



**CUSHMAN &  
WAKEFIELD**

**Valuation of:**

**Fairchild House, 21 Southampton  
Street, Southampton, SO15 2ED**

Prepared for

**The Directors, PPNL SPV B88 – 1  
Limited and PPNL SPV B88 Limited**

Valuation Date:

**12 February 2018**



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## EXECUTIVE SUMMARY



**FAIRCHILD HOUSE, 21 SOUTHAMPTON STREET,  
SOUTHAMPTON, SO15 2ED**

This summary is strictly confidential to you as the Addressee. It must not be copied, distributed or considered in isolation from the full report.

## Property Summary

<b>Location</b>	<p>Southampton is the largest city in Hampshire and is located 121km (75 miles) south west of London and 31km (19 miles) north west of Portsmouth.</p> <p>Fairchild House is situated at the northern end and western side of Southampton Street at its junction with Handford Place. The amenities of London Road are nearby and the city centre is approximately a 10 to 15 minute walk away. Southampton Solent University is within a 10 minute walk.</p> <p>The immediate area is a mix of uses including residential and commercial. There are a number of other student accommodation schemes located nearby including Collegiate AC's Brunswick Apartments and London Road Studios, Liberty Living's Liberty Point and the Student Housing Company's Crescent Place scheme.</p>
<b>Description</b>	<p>Fairchild House comprises a former office building that has been converted to provide 45 studio bed spaces.</p> <p>The bedrooms are finished to an identical, modern good quality specification and provides bedroom/living area, kitchenette and en-suite shower room.</p>
<b>Floor Area</b>	<p>We have not undertaken a measured survey as is typical of the student accommodation sector where rents are based upon a weekly rent per room not a rate per square metre or square foot.</p>
<b>Environmental issues</b>	<p>We have not been made aware of any environmental issues relating to the Property. We note from the Groundsure Siteguard Report that there is low potential environmental risk and that the property represents an Acceptable Banking Security from an environmental risk perspective.</p>
<b>Tenure</b>	Freehold

## Income Summary

<b>2017/18 Gross Effective Revenue (pa)</b>	£348,339 (assuming 93.5% occupancy)
<b>Less 2017/18 Operating Costs (pa)</b>	£99,000 (based upon £2,200 per bed per annum including management fee)
<b>Net Current Income</b>	£249,339 (assuming 93.5% occupancy)
<b>2018/19 Gross Market Rent (pa)</b>	£370,877 (assuming 97% occupancy)
<b>Less 2018/19 Operating Costs (pa)</b>	£101,475 (based upon £2,255 per bed per annum including management fee)
<b>2018/19 Net Market Rent</b>	£269,402 (assuming 98% occupancy)

## Market Value and Yields

<b>Valuation date</b>	12 February 2018
<b>Market Value – As Is</b>	£4,100,000 (£91,111 per bed)

**Net Initial Yield** 6.01% rising to 6.48% in year two and 6.73 when stabilised in year three.

**Liquidity** Moderate

#### Valuations on Special Assumptions

**Vacant Possession Value** £3,790,000 (based upon a 7.5% discount from Market Value which equates to a loss of approximately 80% of the first year's income, 15% of the second year's income and 5% of the third year's income).

**Restricted Marketing Value** £3,690,000 (assumes a discount of 10% from the Market Value)

#### Key Investment / Market Considerations

##### Strengths / Opportunities

- The Property is well located to the north of the city centre in a popular area with students. It is within a 10 to 15 minute walk of Southampton Solent University and is close to a wide range of amenities including shops, cafes, restaurants bars and nightclubs.
- The Property was converted in 2015 and comprises good quality accommodation.
- The Property is fully occupied at sensible rents.
- Current student to bed ratio (SBR) in Southampton is 2.4:1 which is above the national average at 2.2:1.

##### Weaknesses / Risks

- Whilst full time student numbers at the University of Southampton have risen over the last three years by 6%, student numbers at Southampton Solent University have fallen by 5% in the same period.
- Whilst the accommodation is of a good specification, it is not a purpose-built scheme and lacks any communal facilities.
- Potential increase in the supply of local competing student accommodation in the short to medium term from both the private sector and the universities could have a negative impact on future occupancy levels and rental growth prospects.
- The scheme only offers studio accommodation.
- Any changes to the anticipated gross income, be it changes in rent or occupancy, or operational costs will impact occupancy and net operating income (NOI) which will impact the value reported.
- Should the scheme not be operated by a reputable student operator, the costs of operation could increase which would impact on Market Value now reported.
- Uncertainty around future recruitment of EU students and visa restrictions for other international students.
- Impact of any further increases to tuition fees and changes to nursing grants.
- Further impact from Brexit of potential staff availability from EU countries.

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## VALUATION RECORD

**To:** The Directors, PPNL SPV B88 – 1 Limited and PPNL SPV B88 Limited  
("you" or the "Addressee")

**Attention:** To Whom It May Concern

**Property:** Fairchild House, 21 Southampton Street, Southampton SO15 2ED

**Report date:** 2/03/2018

**Valuation date:** 12/02/2018 ("Valuation Date")

**Our reference:** LK / JJJ / Fairchild

## Instructions

### Appointment

We are pleased to submit our report and valuation (the "**Valuation Report**"), which has been prepared in accordance with the engagement letter entered into between us dated 4 May 2018 (the "Engagement Letter"), a copy of which is to be found at the back of this document. This Engagement Letter and the terms set out therein, together with our Terms of Business, which were sent to you with our Engagement Letter, constitute the "**Engagement**", which forms an integral part of this Valuation Report.

Included in the Engagement Letter is the Valuation Services Schedule. It is essential to understand that the contents of this Valuation Report are subject to the various matters we have assumed, which are referred to and confirmed as Assumptions in the Valuation Services Schedule (which forms part of the Engagement). Where Assumptions detailed in the Valuation Services Schedule are also referred to within this Valuation Report they are referred to as an "assumption" or "assumptions". Unless otherwise defined, all capitalised terms herein shall be as defined in the Engagement.

We have valued the property interest detailed in the Property Record.

### Compliance with RICS Valuation – Global Standards

We confirm that the valuation and Valuation Report have been prepared in accordance with the RICS Valuation – Global Standards, which incorporate the International Valuation Standards ("IVS") and the RICS UK Valuation Standards (the "RICS Red Book"), edition current at the Valuation Date. It follows that the valuation is compliant with IVS.

## Status of Valuer and Conflicts of Interest

We confirm that all valuers who have contributed to the valuation have complied with the requirements of PS1 of the RICS Red Book. We confirm that we have sufficient current knowledge of the relevant markets, and the skills and understanding to undertake the valuation competently. We confirm that Luke Kemp has overall responsibility for the valuation and is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation. Finally, we confirm that we have undertaken the valuation acting as an External Valuer as defined in the RICS Red Book.

We highlight that we have previously undertaken a valuation of the subject Property for secured lending purposes on behalf of Coutts Commercial Real Estate in March 2018 with a valuation date of 12 February 2018. You are aware of our previous involvement with the subject Property and you have instructed us to undertake the valuation on your behalf regardless. Coutts Commercial Real Estate have also been made aware of your request for valuation advice and have consented to us providing you with a valuation of the subject Property.

## Purpose of Valuation

The purpose of this Valuation Report is in connection with your acquisition of the Property (the "Purpose of Valuation").

## Basis of Valuation

In accordance with your instructions, we have undertaken our valuation on the following bases:

1. Market Value
2. Market rent
3. Market value on the Special Assumption of a 6 month marketing period
4. Market value on the Special Assumption of Vacant Possession

## Definitions

### Market Value

The term "Market Value" as referred to in VPS4 Item 4 of the RICS Red Book and applying the conceptual framework which is set out in IVS 104: "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 Rent

The term "Market Rent" as referred to in VPS 4 Item 5 of the RICS Red Book. Under VPS 4 Item 5, the term "Market Rent" is defined in IVS 104 as: "The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

## Valuation of Trade Related Properties

Certain property types are normally brought and sold based on their trading potential as they have usually been designed or adapted and fitted out for a specific use and the resulting lack of flexibility usually means that the value of the property interest is intrinsically linked to the returns that the owner can generate from that use.

As a result, our opinion of value of the Property has been assessed having regard to its trading potential based on an income approach to value unless there is a clear alternative use. Unless

otherwise stated our opinion of value assumes the Property is a fully equipped operational entity and includes:

- The legal interest in the land and buildings.
- The trade inventory, usually comprising all trade fixtures, fittings, furnishings and equipment.
- The market's perception of the trading potential, together with the ability to obtain and renew existing licences, consents, certificates and permits.

For the avoidance of doubt our opinions of values do not include consumables and stock.

### Special Assumptions

A Special Assumption is referred to in the Glossary in the RICS Red Book as an assumption that "either assumes facts that differ from the actual facts existing at the valuation date, or that would not be made by a typical market participant in a transaction on the valuation date", ("Special Assumption").

You have asked us to provide an opinion of Market value reflecting the following Special Assumptions:

1. A Restricted Marketing Period
2. Vacant Possession

For the purposes, we have undertaken valuations based on the following:

- A Special Assumption that the time available for marketing is restricted to six months ("Restricted Marketing Value")
- Vacant Possession, as a fully equipped operational entity having regard to trading potential. The Valuation date is post the beginning of the academic year and therefore, we would anticipate that a purchaser would assume there would be some loss of income from the current academic year which would be reflected in any potential purchase price. ("Vacant Possession Value")

In the circumstances of this instruction, we consider the above Special Assumptions may be regarded as realistic, relevant and valid.

### Departures

We have made no Departures from the RICS Red Book.

### Reservations

The valuation is not subject to any reservation.

### Inspection

Details of our inspection of the site are included in the Property Record section.

### Measurement

Details of measurement of the Property are included in the Property Record section.

### Floor Areas

Unless specified otherwise, floor areas and analysis in this report are based on the following bases of measurement, as defined in RICS Property Measurement (the edition current at the Valuation Date):

Residential      GIA

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## Sources of Information

In addition to information established by us, we have relied on the information obtained from you and others listed in this Valuation Report.

We have made the assumption that the information provided by you and your respective professional advisers in respect of the Property we have valued is both full and correct. We have made the further assumption that details of all matters relevant to value within your and their collective knowledge, such as prospective lettings, rent reviews, outstanding requirements under legislation and planning decisions, have been made available to us, and that such information is up to date.

## General Comment

All valuations are professional opinions on a stated basis, coupled with any appropriate assumptions or Special Assumptions. A valuation is not a fact; it is an estimate. The degree of subjectivity involved will inevitably vary from case to case, as will the degree of certainty, or probability, that the valuer's opinion of value would exactly coincide with the price achieved were there an actual sale at the Valuation Date.

Property values can change substantially, even over short periods of time, and so our opinion of value could differ significantly if the date of valuation were to change. If you wish to rely on our valuation as being valid on any other date you should consult us first.

Should you contemplate a sale, we strongly recommend that the Property is given proper exposure to the market.

You should not rely on this report unless any reference to tenure, tenancies and legal title has been verified as correct by your legal advisers.

## Valuation Approach

We have valued the property having regard to future trading potential as PBSA.

Valuations made on the basis of trading potential assume that:

- A. The business will at all times be effectively and competently managed, operated and promoted; and
- B. The business will be properly staffed, stocked and capitalised

The property is integral to the operation of the business and therefore, as with all classes of property valued by reference to trading potential, the underlying value of the property asset can fluctuate to a greater degree when that trading potential is altered, either up or down, than is normally the case with most other types of commercial property. Consequently, if the net operating income (NOI) were to fall substantially short of estimated levels, then this would have a detrimental effect on future value, conversely if the NOI were to rise substantially this would have a positive effect.

In accordance with our instructions the property has been valued as a fully equipped and operational entity and includes reference to trade fixtures, fittings, furniture and furnishings and equipment necessary to sustain the business carried out. We have assumed unless otherwise instructed that all plant, machinery, fixtures and fittings are owned outright and not subject to finance leases or charges or are owned by third parties.

Unless we have said otherwise:

1. the valuation will be made on the basis that the property will be sold as a whole including all fixtures, fittings, furnishings, equipment, stock and goodwill required to continue trading;

2. we will assume that the new owner will normally engage the existing staff and the new management will have the benefit of existing and future bookings or occupational agreements (which may be an important feature of the continuing operation), together with all existing statutory consents, operational permits and licences;
3. we will assume that all assets and equipment are fully owned by the operator and are not subject to separate finance leases or charges;
4. we will exclude any consumable items, stock in trade and working capital; and
5. we will assume that all goodwill for the property is tied to the land and buildings and does not represent personal goodwill to the operator.

We have prepared a cash flow projection for the property reflecting estimated rental/room rates, occupancy, other income and operational costs together with revenue growth and expense inflation. We have arrived at our opinion of Market Value for the Property by adopting the discounted cash flow method of valuation based on the results of our cashflow projection.

We have prepared a 10 year projected cashflow with an assumed exit/sale at year 10.

We have made subjective judgements 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 as would be made by a purchaser. These estimates constitute our judgement as at the date of valuation and may be subject to change in the future, hence we make no warranty or representation that these projections of cashflow will materialise. There is no discount or margin to reflect the purpose of the valuation.

The purpose of the valuation does not alter the approach to the valuation.

### **Cashflow Analysis**

Our valuation approach has been supported by a 10-year cashflow, incorporating projections of future income and expenditure, which are not predictions of the future, but are our best estimate of current market thinking on likely future cashflow. These estimates constitute our judgement as at the date of valuation and may be subject to change in the future, hence we make no warranty or representation that these projections of cashflow will materialise.

### **Multiple Dwelling Relief (“MDR”)**

The relief from stamp duty land tax (SDLT) was introduced in 2011, with the intention of reducing barriers to investment in residential property. Where the relevant conditions are met, the relief operates to reduce the rate of SDLT payable on the acquisition of multiple residential properties. Transfer of student accommodation properties can benefit from the relief although eligibility will depend, among other things, on the design of the units, whether the property is subject to a long lease when sold and whether the residents are all limited to studying at a specific college.

The relief is calculated by averaging the total price for the whole asset to arrive at an average price for each individual self-contained unit and then determining the SDLT rate applicable to residential transactions at the average unit price. However, there is a minimum payable amount of 1% of total value. MDR applies to sales of multiple dwellings where each dwelling for these purposes is defined as a building used or suitable for use as a single dwelling. Generally, the relief should apply to modern or purpose built ‘cluster’ flats and studios. MDR is not available to student accommodation where it is limited or affiliated to only one institution (e.g. halls of residence) or where there is a lease for 21 years or more.

From 1 April 2016, the rates for Stamp Duty Land Tax (SDLT) will be higher if the purchaser is deemed to be acquiring an additional residential property for £40,000 or more in England, Wales and Northern Ireland. The higher rates will be 3% above the current SDLT rates (for residential properties) which effectively results in the previous zero band being 3% and the additional 3% being added to every higher band. In many cases, this surcharge will mean that it could be

beneficial to opt for standard commercial SDLT rates. It is unclear at the present time if this additional surcharge will be applicable to investors and other entities who cannot be classified as residing in homes.

In the absence of definitive guidance, we have assumed that residential SDLT assuming MDR will apply without the additional 3.0% surcharge.

As we are not tax experts, you may wish to seek professional advice in this regard to clarify the various tax issues outlined above.

### Market Conditions

On 14 June, a fire at the Grenfell Tower apartment block in London became out of control and destroyed the building, with significant loss of life. A number of inquiries have been commissioned to investigate the event, and it is likely that recommendations will be made as to the construction and management of similar properties.

In the light of this, we are aware that market participants that may also be affected by the same or similar issues are reviewing details of construction, health and safety – and particularly fire prevention, mitigation and means of escape. At this point it is too early to assess the longer-term consequences. In the short-term, however, it is likely that potential investors and occupiers will be more cautious – and the liquidity and pricing of the subject property may be impacted.

From our inspection, the property appears to have brick elevations rendered at ground floor level. We highlight that we have not been provided with a building survey.

We recommend that your advisors ensure that the property meets the relevant regulations particularly for prevention, mitigation and means of escape. We recommend a review of the fire prevention and mitigation measures along with a review of the means of escape in case of fire. We also recommend a full review of any cladding materials used on the property.

For the avoidance of doubt, in arriving at our opinion of value, we draw your attention to the fact that in the case of the subject property, we have assumed that the property has been constructed using appropriate fire-resistant materials and meets all necessary regulations.

## Valuation

### Market Value

Subject to the contents of this report we are of opinion that the Market Value of the freehold interest in the property detailed in the Property Record, as at the valuation date, having regard to trading potential as purpose built student accommodation, is:

**£4,100,000** (Four Million and One Hundred Thousand Pounds)

Our opinion of the Market Value equates to £91,111 per bed.

### Market Rent

Our opinion of the Net Market Rent of the Property after deductions for voids and bad debts and costs of operation, as at the Valuation Date, is approximately:

**£269,402 pa** (Two Hundred and Sixty Nine Thousand, Four Hundred and Two Pounds)

The basis on which the Market Rent has been calculated is set out in the property record.

## Market Value Based on Special Assumptions

### Restricted Marketing Value

Our opinion of the Restricted Marketing Value as at the valuation date of the interest in the Property, assuming a fully equipped operational entity having regard to future trading potential as purpose built student accommodation is:

**£3,690,000** (Three Million, Six Hundred and Ninety Thousand Pounds)

This opinion of value reflecting a six month marketing period assumes a 10% discount from the Market Value.

### Vacant Possession Value

This basis is Market Value assuming vacant possession throughout (other than any parts let on a long lease at a nominal rent).

Our opinion of the Vacant Possession Value of the interest in the Property, assuming a fully equipped operational entity having regard to future trading potential as purpose built student accommodation is:

**£3,790,000** (Three Million, Seven Hundred and Ninety Thousand Pounds)

This value assumes that the property is vacant and no lettings have been undertaken and is immediately available for direct letting. We have applied a 7.5% discount to our Market Value above which equates to a loss of approximately 80% of the first year's income, 15% of the second year's income and 5% of the third year's income.

All of the values provided above assume that the property is offered to the market reflecting trading for a full academic year, with the exception of our valuation on the Special Assumption of Vacant Possession.

## Confidentiality

This Valuation Report is confidential to you, for your sole use only and for the Purpose of Valuation as stated. Other than as detailed below, we will not accept responsibility to any third party in respect of any part of its contents.

## Disclosure

You must not disclose the contents of this Valuation Report to a third party in any way, including where we are not referred to by name or if the Valuation Report is to be combined with other reports, documents or information, without first obtaining our written approval to the form and context of the proposed disclosure in accordance with the terms of the Engagement. We will not approve any disclosure that does not refer adequately to the terms of the Engagement and any Special Assumptions or Departures that we have made.

This Valuation Report or any part of it may not be modified, altered (including altering the context in which the Valuation Report is displayed) or reproduced without our prior written consent. Any person who breaches this provision shall indemnify us against all claims, costs, losses and expenses that we may suffer as a result of such breach.

We hereby exclude all liability arising from use of and/or reliance on this Valuation Report by any person or persons except as otherwise set out in the terms of the Engagement.

## Reliance

This Valuation Report may be relied upon only in connection with the Purpose of Valuation stated and only by:

- (i) you, and;
- (ii) by such other parties who have signed a Reliance Letter.

No reliance may be placed upon this Valuation Report by any other party, or for any other purpose except in accordance with the terms of the Engagement.

For the avoidance of doubt, the total aggregate limit of liability specified in the terms of the Engagement (the "Aggregate Cap") shall apply in aggregate to (i) you, and (ii) such other parties who have signed a Reliance Letter. Apportionment of the Aggregate Cap shall be a matter for you and such other third parties alone.

Signed for and on behalf of Cushman & Wakefield LLP



### **Luke Kemp MRICS**

Partner

RICS Registered Valuer

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## PROPERTY RECORD

### Fairchild House, 21 Southampton Street, Southampton, SO15 2ED

#### Inspection

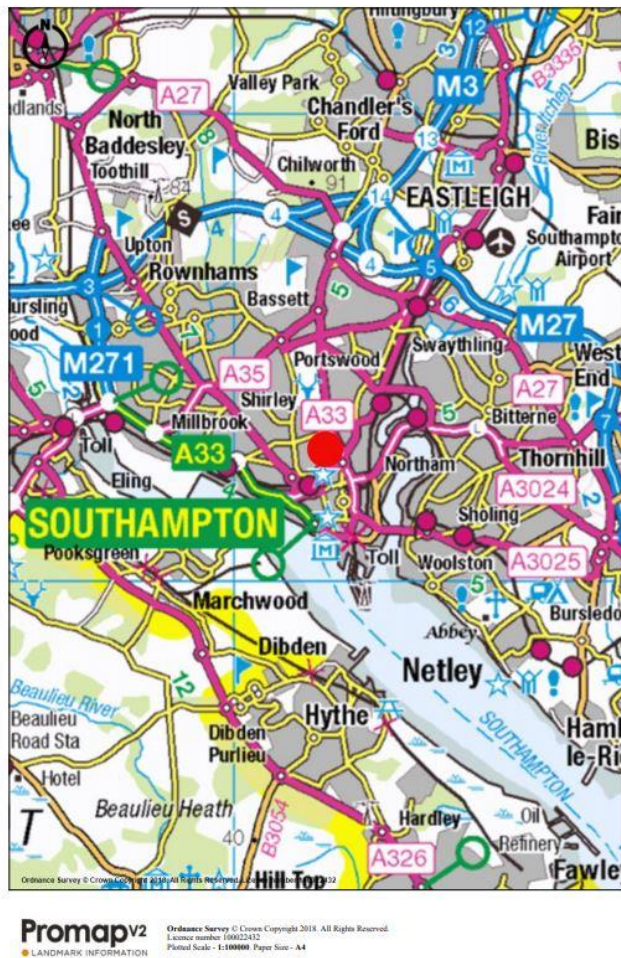
The development site was subject to an internal and external inspection, from ground level on 31 January 2018 by Luke Kemp MRICS.

## 1. Location

### 1.1. Location

#### General

- Southampton is the largest city in Hampshire and is located 121km (75 miles) south west of London and 31km (19 miles) north west of Portsmouth.
- The closest rail services are available from Southampton Central Station, located circa 1.3 kilometres (0.8 miles) south west.
- Local bus services are available with stops located within a 5 minute walk from the property.
- Southampton is home to two universities, the University of Southampton (ranked 30<sup>th</sup> in the Times good University Guide 2018) and Southampton Solent University (ranked 100<sup>th</sup> in the Times Good University Guide 2018).



Further maps and plans are attached in Appendix A.

### Situation

- Fairchild House is situated at the northern end and western side of Southampton Street at its junction with Handford Place. The amenities of London Road are nearby and the city centre is approximately a 10 to 15 minute walk away. Southampton Solent University is within a 10 minute walk.
- The immediate area is a mix of uses including residential and commercial. There are a number of other student accommodation schemes located nearby including Collegiate AC's Brunswick Apartments and London Road Studios, Liberty Living's Liberty Point and The Student Housing Company's Crescent Place scheme.



## 1.2. Demographics & Local Economy

- According to the ONS population estimates, Southampton has a residential population of 254,300.

Employment by Occupation (October 2016 – September 2017)	Southampton (Numbers)	Southampton (%)	Great Britain (%)
Managers, Directors and Senior Officials	9,700	7.5	10.9
Professional Occupations	27,400	21.3	20.2
Associate Professional & Technical	15,800	12.3	14.3
Administrative & Secretarial	12,900	10.0	10.3
Skilled Trades	13,100	10.2	10.3
Caring, Leisure and Other Service Occupations	11,500	9.0	9.2
Sales and Customer Service Occupations	9,700	7.6	7.5
Process Plant & Machine Operatives	10,800	8.4	6.3
Elementary Occupations	17,600	13.7	10.6

Source: ONS Annual Population Survey



- The proportion of residents claiming out of work benefits (Job Seekers Allowance) in the Southampton area is 0.8% (November 2017), below that of the Great Britain average (1.1%) however slightly above that of the South East average of 0.7%.

## 2. Description & Accommodation



Further photographs are attached in Appendix B.

### Summary

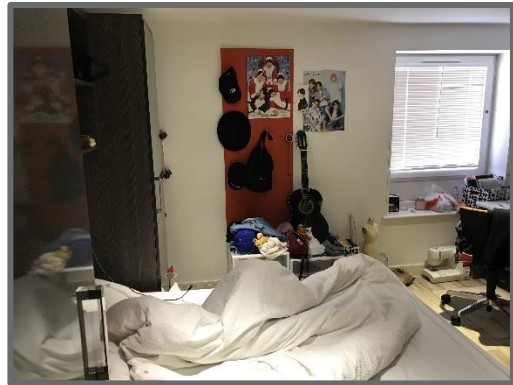
- Fairchild House is a former office building converted to provide 45 studio bed spaces.
- Converted in approximately 2015, the accommodation is arranged over ground and three upper floors
- The accommodation is of a good specification.

### Construction

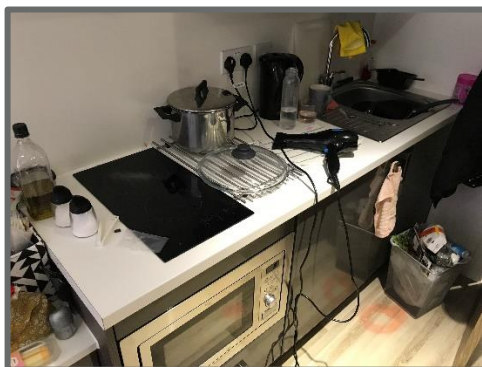
- The Property comprises a 'L' shaped four storey office building dating from approximately the 1970s or 1980s.
- The Property was converted to student accommodation in 2015.
- The building appears to be of concrete framed construction with brick elevations under a mansard roof.
- Windows throughout the Property comprise double glazed uPVC framed units.
- At the time of our inspection, no external areas were shown to us although there is an area of hardstanding to the rear of the Property which provides access to the bin store.
- The main entrance from Southampton Street is controlled via a key-fob and intercom entry system.

### Layout and Specification

- Fairchild House comprises 45 studios arranged over ground and three upper floors.
- The main entrance leads into a communal area with a staircase and post boxes from where the bedrooms are accessed.
- Our internal inspection was limited to a sample of rooms. The bedrooms are finished to an identical, modern good quality specification and provides bedroom/living area, kitchenette and en-suite shower room, with the exception of the two bedroom flat which has shared kitchen facilities.

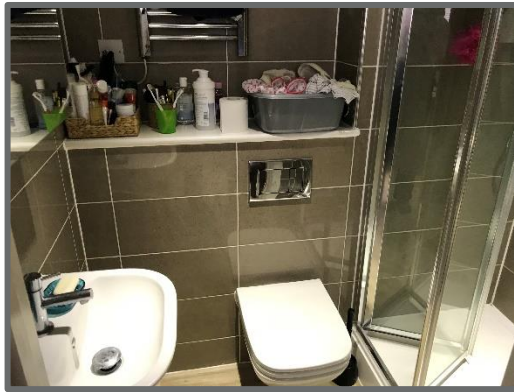


- Each studio features vinyl wood effect flooring, plastered and painted walls and ceiling with recessed LED spot lights and is heated via electric wall mounted panel heaters.
- Furnishings comprise the following:
  - ¾ size double bed with under-bed storage,
  - Desk with 3 drawers and a chair,
  - 2 wardrobes either side of the bed,
  - Wall mounted shelving above the bed between the two wardrobes
  - Flat screen TV



- The kitchenettes comprise the following:
  - Floor and wall mounted kitchen cabinets,
  - Corian worktops,

- Stainless steel sink,
- 2 ring electric hob,
- Microwave oven,
- Fridge with freeze compartment,
- White goods such as toaster and kettle provided.



