

## Large HMO – House in Multiple Occupation

5 The Green  
St. Leonards-On-Sea  
East Sussex  
TN38 0SY



**Client:** Proplend Security Limited

**Branch:** London

**Proposed Borrower(s):** Clavis Group Limited - Felicity Tyas

**Valuation Date:** 27 June 2019

**Reference:** 260037

# Purpose and Limitations of Report

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This report is provided to assist the instructing Client in consideration of the subject property in relation to the purpose stated opposite. Pinders accepts liability only to the Client and no other party, however involved.

The report comprises a Freehold Valuation and expressly does not, in any way, constitute a building (structural) survey or a due diligence assessment. It remains the responsibility of the Client and, where appropriate, the borrower(s), to confirm the accuracy and validity of the information provided.

Pinders accepts no liability to the Client, or any other party, should information relied upon in arriving at our opinions of value prove to be misrepresented, either fraudulently or otherwise.

Whilst reference may be made within the report to aspects of tenure, title, planning and other statutory obligations, all such aspects should be verified by solicitors acting on behalf of the Client and/or the proposed borrower(s). The report is not intended as a substitute for the searches which would be expected in relation to any property acquisition or investment.

We can confirm that neither the valuer nor Pinders has any known conflict of interest in accepting your instructions, nor any previous knowledge of the property or the potential borrower other than as specifically stated within the report.

Unless specified elsewhere, this report has been prepared in accordance with our Conditions of Engagement and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards, for the sole purpose of assisting the Client and Proposed Borrower indicated above, in consideration of the subject property. The Explanatory Notes appended to this report also refer.

Whilst the valuations contained within this report are expressed in a way which is suitable for lending purposes, any party, other than the Client shown above, wishing to rely upon the contents of the report for such purposes, will need to instruct Pinders to prepare and provide a further report, which addresses the party's specific requirements.

We can confirm that Pinders has in place appropriate Professional Indemnity Insurance in respect of this valuation. A copy certificate to this effect can be provided to the Client upon request.

# Terms of Reference

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<b>Client:</b>	Proplend Security Limited
<b>Proposed Borrower(s):</b>	Clavis Group Limited - Felicity Tyas
<b>Purpose of Report:</b>	Loan security purposes in relation to re-financing
<b>Business Owner(s):</b>	KSL Guaranteed Rent Limited - Felicity Tyas
<b>Person(s) Interviewed:</b>	Felicity Tyas, Mr Paul & Mrs Karen Tyas
<b>Previous Visits:</b>	According to our records, we visited the subject property in 2010, when in conjunction with no 6 The Green, it was being operated as Edendale Residential Care Home.
<b>Inspection Date:</b>	17 June 2019
<b>Valuation Date:</b>	27 June 2019

<b>Undertaken by:</b>	Stephen Greenhill MRICS (0056307) <i>Registered Valuer</i>	
<b>Approved for Issue by:</b>	Malcolm Kidby MRICS (1117803) <i>Director</i>	

*We appreciate that there may be many parties involved in consideration of this proposal and this report (inclusive of photographs, maps and site plans) will be provided by electronic mail in pdf file format (requires Acrobat Reader software) to facilitate easy transfer of information. However, we recommend that our lending clients rely only upon an authenticated hard copy of the report, which has the Pinders' security seal attached below.*



*If you wish to discuss any aspect of this report, please contact our Operations team at:-*

**Pinder House**  
**Central Milton Keynes MK9 1DS**  
**Telephone: 01908 350500**  
**Email: [info@pinders.co.uk](mailto:info@pinders.co.uk)**

# Executive Summary

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## Introduction

This Executive Summary should be read in conjunction with our entire report and should not be relied upon in isolation.

## Property Summary

- ❖ House in Multiple Occupation with planning permission for up to 15 residents.
- ❖ Freehold
- ❖ A 10 year internal agreement is to be set in place effective from 29 May 2019, between landlord Clavis Group Limited in which the freehold interest is vested; and tenant KSL Guaranteed Rent Limited, the borrower's residential letting agency that is presently operating this and five other HMOs for a collective 74 residents.
- ❖ A fixed rent of £12,000 per month is being proposed for the subject property, an annualised £144,000 per annum.
- ❖ Located within a residential area, a short distance from St Leonards town centre.
- ❖ Late Victorian detached three storey property with later additions.
- ❖ Large HMO currently registered for 13 residents within 11 bedrooms, sharing communal living/dining, kitchen, bath/wet rooms & toilet facilities. The licence will be extended to 15 residents to accord with the planning consent, on installation of a wash hand basin to the first-floor separate toilet and creation of another such facility.
- ❖ Externally brickwork in need of repointing, repair or replacement as appropriate of some windows and doors, followed by redecoration of the whole,

