value – 338 Shared Ownership Leases

The Market Value subject to Shared Ownership leases of the 336 Shared Ownership units is:

£35,147,000
(Thirty Five Million, One Hundred and Forty Seven Thousand Pounds)

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

5.2. COVID-19 Pandemic: Market Conditions Explanatory Note

The outbreak of COVID-19, declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel restrictions have been implemented by many countries and “lockdowns” applied to varying degrees.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to ‘material valuation uncertainty’ as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

For the avoidance of doubt this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date.

5.3. Additional Advice

5.3.1. Lending Against MV-STT

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

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

5.3.2. Indicative Reinstatement Cost for Building Insurance Purposes

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

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

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

The indicative reinstatement cost for building insurance purposes of the 2,241 units is £262m

5.4. Lotting and Value Disaggregation

We have valued the properties as a single lot (see section 2.5). As a result **we have not assessed individual valuations for each property.** We have, however, provided a disaggregation of the overall valuation figures by reference to the appropriate rent and these figures are shown on the property schedule at **Appendix 3**.

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

6. Suitability, Liability & Confidentiality

6.1. Suitability as Loan Security

6.1.1. Lender's Responsibility

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

In this report we refer to all matters that are within our knowledge and which may assist you in your assessment of the risk. In assessing the nature of the risk we would draw your attention to the following matters:

For Clad and multi occupied buildings where EWS1 and/or remediation costs are not available we have provided a nil or null valuation for those units. We will be happy to review this once further information is provided. These are highlighted in Red in Appendix 3.

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

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

6.1.2. Suitability as Security

We have considered each of the principal risks associated with these Properties within the context of the wider property market and these risks are reflected in our valuation calculations and reported figures as appropriate.

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

6.2. Verification

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

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

6.3. Confidentiality

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

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

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

Yours faithfully

Andre Garratt BA FRICS FCIH
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RICS Registered Valuer
For and on behalf of Savills (UK) Limited

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