- The en-suite shower rooms comprise the following:
  - Vinyl wood effect flooring,
  - Tiled walls,
  - Plastered and painted ceiling with recessed LED spot lights,
  - Shower, sink and W/C,
  - Heated towel rail.
- There are no specific communal areas nor is there a dedicated reception area.
- There is a laundry rooms with four washers and four dryers. There is no charge for use of the laundry machines.
- The accommodation is of a good specification that presents well and the rooms are generally of a good size.

## 2.1. Accommodation

### Source of Floor Areas

- We have not been provided with any floor plans or floor areas for the Property.
- We have not undertaken a measured survey of the Property. As is consistent with the student accommodation sector, rents are based upon weekly rents per room and not on a price per square meter or square foot.
- Due to the current occupancy rate our inspection was limited to a sample of bedrooms.

### Floor Areas

- The room type can be summarised as follows:

Room Type	Number of Bedrooms	Number of Self-Contained Units
Bronze Studio	24	24
Silver Studio	9	9
Gold Studio	8	8
Platinum Studio	4	4
<b>Total</b>	<b>45</b>	<b>45</b>

### 3. Structural Condition and Repair

- We have not carried out a full building or condition survey and we have not been provided with any reports.
- We inspected the external areas of the property from the ground floor and therefore did not inspect the roof. We were unable to gain access to the plant room at the time of our inspections and we gained entry to sample of rooms.
- The accommodation is in a good state of repair commensurate with its age and use having been converted to student accommodation in 2015.

#### Remaining Useful Economic Life

- We consider the building to have a remaining useful economic life, provided it is property maintained, of approximately 25 years.

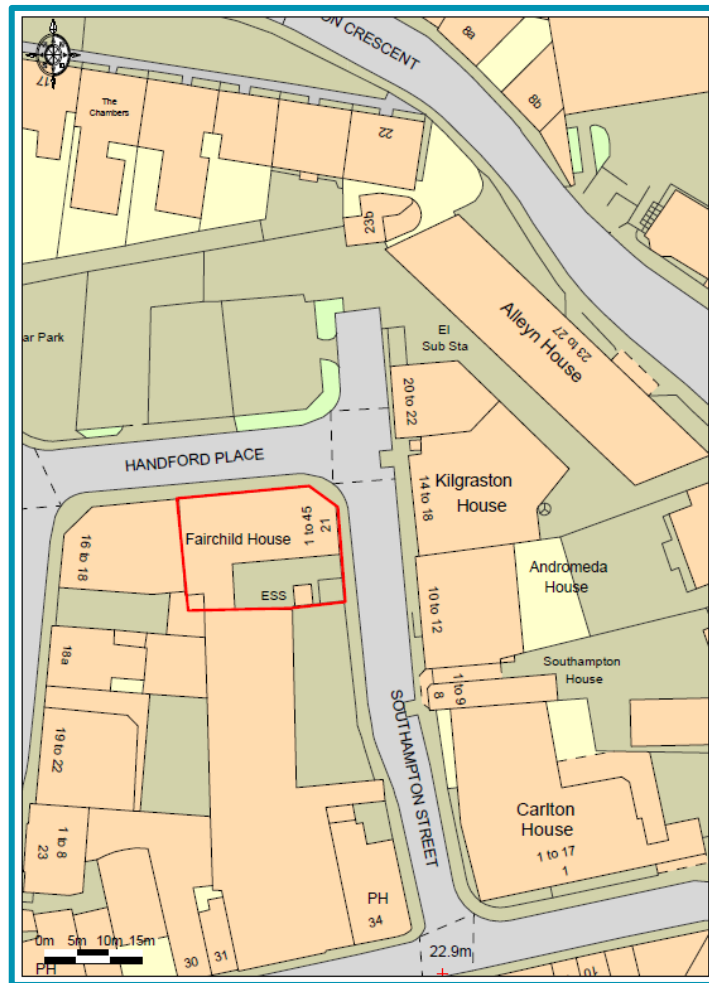
#### Estimated Reinstatement Cost Assessment

- Our indicative guide to the Day One Cost is in the order of £3,790,000 (exclusive of VAT). C&W has not carried out a formal reinstatement cost assessment.
- This guide figure envisages reconstructing the Property at the Valuation Date with clearance and reinstatement using modern methods and materials, which may not necessarily be appropriate or permitted. It does not reflect any additional costs attributable to conservation area status or listed building status (or similar - for example proximity to listed buildings)
- The provision of this guide figure is strictly in accordance with the terms of the Engagement and you should not rely on this guide for any purpose before it has been confirmed by a formal assessment carried out by a building surveyor or other person with sufficient current experience of replacement costs.

### 4. Site

#### Boundary

- The Ordnance Survey extract below indicates the extent of Andromeda House which is outlined in red.



Site Plan, ProMap

### Area

Based on Ordnance Survey plans we calculate the approximate site area to be:

**0.043 hectares**                      **0.107 acres**

### Topography

- The site comprises a broadly rectangular shaped plot with a frontage on to Southampton Street and Handford Place.
- The site is broadly level with an external area of hard standing that could accommodate a single vehicle.
- We assume the Property is connected to mains water, electricity, gas and sewerage services.

### Ground Conditions

- We are not aware of any adverse ground conditions affecting the property as confirmed by the Groundsure Siteguard Report, which we further outline in section 5 below.

### Archaeology

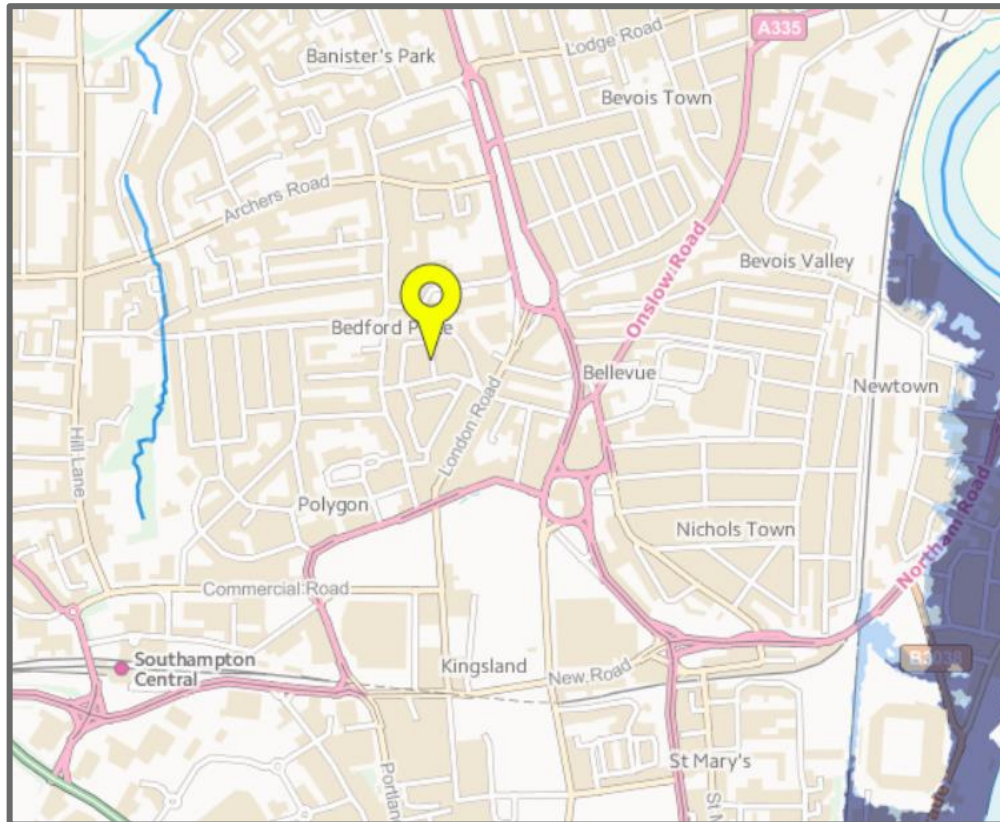
- We have made an assumption that the site has no archaeological significance.

## Access

- The site is accessed via Southampton Street.

## Flooding Risk

- We understand the property is not in, or near to, a sea or river floodplain. The site is considered to have a low likelihood of flooding.



- The Environment Agency map distinguishes between the different levels of flooding risk as follows:



**High:** High risk means that each year this area has a chance of flooding from rivers or the sea is greater than 1 in 30 (3.3%).



**Medium:** Medium risk means that each year this area has a chance of flooding from rivers or the sea of between 1 in 30 and 1 in 100 and (1% - 3.3%).



**Low:** Low risk means that each year this area has a chance of flooding from rivers or the sea of between 1 in 100 and 1 in 1,000 (0.1% - 1%).

No shading

**Very Low:** Very low risk means that each year this area has a chance of flooding from rivers or the sea of less than 1 in 1,000 (0.1%).

## 5. Environmental Considerations and Environmental Performance

### 5.1. Environmental Considerations

We have not been provided with a copy of a ground condition report or an environmental survey.

- Our enquiries have provided no evidence that there is a significant risk of contamination or other adverse environmental issues in respect of the Property. Accordingly, as agreed, we have made an assumption that no contamination or other adverse environmental matters exist in relation to the Property sufficient to affect value.
- Other than as referred to above, we have made no investigations to establish if there is existing or potential contamination or other adverse environmental issues and, in practice, a purchaser may undertake further investigations.

If it is subsequently established that contamination or other adverse environmental issues exist at the Property or on neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported. You are advised to ensure your legal adviser takes up the usual enquiries on your behalf in respect of possible contamination or other adverse environmental issues before entering a financial commitment regarding the Property.

- Our valuation has been prepared on the basis that the property does not suffer from contamination.

## 5.2. Environmental Performance

### Energy Performance Certificate and Minimum Energy Efficiency Standards

Energy Performance Certificates (EPCs) must be produced for all properties before being marketed for sale or lease.

The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 establish a minimum level of energy efficiency for privately rented property in England and Wales. The Minimum Energy Efficiency Standards (MEES) Regulations are effective from 1 April 2018. The regulations prohibit the granting of a new tenancy or lease renewal of privately rented residential or business premises which do not have an Energy Performance Certificate (EPC) rating of 'E' or above.

From April 2020, all privately rented residential property will be affected, followed in April 2023 by all privately rented commercial property. In both cases, properties will be affected even where a lease is already in place and a property is occupied by a tenant.

There are important points you should be aware of when assessing an EPC:

- The quality of an EPC can vary significantly due to the lack of regulation of assessors. The industry is improving regulation, however there are a number of poor quality EPCs in the market.
- The accuracy can also vary significantly due to the calculation methodology. When there is a lack of information an assessor will make default assumptions, which can lead to an inaccurate default certificate. There have also been instances when the EPC has been registered against the incorrect property address.
- The age of an EPC is an important consideration because its accuracy will degrade over time. EPCs are valid for a period of 10 years. However, since their inception in 2008 there have been several changes to the way EPCs are calculated, which has improved their overall quality. A major reason for these changes was the update to Part L (Conservation of Fuel and Power) of the Building Regulations in 2011, which improved the calculation methodology behind EPC assessments. Therefore, EPCs carried out prior to this date are likely to be inaccurate and produce a different rating if the property were to be reassessed.

Where the Property's EPC rating falls within E, F or G, we would recommend that you ensure an 'Action Plan' is put in place. An 'Action Plan' would set out how you are going to ensure compliance

with MEES regulations through an energy efficiency improvement programme. The process would highlight opportunities to implement works during void periods or lease breaks, or as part of the on-going maintenance and plant renewal programme.

We are not able to comment on the quality or accuracy of a specific EPC and we would advise undertaking your own quality assurance measures. We are not qualified to make an assessment of cost associated with improving non-compliant properties.

### Impact on the Property

We have not been provided with copies of the EPC rating for the Property. We have, however, undertaken searches of the EPC Register on the website of the Ministry of Housing, Communities & Local Government. We have only been able to find one EPC which relates to Flat 11 and is dated July 2015. The flat has a rating of C76.

However, an unknown EPC rating represents a potential additional risk factor to the Property's future cash flow. We would recommend that an EPC is obtained to assess the level of risk posed by MEES.

## 6. Statutory Matters

### Town Planning

#### Overview

a.	Local planning authority	Southampton City Council
b.	Current planning use	Student housing
c.	Listed Building status	Not listed
d.	Conservation Area	Carlton Crescent Conservation Area
e.	Outstanding applications	None known

The property is located within Sector D of the Carlton Crescent Conservation Area. The area is identified for re-planning and redevelopment of this area to make better use of the land and to improve it visually.

### Planning History

Date	Ref	Status	Details
14 Jul 2014	14/01143/P56	Approved	Application for prior approval for the change of use of the ground floor from offices (Class B1) to 6 x flats (Class C3).
17 Oct 2014	14/01756/PA56	Approved	Application for prior approval for change of use of the ground floor from offices (Class B1) to 11 x studio flats (Class C3).
28 Oct 2014	14/01748/FUL	Approved (with Conditions)	Alterations and extensions to existing building including two additional storeys to provide 30 studio flats for student accommodation above the existing building.



Date	Ref	Status	Details
31 Mar 2015	15/00480/FUL	Approved (with Conditions)	Erection of second and third floor extension to provide additional 4 x studio flats for student accommodation.
9 Jun 2015	15/01218/FUL	Refused	Implementation of planning permission reference 14/01748/FUL (two additional storeys to provide 30 studio flats for student accommodation) not in accordance with condition 10 (green roof). Application seeks removal of this condition.
10 Jun 2016	16/00263/FUL	Awaiting Decision	Application for variation of Conditions 8 (Code for Sustainable Homes) and 10 (Green Roof) of planning permission reference 14/01748/FUL to secure Code for Sustainable Homes Level 4 without Green Roof provision.

- The change of use appears to have been granted under Permitted Development (PD) rights.
- We recommend that your legal advisors confirm the property has the necessary consents to be used as student accommodation.

#### Planning Policy Framework

Planning policy for the area is contained within the Southampton Local Plan adopted in 2006 and the Core Strategy 2010. The Local Plan is a collection of adopted plans consisting of:

- City Centre Action Plan (adopted 2015)
- Core Strategy including the changes from the Core Strategy Partial Review (adopted 2015)
- Local Plan Review (amended 2015) – saved policies
- Bassett Neighbourhood Plan (2016)
- Minerals and Waste Plan (adopted 2013)

Additionally, there are also supplementary planning documents with more detailed policies.

#### Other Statutory Matters

We are not aware of any road scheme or compulsory purchase order that could affect the Property.

## 7. Taxation

#### Business Rates

- As a purpose-built student accommodation scheme with no commercial element, the property is not liable for Business Rates Assessments within the Valuation Office Agency's 2017 Rating List.

### Council Tax

- Purpose built student accommodation schemes that are wholly let to students are exempt from Council tax.

### Value Added Tax

You have not informed us of your VAT status, or the VAT status if the property.

### Capital Allowances

There may be capital allowances available to a purchaser of the Property. We have not considered the benefits of these in our valuation. Should these be available, this may assist the marketing of the Property.

### Multiple Dwelling Relief (MDR)

MDR may be applicable to this property and we would refer you to our comments previously detailed within this report. We have assumed the MDR to equate to a total transaction cost of 2.8%, ignoring the second home surcharge.

## 8. Tenure and Occupational Interests

### Title

Overview	
Type of tenure	Freehold
Title no(s)	Not provided
Any material encumbrances or unduly onerous / unusual easements, restrictions, outgoings or conditions?	Assumed None
Any title characteristics likely to have an adverse impact on value	Assumed None

Your legal advisers should provide us with a report on title, to review any title characteristics which they believe may affect our opinion of value.

## 9. Student Accommodation Market Overview

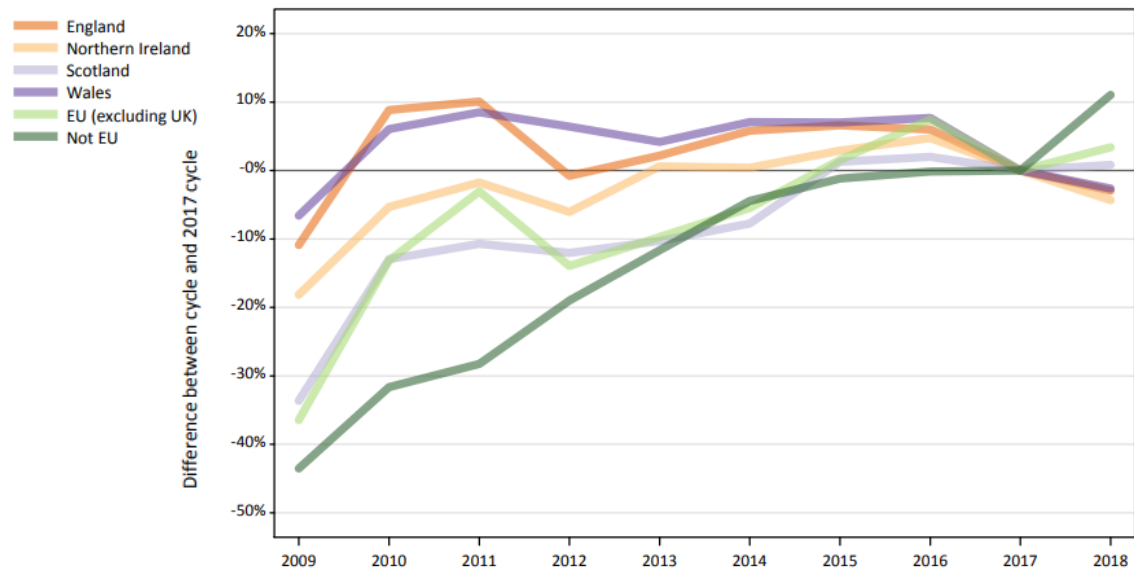
### UK Demand Analysis

- The most recent data release from UCAS reflects pre-15.01.2018 undergraduate applications for the 2018/2019 academic year. It should be noted that due to the release dates of different sets of data the UCAS information regarding applications is for the 2018/2019 academic cycle, whereas the most current data from the Higher Education Statistical Agency (HESA) reflects acceptances for the 2016/2017 academic year.

### Applications

- There was an overall decrease of 1% in total applications for the 2018/2019 academic year, which represents a decline in approximately 5,160 students. Compared with the previous academic year, the application figures are as follows:
  - From the UK: 3% decrease (374,440 students)
  - From the EU: 3% increase
  - Non-EU: 11% increase
- Applications from domestic students (from the UK) fell for the second consecutive year. In contrast, the number of EU students increased from last year, and International (non-EU) students had the highest number of applications since records began.
- The rise in numbers could be due to a low value of the pound in contrast to other currencies. This has made the UK a more cost-effective option for international students.
- The rise in EU applications may be unexpected due to the on-going Brexit negotiations, however the government confirmed in April 2017 that EU students applying for university places in the 2018/2019 academic year will remain eligible for financial support. Despite these promising figures it is too early to assess the full impact of Brexit and what effect it will have on applications from EU students in 2019/2020 and in the longer term.

- Overall there has been a decline in the total number of applicants, year-on-year for the second year running. To understand how student application numbers are changing, we can look at the % difference from last year, split by location of application as seen below:



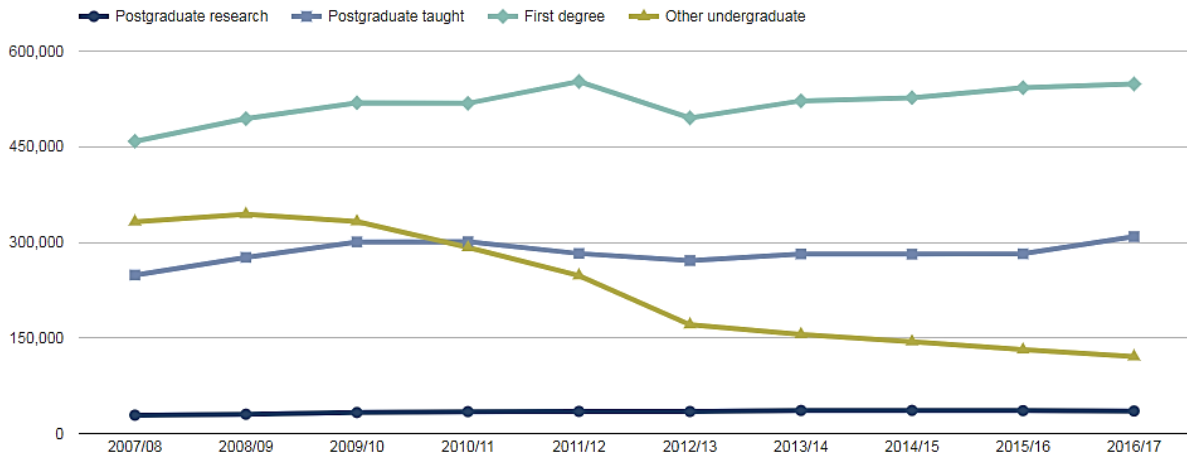
Source: UCAS

- Up to the January deadline, there were 228,000 English 18-year-old applications to higher education, a decrease in 1% (2,870) from last year at the same point. English 18-year olds make up almost 40% of the total number of applications to UK higher education.
- The number of applicants in England (by January 2018) aged 25+ has decreased by 23% and the number of 21-24 year olds has fallen by 15% at the same period last year.

### Enrolments (Acceptances)

- Enrolments for the 2016/2017 academic year totalled 2,317,880, a 2% increase on the previous year. Despite shorter term fluctuations, student numbers are still much below the 2011/12 record of 2.5million, when there was a surge in applications as English students were conscious of the upcoming tuition fee increases. Full-time first-degree enrolments accounted for 69% of total higher education enrolments - 1% higher than last year.
- HESA reported that full-time international acceptances to UK universities has remained relatively stagnant from 2015/16 to 2016/17, decreasing by 1,120 students. In contrast, the number of full time EU students increased by 7% and reached 120,225 students, showing a 13% increase over a 5-year period. However, as the figures relate to the 2016/2017 academic year these students' applications would have occurred before the referendum to leave the EU in June 2016.

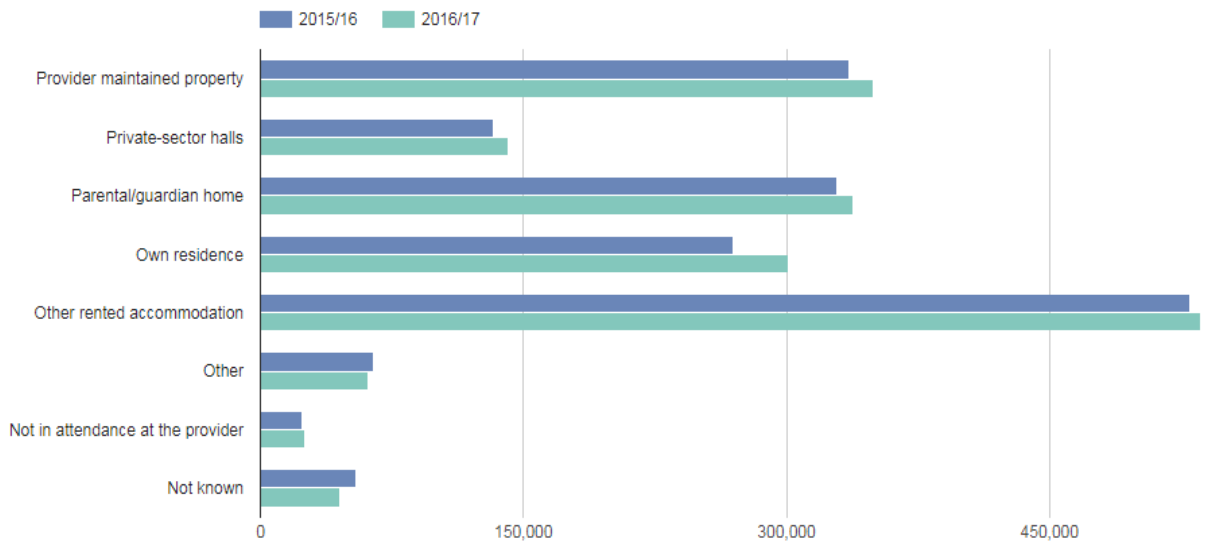
### First Year HE Student Enrolments by Level of Study 2007/08 – 2016/17



Source: HESA

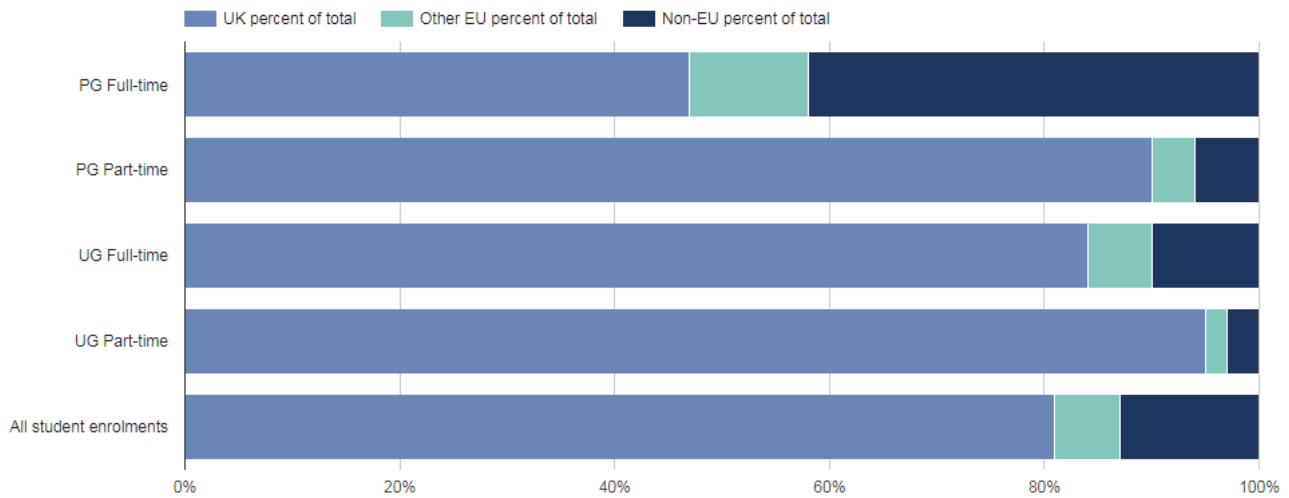
- Interestingly, and contrary to some expectations, increases in the cost of higher education (HE) has not drastically increased the number of students choosing to live within their parent’s or guardian’s home. The two most popular accommodation choices for students are “living in provider-maintained properties” and “other rented properties”, which includes accommodation such as house shares. These two groups comprise 885,410 full time students for the 2016/2017 academic year.