## History of the Property & Market Commentary

- ❖ The property appears to have been erected as a family house during the latter part of the 19th century and the planning history indicates that change of use and alterations to convert the dwelling to an old people's home was granted in 1979.
- ❖ Subsequently the property was operated in conjunction with adjoining property from the same period, no 6 The Green, as Edendale Residential Care Home and whilst planning consent was obtained in 2009 to link the properties and a conservatory, this was not exercised and will have since expired due to time effluxion.
- ❖ At the time of our previous visit in 2010, the home had been registered for 31 elderly persons within the DE (dementia care) and MD (mental disorder) categories.
- ❖ However, we understand that the home later traded into financial difficulty and no 6 The Green was sold off for a recorded £497,500 in 2016. The new owners Miss Tyas understands are intending to convert the building back into a single residential dwelling house.
- ❖ The borrower acquired the freehold interest in the subject property, no 5 The Green, on 22 August 2018, for an advised consideration of £665,000, the latter including any remaining trade contents on the day of legal completion. This followed closure of a reduced size Edendale Residential Care Home, then registered for seven persons, after the previous owners had relocated their business to a new purpose-built facility at Bexhill-on-Sea.
- ❖ The initial purchase and Stamp Duty was funded by way of a £550,000 first charge bridging loan through Elysian Finance Limited, secured against the subject property and a further £210,000 loan secured by way of a second legal charge over two residential properties owned by other family members.
- ❖ Following the grant of planning permission for change of use to a large HMO for up to 15 residents, Miss Tyas has since invested a further advised £150,000 in planning fees, alterations, repairs, improvements, trade furnishings and equipment, suggesting the project thus far stands her in at a collective investment of £815,000.
- ❖ Outstanding works later outlined to complete the project from the borrower's point of view is £10,000, but we fear this could be understated, if to wholly accord with the parking layout for which planning permission has been obtained. The latter not only relates to the creation of nine parking spaces, including two designated for disabled drivers, but also for the installation of two charging points for electric vehicles, provision of approved secure covered cycle storage facilities and formation of shrub borders
- ❖ The borrower has now applied to Proplend Security Limited for a three-year interest only first charge loan to be secured against the subject property, the principal sum to be geared to 75% of the reported freehold vacant possession value. This is with a view to refinancing again in two-year's time, when she is hoping to add a three-storey extension to the existing building, subject to planning permission and other statutory consents, arranged as six self-contained one/two-bedroom flats.

# Executive Summary

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## Methodology

- ❖ When preparing our valuations we have had regard principally to the comparison method of valuation, comparing the subject property to local residential and HMO sales in the vicinity and the investment method, considering the lease being created.
- ❖ In respect of the vacant possession value, we have adopted an overall rate of circa £2,000 per m<sup>2</sup>, slightly above the local recent sales, but taking into account the HMO planning consent, the larger site and the longer term potential for development.
- ❖ We have also considered the potential to operate as a traditional HMO, without the benefit of KSL Guaranteed Rent Limited's contacts with the local authority's and the premium rents this company is able to secure. On this basis we have assessed the rental value of the property to be in the region of £55,000 per annum. Adopting a 7% yield to this rent supports a similar value to the comparison method above.
- ❖ In respect of the investment valuation, we have adopted a yield of 11% to the passing rent for the duration of the lease, ie ten years, then reverting to the passing rent and above yield thereafter. The weaker yield is reflective of the significantly higher rent being received and the relative youth of the tenant's business model, having been trading as a limited company only since 2017.
- ❖ We refer to the Methodology and Comparable Evidence section towards the end of this report for further commentary

Valuations Summary	Existing
Market Value <i>(with vacant possession)</i>	£800,000
Market Value <i>(subject to leases)</i>	£1,250,000

# Location Map



The circle above is of 10km (6 mile) radius centred on the subject business/property.

Digital Map Data © Bartholomew (2017)

# Local Environment

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## Location

St Leonards, East Sussex, is joined to Hastings, immediately to the east and lies between Bexhill and Battle. The area is principally served by the A259 and A2101. The A2100 passes to the north. Hastings is served by the A21, which provides access through to the M26/M25 interchange, as well as the A259 coastal road from Folkestone and Rye, in the east, to Bexhill and on to Eastbourne and the A2101. As Hastings has expanded, neighbouring areas have been incorporated, including St Leonards to the west of the town centre. There are railway stations, with links to Brighton and London.

St Leonards contains a wide range of properties, mainly in the form of terraced dwellings with some substantial semi-detached and detached properties. The majority of the housing would appear to be owner occupied and comprises mostly 19th and 20th century larger houses, with many detached, Victorian villas. There is an element of modern and post war infill.

Substantial numbers of properties in the immediate area date from the turn of the previous century, many having been converted into flats, guest houses, residential care homes or other uses. Hastings has a substantial shopping centre, expanded by a relatively recently completed, purpose-built, covered shopping mall. It is a popular seaside town and retirement area, with a busy town centre and a number of residential areas situated on the surrounding hills. The seafront includes a harbour and a pier.

There is a good deal of industry on the outskirts and the area is associated with a considerable amount of history, being promoted by the local tourist board as 1066 Country. In addition to tourism, the economy is geared towards the retired sector of the community. A significant contributing factor to the lack of growth and relatively high unemployment in this part of East Sussex is the lack of good road communications and poor rail links.

The subject property that was previously operated as Edendale Residential Care Home, is situated to the north west of the town centre, in a mainly residential area above the town centre. The Green is a busy local road that connects with the A21 and Tower road west with the property located to its eastern side adjacent to the junction with Avondale Road.

On the south-western side of the property, is a similar sized Victorian house, albeit occupying a smaller plot, which had historically been operated as part of a larger Edendale Residential Care Home. Miss Tyas understands the present owners are intending to convert this back into a family house.

On the north-eastern side of the property is a distinctly similar building, again on a smaller plot, which she advises has been arranged as two large maisonettes, although that occupying part of the first floor and whole of the second floor, is understood to be in the process of being converted into two self-contained residential units.

There is unrestricted kerbside parking in Avondale Road and on the property side of The Green, but double yellow lines on the approaches to this junction, as well as the nearby crossroads to the north-east controlled by traffic signals.

## Environmental Matters

From our limited inspection of the property, we detected no evidence to suggest the existence of any current or past contamination.

The Environmental Agency website indicates that there are no issues in the immediate area.

This is also a low Radon area.