### Full-time and Sandwich Students by Type of Accommodation



Source: HESA

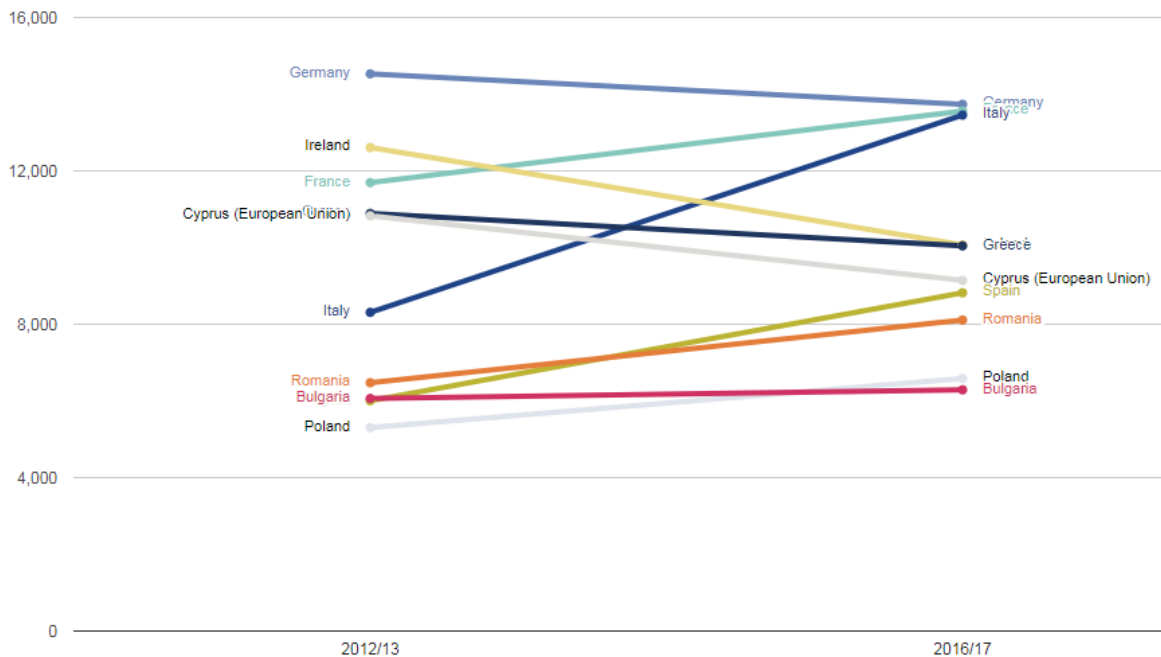
### Higher Education Student Enrolment in the UK by level of study, mode of study and domicile (2016/2017)



Source: HESA

- The proportion of students from country of origin stayed relatively consistent from last year. In 2016/17 academic year UK domiciled students accounted for 81% of all UK HE enrolments, a 1% increase from 2015/16. The proportion of EU students (6%) was consistent, and the remaining 13% came from countries outside the EU (a decrease of 1% on 2015/2016).

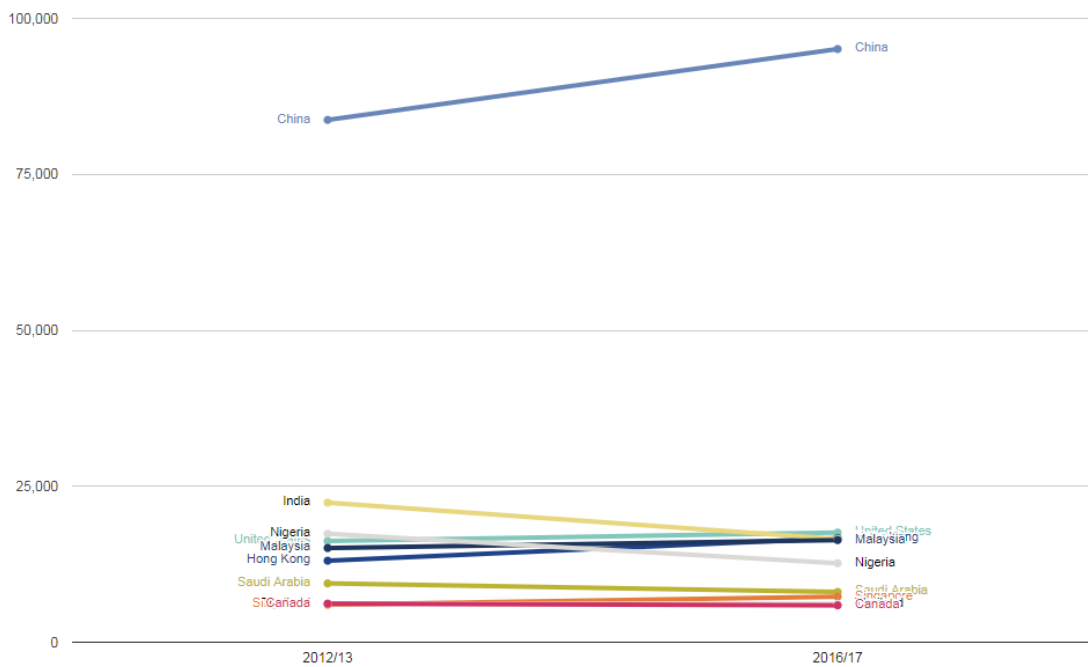
### Top Ten European Union countries of Domicile



Source: HESA

- Over the previous five-year period the largest percentage increase in the number of enrolments has been from students in Italy, with an increase of 62% over the period. In contrast, Ireland saw the largest percentage decrease of 20% over the same time period.

## Top Ten Non – Non EU countries of Domicile



Source: HESA

- Over the same period, the largest increase in enrolments from non-EU countries has been from students from Hong Kong at 28%. Nigeria saw the largest percentage decrease of 27% (4,720 students) between 2012/2013 and 2016/2017. The largest proportion of international students were from China, comprising 95,090 students, nearly a third of all non-EU students.

## Trends in Higher Education

- As of the 2017/18 academic year the government has increase the maximum tuition fees from £9,000 to £9,250. In October 2017 Theresa May pledged to freeze tuition fees at £9,250 and has announced plans to raise the income level that triggers student loan repayments from £21,000 to £25,000 per annum.
- The government is running a consultation from December 2017 to February 2018 into accelerated degrees, which would offer students two-year degrees. Universities would be allowed to charge £2,000 a year more in fees (a 20% premium). This could be seen as appealing for many applicants, as it would reduce the overall costs of Higher Education.
- The non-EU international market is vital for universities as they can charge above the current limit of £9,250 for tuition fees. For the 2016/17 academic cycle, HESA reported that this group represents 15% of the total student population.
- In funding terms these students have a much greater impact on the income profile of UK universities. In 2017, International Students paid between £10,000-£35,000 p.a. though there is no upper limit on the fees for international students applying to postgraduate courses.
- Universities are lobbying to ensure that any future immigration policy changes do not apply a broad-brush approach that restricts the mobility of students. The government has confirmed that EU students applying to courses starting in 2018 will still be able to obtain funding for the duration of their course.
- The impact of Brexit may be subdued by domestic students' continuing desire to study away from their home regions and a potential increase in non-EU students.

## University Competitiveness

- Universities are operating in an increasingly competitive market. With the shift in financial sources towards tuition fee income and away from public funding, student recruitment has become an even more important strategic focus of university activity. With the cessation of student number controls in 2015, there are predicted to be approximately 100,000 additional university places by 2035. The UCAS undergraduate entry system has also been amended, with students now able to “trade up” and move within the entry system with greater ease. This means that university recruitment – a world that used to be stable and quota driven – is now becoming far less predictable.
- With students looking to get in to the best possible institution, and with more choice than ever, successful and fleet-of-foot universities are able to fulfil their strategic ambitions. However, this inevitably means that some institutions will be left behind. This has implications for the universities themselves, but also for those who invest in and around them.
- In this new world, the universities who are likely to do best can bring together a range of positive attributes that can be demonstrated to students – and to their partners and stakeholders.
- The demands on universities are greater than they have ever been. The quality and age of their academic and residential facilities, and a definable distinctive vision and ability to convert and please their students are all key in recruitment and securing outcomes. This has led to huge capital investment into academic and residential facilities on campus.
- In general, long term demand for a highly qualified and skilled workforce as well as demonstrably better long-term career outcomes and earnings potential for university graduates, will continue to be main drivers of demand for H.E.

## UK Supply Analysis

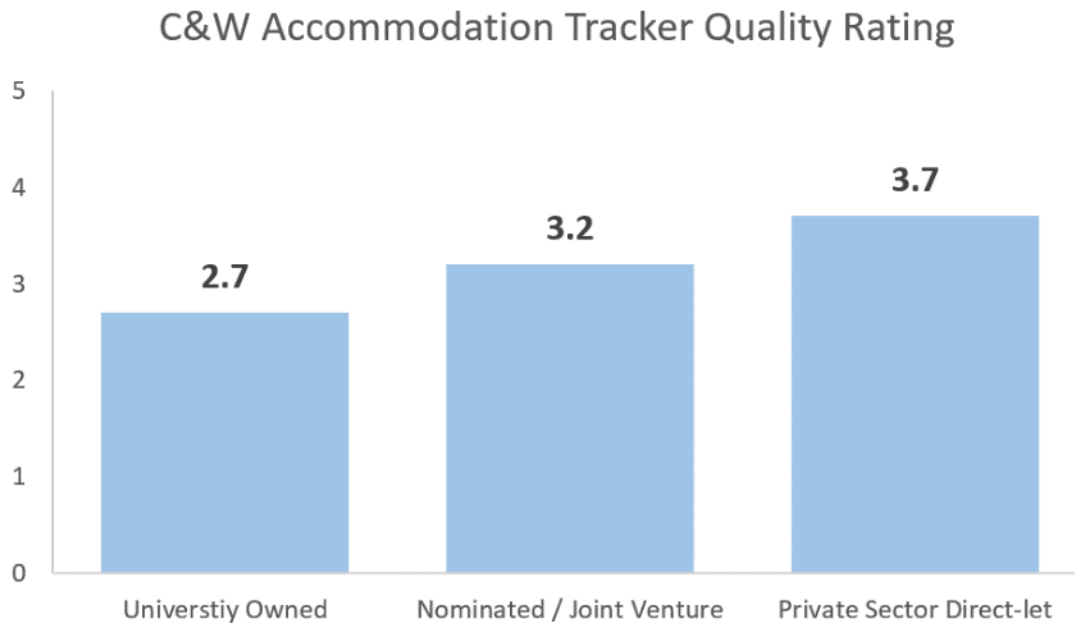
- The number of purpose-built beds in 2017 reached 602,000, reflecting an increase of 6% on the previous year. There have been exceptionally strong development plans in major cities such as Glasgow and Newcastle, both of which have pipelines of over 6,000 bed spaces.
- Growth has predominately come from the private sector delivering 87% of the new supply in 2016/17. Stock development continues to be driven by studios, which is again the room type showing the fastest growth in the private PBSA market, comprising 52% of all new stock.





- It is likely that many of these bed spaces have been driven by a focus on land cost, rather than student demand for these stock types. In many cases, adequate research does not appear to have been conducted into local demand conditions, meaning that some stock types and operators are experiencing difficulties – despite demand continuing to outstrip supply at a national level.
- These difficulties mean that tactics such as flash sales and significant discounts have been employed in a small number of markets to drive occupancy. Growing competition within the university sector requires a greater focus on resources and the improvement of teaching, academic and campus infrastructure. As such, student accommodation is not always a core priority within some institutions.
- In addition, at some universities there is limited scope for improvement in the residences due to budgetary constraints. University stock types are more likely to be outdated contrasting with the granular innovation and improvement in the purpose-built private sector. These trends mean that an increasing number of universities see the benefit of working with the private sector.

- The graph below illustrates the quality of university owned PBSA as compared with privately owned PBSA where a score near 1 is considered very poor and a score near 5 is regarded as exceptional:



*Cushman & Wakefield Student Accommodation Tracker, rating the quality and specification of every purpose-built development in the UK with a score of 1-5.*

- Over the last five years there has been a consolidation of operators leading to a structural change in the operating market. Unite still lead the way with over 50,000 bed spaces under management. Liberty Living has returned to its second-place position in the table last year following the acquisition of two portfolios. Following its rapid expansion, Empiric's Hello brand has reached the top 10 rankings of operators.

### Occupational Market: Southampton

- Southampton is home to two higher education institutions which are the University of Southampton and Southampton Solent University.
- The University of Southampton is generally located to the north of the city centre with the exception of the National Oceanography Centre which is located to the south of the city centre close to Ocean Village.
- Southampton Solent University is located in the city centre.

### University Strategic Headlines

- Southampton is a significant and growing student City of 32,000 students. The University of Southampton is a top 30, research-focused University operating from five campuses across the City. It is investing heavily in its campus and is growing strongly, with significant increases in international students. Significantly, the institution has been able to grow both its undergraduate and postgraduate student population over recent years, and is recruiting an increasing number of students from outside the region (up 2,015 between 2011/12 and 2016/17). Recruitment has partly been supported by a £200 investment in research facilities over the last four years.

- Southampton Solent is ranked at the lower end of the league tables and has entered a period of consolidation over coming years. The institution is feeling the pressure of intense levels of competition in its area of the market, with student numbers and applications down as the University looks to maintain the quality of its intake. The University has moved around 345 students from the Warsash Maritime Academy to the city centre in time for the 2017/18 academic year, increasing demand for accommodation in Southampton.
- It has long been mooted that the University of Southampton will launch a procurement exercise for additional accommodation (Cushman & Wakefield previously advised on an aborted process).
- The key Southampton statistics can be summarised as follows:

	University of Southampton	Southampton Solent University
FT student population 2016/17	23,180	9,560
Growth 2011-2016	9%	-9%
3 year growth rate (2013-2016)	6%	-5%
Number of non-UK students	6,975	1,530
% of non-UK students	30%	16%
% of students from outside the region	70%	60%
Change in students from outside region 2011-2016	14%	-7%
% students aged 20 or below	52%	56%
Change in UCAS applications 2014-2017	9%	-17%
UCAS app:accepts ratio 2016	9.3	4.7
Times Rank 2018	30	100
Change in Times Rank 2015-2018	-12	+15
TEF rank	Bronze	Bronze
Percentage ABC1 Students	67%	62%
% of students in employment or further study after six months	96%	96%

#### Supply / Demand Analysis: Southampton

- There is a total of 11,822 purpose built beds in the Southampton market.
- PBSA developments provide approximately 3,312 bed spaces across 17 schemes for the 2017/18 academic year.
- There is representation from a number of national operators such as Collegiate AC, Fresh Student Living, Host, Liberty Living and The Student Housing Company.

- The competing schemes are of various sizes from circa 60 beds up to over 500 beds. There are four schemes of over 350 beds.
- Some 12% of all beds in the Southampton market are studios. Given that the vast majority of these will be in private purpose-bit accommodation, we estimate that approximately 35% of the PBSA beds are studios.
- The supply / demand analysis can be summarised as follows:

Key Statistics	
Total Demand Pool 2016/17	28,185
Number of Purpose-built beds	11,828
Students:bed ratio	2.4:1
Rental Growth 2016-17	Uni 3.8%, private 3.1%
Studios as % of all beds	12%
Uni rooms/Average Rent	7,283 / £5,414.61
Private sector rooms/Average Rent	4,285 / £6,810.75
Quality rank private stock	3
Quality rank university stock	3

### Development Pipeline

- The current development pipeline shows that there are 2,215 beds with planning permission in Southampton. This equates to approximately 6.77% of the full-time student population in Southampton and 7.86% of the demand pool.
- Of the 2,215 beds in the pipeline, circa 1,866 are currently under construction.
- The current student bed ratio (SBR) of 2.3:1 is above the UK average of 2.2:1.
- Whilst we consider it unlikely, should all the bed spaces in the pipeline be constructed, the SBR would fall to 2.0:1. At this level, the market could be considered well supplied with property fundamental such as location, specification, quality of management and value for money become increasingly important in achieving full occupancy.
- The development pipeline can be summarised as follows:

Planning context	Planners are generally welcoming of PBSA developments
Current planning pipeline	2,215 (1,866)
New beds for 2017/18 academic year	486
Developer Appetite	High
Investor Appetite	High

## Conclusion

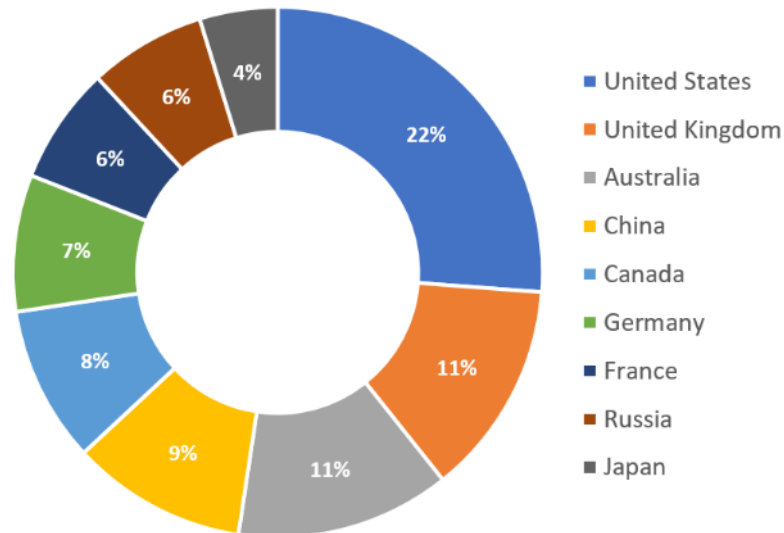
- Student number growth in Southampton has meant that development of purpose-built accommodation has accelerated rapidly over recent years, with operators exploiting unmet demand. This means that there is now a significant development pipeline in the City, as well as a large number of developments having been brought to the market over the last three years. In particular, areas of the City Centre have seen significant development, with Liberty Living doubling its presence in this area of Southampton and four schemes being developed in one city block area in just over a year (leading to occupancy issues in some studios).
- As is the case with a number of other markets, studio development has been intensive, with the proportion of these bed spaces rising significantly. Developers are now looking at more innovative room types, with Kier set to deliver a number of townhouses as part of its new development to open in time for the 2018/19 academic year.
- Cushman & Wakefield continues to advise a number of developers and investors in the Southampton market, and is concerned around proposals for a large number of “twodio” bed spaces which we believe have limited appeal. Despite recent development, the overall student to bed ratio of 2.3:1 along with healthy private sector rental increases suggest the right schemes are set to succeed.
- In our opinion, future opportunities lie to the north of the City Centre, close to the University of Southampton. This is because the majority of the demand for accommodation will come from the University of Southampton and also due to a possible saturation of the market within the city centre itself.
- Average private sector weekly rents stand at £139 per week in 2017/18, above the national average of £129 per week and reflecting the relative immaturity of the Southampton market and the large number of good quality bed spaces developed over recent years. Cushman & Wakefield expects circa 690 new bed spaces to open in Southampton in time for the 2018/19 academic year.

## 10. The Student Accommodation Investment Market

### UK Overview

- Student accommodation in the UK is a sector worth in excess of £30 billion and over the past decade has become a key investment market. It is attracting growing interest from investors, developers and private operators. Over the period from 2009-2016, the student housing market in the UK has outperformed the more traditional asset classes, demonstrating strong capital returns and year on year rental growth.
- Given the recent high levels of investment in the sector with c.£4.8bn traded in 2017, PBSA has become a recognised and established asset class with a range of investors and institutions. Much of the activity is dominated by international investor funds and owner-operators acquiring portfolios continuing the trend towards consolidation and the desire to acquire additional scale.
- The main attractions of investing in the student housing market are:
  - The sector offers portfolio diversification
  - Offers counter cyclical characteristics to the wider real estate market
  - Stable long-term income streams and rental growth
  - Higher performance and returns during the downturn post Lehman crisis in 2008

- Favourable supply & demand dynamics, with a stable source of students in UK
- Often low vacancy and low tenant defaults
- The UK offers world class education and remains the second most popular destination after the USA for international students as can be seen from the graph (share of international student enrolments):

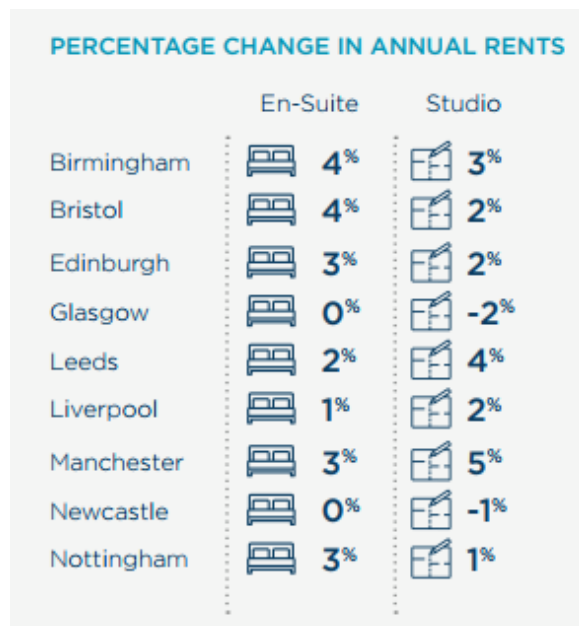


OECD 2016 Global market share of internationally mobile students for leading study destinations

- A continuing trend over the last three to four years has been the inflow of capital from international sources which accounted for a significant portion of investment in 2017.
- There have been high-profile acquisitions particularly from North American private equity companies such as Hines and Starwood. Other major transactional activity in the market includes:
- Brookfield, headquartered in Canada is rumoured to have secured the Enigma Portfolio of 15 properties across the UK totalling 5,497 bed spaces with a value of approximately £510 million.
- In December 2017, IQ acquired the Pure Student Living portfolio for £869 million. The portfolio comprised 3,644 bed spaces in 11 properties across a number of UK cities but with a London bias.
- In addition to existing investors and operators there are still several overseas investors with unfulfilled requirements circling the market looking to acquire scale and to partner with well-known operators. Between 2013 and 2015 there was yield compression of between 50 and 100 basis points across all types of opportunity. Across the direct let sector yields have not moved significantly during 2016 and 2017 but super prime regional cities and London emerged as locations with yield compression of 25bps to 50bps during 2017.
- Secondary locations have seen yields move out as the increased supply of PBSA properties in many cities puts pressure on those buildings located in less than prime locations. Prime yields for university leased accommodation have arguably hardened during 2017 as these assets become rarer given the growing reluctance from universities to sign up to long leases and investors desire for long term secure income. Forward funding has become an increasingly more acceptable route to enter the market or increase exposure.
- Below is a table depicting our opinion of the range of yields for direct let PBSA:

Direct Let Proposition £20-50m	Yields
Prime London (Zones 1 & 2)	4.25/4.75%
Prime London (Zones 3 & 4)	5.00/5.25%
Super Prime Regions	5.00/5.25%
Prime Regions	5.75/6.25%
Secondary	6.50/7.75%
Tertiary	8.00/10.00%

- It is important to note that there are much wider yield differentials across various locations outside of London. While prime regional markets are either stable or trending towards further yield compression, the secondary regional markets are displaying some signs of yield decompression although this can be very asset specific. The primary reason for this differential is an expectation of rental growth in the direct let market.
- Portfolio premiums are also having an impact on pricing, and can range between 25 – 50 basis points, on a net initial yield basis. The influence of portfolio deals is skewing how transactions are analysed and it is difficult to distinguish and measure the influence of transaction scale to pricing.
- Rental growth in 2017 was 2.9% on average across all purpose-built accommodation available this year, compared with 2.7% in 2016.
- The average rent of en-suite rooms increased by 2.3%, whilst studio rooms saw an increase in rents of 3.4%.
- Increases in the average price of rooms has varied across different locations, although rental increases for well-located developments have generally been healthy. However, there have been losers in the market, with some cities experiencing minimal growth or stagnation in rents.



Source: Cushman & Wakefield Student Accommodation Tracker 2017/18

- Cushman and Wakefield's nationally-observed average student:bed ratio has decreased from 2.3 to 2.2 students per purpose-built bed space available.
- Overall, long term demand is still rising faster than supply, despite the recent surge in development and students increasingly wish to live in purpose-built developments.
- However, evidence suggests that students are making complex buying decisions and it is not a 'room at any price'. This highlights the need for developers and operators to fully explore the dynamics of individual markets to ensure success and properly meet student needs and expectations.

### Threats

The following factors act as threats to the strength of the investment market:

- It is arguable that the vote to leave the European Union has gained the UK a reputation for being unwelcoming to migrants and therefore potential students. As mentioned previously, however, the government have confirmed that EU students applying for university places in the 2018/2019 academic year will remain eligible for financial support. Data from UK Border Control suggests that visas were only restricted to students enrolled in institutions that run courses other than for higher education.
- The longer-term impact of Brexit is certainly a threat, though it is too soon to know what impacts it will have on the market. The Government and local councils understand that higher education is an important and growing contributor to the UK economy with £95 billion contributed to GDP in 2015 (*Oxford Economics 2017*), representing an increase of 15% from 2012.
- Higher education has been undergoing a raft of changes over the last decade with the introduction of tuition fees, student loans and the subsequent influence on University funding. The impact of all these and other changes are yet to fully filter through.
- Students are now considered consumers for both the university and private housing. There is pressure to provide a high-quality product and service to the students. Maintaining facilities and updating décor is integral to keep up with rapidly changing trends.
- Latest estimates of average student debt are £50,800, an increase of over 65% from the period when tuition fees were £3,275 to the current £9,250 per year. The higher cost of living, tuition fees and inflation may influence students' decision making in relation to higher education and their accommodation. Recent trends suggest, however, that apart from currency fluctuations, international students are not affected by the fee structure and when compared to the global education market, the UK is still considered relatively good value.
- Domination of the USA on UK investment activity will be influenced by their economic outlook and corresponding currency fluctuations. We understand that universities across the USA have reported a decline in applications from international students following the election of Donald Trump as President.
- Some locations in the UK and arguably in parts of London may be considered to be oversupplied. With PDR and pressure to build more residential units there will be increased supply of new PBSA in some locations putting rental growth under pressure.
- Many commercial operators have seen the viability of proposed development schemes dented by property and site related issues, such as planning issues (particularly in London). The introduction of the Community Infrastructure Levy (CIL), and its interaction with Section 106 agreements, will also impact the viability of student accommodation schemes. This is especially true in London where a significant disparity is seen between the rates for student accommodation compared to more traditional asset classes.



- Pressure on the private rented sector and the growth in students across the UK have inevitably led to pressures on the private rented market and an increase in Houses in Multiple Occupation (HMOs) – in some cases leading to concerns around the “studentification” of certain areas. Consequently, a number of councils have sought to restrict the number of HMOs through Article 4 powers – legislation that allows the restriction of such accommodation. Coupled with growing pressures on the UK housing market, this is likely to encourage councils to approve dedicated student accommodation developments to alleviate these issues.
- Increases in land prices due to more valuable competing uses such as residential.
- Construction cost inflation reducing margins and thus affecting the viability of new developments.
- Restrictions imposed by some local authorities reducing the viability of schemes with an obligation to provide affordable housing and CIL payments.
- While the availability of online courses such as those on MOOCs does not pose a significant threat at present, it is a trend that may develop as more high-profile universities take part. The student experience of learning on campus is an important one and will influence the choices they make which will limit use of online courses in the medium term.

#### **Future Sustainability and Key Risks**

- Opportunities require detailed risk analysis to assure investors that schemes are sustainable, given the complex dynamics underpinning demand. Some of the factors and complexities are referred to below:
- Understanding the big picture: including demographics; labour markets; short and longer term effects of recession upon education; government policy effects on funding and tuition fees and perceptions of affordability of HE.
- Appreciating the institutional perspective: including national and international competition in student recruitment; attitude to partnerships; quality residential estates and their relationship to the student experience.
- Understanding the student perspective: including the patterns of study away from home; debt, fees and finance; the perception of education as an investment; willingness and ability to pay for accommodation under the new tuition fee regime; preferences and culture of on/off campus living; alternatives and competition.
- Alternative funding routes: The strength of universities covenants and their (comparatively) easier access to finance has seen some universities returning to conventional procurement with options of disposal/partnership on alternative assets either at the time or in the future.
- The student accommodation market is changing and, as a result, new opportunities are emerging, coupled with increasing risks. Developers and investors need to be selective and to carefully assess risk by choosing appropriate cities and sites. Product development for an increasingly segmented market will be important as students become more aware of the options available to them. For all investors, understanding the universities’ requirements and policy landscape will be ever more important.

#### **Future Demand for Student Residential Accommodation**

Our overall conclusions are:

- Competitive advantage will be a deciding factor in the continued sustainability of both the institution and its residential market (strong and strategic universities, with fit-for-purpose

attractive residences, proactive marketing systems, significant planned investment in facilities, learning and research, and attractive locations).

## 11. Principal Valuation Considerations

### Location / Situation and Competition

- The Property is well located within a 10-15 minute walk of the city centre.
- The immediate surrounding area is mixed-use in nature. There are a range of commercial uses including offices, cafes, bars, restaurants, night clubs and a public house on the corner of Southampton Street and Carlton Place. There are also a number of residential flatted developments such as Carlton House and Southampton House
- Southampton Central train station is within a 15 minute walk to the south west of the subject Property.
- There are four competing student accommodation schemes that offer directly comparable accommodation within a 10 minute walk of the subject Property. These include London Road Studios and Brunswick Apartments, both operated by Collegiate AC, Liberty Point operated by Liberty Living and Crescent Place operated by The Student Housing Company. London Road studios is a modern development offering a similar number of bedrooms and ground floor retail. It has an unassuming entrance and is essentially a satellite of Brunswick Apartments.

### Building Design / Condition / Suitability

- The Property provides 45 studio bed spaces. The property comprises a former office building that was converted and extended in time for the 2015/16 academic year.
- The accommodation is of a good specification and includes corian worktops to the kitchenettes. The rooms are generally of a good size.
- The subject Property does not have any dedicated communal spaces.

### Site / Environmental Issues

- We have prepared our valuation on the basis that there are no adverse ground conditions or contamination. We highlight that we have not been provided with any other environmental information relating to the property.

### Planning / Statutory Issues

- The property has planning consent for its existing use.

### Tenure

- We understand the Property is held freehold
- We have not seen a current report on title and have assumed that there are no encumbrances to the interest. If your legal advisors should discover that there are defects in the interest, then this could impact the market value of the property without appropriate indemnity insurance in place.
- Should any issues relating to the title be identified during the due diligence process then you should inform us as it may impact the valuation reported.

### Income Security and Tenant Quality

- The Property is directly let to students on fixed term assured shorthold tenancy agreements under the Housing Act 1996.
- The accommodation is fully occupied for the 2017/18 academic year, it's second year of operation, at an average tenancy length of 48 weeks. We have assumed that occupancy will be 93.5% for the current academic year to reflect the actual income expected this year but adopting a 51 week tenancy period. We have assumed occupancy of 97% for the 2018/19 academic year before stabilising at 98% the following year. The void covers rental incentives and potential bad debts.
- We have not been provided with any details of bookings for the 2018/19 academic year.
- From our knowledge of the market, if the operational management of the Property is robust then these lettings should afford adequate income security.

### Lettability

- The success of letting and retention of student tenants is greatly influenced by a number of factors including the operator, the location, the quality of accommodation, the amenity space provided and the rental levels adopted.
- Given the location of the property, the rental price points and good specification of the accommodation, we consider the scheme will prove attractive to students, so long as the property is diligently managed going forward.
- We would recommend regular review of the accommodation to ensure that it remains well kept and attractive to students and this would usually come under the normal brief of an operating company.
- Students and their parents are able to discern value for money relatively accurately via the information provided on all student accommodation in competing locations. Careful analysis of the local market will be necessary to ensure that the rental levels agreed throughout the year adequately reflect both the quality of the accommodation and services but also reflect market expectations. Setting the appropriate rental levels within the local student market for each academic year will be crucial to ensuring successful lettings.

### Asset Management Opportunities

- The operator will be able to forecast the level of demand and supply of competing schemes from year to year. From this analysis, the operator must ensure a robust marketing campaign and, if required, consider the level of discounts or other incentives for new residents and 're-bookers' to ensure high levels of occupancy.
- You and your operator should ensure that the quality and specification of the accommodation is monitored within the local student market to ensure any improvements to maintain competitiveness are undertaken when required.
- It is essential that an operator provides a high standard of service to student residents. Dealing with day to day management / maintenance issues promptly will minimise costs and mitigate any negative feedback from students. Regular dialogue with students will ensure any issues/damage is reported in a timely manner and prompt repairs can be made to ensure no further deterioration.
- While most student operators will budget for on-going repairs and up keep, it is essential that there is a plan for building maintenance ranging from the normal wear and tear of items such as desks and kitchen units to shower pods, lifts and all mechanical and electrical equipment.

- Apart from market driven factors, both rental and capital growth will be influenced by day to day management and strategy implemented by the operator.

### Rental and Capital Performance and Growth Prospects

- Rental growth in Southampton’s private PBS stock averaged 3.1%. Given the pipeline of stock currently under construction and to be built, it is possible this could have a negative impact on rental growth going forward.
- The majority of investment demand has come from institutional investors both from the UK and particularly overseas. These investors are generally looking for scale and as such are interested in single assets of over 200 beds and portfolios from which they can benefit from economies of scale. At 45 beds, the subject Property will appeal to a limited range of investors which is likely to restrict the Property’s capital growth prospects.
- Increased supply of better quality purpose built accommodation with good communal facilities is also likely to have an impact on both rental and capital growth prospects in the medium to long term.

### Saleability

#### Current Sale Prospects

What is the estimated period it would take to sell the Property at Market Value?	6 to 9 months
Purchaser demand is likely to be	Limited

- The accommodation is of a good specification with the use of high quality materials such as corian for the kitchenette worktops.
- The scheme, whilst recently converted, is not purpose built and lacks any amenity space.
- The Property is small at only 45 beds and may not appeal to the large institutional money that has dominated the market in the last three years.
- Likely investors could include small funds looking to get some form of exposure to the market and private high net worth individuals.

## 12. Valuation Approach and Opinions of Value

### Background

Where possible our opinions of value are based on analysis of recent relevant market transactions supported by market knowledge derived from our agency experience. Further details of our valuation methodology are found at the front of this report.

Our valuation calculations are attached as an Appendix to this Valuation Report.

### 12.1. Rental Value

#### Rental Evidence and Justification for PBSA

- It is our opinion that a trading property of this nature, requiring specialist operational expertise, is most likely to be sold to a purchaser who would employ the services of a reputable student accommodation operator, retained under a formal management agreement.
- In this scenario, the rents set for the letting campaign will be a function of the level of rents in competing schemes and the level needed to achieve a high occupancy rate.

- We have had regard to the following rental rates advertised for the 2017/18 and 2018/19 academic years in what we consider to be the most comparable competing schemes:

Private Sector Direct Let Accommodation				2017/18		2018/19	
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week
Liberty Living	Liberty Quays	562	Premium en-suite	42	£125.00	-	-
			Premium en-suite	43	£125.00	43	£127.00
			Premium en-suite	51	£117.00	51	£119.00
			Deluxe en-suite	43	£156.00	43	£132.50
			Deluxe en-suite	-	-	51	£129.00
			Premium studio	43	£179.00	43	£175.00
			Premium studio	51	£169.00	51	£165.00
Liberty Living	Liberty Point	122	Premium En-suite			43	£139.00
			Premium En-suite			51	£135.00
			Classic Studio			43	£160.00
			Classic Studio			51	£155.00
			Premium Studio			43	£175.00
			Premium Studio			51	£170.00
			Deluxe Studio			43	£180.00
			Deluxe Studio			51	£175.00
Collegiate AC/Hello Student	Brunswick Apartments, 8-13 Brunswick Place, Southampton, SO15 2AP	173	Premier 3 Bed Apartment	51	£158.00	51	£164.00
			Premier 2 Bed Apartment	51	£165.00	51	£172.00
			Compact Premier Studio	51	£172.00	51	£178.00
			Premier Studio	51	£180.00	51	£187.00
			Premier Studio Plus	51	£187.00	51	£194.00
			Ultra Studio	51	£195.00	51	£203.00
			Ultra Studio Plus	51	£200.00	51	£207.00
			Ultra One Bed Apartment	51	£215.00	51	£222.00
Collegiate AC/Hello Student	London Road Studios, 40-42 London Road, Southampton, SO15 2AG	22	2 Bed Apartment (p.p.)	51	£125.00	51	£129.00
			2 Bed Apartment Plus (p.p.)	51	£150.00	51	£154.00
			Studio	51	£160.00	51	£165.00
			Studio Plus	51	£170.00	51	£175.00
			Ultra Studio	51	£185.00	51	£189.00
Student Housing Company	Crescent Place, 63 St Mary's Road, Southampton, SO14 0FG	467	8 Bedroom Shared House	51	£140.00	45	£161.00
			8 Bedroom Shared House			51	£151.00
			6 Bedroom Shared House			45	£156.00
			6 Bedroom Shared House	51	£135.00	51	£146.00
			Standard En-suite	43	Sold out	43	£144.00
			Standard En-suite	51	Sold out	51	£134.00
			Classic En-suite	43	£145.00	43	£149.00
			Classic En-suite	51	£135.00	51	£139.00
			Standard Studio	51	£165.00	51	£169.00
			Classic Studio	51	£170.00	51	£174.00
			Premium Studio	51	£176.00	51	£180.00
			Deluxe Studio	51	£185.00	51	£199.00
Penthouse Studio	51	£185.00	-	-			

Private Sector Direct Let Accommodation				2017/18		2018/19			
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week		
Host	Vincent Place, Vincent Walk, Southampton, SO14 1JY	287	Twodio (lower)	43	£145.00				
			Twodio (lower)	46	£135.00				
			Twodio (lower)	51	£125.00				
			Twodio (upper)	43	£165.00				
			Twodio (upper)	46	£155.00				
			Twodio (upper)	51	£145.00				
			Host suite	43	£165.00				
			Host suite	46	£155.00				
			Host suite	51	£145.00				
			Classic apartment (lower)	43	£195.00				
			Classic apartment (lower)	46	£185.00				
			Classic apartment (lower)	51	£165.00				
			Classic apartment	43	£215.00				
			Classic apartment	46	£205.00				
			Classic apartment	51	£185.00				
			Ambassador penthouse	43	£225.00				
			Ambassador penthouse	46	£215.00				
			Ambassador penthouse	51	£195.00				
			Executive apartment	43	£225.00				
			Executive apartment	46	£215.00				
			Executive apartment	51	£195.00				
			Presidential penthouse	43	£275.00				
			Presidential penthouse	46	£265.00				
			Presidential penthouse	51	£245.00				
			Bronze 2 Bed Flat					43	£139.00
			Bronze 2 Bed Flat					51	£139.00
			Silver 2 Bed Flat					43	£149.00
			Silver 2 Bed Flat					51	£149.00
			En-suite					43	£149.00
			En-suite					51	£149.00
			Bronze Studio					43	£179.00
			Bronze Studio					51	£179.00
Silver Studio					51	£199.00			
Gold Studio					51	£249.00			
UrbaLife	Marland House	100	Ruby Studio			51	£145.00		
			Ruby Studio Plus			51	£170.00		
			Sapphire Studio			51	£180.00		
			Sapphire Studio Plus			51	£185.00		
			Emerald Studio			51	£200.00		
			Diamond Studio			51	£235.00		
			Diamond Studio Plus			51	£275.00		
			Penthouse Suite			51	£290.00		

Private Sector Direct Let Accommodation				2017/18		2018/19	
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week
UrbaLife	Queens Gate	64	Ruby Studio			51	£130.00
			Sapphire Studio			51	£155.00
			Gold Studio			51	£160.00
			Diamond			51	£195.00
UrbaLife	The Courtyard, 468-480 Portswood Road, Southampton, SO17 3SP	50	Rio Studio			51	£160.00
			Tokyo Studio			51	£170.00
			London Studio			51	£175.00
			Paris Studio			51	£195.00
			Sidney Studio			51	£205.00
Vita Student	Vita Student Southampton, Richmond House, Southampton, SO14 3PN	180	Studio	51	£198.84	51	£194.00
			Studio	51	£232.26		
			Studio - Feature Window	51	£214.43		
			Studio - Feature Window	51	£246.66		
			Studio - Penthouse	51	£249.02		
			Studio - Penthouse	51	£268.57		
Nido Collection	Nido The Walls, 24 Bernard Street, Southampton, SO14 3AY	79	Bronze - Standard	43	£168.00		
			Bronze - Standard	51	£149.00		
			Bronze - Large	43	£179.00		
			Bronze - Large	51	£159.00		
			Bronze - Extra Large	43	£190.00		
			Bronze - Extra Large	51	£169.00		
			Bronze - Deluxe	43	£201.00		
			Bronze - Deluxe	51	£179.00		
			Bronze - Ultra Deluxe	43	£224.00		
			Bronze - Ultra Deluxe	51	£199.00		
			Silver - Standard	43	£179.00		
			Silver - Standard	51	£159.00		
			Silver - Large	43	£190.00		
			Silver - Large	51	£169.00		
			Silver - Extra Large	43	£201.00		
			Silver - Extra Large	51	£179.00		
			Silver - Deluxe	43	£213.00		
			Silver - Deluxe	51	£189.00		
			Gold - Standard	43	£190.00		
			Gold - Standard	51	£169.00		
			Gold - Large	43	£201.00		
			Gold - Large	51	£179.00		
			Gold - Extra Large	43	£213.00		
			Gold - Extra Large	51	£189.00		
Gold - Deluxe	43	£224.00					
Gold - Deluxe	51	£199.00					



Private Sector Direct Let Accommodation				2017/18		2018/19	
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week
Fresh Student Living	Hampton Square, 2 Mayfield Road, Southampton, SO17 3SX	199	Standard Ensuite	43	£150.00	43	£153.00
			Standard Ensuite	50	£141.00	50	£148.00
			Bronze En-suite	43	£155.00	43	£157.00
			Bronze En-suite	50	£150.00	50	£152.00
			Platinum (formerly Skyline) En-suite	43	£157.00	43	£160.00
			Platinum (formerly Skyline) En-suite	50	£152.00	50	£155.00
			Silver En-suite	43	£157.00	43	£159.00
			Silver En-suite	50	£152.00	50	£154.00
			Gold En-suite	43	£159.00	43	£162.00
			Gold En-suite	50	£154.00	50	£157.00
			Standard Studio	51	£202.00	51	£205.00
			Premium Studio	51	£208.00	51	£211.00
			Platinum (formerly Skyline) Studio	51	£212.00	51	£215.00

- Most of the competing privately operated schemes are located to the south of the subject Property arranged around the city centre. There is a second cluster of schemes to the north of the city centre close to the University of Southampton's Highfield and Boldrewood campuses.
- The nearest competing schemes are Brunswick Apartments and London Road Studios, both operated by Collegiate AC. London Road Studios is essentially a satellite of Brunswick Apartments. In addition, Liberty Living's Liberty Point and The Student Housing Company's Crescent Place schemes are also located nearby.
- The range of rents for the 2018/19 academic year for studio rooms from the privately-operated competing PBSA properties is between £112.50 to £275.00 per week on a mixture of 43, 44 and 51 week tenancies.
- Rents tend to vary according to the quality and location of the accommodation, the size of the rooms, position within the building and facilities offered.
- The most comparable properties are as follows:

#### Brunswick Apartments – Collegiate AC

- This property is located nearby on Cumberland Place overlooking East Park. It comprises a purpose-built scheme totalling 173 bed spaces in a mixture of studios and one, two and three bed apartments. There are five commercial units at ground floor level.
- The accommodation is of a high specification and features ¾ size double beds with under bed storage, desk with chair and wall mounted shelving above, flat screen TV whilst the kitchenettes have high gloss floor and wall mounted kitchen units, corian worktops, similar to the subject Property, and 4 ring electric hobs with ovens underneath. The communal facilities include a gym, cinema room and quiet study room.
- The studio rents within the scheme range from £178.00 per week for a Compact Premier Studio to £207.00 per week for an Ultra Studio Plus, all on 51 week tenancies.
- In our opinion, Brunswick Apartments offers superior accommodation with good communal facilities in a marginally superior location. It does, however, have a larger number of beds to

fill. In our opinion, we would expect the subject Property to achieve softer weekly rents than Brunswick Apartments.

#### **London Road Studios – Collegiate AC**

- This property is located nearby on London Road and is essentially managed from Brunswick Apartments. It comprises 46 bed spaces in a mixture of studios and two bed apartments with a ground floor retail unit occupied by Tesco Express.
- The accommodation is of a good specification, comparable to the subject Property. Tenants of the scheme have access to the communal facilities in Brunswick Apartments just a few minutes' walk away and which include a gym, cinema room and quiet study room.
- The studio rents within the scheme range from £165.00 per week for a Studio to £189.00 per week for an Ultra Studio, all on 51 week tenancies.
- In our opinion, London Road Studios offers similar accommodation in a marginally superior location. It has a similar number of beds to fill. In our opinion, we would expect the subject Property to achieve broadly similar weekly rents to London Road Studio.

#### **Crescent Place – The Student Housing Company**

- This property is located within a 10 minute walk of the subject Property. The scheme occupies a prominent site bounded by Charlotte Place to the north, St Mary's Road to the east, Compton Walk to the south and St Andrews Road (A33) to the west. It is within a 2 minute walk of Southampton Solent University.
- It is a large scheme totalling 467 bed spaces directly let to students in a mixture of studios, en-suite clusters and town houses with shared facilities.
- The accommodation is of a good specification, comparable to the subject Property. It has good communal facilities including a common room, courtyard with BBQ area and quiet study rooms.
- The studio rents within the scheme range from £169.00 per week for a Standard Studio to £199.00 per week for a Deluxe Studio, all on 51 week tenancies.
- In our opinion, Crescent Place offers similar quality accommodation in a superior location but is a very large scheme. It also has a range of communal facilities that the subject property does not have. In our opinion, we would expect the subject Property to achieve broadly similar weekly rent to Crescent Place. This is because, whilst it does not have the communal facilities that Crescent Place does, it has fewer beds to fill which allows the operator of the subject Property to be more aggressive with regards to rental levels.

#### **Marland House – UrbaLife**

- Marland House is located in the city centre close to the southern end of Above Bar Street. The scheme has frontage to Civic Centre Road and Windsor Terrace adjacent to the Marlands Shopping Centre and close to West Quay shopping centre.
- It comprises 100 studio bed spaces with good communal facilities including a common room and a gym.
- The accommodation is of a good specification, comparable to the subject Property and features  $\frac{3}{4}$  size double beds, wardrobe, desk with three drawers and a chair. The kitchenettes have white gloss floor and wall mounted kitchen units, corian worktops and a two ring electric hob.
- The studio rents within the scheme range from £145.00 per week for a Ruby Studio to £275.00 per week for a Diamond Studio Plus, all on 51 week tenancies. Penthouse suites costs £290 per week.

- In our opinion, Marland House offers similar quality accommodation with communal facilities in a superior location being in the city centre and close to Southampton Solent University. It does, however, have a little more than twice as many beds to fill than the subject Property. In our opinion, we would expect the subject Property to achieve weekly rents in the middle of the range found at Marland House, reflecting the quality of the accommodation and the room sizes. In addition, the subject Property has fewer beds to fill allowing a slightly more aggressive pricing structure.
- Whilst this is our opinion of the market rent based upon the rental comparables above, pricing will be determined following discussions with the operating company and will be influenced by the amenities offered and room sizes as compared to competing schemes as well as the location within the town.

#### **Future Trading Performance**

- We have not been provided with any future trading projections of revenue for the subject property, prepared by the operator or otherwise.

## **12.2. Gross Income**

### **Opinion of Gross Income**

Our opinion of the current gross income for the 2017/18 academic year is as follows:

**£348,339 per annum**

### **Current Income Analysis – Student Accommodation 2017/18**

- We have been provided with details of the lettings for the current academic year.
- Whilst the bedrooms are all fully let, a number of the lettings have been achieved on a range of tenancy lengths from circa 36 weeks to 54 weeks. As such, some of the tenancy lengths are longer than the academic year. The average tenancy length is 48 weeks.
- According to the information supplied by you, the total term time rent being generated by the Property is £357,786 per annum. Based upon our analysis of the tenancy length and the rent per week, there appear to be some discrepancies in the annual amounts. Based upon our analysis, the term time income equates to £354,270
- We have considered the total term time rent based upon the weekly rents and tenancy lengths achieved. We have adopted a tenancy length of 51 weeks in our valuation and broadly reflected your assessment of the income. We have adopted an occupancy rate of 93.5% for the 2017/18 academic year which includes an allowance for rental incentives and bad debts and reflects the fact we are adopting 51 week tenancies (which we believe should be achievable across all the rooms) rather than 48 weeks.
- The anticipated 2017/18 term time income is as follows:

Component	Number of Beds	Rent Per Week (Per Person)	Tenancy Length	Annual Income (Assuming 100% Occupancy)	Annual Income at 93.5% Occupancy
Bronze Studio	24	£150.00	51	£183,600	£171,666.00
Silver Studio	29	£165.00	51	£75,735	£70,812.23
Gold Studio	8	£180.00	51	£73,440	£68,666.40
Platinum Studio	4	£195.00	51	£39,780	£37,194.30
<b>Total</b>	<b>45</b>			<b>£372,555</b>	<b>£348,338.93</b> <b>SAY £348,339</b>

### Total Summer Revenue

- We have assumed 51 week tenancies based upon the full academic year. As a result, there is no potential for additional summer income.

### Total Ancillary Revenue

- We have made no allowance for sundry income. Sundry income usually takes into account potential income from laundry machines and vending machines. The laundry machines at the subject property are free to use and there are no communal spaces with vending machines. As a result, we have made no allowance for sundry income.
- Our assessment of the total estimated gross income for the current 2017/18 academic year therefore totals **£348,339** per annum and is summarise as follows:

Component	Gross Income (£)
Term Time Income	£348,339
Holiday Income	£0
Sundry Income (vending machines, laundry etc.) *	£0
<b>Total</b>	<b>£315,866</b>

\*Applied at scheme occupancy rate

### Operating Costs

- In order to appraise the subject property for valuation purposes, the scheme operating costs have to be deducted from the expected gross aggregate rents.
- C&W have reviewed a wide range of operational costs from other schemes which provide a mix of standard cluster en-suite bed spaces and studios.
- The range of comparable operating costs equate to between 21% and 42% of the respective scheme's gross aggregate rent.
- We note however that if an investor/owner does not have an operating, letting and management platform they may need to enter into an agreement with a third party (such as CRM, Derwent Living, etc.). The management costs in this instance could increase by 5-10% to take account of these third-party management costs.
- Typically, we would expect the operating costs for a student accommodation building to include the cost headings listed below:

Expenditure Breakdown – Cost Headings	
Staff	Utilities
<ul style="list-style-type: none"> <li>• Warden &amp; Cleaners Salaries</li> <li>• Sundries (i.e. Pest Control/Skip Hire, etc)</li> <li>• Security</li> <li>• Staff Training</li> <li>• Management / Admin Salaries</li> <li>• Security</li> </ul>	<ul style="list-style-type: none"> <li>• Electricity and Gas</li> <li>• Refuse Collection</li> <li>• Water Charges</li> <li>• Internet &amp; WiFi Connections</li> </ul>
Repair & Maintenance	Other
<ul style="list-style-type: none"> <li>• Repairs &amp; Maintenance - Electrical Goods</li> <li>• Repairs &amp; Maintenance – Contractors</li> <li>• Repairs &amp; Maintenance – Fixtures and Fittings</li> <li>• Repairs &amp; Maintenance - Ground Maintenance</li> <li>• Repairs &amp; Maintenance - Lift Service</li> <li>• Repairs &amp; Maintenance - Small Tools</li> <li>• Planned Maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• Professional Fees/Solicitors</li> <li>• Recruitment (advertising)</li> <li>• Printing / Stationary</li> <li>• Postage</li> <li>• Advertising / Marketing</li> <li>• Telephones</li> <li>• Telephone Maintenance &amp; Cleaning Materials</li> </ul>

### Subject Property Operating Costs

- The subject Property is managed by My Pad, a small local operator.
- You have provided us with a range of information regarding operational costs. One projection for the 2017/18 academic year shows £88,640 per annum equating to £1,970 per bed per annum.
- Another information source provided by you shows an operational cost budget for 2017/18 of £99,950 per annum which equates to £2,221 per bed per annum all based on 45 bed spaces.
- Whilst we have had regard to the costs provided, they appear higher than we would expect for a property of this type and size. We have also considered the operational costs that we are aware of at other schemes. The Property has no dedicated reception office and therefore no on-site staff presence which should help reduce the operational costs.
- We are also aware of other small student accommodation schemes that have transacted where the purchaser assumed a lower operational cost than the actual costs of operation at the time of the transaction.
- With the above in mind, the total costs of operating the scheme, including management fees, have been estimated at £99,000 which equates to £2,200 per bed per annum which we believe is at the top end of the range expected and sufficient to provide the level of service to enable an efficiently operated PBSA property.
- The total operating costs reflects a leakage of 28.11% of the effective rental income which is also within the range expected of a property of this type.
- It is possible that a potential purchaser of the subject Property could make the assumption that the scheme could be run more cost effectively.
- We provide a detailed breakdown of the operating costs within our valuation calculations in Appendix C.

- It is important to realise that efficiencies can be achieved by an operator that is able to utilise their established platform to negotiate favourable contracts for the supply of utilities and the maintenance of M&E. A company that plans periodic inspections, promotes good relationships with students and has well managed maintenance programmes will minimise costs and maximise longevity of fixtures and fittings.
- We highlight that we do not hold ourselves out to be operational cost experts and recommend that you satisfy yourself with our assumptions.