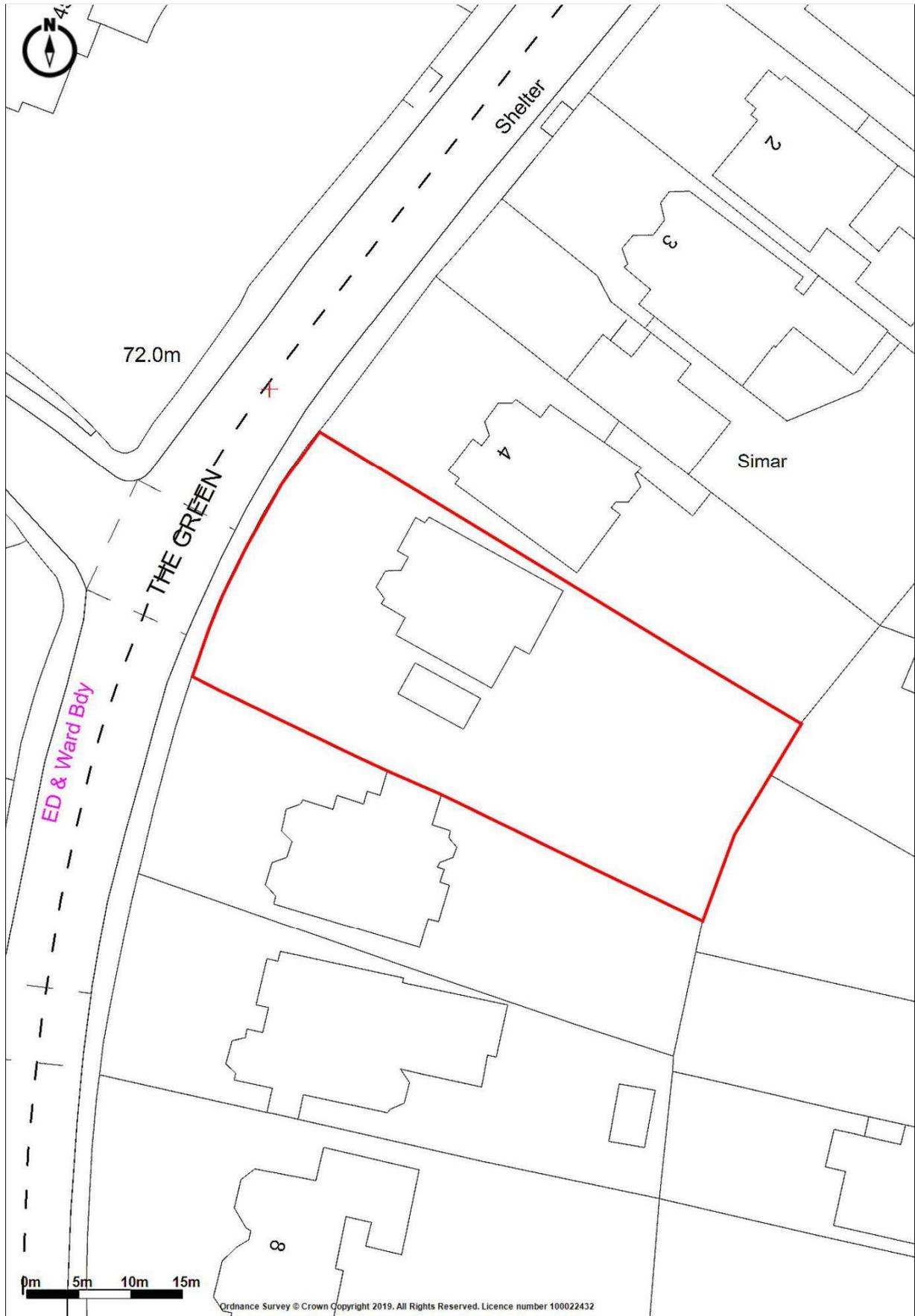
From our informal enquiries, there is no indication that the property or its immediate locality:

- ❖ is on or near landfills;
- ❖ is located within a mining area;
- ❖ is located within a tin mining area;
- ❖ is in an area that has been identified as having a risk of subsidence or landslip;
- ❖ is located within an area that is at risk of flooding;
- ❖ is affected by naturally occurring gases;
- ❖ is subject to water or land pollution;
- ❖ has been used for the manufacture, storage or sale of hazardous/toxic materials such as chemicals, petroleum products, pesticides, fertilisers, acids, asbestos, explosives, paint or radioactive materials;
- ❖ is the site of below-ground storage tanks;
- ❖ is close to incinerators or chimneys giving off heavy emissions.

Subject to the limitations of our inspection we have detected no evidence to suggest that deleterious or hazardous materials or techniques have been used in the construction or subsequent modification of the building.

*We refer you to the paragraph headed 'Environmental Matters' within the appended Explanatory Notes.*

# Site Plan



# Site & Aspects of Title

## Site Plan

The plan shown opposite is taken from the Promap on-line facility and shows the subject property within its local environs. We advise that the area outlined in red corresponds with the property inspected.

However, we recommend solicitors verify the boundaries.

*It should be noted that this plan and the markings thereon indicate the approximate extent of the site inspected and no guarantee can be given as to whether this corresponds to that over which title is held. It remains the responsibility of the Client to investigate and confirm the legal boundaries and title applying to the property.*

## Restrictive Covenants, Rights of Way and Easements

Based on our investigations, we are aware of the following:

Rights of Way	Restrictive Covenant	Easements
x	x	x

We recommend that solicitors confirm the details in respect of the above in due course.

## Tenure and Title

The property is to be subject to a ten-year management agreement from 29 May 2019, between the legal owner of the freehold interest Clavis Group Limited - sole director of which is Felicity Tyas and KSL Guaranteed Rent Limited, sole director of which is also Felicity Tyas. The fixed rent is proposed to be £12,000 per calendar month, annualising at £144,000 per annum. Initially we were advised that this would be a three year agreement, but subsequently this will be amended to a 10 year term.

Landlord:	Clavis Group Limited - Sole Director - Felicity Tyas
Tenant:	KSL Guaranteed Rent Limited - Sole Director - Felicity Tyas
Commencement Date:	29 May 2019
Term:	Ten years fixed term
Rent:	£12,000 per month
Review Pattern:	None during the term
Alienation:	Assignment/subletting of the whole or in part is prohibited.
Repairing/Insuring Obligations:	Internal repairing on the part of the tenant. Landlord insures with the premium recovered from the tenant
Special Conditions:	None advised.