#### Net Operating Income (NOI)

- Driven by high occupancy levels and lower operating costs, student accommodation generally delivers significantly higher net operating profit margins when compared to many other types of trading business. Overheads are relatively low, due to the level of service when compared to other hospitality businesses.
- We have had regard to your operational cost budget for the Property but, as stated above, have adopted our own costs which are based upon our own experience and professional judgement.
- The total projected annual operating costs of £99,000 per annum equates to £2,200 per bedroom which is considered to be at the upper end of market parameters.
- Our opinion of the property's Net Operating Income (NOI) for the 2017/18 academic year can be summarised as follows:

#### 2017/18 Academic Year Net Operating Income

Effective Revenue	£348,339
Less Operating Cost	-£99,000
<b>NOI</b>	<b>£249,339</b>

- It should be noted that the value of the property will be highly sensitive to any movements in the NOI. As such, any increase in total costs will reduce NOI and have a negative impact on value. If any of the costs mentioned in this report were to increase significantly without a corresponding increase in rents, then this will have a negative impact on our opinion of market value.
- We attach in Appendix C a sensitivity analysis which illustrates how the value could be expected to change should there be a variation in our assumptions.
- We further highlight that for the purposes of the cashflow, we consider the income over the next 12 months. This means we take a proportion of the current academic year's income and a portion of assumed rent from the next academic year. On this basis, the NOI for the next 12 months is **£253,184** per annum.

### 12.3. Market Rent – 2018/19 Academic Year

#### Opinion of Gross Rental Value

Our opinion of the Market Rent for the 2018/19 academic year for the Property is:

**£370,877 per annum**

### Gross Market Rent – Student Accommodation 2018/19 Academic Year

- We have not been provided with details of the student accommodation quoting rents for the 2018/19 academic year and have been unable to source them on the internet.
- For the 2018/19 academic year, we have assumed rental growth of 2.5%, which is below last year's average growth of 3.1%.
- We have adopted a tenancy length of 51 weeks in our valuation and have assumed an occupancy rate of 97% with a 3% void for bad debts and rental incentives.
- The anticipated 2018/2019 term time income is as follows:

Component	Number of Beds	Rent Per Week (Per Person)	Tenancy Length	Annual Income (Assuming 100% Occupancy)	Annual Income at 97% Occupancy
Bronze Studio	3	£154.00	51	£188,496	£182,841.12
Silver Studio	26	£169.00	51	£77,571	£75,243.87
Gold Studio	4	£188.00	51	£75,480	£73,215.60
Platinum Studio	3	£200.00	51	£40,800	£39,576.00
<b>Total</b>	<b>38</b>			<b>£325,635</b>	<b>£370,876.59</b> <b>SAY £370,877</b>

### Total Summer Revenue

- We have adopted a tenancy length of 51 weeks so there is no potential for additional summer income.

### Total Ancillary Revenue

- We have made no allowance for sundry income. Sundry income usually takes into account potential income from laundry machines and vending machines. The laundry machines at the subject property are free to use and there are no communal spaces with vending machines. As a result, we have made no allowance for sundry income.
- Our assessment of the total estimated gross market rent for the 2018/19 academic year therefore totals **£370,877** per annum and is summarise as follows:

Component	Gross Income (£)
Term Time Income	£370,877
Holiday Income	£0
Sundry Income (vending machines, laundry etc.) *	£0
<b>Total</b>	<b>£370,877</b>

\*Applied at scheme occupancy rate

### Subject Property Operating Costs

- We have grown our operational cost per bed at 2.5% rising from £2,200 per bed in 2017/18 to £2,255 totalling £101,475 per annum.

### Net Market Rent - Student Accommodation.

- Our opinion of the property's Net Market Rent for the 2018/19 academic year can be summarised as follows:

2018/19 Academic Year Net Market Rent	
Effective Revenue	£370,877
Less Operating Cost	-£101,475
<b>Net Market Rent</b>	<b>£269,402</b>

### Rental Growth

- In a market that maintains a good equilibrium between supply and demand for student accommodation, we typically expect rents to rise broadly in line with RPI.
- Although RPI is currently around 3.5%, we have adopted a long term rental growth rate of 2.5% which we believe adequately reflects the market dynamics within Southampton for an asset of this type.

## 12.4. Market Value

Our opinion of the Market Value of the Property has been primarily derived using the comparative and investment methods of valuation. This is based upon analysis of comparable rental and valuation transactions which are then applied to the subject Property taking into account quality of the accommodation, its size and location and other material factors.

As a trading asset, we have created a financial model that reflects the current income and adopted a cashflow that considers our assumptions regarding the future occupational arrangements thereafter.

### Student Investment Transactions

- We provide details of recent direct let student accommodation investment transactions below. The acquisitions reflect net initial yields from 5.83% - 6.90% and capital values of £66,620 - £129,111 per bed. The yield will reflect the perception of risk and growth of the property and among other things these will depend on the macro and micro location, quality of the buildings, level of rents, occupancy levels and prospects of rental growth.

### Sales Evidence

- We have followed the market convention of reflecting notional purchaser's costs in our yield calculations, representing Stamp Duty Land Tax (England & Wales) or Land & Buildings Transaction Tax (Scotland), agents' and legal fees and VAT. This is a notional adjustment and the amount is set by market convention and so may not be the same as the actual costs incurred in a transaction.
- We have identified the following comparable transactions:



Address	Date	Price (£)	Price Per Bed (£)	Yield (%)	Comment/Comparison
Hahnemann Buildings, Liverpool	August 2017	£10,800,000	£110,204	Not known	Acquired by Empiric Student property. Grade II listed building converted to provide 98 studios. It is located on Hope Street adjacent to Liverpool John Moores University and within 10 minutes' walk of the University of Liverpool. Hahnemann Buildings offers marginally superior accommodation with good communal facilities in a good location within a stronger university town than Southampton. We would expect the subject Property to achieve a softer capital value per bed.
Hamwic Halls, Southampton	February 2017	£11,900,000	£52,193	5.60%	Comprising 228 rooms let to Southampton Solent University. The property was acquired by an undisclosed investor. The property is in a stronger location than the subject Property and benefits from a lease but with a relatively short unexpired term. The subject Property offers superior accommodation but with no communal facilities. In our opinion, we would expect the subject property to achieve a softer NIY but a stronger capital value per bed given that it offers studio accommodation at higher weekly rents.
Glendower House, Cardiff	May 2017	£9,400,000	£104,444	6.40%	Acquired by Rosette Merchant Bank. The property is located close to Cardiff University's campus and comprises 90 beds in a mixture of studios and twodios. Communal facilities include a study pod, games room, cinema room and gym. It is a modern scheme of a comparable specification to the subject Property. In our opinion, Glendower House offers a similar specification but in a purpose-built block with good communal facilities in a similarly strong university town. We would expect the subject property to achieve a similar stabilised NIY but a softer price per bed reflecting the small lot size and higher operational costs.
Isca Lofts, Exeter	August 2016	£4,730,000	£66,620	6.90%	Acquired by Empiric Student property. Isca Lofts is a converted 1920 warehouse providing 66 en-suite bed spaces and five studios with a ground floor retail unit which was sold off on a 125 year lease at a peppercorn. Isca Lofts is of a poorer specification than the subject Property but benefits from good communal facilities. The accommodation is predominantly en-suite clusters compared with studios

at the subject Property. Exeter is a good university town but it has seen a great deal of development in recent years with some schemes struggling to achieve full occupancy. In our opinion, we would expect the subject Property to a stronger NIY and a stronger price per bed.

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Holly Court, Bristol	September 2015	£5,810,000	£129,111	5.83%
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A 150 year LLH interest acquired by Pramerica. The property comprises 45 studios operated by CRM at an opex budget of circa £3,000 per bed per annum. Purchase price equated to 5.83% NIY based off the opex budget. In our opinion, the subject Property is comparable in terms of size but offers accommodation of a superior specification but in a poorer university town. In our opinion, we would expect the subject property to achieve a softer NIY and softer price per bed.

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### Approach – Student Accommodation

- We set out in Appendix C the assumptions and inputs to the DCF approach we have made in arriving at our valuation, which we consider to be reasonable given current market sentiment and the above market comparables.
- Supply has increased significantly in recent years and the development pipeline of 2,216 beds equates to 7.86% of the demand pool. Of these, 1,866 beds are under construction with over 600 new beds being delivered for September 2018 and a further 332 beds being refurbished in time for the 2018/19 academic year.
- The property comprises a converted former office building to provide student accommodation offering good quality rooms of a good size but with no communal facilities.
- Assuming the property is well managed and maintained, opportunities exist to maintain the high levels of occupancy already achieved and to stabilise the asset.
- We have adopted marginally lower operating costs than those provided by you and this reflects our opinion of the costs that would be adopted by a hypothetical third party purchaser. Indeed, these are at the upper end of our expectations given that there are no permanent staff on site.
- We have adopted the actual rent for this year (by adopting a 51 week tenancy period and allowing a larger void for the current academic year) and our opinion of the market rent for next year. From year 2 onwards we have assumed rental growth to be 2.5% per annum.
- Whilst the subject Property has achieved full occupancy for the current academic year, it has a limited track record of occupancy. As a result, we have adopted an occupancy level of 93.5% for the current academic year rising to a 97% for the 2018/19 academic year and then stabilising at 98% thereafter.
- It should be noted that future rental and capital growth over the DCF may differ from the assumptions made and values may go up or down as a result.
- Purchaser's costs are included comprising of Stamp Duty Land Tax (SDLT) together with sales agent and legal fees.
- We have assumed that the Property would be eligible for SDLT savings under the application of Multiple Dwelling Relief (MDR) bringing total transaction costs down to 2.8%.
- We have made the following additional assumptions:

- The valuation is based on the basis that the Property has a market presence operated by an experienced student operator with a track-record of operating similar student schemes.
- The operator can maintain the scheme's internal specification and actively manage this in order to avoid obsolescence.
- The Property's condition is maintained to a good standard to minimise student voids.
- The scheme is fully operational and is operating, on a direct-let basis.
- The rents are based on 51 week direct let terms.
- The Property is operated by an experienced student operator who would fully manage the scheme with proactive letting management at a similar operating cost to our opinion of the 2017/18 academic year.
- That there is stability in the overall student market and there are no significant changes in the wider student funding model.
- Assuming the Property is proactively managed, let and maintained the property should sell in a reasonable timescale for its size and location subject to a stable student investment market.
- The valuation is based on the Assumption that all fixtures and fittings are owned by the vendor and are included within a sale.
- We have observed that current market conditions for a property of this type are currently good and a sale should be achieved within six to nine months of commencing a full marketing campaign.

### Conclusions

- In conclusion, we would expect the subject property to attract pricing in the region of a 6.5% to 6.75% net initial yield on the stabilised net operating income as at September 2019. This is the yield that we have targeted which produces a market value of £4,100,000 at 6.01% NIY rising to 6.48% in the second year and then 6.73% in the third year.

## 13. Valuation

### Market Value in its existing condition

Subject to the contents of this report we are of opinion that the Market Value of the freehold interest in the property detailed in the Property Record, as at the valuation date, having regard to trading potential as purpose built student accommodation, is:

**£4,100,000** (Four Million and One Hundred Thousand Pounds)

Our opinion of the Market value equates to £91,111 per bed.

### Market Value Based on Special Assumptions

#### Restricted Marketing Value

This basis is Market Value assuming the time available for marketing is restricted to six months.

#### Approach

We have been unable to source evidence comparable to the hypothetical circumstance that the

marketing period for the Property prior to the Valuation Date is restricted to six months. Moreover, if any transactions have taken place, given the wider impact on the market, it is unlikely that such deals will be reported.

In arriving at our valuation opinion, we have made a deduction of 10% to reflect the potential difficulties and uncertainties associated with identifying a purchaser within such a restrictive timescale.

Please note our opinion of Restricted Marketing Value is based upon the assumption a purchaser is identified within six months which is at bottom end of our anticipated transaction period. In order to guarantee attracting a purchaser in that time period, we are of the opinion that a discount would be required.

This totals a rounded Restricted Marketing Value of £3.690,000.

Our opinion of the Restricted Marketing Value as at the valuation date of the interest in the Property, assuming a fully equipped operational entity having regard to future trading potential as purpose built student accommodation is:

**£3,690,000**

(Three Million, Six Hundred and Ninety Thousand Pounds)

#### **Vacant Possession Value**

This basis is Market Value assuming vacant possession throughout (other than any parts let on a long lease at a nominal rent).

Market Value with vacant possession is our opinion of the Market Value of the relevant interest in the property at the date of valuation, on the Special Assumption that the Property is fully vacant and not subject to any occupational leases or agreements. In particular, we assume that:

- There are no nomination agreements or leases to universities or any other parties in place relating to the student rooms.
- There are no leases in place relating to any other parts of the property.
- There has been no prior marketing of the rooms to students, or of any other parts of the property.
- Existing fixtures, fittings and furnishings remain in situ.

Student accommodation which is directly let to students tends to be let in line with the academic year. Depending on the tenancy lengths achieved, the rooms may become vacant over the summer period. The academic year generally runs from September through to the following summer. The rents for any given academic year tend to be released circa eight to nine months prior to the start of the academic year with the aim of getting all the rooms fully booked before the start of the academic year. For example, the rents for the 2018/19 academic year were generally released in December 2017.

On this vacant possession basis, if the date of valuation falls very close to or after the commencement of an academic year, achieving normal levels of occupancy would generally take longer than if the valuation date is, say, six months prior to the start of the academic year. The ability to achieve holiday income (over the summer), could also be similarly impacted.

In addition to the loss of income for the period that the property is assumed vacant, the facilities management costs that will be required to be expended, regardless of the level of occupancy, need to be taken into account. Whilst these might not be as high for a fully occupied scheme,

services such as heating will still need to be run and staff engaged with marketing and letting the accommodation.

In our experience, it is highly unusual for a student accommodation property to trade with vacant possession and for there to be no associated letting activity in place. Owing to a lack of transactional evidence of assets with vacant possession, our opinion of the vacant possession value is largely based upon our professional judgment. Whilst it would be possible to consider an income deduction approach, whereby we consider the potential rental income in the current academic year and in the following years until the asset is stabilised, this would be based on a range of assumptions based upon our professional judgement. These assumptions would be very subjective and, in the light of this, we have adopted a discount to the “occupied” market value instead. In our opinion, this is the approach a hypothetical investor in the market would adopt when considering a bid for a student property with vacant possession in order to reflect the risk of re-letting the property and stabilising the asset at full occupancy.

Unless there are specific reasons for departing from it (in which case these are highlighted), our approach is to apply a discount of between 5% and 10% from the Market Value of the property when occupied, to reflect vacant possession. This figure is intended to reflect the loss of income, fixed FM costs and the risk to the investor of re-establishing the building to normal occupational levels. This approach “smooths” the cyclical nature of student lettings around academic years. It equates to a deduction of approximately 50% to 100% of net income for the current year with further reductions to occupancy in the second and third years as the asset stabilises.

Our opinion of the Vacant Possession Value of the interest in the Property, assuming a fully equipped operational entity having regard to future trading potential as purpose built student accommodation is:

**£3,790,000**

(Three Million, Seven Hundred and Ninety Thousand Pounds)

This value assumes that the property is vacant and no lettings have been undertaken and is immediately available for direct letting. We have applied a 7.5% discount to our Market Value above which equates to a loss of approximately 80% of the first year’s income, 15% of the second year’s income and 5% of the third year’s income.

All of the values provided above assume that the property is offered to the market reflecting trading for a full academic year, with the exception of our valuation on the Special Assumption of Vacant Possession.

## 14. Principal Property Risks

The risks associated with the Property are as follows:

### Principal Property Risks

<b>Location / situation:</b>	3	The Property is well located within the Southampton market being close to Southampton Solent University and within walking distance of the city centre. It is, however, in a mixed-use area with a number of commercial occupiers in the immediate vicinity. The wider area appears to be popular with students.
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1 = very poor  
5 = excellent

## Principal Property Risks

<b>Building quality:</b> 1= very poor 5 = excellent	3	The property is a former office building that was converted and extended in 2015. Whilst there are no communal areas, the accommodation has been finished to a good specification and the rooms are of a good size.
<b>Title:</b> 1= very poor 5 = very good	5	Freehold. We have not seen a current report on title and have assumed that there are no encumbrances to the interest. If your legal advisors should discover that there are defects in the interest, then this could impact the market value of the property without appropriate indemnity insurance in place.
<b>Security of income:</b> 1= very poor 5 = excellent	3	The Property is let directly to students who by their nature do not have the covenant strength of corporations. The student accommodation market, however, benefits from proven long term cashflows with low levels of bad debt and arrears if there is a robust management structure in place.
<b>Rental value volatility:</b> 1= very high 5 = very low	3	The rents assumed reflect the quality of the accommodation offered and its location together with the current volume of supply within the town. Student accommodation was also the only sector that showed rental growth in every year of the last downturn.
<b>Capital value volatility:</b> 1= very high 5 = very low	3	Capital values are likely to be affected by levels of net cashflow, quality of the accommodation and its state of repair and occupational history. External factors are likely to be levels of interest rates and the general economic outlook. At the current time, we have assumed that a robust management platform will be put in place that adequately reflects the quality of the building and assumed letting profile. Student accommodation has been subject to less volatility than other asset classes.
<b>Liquidity:</b> 1= very low 5 = very high	3	There is currently good liquidity in the market for PBSA property, reflecting the performance of the asset class when compared to more traditional real estate sectors. Southampton is a good market with the potential for growth but the size of the student scheme, being only 45 studios, might not appeal to the larger institutions and international investors who have been driving the market.

## APPENDIX A: MAPS AND PLANS



**Promap v2**  
● LANDMARK INFORMATION

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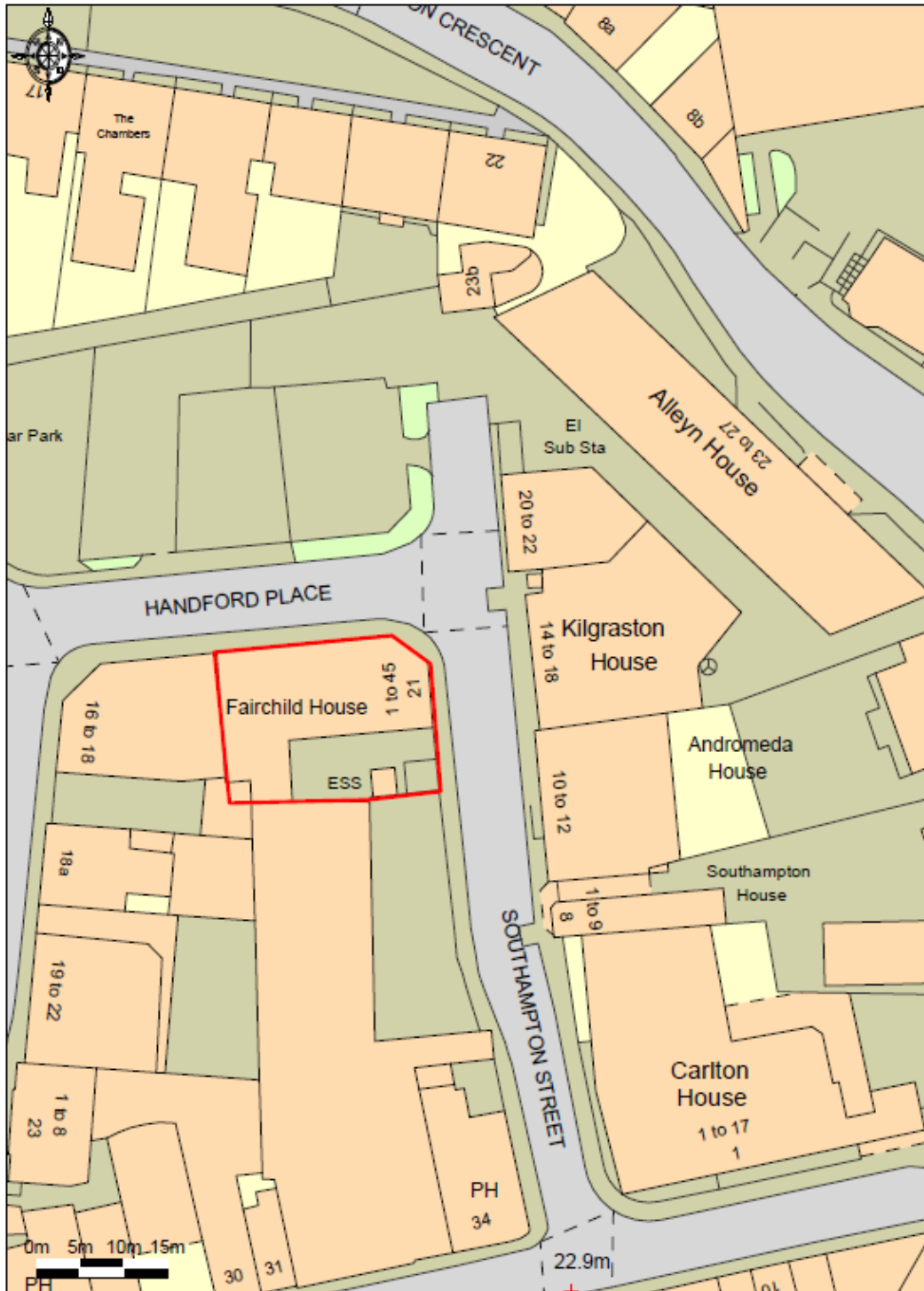


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## APPENDIX B: PHOTOGRAPHS



Fairchild House



Rear Courtyard



Typical Bedroom



Typical Bedroom



Typical Kitchen/Living Area



Entrance Hallway



Streetscape



Streetscape

## **APPENDIX C: VALUATION CALCULATIONS**

## APPENDIX D: ABBREVIATIONS

ERV	Estimated Rental Value
GIA	Gross Internal Area
IPMS	International Property Measurement Standards
NIA	Net Internal Area
PROMIS	Property Market Information Service (an authoritative real estate database produced by PMA Services)
PS	Professional Standard
RICS	Royal Institution of Chartered Surveyors
UKVS	United Kingdom Valuation Standard
VPGA	Valuation Practice Guidance Application
VPS	Valuation Professional Standard
WAULT	Weighted Average Unexpired Lease Term
WAEPC	Weighted Average Energy Performance Certificate

## APPENDIX E: PBSA RENTAL EVIDENCE

Private Sector Direct Let Accommodation				2017/18		2018/19	
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week
Liberty Living	Liberty Quays	562	Premium en-suite	42	£125.00	-	-
			Premium en-suite	43	£125.00	43	£127.00
			Premium en-suite	51	£117.00	51	£119.00
			Deluxe en-suite	43	£156.00	43	£132.50
			Deluxe en-suite	-	-	51	£129.00
			Premium studio	43	£179.00	43	£175.00
			Premium studio	51	£169.00	51	£165.00
Liberty Living	Liberty Point	122	Premium En-suite			43	£139.00
			Premium En-suite			51	£135.00
			Classic Studio			43	£160.00
			Classic Studio			51	£155.00
			Premium Studio			43	£175.00
			Premium Studio			51	£170.00
			Deluxe Studio			43	£180.00
			Deluxe Studio			51	£175.00
Collegiate AC/Hello Student	Brunswick Apartments, 8-13 Brunswick Place, Southampton, SO15 2AP	173	Premier 3 Bed Apartment	51	£158.00	51	£164.00
			Premier 2 Bed Apartment	51	£165.00	51	£172.00
			Compact Premier Studio	51	£172.00	51	£178.00
			Premier Studio	51	£180.00	51	£187.00
			Premier Studio Plus	51	£187.00	51	£194.00
			Ultra Studio	51	£195.00	51	£203.00
			Ultra Studio Plus	51	£200.00	51	£207.00
Collegiate AC/Hello Student	London Road Studios, 40-42 London Road, Southampton, SO15 2AG	22	2 Bed Apartment (p.p.)	51	£125.00	51	£129.00
			2 Bed Apartment Plus (p.p.)	51	£150.00	51	£154.00
			Studio	51	£160.00	51	£165.00
			Studio Plus	51	£170.00	51	£175.00
			Ultra Studio	51	£185.00	51	£189.00
MYA Property Ltd	Blue Box, Onslow Road, Southampton	48	Small Studio	48	£112.50	48	£112.50
			Large Studio	48	£118.00	48	£118.00

Private Sector Direct Let Accommodation				2017/18		2018/19			
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week		
Host	Vincent Place, Vincent Walk, Southampton, SO14 1JY	287	Twodio (lower)	43	£145.00				
			Twodio (lower)	46	£135.00				
			Twodio (lower)	51	£125.00				
			Twodio (upper)	43	£165.00				
			Twodio (upper)	46	£155.00				
			Twodio (upper)	51	£145.00				
			Host suite	43	£165.00				
			Host suite	46	£155.00				
			Host suite	51	£145.00				
			Classic apartment (lower)	43	£195.00				
			Classic apartment (lower)	46	£185.00				
			Classic apartment (lower)	51	£165.00				
			Classic apartment	43	£215.00				
			Classic apartment	46	£205.00				
			Classic apartment	51	£185.00				
			Ambassador penthouse	43	£225.00				
			Ambassador penthouse	46	£215.00				
			Ambassador penthouse	51	£195.00				
			Executive apartment	43	£225.00				
			Executive apartment	46	£215.00				
			Executive apartment	51	£195.00				
			Presidential penthouse	43	£275.00				
			Presidential penthouse	46	£265.00				
			Presidential penthouse	51	£245.00				
			Bronze 2 Bed Flat					43	£139.00
			Bronze 2 Bed Flat					51	£139.00
			Silver 2 Bed Flat					43	£149.00
			Silver 2 Bed Flat					51	£149.00
			En-suite					43	£149.00
			En-suite					51	£149.00
			Bronze Studio					43	£179.00
			Bronze Studio					51	£179.00
Silver Studio					51	£199.00			
Gold Studio					51	£249.00			
Student Housing Company	Crescent Place, 63 St Mary's Road, Southampton, SO14 0FG	467	8 Bedroom Shared House	51	£140.00	45	£161.00		
			8 Bedroom Shared House			51	£151.00		
			6 Bedroom Shared House			45	£156.00		
			6 Bedroom Shared House	51	£135.00	51	£146.00		
			Standard En-suite	43	Sold out	43	£144.00		
			Standard En-suite	51	Sold out	51	£134.00		
			Classic En-suite	43	£145.00	43	£149.00		
			Classic En-suite	51	£135.00	51	£139.00		
			Standard Studio	51	£165.00	51	£169.00		
			Classic Studio	51	£170.00	51	£174.00		
			Premium Studio	51	£176.00	51	£180.00		
			Deluxe Studio	51	£185.00	51	£199.00		
			Penthouse Studio	51	£185.00	-	-		

Private Sector Direct Let Accommodation				2017/18		2018/19	
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week
Student Housing Company	Austen House, Back of the Walls, Southampton, SO14 3LS	356	Standard Room in a 2 Bed Flat	43	Sold out	43	Sold Out
			Standard Room in a 2 Bed Flat	51	Sold out	51	Sold Out
			Standard Ensuite	43	Sold out	43	£130.00
			Standard Ensuite	51	Sold out	51	£120.00
			Classic Ensuite	43	£140.00	43	£146.00
			Classic Ensuite	51	£130.00	51	£136.00
			Premium Ensuite	43	£145.00	43	£151.00
			Premium Ensuite	51	£135.00	51	£141.00
			Standard Studio	51	£149.00	51	£152.00
			Classic Studio	45	£169.00	-	-
			Classic Studio	51	£159.00	51	£162.00
			Premium Studio	51	£164.00	51	£167.00
UrbaLife	Marland House	100	Ruby Studio			51	£145.00
			Ruby Studio Plus			51	£170.00
			Sapphire Studio			51	£180.00
			Sapphire Studio Plus			51	£185.00
			Emerald Studio			51	£200.00
			Diamond Studio			51	£235.00
			Diamond Studio Plus			51	£275.00
			Penthouse Suite			51	£290.00
UrbaLife	Queens Gate	64	Ruby Studio			51	£130.00
			Sapphire Studio			51	£155.00
			Gold Studio			51	£160.00
			Diamond			51	£195.00
UrbaLife	The Courtyard, 468-480 Portswood Road, Southampton, SO17 3SP	50	Rio Studio			51	£160.00
			Tokyo Studio			51	£170.00
			London Studio			51	£175.00
			Paris Studio			51	£195.00
			Sidney Studio			51	£205.00
Vita Student	Vita Student Southampton, Richmond House, Southampton, SO14 3PN	180	Studio	51	£198.84	51	£194.00
			Studio	51	£232.26		
			Studio - Feature Window	51	£214.43		
			Studio - Feature Window	51	£246.66		
			Studio - Penthouse	51	£249.02		
			Studio - Penthouse	51	£268.57		

Private Sector Direct Let Accommodation				2017/18		2018/19	
Operator	Scheme / Address	No. Beds	Type	Tenancy Length	Rent per Week	Tenancy Length	Rent Per Week
Nido Collection	Nido The Walls, 24 Bernard Street, Southampton, SO14 3AY	79	Bronze - Standard	43	£168.00		
			Bronze - Standard	51	£149.00		
			Bronze - Large	43	£179.00		
			Bronze - Large	51	£159.00		
			Bronze - Extra Large	43	£190.00		
			Bronze - Extra Large	51	£169.00		
			Bronze - Deluxe	43	£201.00		
			Bronze - Deluxe	51	£179.00		
			Bronze - Ultra Deluxe	43	£224.00		
			Bronze - Ultra Deluxe	51	£199.00		
			Silver - Standard	43	£179.00		
			Silver - Standard	51	£159.00		
			Silver - Large	43	£190.00		
			Silver - Large	51	£169.00		
			Silver - Extra Large	43	£201.00		
			Silver - Extra Large	51	£179.00		
			Silver - Deluxe	43	£213.00		
			Silver - Deluxe	51	£189.00		
			Gold - Standard	43	£190.00		
			Gold - Standard	51	£169.00		
			Gold - Large	43	£201.00		
			Gold - Large	51	£179.00		
			Gold - Extra Large	43	£213.00		
			Gold - Extra Large	51	£189.00		
Gold - Deluxe	43	£224.00					
Gold - Deluxe	51	£199.00					
Fresh Student Living	Hampton Square, 2 Mayfield Road, Southampton, SO17 3SX	199	Standard Ensuite	43	£150.00	43	£153.00
			Standard Ensuite	50	£141.00	50	£148.00
			Bronze En-suite	43	£155.00	43	£157.00
			Bronze En-suite	50	£150.00	50	£152.00
			Platinum (formerly Skyline) En-suite	43	£157.00	43	£160.00
			Platinum (formerly Skyline) En-suite	50	£152.00	50	£155.00
			Silver En-suite	43	£157.00	43	£159.00
			Silver En-suite	50	£152.00	50	£154.00
			Gold En-suite	43	£159.00	43	£162.00
			Gold En-suite	50	£154.00	50	£157.00
			Standard Studio	51	£202.00	51	£205.00
			Premium Studio	51	£208.00	51	£211.00
			Platinum (formerly Skyline) Studio	51	£212.00	51	£215.00
Super Uni	Columbia Lodge, Southampton	120	En-suite	42	£79.50		



## SOURCES OF INFORMATION AND TERMS OF THE ENGAGEMENT

### Sources of Information

In addition to information established by us, we have relied on the information obtained from you and your advisors as listed below:

Information	Source / Author
Floor areas	Not provided – not relevant to student accommodation
Scale floor plans / Floor areas and measured survey report	Not provided
Details of ground conditions	Not provided
Proposed Operating Costs and Rental Information	You
Condition survey report	Not provided
Details of building defects	Not provided
Flooding risk enquiries, environmental enquiries	Environmental Agency
Copy environmental report / Details of known environmental or contamination issues	Not provided
Rating assessments	VOA
Copy report on title / Confirmation of title, including site plan, tenure, tenancy and sub-tenancy details, etc. / Copy leases	Not provided
Details of planning use and relevant planning consents	Local Authority planning website

## Terms of the Engagement



125 Old Broad Street  
London, EC2N 1AR  
Tel +44 (0) 20 3296 3000  
Fax +44 (0) 20 3296 3100  
cushwake.com

The Directors  
PPNL SPV B88 – 1 Limited and PPNL SPV B88 Limited  
3<sup>rd</sup> Floor  
51 Bishopsgate  
London,  
EC2N 3AR

Email luke.kemp@cushwake.com  
Direct +44(0) 20 7152 5995  
Mobile +44(0) 7712 834 515

4 May 2018

Dear Sirs,

**VALUATION REPORT FOR FAIRCHILD HOUSE, 21 SOUTHAMPTON STREET, SOUTHAMPTON, SO15 2ED**

As you are aware, we have undertaken a valuation of the above property, dated 2 March 2018, on behalf of Coutts Commercial Real Estate for secured lending purposes. You have requested that we provide you with a valuation report addressed to the Directors of the relevant SPV which is acquiring the Property. Coutts Commercial Real Estate have consented to us providing you with a valuation report in connection with the Property and we have agreed to do this for a fee of £1,000 excluding VAT and reasonable disbursements.

The schedule to this letter details the services we will provide, the basis of our appointment, our fees and anticipated expenses, together with other information relevant to our services (the "**Services Schedule**" and together with this letter, the "**Engagement Letter**").

Enclosed are our standard terms of business containing exclusions and limitations on our liability and detailing our respective obligations (the "**Terms of Business**") which, together with the Engagement Letter, comprise the terms of our engagement (the "**Engagement**"). Please take a moment to check that you are happy with the contents of the Engagement Letter, the Services Schedule and the Terms of Business and understand the basis of the Engagement.

I will have overall responsibility for the provision of our services to you, assisted by Jagruti Joshi, who is a registered valuer and such other professional staff as it may be appropriate for us to involve. I will be your first point of contact on this matter.

I should be grateful if you would return a signed and dated a copy of the Engagement Letter as soon as possible to confirm that you accept the basis of the Engagement. Please be aware that your continuing instructions in relation to this matter will amount to your acceptance of the terms of the Engagement. If there is any matter that requires clarification please do not hesitate to contact me.



Yours sincerely

A handwritten signature in black ink, appearing to read "Luke Kemp".

**Luke Kemp BA(Hons) MRICS**  
Partner  
Cushman & Wakefield LLP

**Acceptance of Cushman & Wakefield Engagement Letter and Terms of Business**

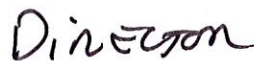
I have read the Engagement Letter (including the Services Schedule and incorporating the Cushman & Wakefield Terms of Business (Version 1.01 – April 2017)) and hereby accept the terms and confirm this Engagement.



Name

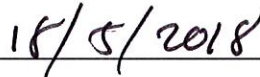


Position



For and on behalf of PPNL SPV B88 – 1 Limited and PPNL SPV B88 Limited

Date:



## Services Schedule – Valuation & Advisory

<b>Type of Instructions:</b>	Valuation and Advisory
<b>Property Details:</b>	<p>Appendix 1 includes the address, tenure and property type of the property or each of the properties ("<b>Property</b>") to be valued ("<b>Property Schedule</b>").</p> <p>The Property is held by PPNL SPV B88 – 1 Limited and PPNL SPV B88 Limited ("<b>Client</b>").</p>
<b>Client Instructions:</b>	<p>The Client has instructed C&amp;W to:</p> <ol style="list-style-type: none"> <li>a. Undertake a valuation of the legal interest in the Property described in the Property Schedule ("<b>Valuation</b>") as at 12<sup>th</sup> February 2018 (the "<b>Valuation Date</b>").</li> <li>b. Provide a valuation report in the format referred to in the 'Scope of Services' section below ("<b>Valuation Report</b>") for the following purpose of valuation ("<b>Purpose of Valuation</b>"): <ul style="list-style-type: none"> <li>• In connection with your acquisition of the Property.</li> </ul> </li> <li>c. Provide an estimated reinstatement cost assessment. The approach C&amp;W will adopt is set out in item 23 of 'Special and Additional Terms' below. C&amp;W reserves the right not to undertake this part of the Engagement if it transpires that there are properties that are unduly complex or Listed, as it would be inappropriate. In such circumstances, C&amp;W will discuss with the Client an appropriate fee adjustment for excluded properties.</li> </ol>
<b>Addressee:</b>	<p>The Valuation Report will be addressed to The Directors, PPNL SPV B88 – 1 Limited and PPNL SPV B88 Limited</p> <p>In accordance with current practice, no responsibility is accepted to any other party apart from the Client in respect of the whole or any parts of its contents unless expressly provided for in the Valuation Report or the Engagement Letter.</p>
<b>Timetable:</b>	<p>C&amp;W will provide a final Valuation Report, subject to a timetable to be agreed.</p> <p>The above is subject to the timely receipt of all information requested from the Client. Any delay may result in the timetable being amended.</p>
<b>Period of Appointment:</b>	N/A

**Scope of Services:**

Included in the Services are:

**a. Valuation Report**

Providing a Valuation Report that will be prepared in English. C&W will provide one electronic copy of the Valuation Report and, if requested, one signed hard copy. Where the Valuation Report is required to contain site plans these will be based on extracts of the Ordnance Survey or other maps showing, for identification purposes only, C&W's understanding of the extent of title based on site inspections or copy title plans supplied to C&W. The Client should not rely on C&W's plans to define boundaries.

The Valuation Report will include copies of C&W's valuation print outs, which provide a detailed summary of information, cashflow variables and input assumptions and cashflow results. The Valuation Report will also include a brief market commentary.

**b. Currency**

Providing a Valuation in UK pounds sterling (£).

**c. Inspections**

As you are aware, we have recently undertaken an inspection of the Property internally and externally from ground level.

As the Property is a trading entity where the value is assessed by reference to trading potential, we will not undertake a measured survey.

**d. Floor Areas**

As agreed with you, we will rely on areas provided to us. However, the valuation of student accommodation is based upon a weekly rent per room rather than a rate per square meter / square foot. As a result, it is typical within the sector that schemes are not measured. The valuation of the student accommodation element of the Property will be based on the room numbers provided by you and/or the Operator and will not be checked by us.

**e. Tenancies & Leasing**

Relying on tenancy information provided by you, subject to the provisions of item 4 of the Assumptions. For the avoidance of doubt, C&W will not read copy leases.

**f. Environmental Matters (including Flooding)**

Reviewing the relevant Local Authority websites regarding environmental matters, including contamination and flooding (subject to the provisions of item 5 of the Assumptions). For the avoidance of doubt, C&W will not undertake an environmental assessment or prepare a land quality statement which would be the responsibility of an environmental consultant or chartered environmental surveyor. In this respect, C&W will have regard to any environmental reports provided to C&W by you (subject to the provisions of item 5 of the Assumptions).

**g. Title**

Reading a Certificate of Title where this is provided to C&W by your advisors and C&W will reflect its contents in the Valuation (subject to the provisions of item 7 of the Assumptions).

C&W will not inspect the title deeds of the Property.

Unless agreed in writing in advance with the Client, C&W will not obtain information from the Land Registry.

**h. Condition of Structure & Services, Deleterious Materials and Ground Conditions**

Taking into account the general condition of the Property as observed from the inspection (subject to item 8 of the Assumptions). Where a separate condition or structural survey has been undertaken and made available to C&W by you, C&W will reflect the contents of the survey or condition report in the Valuation Report, but may need to discuss the survey or condition report with the originating surveyor.

**i. Statutory Requirements and Planning**

Making verbal or electronic enquiries of the relevant planning authorities as to the possibility of highway proposals, comprehensive development schemes and other ancillary planning matters that could affect property values. C&W will also seek to ascertain whether any outstanding planning applications exist which may affect the Property, and whether the Property is listed or included in a Conservation Area. C&W will also attempt to verify the existing permitted use of the Property, and endeavour to have sight of any copies of planning permissions. For the avoidance of doubt, C&W will not undertake formal searches.

**j. Disclosures of incentives on new build residential property**

Endeavouring to obtain a copy of the 'CML Disclosure of Incentives Form' which vendors of newly built residential property are required to complete in order to comply with their duty to disclose whether the sale price includes any incentives. C&W will take into account the contents of such a form in undertaking our valuation (subject to the provisions of item 14, of the Assumptions).

Where C&W is engaged to prepare a Valuation Report in connection with a proposed transaction in respect of the Property, expressly excluded from the Services is the provision of any recommendation or otherwise by C&W as to whether to proceed with such a proposed transaction. Accordingly the Client must not in any circumstances construe the Valuation Report as a recommendation whether or not to proceed with such a proposed transaction.

**Basis of Appointment:**

C&W confirms that:

- a.** The Valuation and Valuation Report will be undertaken in accordance with the appropriate sections of the current edition of the RICS Valuation – Global Standards which incorporate the International Valuation Standards ("IVS") and the RICS UK Valuation Standards (the "RICS Red Book"). In this context "current edition" means the version in force at the Valuation Date.
- b.** The Valuation will be the responsibility of Luke Kemp, who is in a position to provide an objective and unbiased Valuation. The Valuation will be undertaken by a suitably



	<p>qualified valuer, or valuers, who has or have the knowledge, skills and understanding to undertake the Valuation competently and who will act as "<b>External Valuer(s)</b>" (as defined in the RICS Red Book) qualified for the Purpose of Valuation.</p> <p>C&amp;W does not (and any affiliates of C&amp;W do not) act as external valuers as defined under the Alternative Investment Fund Manager's Directive ("<b>AIFMD</b>") legislation, or its equivalent under local law. C&amp;W expressly disclaims any responsibility or obligations under AIFMD and/or its equivalent unless expressly agreed in writing in advance by C&amp;W.</p> <p>c. As you are aware, Luke Kemp has previously been involved with the property having undertaken a valuation of the property for Coutts Commercial Real Estate in February 2018 for loan security purposes. We highlight that Coutts Commercial Real Estate have agreed that we can provide you with a report for the stated Purpose.</p>
<p><b>Fees and Expenses:</b></p>	<p>C&amp;W's fee for undertaking the Services is £1,000.</p> <p>The fee excludes VAT and expenses which will also be payable pursuant to Clause 3 of the Terms of Business.</p> <p>The fee includes the provision of the copies of the Valuation Report referred to under 'Scope of Services'. Where additional hard copies are required, a charge may be made reflecting the time spent and costs incurred.</p> <p>C&amp;W's invoice will be addressed to the <b>Directors, PPNL SPV B88 – 1 Limited and PPNL SPV B88 Limited</b>. If C&amp;W is requested to re-address an invoice after it has been issued, C&amp;W reserves the right to make an administrative charge.</p> <p>Invoices for fees and, where appropriate, expenses shall be issued within 30 days upon completion of the Valuation Report.</p> <p>Where C&amp;W undertakes to read reports prepared by third parties as part of the Engagement (such as Reports on Title or Structural Surveys), if these reports are provided some time after C&amp;W has submitted the Valuation Report, and C&amp;W is required to review and/or change the Valuation and/or advice in the light of the contents of any such reports, C&amp;W reserves the right to charge an additional fee appropriate in relation to the time involved.</p> <p>In the event that C&amp;W agrees to re-address the Valuation Report to another party or other parties or permit reliance upon it by another party or other parties, C&amp;W reserves the right to charge additional fees appropriate to the additional work involved and any extension of C&amp;W's liability.</p> <p>C&amp;W's fees and expenses shall be payable whether or not the transaction proceeds or the loan is drawn down, and in the event that instructions are withdrawn, the fee or a proportion of it will be payable in accordance with Clause 12 of the Terms of Business.</p>
<p><b>Anticipated Expenses:</b></p>	<p>Anticipated expenses include, but are not restricted to, travel costs and securing Promaps.</p>
<p><b>Special and Additional Terms:</b></p>	<p><b>1. Bases of Valuation</b></p> <p>In accordance with the Client's instructions, C&amp;W will undertake the Valuation on the following bases:</p>

**Market Value** – as a fully equipped operational entity, having regard to trading potential as student accommodation.

#### **Market Rent**

The definition of the above basis/bases is/are set out in Appendix 2 (the "**Definitions Schedule**").

## **2. Special Assumptions**

- a. In addition, the Client has requested that C&W provides additional valuations on the basis of the **Special Assumptions** (as defined in item 2 of the Definitions Schedule) referred to in section 2.b. below:
- b. The additional valuations will be prepared on the following bases:
  - Market Value on the special assumption as a fully equipped operational entity, having regard to trading potential as student accommodation assuming the property is vacant with no lettings in place.  
("**Vacant Possession Value**").
  - Market Value on the special assumption as a fully equipped operational entity, having regard to trading potential as student accommodation assuming a 6 month marketing period.  
("**Restricted Marketing Value**").

In the circumstances of this instruction, C&W considers the above Special Assumptions] may be regarded as realistic, relevant and valid.

## **3. Use of Valuation Report**

The Valuation Report may be used only for the Purpose of Valuation referred to in item (b) of 'Client Instructions' in this Services Schedule.

## **4. Areas**

Where C&W measures and calculates the floor areas, measurement will be in accordance with the RICS Professional Statement RICS Property Measurement 1st Edition 2015.

The RICS Practice Statement "RICS Property Measurement" (effective from 1 January 2016) requires office buildings to be measured in accordance with International Property Measurement Standards ("**IPMS**"), unless the Client confirms in writing that alternative methodology should be used. Unless the Client so instructs C&W otherwise in writing, C&W will assume that the Client does not require C&W to measure office buildings in accordance with IPMS on the basis that the Client has no use for such data given that at present it is rare for market activity to be based on IPMS measurements.

The areas C&W report will be appropriate for the Purpose of the Valuation, but should not be relied upon for any other purpose.

## 5. Group of Properties / Lotting

Unless C&W has confirmed otherwise in this Services Schedule, each property will be valued individually; in the case of a portfolio, C&W will assume that each of the properties would be marketed in an orderly way and not placed on the market at the same time.

## 6. Limitations

N/A

## 7. Limitation of Liability

The cap on C&W's liability in Clause 11.3 of the Terms of Business shall not apply to the Valuation.

C&W's total aggregate liability to the Client or to any other party entitled to rely on the Valuation Report, arising out of, under or in connection with this Engagement shall be limited to an aggregate sum not exceeding the lesser of £25 million or 25% of the Market Value of the Engagement Property.

Where more than one value basis is adopted, the Market Value of the Engagement Property shall be the Market Value without Special Assumptions; or, if this basis is not included in the Valuation Report, the Value basis most similar to the Market Value without Special Assumptions, as referred to in the Definitions Schedule.

Where the Services relate to more than one property, C&W's maximum liability in respect of an individual property shall be in the same proportion to the total aggregate liability as such individual property's reported value is to the aggregate reported value.

## 8. Disclosure and Syndication

C&W will not consent to publication or disclosure of the Valuation Report unless, where relevant, it incorporates adequate reference to the Special Assumptions and/or Departures from the RICS Red Book referred to in this Services Schedule.

In the event that, after receiving the Engagement Letter, the Client advises C&W of a proposal to syndicate the loan then the Client will, at such point, represent and warrant that it has been duly authorised to enter this Engagement as the lender's agent (the term "lenders" in this Engagement Letter includes any present, proposed or future members of the lending syndicate). C&W and the Client must agree the nature of C&W's responsibility to any further named parties prior to any disclosure of the Valuation Report. In this connection, the cap on liability provisions referred to in section 7 above shall be agreed by the lenders and shall apply to the maximum liability of C&W in respect of any and all claims that maybe brought by the Client and/or any lender(s) arising out of, under or in connection with this Engagement. Without prejudice to the foregoing, prior to any disclosure of the Valuation Report, the Client must also inform syndicate members of the terms of the Engagement by providing them with a copy of the entire Engagement Letter including attachments thereto. The Client must also inform C&W of the identity of the proposed members of the syndicate. If these conditions are satisfied and the Valuation Report is disclosed to syndicate members, the Valuation Report must be disclosed in its entirety.

Clause 8 of the Terms of Business states that the provision of the services is for the Client's benefit only. If C&W is subsequently asked to extend responsibility to other parties, then there will be an additional fee payable, to be agreed, to cover C&W's additional time costs, indemnity and insurance liabilities subject to a minimum of £1,000, plus VAT.

**9. Age of Building**

If C&W states the age of a building in the Valuation Report, this will be an estimate and for guidance only.

**10. Condition of Structure, Foundations, Soil & Services**

It is a condition of C&W or any related entity, or any qualified employee, providing advice and opinions as to value, that the Client and/or third parties (whether notified to C&W or not) accept that the Valuation Report in no way relates to, or gives warranties as to, the condition of the structure, foundations, soil and services.

**11. Plant & Machinery**

No allowance will be made by C&W for any items of plant or machinery not forming part of the service installations of the building(s). C&W will specifically exclude all items of plant, machinery and equipment installed wholly or primarily in connection with any of the occupants' businesses. C&W will also exclude furniture and furnishings, fixtures, fittings, vehicles, stock and loose tools, except where such items would ordinarily transfer to a prospective purchaser in the sale of a trading business as a going concern in accordance with VPGA4 of the RICS Red Book.

**12. Goodwill**

No account will be taken by C&W in the Valuation of any business goodwill that may arise from the present occupation of the Property, except where such business goodwill (excluding any personal goodwill) would ordinarily transfer to a prospective purchaser in the sale of a trading business as a going concern in accordance with VPGA4 of the RICS Red Book.

**13. Statutory Requirements & Planning**

Please note the fact that employees of town planning departments now always give information on the basis that it should not be relied upon and that formal searches should be made if more certain information is required. Where a Client needs to rely upon the information given about town planning matters, the Client's legal advisers must be instructed to institute such formal searches. C&W recommends that the Client requests C&W to review its comments and Valuation in light of any resultant findings.

**14. Defective Premises Act 1972**

No allowance will be made by C&W for rights, obligations or liabilities arising under the Defective Premises Act 1972.

## 15. Legal Issues

Legal issues, and in particular the interpretation of matters relating to title and leases, may have a significant bearing on the value of an interest in property. No responsibility or liability will be accepted by C&W for the true interpretation of the legal position of the Client or any other parties in respect of the Valuation. Where C&W expresses an opinion on legal issues affecting the Valuation, then such opinion is subject to verification by the Client with a suitable qualified legal adviser.

## 16. Deduction of Notional Purchaser's Costs

The opinion of value which C&W will attribute to the Property will be the figure C&W considers would appear in a contract for sale, subject to the appropriate assumptions for the Basis of Value reported. Where appropriate, C&W will make an allowance in respect of stamp duty and purchaser's costs.

The Client's attention is drawn to the fact that when assessing Market Value, Fair Value or Existing Use Value for balance sheet purposes, C&W will not include directly attributable acquisition or disposal costs in the Valuation. Where C&W is requested to reflect these costs, they will be stated separately.

## 17. Taxation & Disposal Costs

No adjustment will be made by C&W to reflect any liability to taxation that may arise on disposal, or development of the Property nor for any costs associated with disposal incurred by the Owner. Furthermore, no allowance will be made by C&W to reflect any liability to repay any government or other grants, taxation allowance or lottery funding that may arise on disposal.

C&W's valuation figure for the Property will be that receivable by a willing seller excluding VAT, if applicable.

## 18. Building Society Act 1986

C&W confirms that it is not disqualified under Section 13 of the Building Societies Act 1986 from reporting to the Client.

## 19. Properties to be Developed or in the Course of Development or Requiring Repair / Refurbishment and Recently Completed Developments

Unless specifically agreed in writing to the contrary, C&W's fee assumes that C&W will be provided with a specification and floor plans of the proposed / ongoing development as well as information relating to construction and associated costs in respect of both the work completed and the work necessary for completion, together with a completion date or dates. Normally such figures, dates and information will be provided by the professional advisers involved in the construction programme. Unless specifically instructed to the contrary in writing, C&W will rely on such figures, dates and information and the Client should make this fact known to such advisers. Alternatively, on request, C&W can arrange for independent quantity surveyors to provide an assessment of costs and dates at an additional fee charge. If the Valuation is for lending purposes, the Client is advised to seek independent advice and to consider the appointment of a project monitoring surveyor.

## 20. Monitoring

The compliance of the valuations undertaken in accordance with the RICS Red Book may be subject to monitoring by the RICS under its conduct and disciplinary regulations.

## 21. Valuation Components

The components of C&W's valuation calculations (such as future rental values, cost allowances, or void periods) may only be appropriate as part of the valuation calculations and should not be taken as a forecast or prediction of a future outcome. The Client should not rely on any component of the valuation calculations for any other purpose.

## 22. Trade Related Property

Valuation Practice Guidance Application 4 (VPGA 4) of the RICS Red Book sets out examples of properties that are normally bought and sold on the basis of their trading potential. The essential characteristics of such a property is that it has been designed or adapted for a specific use and the value of that property reflects its trading potential. VPGA 4 relates only to the valuation of an individual property that is valued on the basis of trading potential. Where C&W is instructed to value a trade related property or business, C&W will apply the principles of VPGA 4 unless explicitly instructed to do otherwise and confirmed as appropriate in the Valuation Report.

## 23. Estimated Reinstatement Cost Assessment

C&W will consider the extent and nature of the building with an estimated reinstatement cost assessment being undertaken as part of its normal valuation exercise. C&W will not carry out a formal reinstatement cost assessment through its Building Consultancy Division. C&W's assessment should be treated as a guide only and should not be relied upon. It should be used for comparative purposes only against the borrower's proposed reinstatement cover. Should any discrepancies arise, a formal reinstatement cost assessment should be commissioned.

The figures set out in C&W's Valuation Report will be its indicative assessment of the cost of reconstructing the Property at the Valuation Date. C&W will include an allowance for demolition, removal of debris, temporary shoring, statutory and professional fees which are likely to be incurred on reconstruction, but will exclude any allowance for VAT. If the Borrower is unable to recover VAT, or can recover part only, it should advise its insurers and increase the Base Sum Insured appropriately. The figures will make no allowance for loss of rent during the rebuilding period, nor for inflation, nor the cost of dealing with any contamination which may be present and have to be dealt with prior to reconstruction. The assessment will not provide advice in respect of terrorist damage cover and insurers should be consulted in respect of this.

C&W will provide a guide that envisages the reinstated building and its use will be similar to that existing, and the replacement building will be to the original design, in modern materials, using modern techniques to modern standards.

**Assumptions:****1. Assumptions**

The RICS Red Book contains a glossary that defines various terms used in the RICS Red Book that have a special or restricted meaning. One such term is an assumption which is defined as "A supposition taken to be true" ("**Assumption**"). Accordingly in this context, C&W will make certain Assumptions in relation to facts, conditions or situations affecting the subject of, or approach to, the Valuation that C&W will not verify as part of the valuation process but rather, in accordance with the definition in the RICS Red Book, will treat as true because it is agreed that specific investigation by C&W is not required. In the event that any of these Assumptions prove to be incorrect then the Valuation will need to be reviewed.

**2. Confirmation of Assumptions**

The Client's counter-signature of the Engagement Letter represents confirmation that C&W may make the Assumptions referred to below.