*It is essential that solicitors inspect the lease to confirm that it provides satisfactory security for bank lending purposes and to confirm the lease terms, as indicated above. Should any of the latter vary from those indicated above, we reserve the right to reconsider our opinion of value.*

*Our valuations assume that any prospective purchaser would be granted full possession of the property, free of any restrictions on title and that all fixtures, fittings and items of equipment remaining would be provided on a fully unencumbered basis. Unless stated, we have not been provided with a report on title, but we would be pleased to co-operate with solicitors acting for the Client in respect of such a report should this be required.*

# Site & Aspects of Title

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## Tenant Covenant

Following several years working for Northwoods Estate Agent's at their Bromley office, Miss Tyas opened a residential-sales and letting agency in Eastbourne on her own account in May 2016. Initially trading as Key Sales and Lettings, due to a lack of sales transactions at that time, but a ready demand amongst would-be tenants for letting accommodation; including those being funded by Local Councils, the decision was made for the marketing and sale of residential properties to be discontinued and the trading name of the business changed.

KSL Guaranteed Rent Limited was incorporated in 2017 and has since traded from 43 Susan's Road, Eastbourne, BN21 3TJ. The company is presently managing an advised 24 residential properties for other owners and no 5 The Green for the associated freeholder Clavis Group Limited.

The business model of the trading company, is to pay owners of residential properties, including HMOs, a guaranteed rent equivalent to or slightly in excess of that they would generally be receiving from a conventional AST – Assured Shorthold Tenancy letting, but removing the cost of finding new tenants or evicting others that are troublesome.

Individual rooms in these properties are then made available to accommodate vulnerable adults wholly funded by Hastings Borough Council, Eastbourne Borough Council and Lewes District Council, the current tariff for which is £45 per room, per night for double occupancy and £30 per room, per night for single occupancy.

The owners of 16 properties basis in St Leonards-on-Sea, Hastings and Eastbourne, have thus far opted to join this scheme, which includes five HMOs with a collective registration for up to 59 residents and 11 other houses and flats for family occupation.

An analysis of the income streams provided by the borrower on four of the HMOs in other ownerships, indicate that the guaranteed rents those owners are receiving from KSL, equate to a calculated average 38.1% of the gross revenues being paid by the Local Councils for the client group they are financially supporting.

Following acquisition of the freehold interest in no 5 The Green by the borrower in August 2018 and gaining change of use planning consent in March of this year from the previous use as a care home to a large HMO for up to 15 residents, this has increased to the number of HMOs the associated trading company is now operating to six, having a combined registration for up to 74 residents.

Full occupancy is said to have already been achieved and Miss Tyas is expecting this to be maintained at the above referred to tariffs, for the foreseeable future. This is despite the short-term nature of the tenants, who may stay for just 48 hours, but from her experience some may be expected to stay for up to two months.

At the time of our recent visit there were 14 residents in occupation, albeit one was subject to a double room tariff, with Eastbourne Borough Council supporting six persons, Lewes District Council two persons and Hasting Borough Council six persons.

The collective rental stream for full occupancy of four double rooms and seven single rooms by 15 residents, based upon the above referred to tariff, would be £390 per night, equating to £2,730 per week, annualising at £141,960 per annum.

However, as the present HMO license is restricted to 13 residents, until two additional sets of toilet facilities have been achieved, on the basis of a room configuration of letting four rooms as doubles and five rooms as singles, this has the effect of reducing the gross income for full occupancy to a calculated annualised £120,120 per annum.

On the basis of the previously calculated rents KSL are paying owners of other HMOs they presently run, averaging 38.1% of gross receipts from Local Councils, it suggests that an appropriate rent for the subject property when the permitted number of residents has been confirmed as 15, is £54,087 per annum, a rounded £54,000 per annum; but with the present maximum of 13 residents permitted, then a rent of £45,766 per annum, a rounded £45,000 per annum

In the meantime, Miss Tyas has estimated the total cost of other outgoings for running of the HMO at 5 The Green as £10,957 per annum, with the associated breakdown being; Council Tax: £3,307 per annum, Water Rates: £1,500 per annum, electricity and gas: £2,500 per annum, wi-fi: £360 per annum, cleaning: £1,040 per annum, garden maintenance: £750 per annum and general maintenance: £1,500 per annum.