The Client must promptly notify C&W in writing if any of the Assumptions are incorrect. Should any amendment to the Assumptions set out in the Services Schedule result in an increase in the scope of the Engagement this may result in an appropriate increase in C&W's fees and expenses due under the Engagement.

**3. Areas**

Where C&W is provided with floor areas, C&W will make an Assumption that the areas have been measured and calculated in accordance with the RICS Professional Statement RICS Property Measurement 1st Edition 2015.

#### 4. Tenancies and Leasing

C&W's opinion of the Market Value or Fair Value will be subject to existing leases of which the Client or its advisors have made C&W aware but otherwise will reflect an Assumption of vacant possession. Where C&W has undertaken to read the leases and related documents provided to it, C&W will make an Assumption that copies of all relevant documents will be sent to C&W and that they are complete and up to date.

Where C&W relies on tenancy and lease information provided to it, unless such information reveals otherwise, C&W will make the Assumption that all occupational leases are on full repairing and insuring terms, with no unusual or onerous provisions or covenants that would affect value.

C&W will make an Assumption that vacant possession can be given of all accommodation which is unlet or occupied by the entity/borrower or its employees on service tenancies. C&W will not take account of any leases between subsidiaries unless C&W states otherwise in the Services Schedule.

C&W will not undertake investigations into the financial strength of any tenants unless otherwise referred to in the Valuation Report. Unless C&W has become aware by general knowledge, or has been specifically advised to the contrary, C&W will make an Assumption that:

- a. where a Property is occupied under leases then the tenants are financially in a position to meet their obligations, and
- b. there are no material arrears of rent or service charges, breaches of covenant, current or anticipated tenant disputes.

However, the Valuation will reflect a potential purchaser's likely opinion of the credit worthiness of the type of tenants actually in occupation or responsible for meeting lease commitments, or likely to be in occupation.

C&W will take into account any information the Client or its advisors provide concerning tenants' improvements. Otherwise, if the extent of tenants' alterations or improvements cannot be confirmed, C&W will make an Assumption that the Property was let with all alterations and improvements evident during C&W's inspection (or, in the case of a Valuation without internal inspection, as described within the information provided by the Client).

C&W will also make an Assumption that wherever rent reviews or lease renewals are pending or impending, with anticipated reversionary changes, all notices have been served validly within the appropriate time limits.



## 5. Environmental Matters

If C&W's enquiries or any reports supplied to C&W indicate the existence of environmental problems without providing method statements and costings for remedial works, then C&W may not be able to issue a Valuation Report except on the Special Assumption that the subject property is assumed **NOT** to be affected by such environmental matters. In certain circumstances, the making of such a Special Assumption may be unrealistic and may be a Departure from the requirements of the RICS Red Book. In these circumstances, the Valuation Report may include a recommendation that an investigation should be undertaken to quantify the costs and that subsequently the Valuation should be reviewed.

Where C&W's enquiries lead C&W to believe that the Property is unaffected by contamination or other adverse environmental problems, including the risk of flooding, then, unless the Client instructs C&W otherwise, the Valuation will be based on an Assumption that no contamination or other adverse environmental matters exist in relation to the Property sufficient to affect value.

If the Property lies within or close to a flood plain, or has a history of flooding, C&W will make the Assumption that building insurance is in place and available to be renewed to the current or any subsequent owner of the Property, without payment of an excessive premium or excess.

Depending on the nature of the investigations made and the information revealed, the Valuation Report may include a statement that, in practice, a purchaser might undertake further investigations and that if these revealed contamination or other adverse environmental problems, then this might reduce the value reported.

## 6. Mineral Rights

C&W will make an Assumption that any mineral rights are excluded from the Property.

## 7. Title

Save as disclosed either in any Certificate of Title or unless specifically advised to the contrary by the Client or its legal advisers and as referred to in the Valuation Report, C&W will make the Assumption that there is good and marketable title in all cases and that the Property is free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoings. C&W will also make an assumption that the Property is free from mortgages, charges or other encumbrances.

If verification of the accuracy of any site plans contained in the Valuation Report is required, the matter must be referred to the Client's legal advisers.

C&W will make the Assumption that roads and sewers serving the Property have been adopted and that the Property has all necessary rights of access over common estate roads, paths, corridors and stairways, and rights to use common parking areas, loading areas and other facilities.

In addition, similarly, where the title is leasehold, C&W will make the Assumption that both landlord and tenant have abided by the terms of the lease and that the layout of the accommodation is in accordance with that permitted in the lease. C&W will make a further Assumption that the lease contains no option for the landlord to obtain possession of the Property if they intend to redevelop the Property or a substantial

part of the premises in which the Property is situated.

**8. Condition of Structure and Services, Deleterious Materials and Ground Conditions**

Due regard will be paid by C&W to the apparent general state of repair and condition of the Property, but a condition or structural survey will not be undertaken, nor will woodwork or other parts of the structure which are covered, unexposed or inaccessible, be inspected. Therefore, C&W will be unable to report that the Property is structurally sound or is free from any defects. C&W will make an Assumption that the Property is free from any rot, infestation, adverse toxic chemical treatments, and structural, design or any other defects other than such as may be mentioned in the Valuation Report.

C&W will not arrange for investigations to be made to determine whether any deleterious, hazardous or harmful materials (including but not limited to high alumina cement concrete or calcium chloride additive) have been used in the construction or any alterations, and therefore C&W will not be able to confirm that the Property is free from risk in this regard. For the purposes of the Valuation, C&W will make an Assumption that any such investigation would not reveal the presence of such materials in any adverse condition.

C&W will not carry out an asbestos inspection and will not act as an asbestos inspector in completing the valuation inspection of Property that may fall within the Control of the Asbestos at Work Regulations 2012. C&W will not make an enquiry of the duty holder (as defined in the Control of Asbestos of Work Regulations 2012), of an existence of an Asbestos Register or of any plan for the management of asbestos to be made. Where relevant, C&W will make an Assumption that there is a duty holder, as defined in the Control of Asbestos of Work Regulations 2012 and that a Register of Asbestos and Effective Management Plan is in place, which does not require any immediate expenditure, or pose a significant risk to health, or breach the HSE regulations. C&W recommends that such enquiries be undertaken by the Client's legal advisers during normal pre-contract or pre-loan enquiries.

No mining, geological or other investigations will be undertaken by C&W to certify that the sites are free from any defect as to foundations. C&W will make an Assumption that all buildings have been constructed having appropriate regard to existing ground conditions or that these would have no unusual or adverse effect on building costs, property values or viability of any development or existing buildings. C&W will make the Assumptions that there are no services on, or crossing the site in a position which would inhibit development or make it unduly expensive, and that the site has no archaeological significance, which might adversely affect the present or future occupation, development or value of the Property.

No tests will be carried out by C&W as to electrical, electronic, heating, plant and machinery equipment or any other services nor will the drains be tested. However, C&W will make an Assumption that all building services (including, but not limited to lifts, electrical, electronic, gas, plumbing, heating, drainage, sprinklers, ventilation, air conditioning and security systems) and property services (such as incoming mains, waste, drains, utility supplies etc.) are in good working order and without any defect whatsoever.

## 9. Statutory Requirements and Planning

Save as disclosed in a Certificate of Title, or unless otherwise advised, C&W shall make the Assumption that all of the buildings have been constructed in full compliance with valid town planning and building regulations approvals and that where necessary, they have the benefit of current Fire Risk Assessments compliant with the requirements of the Regulatory Reform (Fire Safety) Order 2005. Similarly, C&W shall also make the Assumption that the Property is not subject to any outstanding statutory notices as to construction, use or occupation and that all existing uses of the Property are duly authorised or established and that no adverse planning conditions or restrictions apply.

C&W shall make the Assumption that the Property complies with all relevant statutory requirements.

Where the Property is a trading entity C&W shall make the Assumption that all of the necessary licences, registrations and permits required for its ongoing operation are in place and valid unless expressly stated otherwise.

Energy Performance Certificates ("**EPC**") must be made available for all properties, when bought or sold, subject to certain exemptions. If the Property is not exempt from the requirements of this Directive C&W shall make an Assumption that an EPC is made available, free of charge, to a purchaser of all the interests which are the subject of the Valuation.

In addition, in England and Wales the Minimum Energy Efficiency Standards Regulations are effective from 1 April 2018. The regulations prohibit the granting of a new tenancy or lease renewal of privately rented residential or business premises which do not have an Energy Performance Certificate (EPC) rating of 'E' or above. C&W will ask the Client or its advisors for information relating to the EPC ratings of the Property if the Property is not exempt from these requirements. In any instance where C&W is not provided with an up to date EPC rating C&W will make the Assumption that the subject property meets the minimum requirements to enable it to be let.

In Scotland, the Energy Performance of Non-Domestic Buildings (Scotland) Regulation 2016 (the "**Regulation**") requires that qualifying properties have an energy assessment completed and an action plan prepared prior to sale or leasing. If the Property is not exempt from the requirements of the Regulation C&W shall make an Assumption that an energy assessment and action plan is made available, free of charge, to a purchaser of the interests which are the subject of the Valuation and that there is no capital expenditure required in order to comply with the requirements of the Regulation.

In any instance where C&W is to value Property with the benefit of a recently granted planning consent, or on the Special Assumption that planning consent is granted, C&W will make an Assumption that it will not be challenged under Judicial Review. Such a challenge can be brought by anyone (even those with only a tenuous connection with the Property, or the area in which it is located) within a period of three months of the granting of a planning consent. When a planning consent is granted subject to a Section 106 Agreement, the three month period commences when the Section 106 Agreement is signed by all parties.

If a planning consent is subject to Judicial Review, the Client must inform C&W and request C&W to reconsider its opinion of value. Advice would be required from the Client's legal advisers and a town planner, to obtain their opinion of the potential

outcomes of such a Judicial Review, which C&W will reflect in its reconsideration of value.

## 10. Information

Notwithstanding the Terms of Business, C&W will make an Assumption that the information provided by the Client and/or its professional advisers and/or by the Borrower and/or its professional advisers in respect of the Property to be valued is both full and correct. C&W will make an Assumption that details of all matters relevant to value within their collective knowledge, including but not limited to matters such as prospective lettings, rent reviews, outstanding requirements under legislation and planning decisions, have been made available to it, and that such information is up to date.

If the Valuation is required for the purpose of purchase, loan security or other financial transaction, the Client accepts that full investigation of the legal title and any leases is the responsibility of its legal advisers.

Where comparable evidence is included in the Valuation Report, this information is often based on C&W's verbal enquiries and its accuracy cannot always be assured, or may be subject to undertakings as to confidentiality. However, such information would only be referred to where C&W had reason to believe its general accuracy or where it was in accordance with expectation. It is unlikely that C&W will have inspected comparable properties.

## 11. Landlord and Tenant Act 1987

The Landlord and Tenant Act 1987 (the "**Act**") gives certain rights to defined residential tenants to acquire the freehold/head leasehold interest in a building where more than 50% of the floor space is in residential use. Where this is applicable, C&W will make an Assumption that necessary notices have been given to the residential tenants under the provisions of the Act, and that such tenants have elected not to acquire the freehold or head leasehold interest, and therefore disposal into the open market is unrestricted.

## 12. Leasehold Reform Housing and Urban Development Act 1993 and Leasehold Reform Act 1967

If C&W value the freehold or leasehold interest in either blocks of flats or in houses, the following will apply. The Leasehold Reform Housing and Urban Development Act 1993, as amended by the Commonhold and Leasehold Reform Act 2002, or The Leasehold Reform Act 1967 (collectively the "**Act**") give certain rights to residential tenants to acquire either the freehold/leasehold interest in any building which qualifies under the Act, or the right to lease extension. If this is applicable, C&W shall make an Assumption that no residential tenants have elected under the provisions of that Act to acquire the freehold or head leasehold interests, nor have they elected to acquire a lease extension, unless the Client and/or its advisers specifically inform C&W to the contrary.

## 13. Properties to be Developed or in the Course of Development or Requiring Repair / Refurbishment and Recently Completed Developments

Where C&W undertake a Valuation of the completed Property this will be based on an Assumption that all works of construction have been satisfactorily carried out in accordance with the building contract and specification, current British Standards and any relevant codes of practice. C&W will also make an Assumption that a duty of care and all appropriate warranties will be available from the professional team and contractors, which will be assignable to third parties.

	<p><b>14. Trade Related Property</b></p> <p>The valuation approach for a trade related property as a fully equipped operational entity necessarily requires an Assumption that on the sale or letting of the property the trade inventory, licences etc required to continue trading are available. C&amp;W's valuation will be provided on this basis unless agreed to the contrary and referred to as appropriate within our Valuation Report.</p>
<p><b>Information requested from Client:</b></p>	<p><b>a. Loan Details</b> Not applicable.</p> <p><b>b. Further Information Required</b> None</p>

## Appendix 1 - Property Schedule

PROPERTY	INTEREST	PROPERTY TYPE
Fairchild House, 21 Southampton Street, Southampton, SO15 2ED	Freehold	Student Accommodation

## Appendix 2 - Definitions Schedule

### 1. Bases of Valuation:

<b>Market Value</b>	<p>Market Value as referred to in VPS4, Item 4 of the current edition of the RICS Valuation - Global Standards which incorporate the International Valuation Standards ("<b>IVS</b>") and the RICS UK Valuation Standards (the "<b>RICS Red Book</b>"), and applying the conceptual framework which is set out in IVS104:</p> <p><i>"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"</i></p>
<b>Fair Value - IFRS</b>	<p>Fair Value is referred to in VPS4 Item 7 of the RICS Red Book. Under these provisions, the term Fair Value means the definition adopted by the International Accounting Standards Board ("<b>IASB</b>") in IFRS 13, the term "<b>Fair Value</b>" means:</p> <p><i>"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".</i></p>
<b>Fair Value – UK GAAP</b>	<p>Fair Value in accordance with RICS UK Valuation Standard ("<b>UKVS</b>") 1. Under these provisions, the term "<b>Fair Value</b>" means:</p> <p><i>"The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction."</i></p>
<b>Market Rent</b>	<p>Market Rent as referred to in VPS 4 Item 5 of the RICS Red Book. Under VPS 4 Item 5 the term "<b>Market Rent</b>" is defined in IVS104 as: "The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".</p> <p>Whenever Market Rent is provided the "appropriate lease terms" which it reflects should also be stated.</p> <p>The commentary from VPS4 Item 5 of the RICS Red Book is reproduced below:</p> <p><i>"5.1 <b>Market rent</b> will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect current practice in the market in which the property is situated, although for certain purposes unusual terms may need to be stipulated. Matters such as the duration of the lease, the frequency of rent reviews and the responsibilities of the parties for maintenance and outgoings will all impact the <b>market rent</b>. In certain countries or states, statutory factors may either restrict the terms that may be agreed, or influence the impact of terms in the contract. These need to be taken into account where appropriate.</i></p>



	<p>5.2. <b>Market rent</b> will normally be used to indicate the amount for which a vacant property may be let, or for which a let property be may re-let when the existing lease terminates. <b>Market rent</b> is not a suitable basis for settling the amount of rent payable under a rent review provision in a lease, where the definitions and assumptions specified in the lease have to be used.</p> <p>5.3 Valuers must therefore take care to set out clearly the principal lease terms that are assumed when providing an opinion of <b>market rent</b>. If it is the market norm for lettings to include a payment or concession by one party to the other as an incentive to enter into a lease, and this is reflected in the general level of rents agreed, the <b>market rent</b> should also be expressed on this basis. The nature of the incentive assumed must be stated by the valuer, along with the assumed lease terms."</p>
<b>Existing Use Value</b>	<p>Existing Use Value as defined in RICS UK Valuation Standard ("UKVS") 1. Under UKVS 1, the term "<b>Existing Use Value</b>" is defined as follows:</p> <p><i>"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 where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost"</i>.</p>
<b>Projected Market Value of residential property</b>	<p>Projected Market Value (PMV) as defined in RICS UK Valuation Standard ("UKVS") 3.3. Under UKVS 3.3 the term "Projected Market Value" means: "The estimated amount for which an asset is expected to exchange at a date, after the valuation date and specified by the valuer, 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."</p> <p>The commentary from the RICS Red Book is reproduced below:</p> <p><i>"1. The date specified by the valuer must be stated clearly whenever a PMV is provided. It should reflect the period that the valuer considers will be necessary for adequate marketing and the completion of negotiations.</i></p> <p><i>2. This basis should be used to provide clients with an estimated valuation in respect of a future exchange, assuming that marketing begins on the date that the valuation is prepared.</i></p> <p><i>3. The definition of PMV is based on market value, save for the stipulation that the valuer's estimate should reflect what the amount is forecast to be at a future, specified date. The IVS Framework, paragraphs 30-35, should therefore apply, with the exception that the phrase 'on the valuation date' is modified as follows:</i></p> <p><b><i>'... at a date, after the valuation date and specified by the valuer ...'</i></b></p> <p><i>The valuation date is the date on which the estimate is given, but represents the valuer's opinion of anticipated market changes during the period up to the specified</i></p>

	<p><i>date. It reflects facts, market sentiment and public forecasts existing at the valuation date. The PMV is therefore time-specific, as of a given date and, because markets and market conditions may change, may be incorrect or inappropriate at another time. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise occur.</i></p> <p>4. <i>PMV is designed to provide residential mortgage lenders with a simple numeric indication of the valuer's opinion of short-term market trends, and it must be used only for this purpose. It recognises that most reports for this purpose are based on a simple pro-forma, and that the degree of market analysis and commentary required in commercial lending situations is inappropriate.</i></p> <p>5. <i>The purpose of PMV is simply to illustrate the valuer's opinion of whether the market is likely to fall, rise or remain static in the period that it is anticipated will be necessary to complete the sale. Values can change rapidly due to unpredictable events, thus an earlier provision of a PMV is not a substitute for a current market value."</i></p>
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## 2. Special Assumptions:

<b>Special Assumptions</b>	The Glossary of the RICS Red Book states that an Assumption " <i>that either assumes facts that differ from the actual facts existing at the valuation date, or that would not be made by a typical market participant in a transaction on the valuation date</i> " is a Special Assumption.
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## 3. Trade Related Property:

<b>Valuation Practice Guidance Application 4</b>	VPGA4 defines certain terms in accordance with the valuation of trade related property. The definitions are referred to below:
<b>Adjusted Net Profit</b>	This is the valuer's assessment of the actual net profit of a currently trading operational entity. It is the net profit that is shown from the accounts once adjustments for abnormal and non-recurring expenditure, finance costs and depreciation relating to the property itself, as well as rent where appropriate, have been made. It relates to the existing operational entity and gives the valuer guidance when assessing the fair maintainable operating profit (FMOP).
<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>	This term relates to the actual operating entity and may be different from the valuer's estimated FMOP.
<b>Fair maintainable operating profit (FMOP)</b>	This is the level of profit, stated prior to depreciation and finance costs relating to the asset itself (and rent if leasehold), that the reasonably efficient operator (REO) would expect to derive from the fair maintainable turnover (FMT) based on an assessment of the market's perception of the potential earnings of the property. It should reflect all costs and outgoings of the REO, as well as an appropriate annual allowance for periodic expenditure, such as decoration, refurbishment and renewal of the trade inventory.

<b>Fair maintainable turnover (FMT)</b>	This is the level of trade than a REO would expect to achieve on the assumption that the property is properly equipped, repaired, maintained and decorated.
<b>Market Rent</b>	This is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. Whenever market rent is provided the 'appropriate lease terms' that it reflects should also be stated.
<b>Market Value</b>	This is 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.
<b>Operational entity</b>	<p>An operational entity usually includes:</p> <ul style="list-style-type: none"> <li>• the legal interest in the land and buildings</li> <li>• the trade inventory, usually comprising all trade fixtures, fittings, furnishings and equipment, and</li> <li>• the market's perception of the trading potential, together with an assumed ability to obtain/renew existing licences, consents, certificates and permits</li> </ul> <p>Consumables and stock in trade are normally excluded.</p>
<b>Personal goodwill (of the current operator)</b>	This is the value of profit generated over and above market expectations that would be extinguished upon sale of the trade related property, together with financial factors related specifically to the current operator of the business, such as taxation, depreciation policy, borrowing costs and the capital invested in the business.
<b>Reasonably efficient operator (REO)</b>	This is a concept where the valuer assumes that the market participants are competent operators, acting in an efficient manner, of a business conducted on the premises. It involves estimating the trading potential rather than adopting the actual level of trade under the existing ownership, and it excludes personal goodwill.
<b>Tenant's capital</b>	This may include, for example, all consumables, purchase of the inventory, stock and working capital.
<b>Trade related property</b>	This is any type of real property designed for a specific type of business where the property value reflects the trading potential for that business.
<b>Trading potential</b>	This is the future profit, in the context of a valuation of the property, which an REO would expect to be able to realise from occupation of the property. This could be above or below the recent trading history of the property. It reflects a range of factors (such as the location, design and character, level of adaptation and trading history of the property within the market conditions prevailing) that are inherent to the property asset.

## 1. Client Engagement

- 1.1 The Client appoints C&W to provide services on these Terms of Business and the terms set out in the Engagement Letter. Each Engagement Letter forms a discrete contract incorporating the latest version of these Terms of Business that have been provided to the Client (together an/the "**Engagement**").
- 1.2 The entire scope of the services to be provided as part of an Engagement ("**Services**") is set out in the Engagement Letter. Nothing shall bind C&W to perform any role or function other than as is documented in the Engagement Letter.
- 1.3 The Client shall provide all necessary co-operation to enable each member of the C&W Group to discharge its obligations in respect of all Applicable Laws, particularly those pertaining to 'know your client', anti-money laundering and the prevention of other financial crimes, and data protection.
- 1.4 C&W may sometimes require input from third parties to perform all or part of the Services. Where C&W intends to subcontract to a third party, C&W will seek the Client's consent before so subcontracting. The Client consents to the use of other members of the C&W Group and C&W Affiliates to provide all or part of the Services, and no further notification need be given in relation to such use. Except where C&W contracts third parties directly (otherwise than as the Client's agent), C&W shall not be responsible for supervising or monitoring the performance of third parties.

## 2. Definitions and Interpretation

- 2.1 In an Engagement the following terms shall have the following meanings:

**"Applicable Law"** means all applicable laws, regulations, regulatory requirements and codes of practice of any relevant jurisdiction, as amended and in force from time to time;

**"C&W"** means the member of the C&W Group that is a party to the Engagement Letter;

**"C&W Affiliate"** means a third party licenced by a member of the C&W Group to trade using the Cushman & Wakefield brand;

**"C&W Group"** means DTZ Worldwide Limited (company number 9073572) and any of its subsidiaries (within the meaning of section 1159 of the Companies Act 2006);

**"C&W Materials"** means all those materials owned by C&W and its licensors, and all Intellectual Property Rights owned by C&W and its licensors, whether before or after the date of the Engagement, but excluding the Service Materials;

**"Client"** means the addressee(s) of the Engagement Letter and excludes any third party who pays or may be responsible for paying any part of the Fees;

**"Client Materials"** means all those materials owned by the Client and its licensors, and all Intellectual Property Rights owned by the Client and its licensors, but excluding the Service Materials;

**"Document"** means any research, data or report provided by C&W as part of the Services;

**"Engagement Letter"** means the letter issued by C&W to the Client and identified as the engagement letter, which shall set out particular Services to be provided by C&W together with other terms and conditions that shall form part of the Engagement. Where the context permits, documents cross referenced and/or attached to the Engagement Letter shall form part of it;

**"Fees"** means the amounts specified as payable in the Engagement Letter, or otherwise calculated in accordance with the Engagement Letter;

**"Intellectual Property Rights"** means patents, trade marks, design rights, applications for any of the foregoing, copyright, database rights, trade or business names, domain names, website addresses, whether registrable or otherwise, (including applications for and the right to apply for registration of any such rights), know how, methodologies, and any similar rights in any country whether currently existing or created in the future, in each case for their full term, together with any renewals or extensions;

**"Relief Event"** means:

- (a) any delay or failure by the Client or a person acting on its behalf to perform any obligation of the Client under an Engagement;
- (b) the failure of any assumption set out in the Engagement Letter; and
- (c) any other event specified in the Engagement Letter;

**"RICS"** means the Royal Institution of Chartered Surveyors;

**"Services"** means the services to be provided to the Client by C&W as part of the Engagement, as specified in the Engagement Letter;

**"Service Materials"** means all those works, and all Intellectual Property Rights in works, that are created, provided, or which arise exclusively in the course of the provision of the Services to the Client;

**"Terms of Business"** means the terms set out in this document; and

**"Value Added Tax"** means value added tax as provided for in the Value Added Taxes Act 1994 and subordinated legislation made under it, or any similar sales or turnover tax in any jurisdiction.

- 2.2 Unless the context otherwise requires or the contrary intention appears, any reference to an enactment includes that enactment as amended or replaced, together with any subordinate legislation made under that or any other applicable enactment; and any reference to an English legal term includes, in respect of any jurisdiction other than England, a reference to what most nearly approximates in that jurisdiction to the English legal term.

- 2.3 Other than for notices to be given, references to "written" or "in writing" include e-mail. The words "including" and "in particular" and any similar words or expressions are by way of illustration and emphasis only and do not operate to limit the generality or extent of any other words or expressions. The words "subsidiary" and "holding company" have the meanings given in Section 1159 of the Companies Act 2006 (and Clause 2.2 shall not apply in relation to this sentence). The headings in these Terms of Business are for convenience only and do not affect their interpretation.

## 3. Fees, Expenses and Payments

### Fees

- 3.1 In consideration of the provision of the Services, the Client shall pay the Fees. The Fees, or the method of calculating them, shall be as set out in the Engagement Letter.
- 3.2 Fees stated shall be exclusive of Value Added Tax which, where applicable, shall be charged to the Client at the prevailing rate. The Client agrees to pay to C&W any Value Added Tax in relation to the provision of the Services

provided that C&W has supplied a valid tax invoice as required by Applicable Law.

## Expenses

- 3.3 The Client shall reimburse all out of pocket expenses and disbursements properly incurred by or on behalf of C&W in the performance of the Services ("**Expenses**") up to five hundred pounds (£500) per quarter. Before incurring any Expenses that would result in that limit being exceeded, C&W shall seek the Client's consent, in which case those further Expenses shall also be payable. Expenses may be invoiced at the same time as the Fees, or quarterly in arrears, at C&W's discretion.
- 3.4 The Client shall reimburse all marketing costs which shall, where relevant, be handled as follows:
- (a) C&W will inform the Client of any marketing costs proposed to be incurred on its behalf. C&W will provide cost estimates for any initial marketing campaign in the Engagement Letter, and further proposals if additional marketing is required.
  - (b) Cost estimates will be best estimates or based on actual quotations from suppliers. Final costs may differ from estimates provided. Advertising and printing rates provided will be from the publishers' rate cards current at the date of the marketing proposals. The Client shall pay any additional sum charged by the suppliers for the correction of mistakes in artwork or other advertising material not caused by the suppliers. The individual printer or supplier's terms will apply to all Client work placed with it. All costs are gross and C&W will retain the usual trade discounts offered by newspapers, periodicals or other media suppliers.
  - (c) The Client shall instruct all suppliers directly. In the event that C&W agrees to instruct any such supplier, C&W may require advance payment of anticipated costs to be incurred on the Client's behalf. Where the sum paid on account exceeds the actual costs incurred, such excess shall be repaid to the Client without interest once all invoices and accounts have been finalised and settled. Where the marketing costs exceed the sum paid, the Client shall pay the amount of any difference to C&W immediately on request.
  - (d) The Client shall reimburse all marketing costs incurred on its behalf as and when the costs are incurred, irrespective of completion of the transaction to which the Services relate.

## Payment

- 3.5 C&W's invoices are payable from the date of each invoice, and are due for payment within fourteen (14) days. C&W may charge the Client interest on any amounts due but which have not been paid within this period (whether before or after judgment) at three percent (3%) per annum above the Bank of England base rate from time to time. Interest shall run from the date of the invoice until all outstanding sums have been paid in full in cleared funds.
- 3.6 The Client shall pay all sums by electronic bank transfer to the C&W bank account detailed in an invoice. C&W is unable to accept payment by cash or cheque.
- 3.7 The Client shall pay all sums payable to C&W in relation to the Engagement without set-off and free of any deduction.
- 3.8 If the Client is required by Applicable Law to make any deduction from any payment then it shall increase such

payment to ensure that C&W receives the same amount as it would have received if no deduction were required.

- 3.9 C&W may require payments to be made on account before commencing or completing all or part of the Services. In specifying on-account payments C&W may have regard to the nature and context of Services to be performed, and the likely timing and amounts of Expenses to be incurred.
- 3.10 C&W may, by giving written notice to the Client, suspend Service provision if any sum is not paid to C&W within the period specified in Clause 3.5, until all outstanding sums have been paid in full in cleared funds.
- 3.11 After completing an Engagement, C&W shall be entitled to keep any Client materials held by it while sums payable to it by the Client remain outstanding.
- 3.12 C&W may search the Client's record at credit reference agencies for the purposes of verifying the Client's identity and to assess whether the Client is able to fulfil its payment obligations in relation to the Engagement.

## Client Monies

- 3.13 C&W handles client monies in accordance with RICS rules and regulations.

## **4. Client Obligations**

- 4.1 The Client shall, as soon as reasonably practicable following a request, provide all information, assistance, approvals, and consents reasonably requested by C&W in relation to the performance of C&W's obligations in connection with the Engagement. The Client shall ensure that all information provided by or on behalf of the Client shall be complete and accurate in all material respects, and notify C&W as soon as reasonably possible on becoming aware that any information is incomplete, inaccurate or misleading.
- 4.2 The Client acknowledges that C&W:
- (a) is entitled to rely upon the completeness, accuracy, sufficiency and consistency of any information supplied to it by or on behalf of the Client; and
  - (b) shall have no liability for any inaccuracies contained in any information provided by or on behalf of the Client unless otherwise stated.
- 4.3 All estimations made by C&W are based on depth and quality of information provided by the Client and the Client shall not be entitled to assume that C&W has performed an inspection. The Client must take this into account in relation to all figures, calculations, and advice.
- 4.4 The Client shall check and confirm the accuracy and completeness of any property particulars prepared by C&W, and shall confirm that they are not misleading. The Client undertakes to notify C&W immediately if any particulars are or become inaccurate or incomplete.
- ## **5. Measurements**
- 5.1 Where C&W is required to measure a property, it will do so in accordance with applicable measuring practices relevant to the property. If the Client requires C&W to adopt a particular measuring practice, it shall specify the same in writing before work starts. The Client acknowledges that the floor areas contained in any Document are approximate and if measured by C&W will be within a two percent (2%) tolerance either way. In cases where the configuration of the floor plate is unusually irregular or obstructed, this tolerance may be exceeded.
- 5.2 C&W is unable to measure areas to which it does not have access, in which cases floor area may be estimated from

plans or by extrapolation. Where land or site areas are measured, all areas will be approximate and will be measured from plans supplied or Ordnance Survey plans, rather than being checked on site.

## 6. Confidentiality

6.1 The Client consents to C&W announcing that it is providing or has provided the Services to the Client and using the Client's name in publicity. However, C&W shall not publish any details of any proposed or actual transaction (other than those which are publicly available) without prior consent, such consent not to be unreasonably withheld or delayed.

6.2 The Client shall keep confidential and not disclose to any other person (whether before or after termination or expiry of the Engagement):

- (a) any information received by it in respect of the methodologies and/or technologies used by C&W in providing the Services;
- (b) the details of the terms on which C&W provides the Services; and
- (c) any other information in respect of C&W's business activities which is not publicly available.

6.3 C&W shall, during the period commencing on the date of the Engagement and ending two (2) years following the earlier of the termination or completion of the Services, keep confidential and not disclose to any other person (whether before or after termination or expiry of the Engagement) any information in respect of the Client's business activities which comes into its possession as a consequence of C&W providing the Services and which is not publicly available.

6.4 A party shall not breach this Clause 6 by disclosing information, to the extent reasonably necessary:

- (a) where required to do so by Applicable Law or order of the courts, or by any securities exchange or regulatory or governmental body to which such party is subject or submits, wherever situated (whether or not the requirement for information has the force of Applicable Law); or
- (b) to the professional advisers, insurers, auditors and bankers of such party.

6.5 C&W shall not breach this Clause 6 by disclosing information to members of the C&W Group or C&W Affiliates in connection with the Engagement.

## 7. Data Protection and Data Handling

### Data Protection

7.1 The Client appoints C&W as data processor in relation to personal data which C&W receives under or in connection with the performance of each Engagement and in respect of which the Client is a data controller.

7.2 In processing personal data pursuant to an Engagement, C&W shall:

- (a) unless otherwise requested by the Client, process personal data only to the extent, and in such manner, as is necessary for the provision of the Services;
- (b) ensure that appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data;

(c) not disclose or transfer personal data to any person other than where strictly necessary for the provision of the Services;

- (d) only cause or permit personal data to be transferred:
  - (i) to members of the C&W Group and C&W Affiliates;
  - (ii) to sub-contractors in accordance with Clause 1.4;
  - (iii) to suppliers or sub-contractors appointed by a member of the C&W Group to support C&W's business administration and infrastructure; or
  - (iv) to other sub-processors with the Client's prior consent (not to be unreasonably withheld or delayed),

and in all cases, only cause or permit personal data to be transferred outside the European Economic Area:

- (A) with the Client's prior consent (not to be unreasonably withheld or delayed); and
- (B) where the recipient benefits from a finding of adequacy of protection for personal data transferred from the European Union under article 25(6) of EU Directive 95/46/EC or has otherwise agreed European Union standard contractual clauses on data processing in countries outside the European Economic Area; and

(e) notify the Client without undue delay on becoming aware of a breach of data security which would be notifiable under applicable data protection law.

7.3 Where the Client is a public authority for the purposes of the Freedom of Information Act 2000 ("FOIA") as amended from time to time, the Client shall notify C&W of that fact at the start of the Engagement. The Client shall notify C&W within five (5) business days of receiving a request pursuant to the FOIA requesting information which relates to the business arrangements between C&W and the Client and/or any information C&W has provided to the Client at any time (whether or not in connection with the Engagement). In recognition of the fact that C&W may be providing the Client with confidential or commercially sensitive information, the Client agrees to consult with C&W and take into account C&W's views on all such requests, giving C&W reasonable notice to respond, before making any decision on whether any particular information should be disclosed.

7.4 The Client shall be responsible for C&W's reasonable and properly incurred charges in producing any documentation which the Client requires in order to comply with a request for disclosure under the FOIA. For the avoidance of doubt, the Client, not C&W, shall liaise with such third party.

### Data Handling

7.5 The Client shall use all reasonable procedures to seek to ensure that any materials provided to C&W in any electronic format are virus free, and shall be responsible for using appropriate firewalls and anti-virus software.

7.6 The Client authorises C&W to communicate with any person C&W reasonably requires in providing the Services. C&W may release to such person any information reasonably necessary to perform the Services and which it has obtained during the Engagement. C&W shall not be liable for any use made of that information.

- 7.7 C&W keeps its Engagement files for six (6) years after issue of C&W's final invoice. The Client consents to the deletion and destruction of all Engagement files upon the expiry of that period unless the Client has requested in writing the return of Client papers or documents during that period. C&W shall not be liable for any loss arising out of the destruction of documents occurring more than six (6) years after the date of final invoice.
- 8. Documents and Reliance**
- 8.1 C&W will take reasonable care in the preparation of any Document. Any opinions expressed in a Document constitute C&W's judgement, and data upon which this judgement is based are believed to be correct as at the date of the Documents (but may be subject to change during the life of the project and beyond and as new information becomes available). C&W reserves the right to change the underlying data, and its opinions, without prior notice in the light of revised market opinion and evidence, but shall not be required to update any Document already provided.
- 8.2 Subject to Clause 8.3, the provision of the Services is for the Client's benefit only and no part of any Document or advice produced by C&W for the Client shall be reproduced, transmitted, copied or disclosed to any third party without the prior written consent of C&W. C&W shall not be liable to any third party placing reliance upon any such Document or advice.
- 8.3 The Client may permit other persons to use C&W's Documents only with C&W's written consent and where such other persons have entered into a written agreement with C&W in relation to such use ("**Reliance Letter**"). C&W expressly disclaims any tortious duty of care (e.g., in negligence) to any third party in relation to any Document or advice provided in connection with an Engagement, and the Client shall not permit any person to rely upon such Document or advice unless that person has first entered into a Reliance Letter. Any limitation on C&W's liability set out in these Terms of Business or the Engagement Letter shall apply in aggregate to the Client and any party entering into a Reliance Letter.
- 8.4 Where the Client provides a copy of a Document to another person, or permits a person to rely upon a Document, the Client indemnifies and holds harmless C&W from and against any liability arising out of that person's use or reliance on that Document except where a Reliance Letter has been entered into by such person.
- 8.5 Where the Client acts on behalf of a syndicate or in relation to a securitisation, the Client agrees that it is not entitled to pursue any greater claim on behalf of any other person than it would have been entitled to pursue on its own behalf had there been no syndication or securitisation.
- 9. Service Quality**
- 9.1 In carrying out the Services, C&W shall exercise the reasonable care and skill to be generally expected of a competent provider of services similar in scope, nature and complexity to the Services.
- 9.2 In the event that the Client is dissatisfied with the provision of the Services by C&W it must refer such complaint in the first instance to the C&W representative named in the Engagement Letter in accordance with the provisions of C&W's complaints procedure current at the time of the complaint. C&W shall supply to the Client a copy of the complaints procedure upon the request of the Client.
- 9.3 No implied terms shall apply under and/or in connection with the Engagement, and no other express warranties are given - all such terms are expressly excluded to the extent permitted by Applicable Law.
- 9.4 C&W is certified as ISO9001:2008, ISO14001, and OHSAS18001 compliant.
- 10. Conflicts of Interest and Anti-Corruption**
- 10.1 C&W maintains conflict management procedures designed to govern actual or potential conflicts of interest. If the Client becomes aware of a possible conflict, it shall inform C&W immediately. If a conflict arises, then C&W will decide, taking account of legal constraints, relevant regulatory rules and the clients' interests and wishes, whether it can continue to act for both parties (e.g., through the use of ethical walls), for one only, or for neither. Where C&W does not believe that any potential or actual conflict can be managed appropriately and in accordance with C&W policy (available upon request), it will inform all clients affected and consult with them as soon as reasonably practicable as to the steps to take.
- 10.2 The Client acknowledges that C&W may earn commissions and referral fees, and may charge handling fees connected to the services that it performs, and agrees that C&W shall be entitled to retain them without specific disclosure. C&W will not accept any commissions or referral fees in circumstances where it is of the reasonable belief that they would compromise the independence of any advice that it provides.
- 10.3 It is not C&W policy to provide any services for financial gain either directly or through connected persons, to a prospective purchaser or tenant in respect of a property for which C&W is instructed as agents by the seller/owner, until unconditional contracts have been exchanged. C&W will notify the Client if it is instructed by a prospective purchaser or tenant to provide such services where the Client is the seller/owner.
- 10.4 C&W and the Client each confirms that it will not, and will procure that its employees will not, knowingly engage in any activity which would constitute a breach of applicable Anti-Bribery & Corruption Laws. C&W confirms that it has in place a compliance and training programme designed to ensure compliance with the terms of applicable Anti-Bribery & Corruption Laws.
- 10.5 For the purposes of this Clause 10, "**Anti-Bribery & Corruption Laws**" means the Bribery Act 2010, the US Foreign Corrupt Practices Act 1977 and any other applicable legislation prohibiting bribery and corruption involving public or private persons.
- 11. Liability and Insurance**
- 11.1 Notwithstanding any contrary provision, neither party limits or excludes its liability in respect of:
- any death or personal injury caused by its negligence;
  - any fraud or fraudulent misrepresentation; or
  - any statutory or other liability which cannot be limited or excluded under Applicable Law.
- 11.2 C&W shall not be liable for any:
- indirect or consequential loss (even where the parties are aware of the possibility of any such loss at the date of the Engagement);
  - loss of profits or revenue of the Client generally;
  - loss of goodwill, reputation or opportunity;
  - loss of or corruption of data, or loss resulting from the Client's receipt of information, data, or

- communications supplied or sent by C&W electronically;
- (e) pure economic loss suffered by the Client or persons other than the Client, arising out of a tortious duty of care (e.g., in negligence) or otherwise;
  - (f) acts or omissions of third parties (other than where contracted directly by C&W otherwise than as the Client's agent); or
  - (g) delay caused by its duty to comply with legal and regulatory requirements (such as anti-money laundering checks),
- in each case arising out of or in connection with an Engagement or any breach or non-performance of it no matter how fundamental (including by reason of negligence or breach of statutory duty). The parties agree that each of sub-clauses (a) to (g) (inclusive) above are separate terms and are intended to be severable.
- 11.3 C&W's total aggregate liability arising under or in connection with an Engagement or any breach or non-performance no matter how fundamental (including by reason of negligence or breach of statutory duty) in contract, tort or otherwise shall be limited in all circumstances to an amount equal to the lesser of:
- (a) five (5) times the Fees paid or payable by or on behalf of the Client to C&W in relation to the Engagement; or
  - (b) two million pounds sterling (£2,000,000).
- 11.4 Subject always to Clauses 11.2 and 11.3, where an Engagement involves C&W being appointed as part of a project team, liability for loss and/or damage arising under or in connection with the Engagement shall be limited to that proportion of the Client's loss and/or damage which it would be just and equitable to require C&W to pay having regard to the extent of C&W's responsibility for the same and on the basis that:
- (a) all other Client consultants and contractors shall be deemed to have provided contractual undertakings, on terms no less onerous than those set out in the Engagement, to the Client in respect of the performance of their services in connection with the project;
  - (b) there are no exclusions of or limitation of liability nor joint insurance or co-insurance provisions between the Client and any other party referred to above; and
  - (c) they shall be deemed to have paid to the Client such proportion which would be just and equitable for them to pay having regard to the extent of their responsibility.
- 11.5 No actions or proceedings arising under or in respect of the Engagement or documents signed in connection with it shall be commenced against C&W after six (6) years after the date of the final invoice in relation to the Engagement.
- 11.6 C&W shall effect and maintain, during the Engagement and for a period of six (6) years after issue of C&W's final invoice, professional indemnity insurance with a limit of indemnity of £10million provided always that such insurance remains available at commercially reasonable rates, together with such other insurance as is required to be maintained in accordance with Applicable Law.
- 11.7 Further to Clause 1.2, nothing appoints or obliges C&W to act as an External Valuer as defined under the Alternative Investment Fund Managers Directive ("AIFMD") legislation, or its equivalent under local law. C&W expressly disclaims any responsibility or obligations under AIFMD and/or its equivalent unless expressly agreed in writing by C&W. Where C&W provides valuation advice to an entity that falls within the scope of AIFMD ("Fund"), its role will be limited solely to providing valuations of property assets held by the Fund. Responsibility for the valuation function for the Fund and the setting of the net asset value of the Fund will remain with others. C&W's Document will be addressed to the Fund for internal purposes and third parties may not rely on it. C&W's aggregate liability howsoever arising out of such instruction is limited in accordance with these Terms of Business.
- 11.8 C&W shall not be responsible for the management of any property the subject of an Engagement, and shall have no other responsibility (such as for maintenance or repair) in relation to nor shall C&W be liable for any damage occurring to any such property.
- ## 12. Termination
- 12.1 Either party may terminate the Engagement at any time on not less than thirty (30) days written notice, for convenience without cause.
- 12.2 Either party may terminate the Engagement at any time on written notice, either immediately or following such notice period as it shall see fit if the other party:
- (a) is in material breach of the Engagement, and such breach is irremediable;
  - (b) commits any remediable material breach of the Engagement and fails to remedy such breach within a period of thirty (30) days from the service on it of a notice specifying the material breach and requiring it to be remedied (or, having so remedied, subsequently commits a similar breach within the next thirty (30) days); or
  - (c) ceases or threatens to cease to carry on business, is found unable to pay its debts within the meaning of the Insolvency Act 1986 section 123, has an administrator, receiver, administrative receiver or manager appointed over the whole or any part of its assets, enters any composition with creditors generally, or has an order made or resolution passed for it to be wound up (otherwise than in furtherance of any scheme for solvent amalgamation or solvent reconstruction) or undergoes any similar or equivalent process in any jurisdiction.
- 12.3 C&W may terminate the Engagement immediately upon written notice if the Client has failed to pay an invoice within thirty (30) days of the date of such invoice.
- 12.4 On termination of the Engagement, the Client shall pay to C&W:
- (a) Fees for the Services it has performed (on a pro rata basis having regard to the Fees payable for the completion of the Engagement, the expected duration of the entire Engagement and the Services performed prior to termination, unless otherwise specified);
  - (b) any Expenses properly incurred in accordance with Clause 3.3, and marketing costs incurred in accordance with Clause 3.4, on or before the effective date of the termination; and
  - (c) where the right is exercised by the Client, any additional sums set out in the Engagement Letter as being payable upon termination.



- 12.5 If a party, acting in good faith, exercises a right of termination, its subsequent failure or refusal to perform all or any of its current or future obligations in connection with an Engagement shall not be a breach of an Engagement (whether repudiatory or otherwise).
- 13. Intellectual Property**
- 13.1 All Service Materials shall vest in the Client on creation. C&W hereby assigns the Service Materials to the Client together with the right to sue for and recover damages or other relief in respect of the infringement of any Service Materials by a third party. In relation to future copyright, this shall take effect as a present assignment of future rights.
- 13.2 The Client grants to C&W a worldwide, fully paid-up, non-exclusive, transferable (to a member of the C&W Group) licence to use, copy and modify the Client Materials and Service Materials to the extent necessary and for the purpose of providing the Services to the Client and performing its other obligations in relation to an Engagement.
- 13.3 C&W and its licensors shall retain all right, title and interest in and to the C&W Materials. The Client and its licensors shall retain all right, title and interest in and to the Client Materials.
- 14. Non-Solicitation**
- 14.1 Neither party shall (except with the other party's prior written consent) directly or indirectly solicit or entice away (or attempt to solicit or entice away) from the employment of the other, any employee or contractor working on an Engagement, and shall not offer employment to any employee working on an Engagement, for a period of six (6) months following the end of any involvement by that person with an Engagement. This shall not prohibit a party from offering employment to an employee or contractor of the other who has responded to an advertising campaign open to all comers and not specifically targeted at any of its employees or contractors.
- 14.2 In the event that a party breaches Clause 14.1, the other party shall be entitled to be paid compensation of six (6) months' salary or fees of the employee or contractor concerned. The parties agree that this is a genuine pre-estimate of loss taking into account the cost of recruitment and training of staff, and is agreed on a commercial basis between the parties.
- 15. Notices**
- 15.1 Any notice or other information to be given by either party to the other under the terms of an Engagement shall be given by:
- (a) delivering it by hand; or
  - (b) sending it by pre-paid registered post,
- to the other party at the address given in Clause 15.3.
- 15.2 Any notice or information sent by post in the manner provided by Clause 15.1(b) which is not returned to the sender as undelivered shall be deemed to have been given on the second day after it was so posted; and proof that the notice or information was properly addressed, pre-paid, registered and posted, and that it has not been returned to the sender, shall be sufficient evidence that the notice or information has been duly given.
- 15.3 The address of either party for service for the purposes of this Clause 15 (but excluding legal proceedings) shall be that of its registered or principal office, or such other address as it may last have notified to the other party in writing from time to time. Notices to C&W must be addressed to EMEA General Counsel to be valid.
- 16. No Waiver, Partnership or Joint Venture**
- 16.1 No waiver of any right in connection with an Engagement (including rights to sue for breach) shall operate or be construed as a waiver of any other or further right whether of a like or different character, or be effective unless in writing duly executed by an authorised representative of the affected party. The failure to insist upon the performance of the terms, conditions and provisions of the Engagement, or time or other indulgence granted by one party to another, shall not act as a waiver of any breach, as acceptance of any variation, or as the relinquishment of any right in connection with the Engagement, which shall remain in full force and effect.
- 16.2 Each right or remedy of a party to an Engagement is without prejudice to any other right or remedy of that party.
- 16.3 The Engagement shall not be interpreted or construed to create an association, joint venture or partnership between the parties, or to impose any partnership obligation or liability upon either party.
- 17. Force Majeure and Relief**
- 17.1 If either party is prevented or hindered from performing any of its obligations in connection with an Engagement by reason of circumstances outside its reasonable control, that party ("**Claiming Party**") shall as soon as reasonably possible serve notice in writing on the other party specifying the nature and extent of the circumstances preventing or hindering it from performing its obligations.
- 17.2 Subject to the Claiming Party serving notice in accordance with Clause 17.1, the Claiming Party shall have no liability in respect of any delay in performance or any non-performance of any such obligation (save for any payment obligation which shall continue in full force and effect), and the time for performance shall be extended accordingly to the extent that the delay or non-performance is due to such circumstances.
- 17.3 The Client agrees that C&W shall be excused from its failure to perform or delay in performing any affected obligation in connection with the Engagement to the extent that such failure results from a Relief Event. C&W shall be entitled to a reasonable extension of time in relation to any affected obligation, and to recover reasonable additional costs incurred by it, as a result of a Relief Event.
- 18. Illegality/Severance**
- If any provision is declared by any competent court or body to be illegal, invalid or unenforceable under the law of any jurisdiction, or if any enactment is passed that renders any provision illegal, invalid or unenforceable under the law of any jurisdiction, this shall not affect or impair the legality, validity or enforceability of the remaining provisions relating to an Engagement, nor the legality, validity or enforceability of such provision under the law of any other jurisdiction.
- 19. Assignment and Novation**
- 19.1 Neither party may at any time, without the prior written consent of the other party, assign all or any part of its rights and/or obligations relating to an Engagement. Notwithstanding the previous sentence, C&W may assign/novate (as applicable) all or any part of its rights and/or obligations in connection with an Engagement to any other member of the C&W Group, without the Client's prior written consent.
- 19.2 Each Engagement shall inure to the benefit of, and be binding upon, the parties' successors and permitted assignees.

## 20. Further Assurance

Each party shall at all times from the date of the Engagement Letter, on being required to do so, at its own expense do or use reasonable endeavours to procure the doing by any necessary third parties of all such acts as may be required to give full effect to the terms of the Engagement including the execution and delivery of all deeds and documents.

## 21. Governing Law and Dispute Resolution

- 21.1 In the event of a dispute arising out of or connection with an Engagement, a party contemplating instigating legal proceedings shall notify the other party of that fact not less than fourteen (14) days before issuing such proceedings. Either party may, upon receipt of notice or otherwise, apply to the President or the Vice President, for the time being, of the Chartered Institute of Arbitrators, for the appointment of a single arbitrator, for final resolution. The arbitration shall be governed by both the Arbitration Act 1996 and the Rules of Controlled-Cost Arbitration of the Chartered Institute of Arbitrators (2014 Edition), or any amendments thereof, which Rules are deemed to be incorporated by reference into this clause. The seat of the arbitration shall be England.
- 21.2 Clause 21.1 shall not prohibit a party from applying to the court, and shall not require such party to serve notice prior to applying, for interim injunctive relief.
- 21.3 Each Engagement and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) are governed by and shall be construed in accordance with English law. The parties submit to the non-exclusive jurisdiction of the English courts for all purposes relating to and in connection with each Engagement and any such dispute or claim.

## 22. Third Party Rights

- 22.1 To the extent that any loss, damage or expense is suffered or incurred by a member of the C&W Group, the parties agree that such loss, damage or expense shall be deemed to be the loss, damage or expense of C&W, and such loss shall be fully recoverable from the Client as if the loss, damage or expense was suffered or incurred by C&W directly.
- 22.2 Provided that Clause 22.1 remains valid and in full force and effect, no term of the Engagement is intended for the benefit of a third party and the parties do not intend that any term of the Engagement shall be enforceable by a third party either under the Contracts (Rights of Third Parties) Act 1999 or otherwise. If Clause 22.1 for any reason is or becomes illegal, invalid or unenforceable, then the rights under each Engagement shall be enforceable by any member of the C&W Group.

## 23. Entire Agreement

- 23.1 The Engagement constitutes the entire agreement and understanding between the parties relating to the transactions contemplated by or in connection with it and the other matters referred to in the Engagement and supersedes and extinguishes any other agreement or understanding (written or oral) between the parties or any of them relating to the same.
- 23.2 Each party acknowledges and agrees that it does not rely on, and shall have no remedy in respect of, any promise, assurance, statement, warranty, undertaking or representation made (whether innocently or negligently) by any other party or any other person except as expressly set out in the Engagement. The Client's sole remedy in relation

to any act or omission of C&W relating to or in connection with the Engagement shall be for breach of contract.

## 24. Miscellaneous Terms

- 24.1 Each party warrants and represents that it has power to enter into the Engagement and that it has obtained all necessary consents and/or approvals to do so.
- 24.2 The Client agrees that C&W shall be entitled to rely upon instructions given by any employee or other representative of the Client, and any person holding themselves out as having the authority to give such instructions.
- 24.3 Where the Client comprises two or more persons their liability in relation to the Engagement shall be joint and several.
- 24.4 Clauses 1, 2, 3, 4.2, 4.3, 6, 7, 8, 9.3, 10.4, 10.5, 11, 12.4, 12.5, 13 to 16 (inclusive), 18 and 20 to 24 (inclusive) of these Terms of Business shall survive termination of the Engagement.
- 24.5 The Client agrees and acknowledges that the Engagement is between the Client and C&W, and that the Client shall have no right to make any claim against any member (partner), director, employee, agent, or contractor of C&W, any other member of the C&W Group or any C&W Affiliate.
- 24.6 In accordance with the Provision of Services Regulations 2009, C&W is required to make available certain information to Clients which can be found [here](#).
- 24.7 In accordance with Section 54, Part 6 of the Modern Slavery Act 2015, details of the measures C&W has taken to ensure that slavery and human trafficking is not taking place in its supply chains or in any part of its business can be found [here](#).

Cushman & Wakefield Terms of Business (UK)  
(Version 1.01 – April 2017)



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### About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for our clients. Cushman & Wakefield is among the largest commercial real estate services firms, with core services of agency leasing, asset services, capital markets, facility services, global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation and valuation & advisory. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

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