However, there are notable absences for the cost of the building insurance premium of £1,490 per annum for 2018/2019, business and HMO insurance of an advised £4,032 per annum.

We would also comment that the sum indicated for maintenance of the property and grounds is a lesser amount than we would generally recommend as being sufficient to adequately repair and maintain a property of this style and its trade furnishings and equipment in the medium to longer term.

# External Property

Front Elevation From The Green



Front & South-western Side Elevations



# External Property

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## Site Description/Potential

The main building of the property is set back from the pavement in The Green behind a stone boundary wall with central vehicular access to informally arranged parking on a rough gravelled surface. There is also a pedestrian access from the pavement to a pathway beside the north-eastern boundary wall, which leads to a side entrance door and beyond into the rear garden.

Linked to the south-western side of the main building is a former garage, later adapted for use as a laundry room in conjunction with the previous use of the property as a residential care home; but as an office and store by the existing owners. Adjoining this is concrete hard standing providing for refuse bin storage.

Beyond a timber panelled fence is a raised concrete paved garden terrace, from which a timber framed and clad shed of an approximate 7.1 m<sup>2</sup> is presently approached. This has been designated for the storage of mobility scooters.

Approached from the raised terrace and paths immediately behind the former garage and main building, are steps to an extensive rear garden, which is principally laid to lawn, but also has some mature trees and shrubs.

The property occupies a broadly rectangular shaped site of approximately 0.132 of a hectare (0.326 of an acre) and the existing buildings appear to occupy about 15% of this, the remainder devoted to the previously referred to informal parking arrangements, bin storage area and raised terrace overlooking the rear garden.

This suggests there is scope to add further additions to the main building, or erect others within the grounds.

We later refer to planning permission obtained in 2009 by the previous owners of Edendale Residential Care Home, when operated from both the subject property and adjoining no 6 The Green, for a three-storey extension to link the two buildings and a conservatory, but this will have since lapsed due to time effluxion.

In the meantime, we note that planning permission was obtained in 1984 for the garden plot of no 3 The Green to be divided to allow for a detached three-storey four-bedroom family house with garage, now known as 'Simar', which has since been erected and sold into third party ownership. The original Victorian building, similarly to the subject property, is understood currently also arranged as a large HMO for up to 15 residents, but in that instance arranged as three self-contained letting units and eleven other rooms, where occupants share communal facilities.

Reputedly, the subject site as a whole, occupied by no 5 The Green, was deemed when the property was marketed for sale prior to Ms Tyas's acquisition, as being suitable for a comprehensive redevelopment after demolition of the existing buildings into 16 self-contained residential flats.

However, the borrower in connection with her business model, is hoping in due course to sacrifice the former garage now used as an office and store, to make way for a three-storey extension to the original building to create additional letting units. In this regard she has arranged to meet with her architect during the week following our recent visit, with a view to obtaining his advice as to the most appropriate way forward.

One option would be to erect a three-storey stand-alone building, as has been undertaken previously at no 3 The Green, but as opposed to this being a single residential dwelling, instead arranged as either three or six self-contained flats. These could initially be offered as accommodation to vulnerable adults in conjunction with the borrower's business model, but with the fall-back position at a later date of being capable of being sold separately into the residential market for owner-occupation of letting purposes.

Any such proposals would of course be subject to planning permission, Building Regulations and other statutory approvals, which may or may not be granted.

## Buildings Description

The property comprises a late Victorian detached three-storey building with later additions.

The following table summarises the apparent construction of the major building elements.

Element	Description
Fire Escape	Apart from using the front entrance door, alternative means of escape in the case of fire from the ground floor are external doors from; the communal living/dining room to the pathway on the western side of the building, communal kitchen and Bedroom 2, each having steps down to the rear path and garden. For occupants of the upper floor rooms, apart from using the main staircases between floors, there are also secondary stairs towards the rear. There are front and rear external doors to the office and store with the former garage, but the link between this and the entrance hall of the main building is not currently in use.

# External Property

Element	Description
Flat Roofs	Mineralised felt covered front dormer to main building and former garage used as office and store.
Pitched Roofs	Slate covered main building.
Rainwater Goods	Combination of original cast iron and black plastic sectional gutters, hoppers and down-pipes.
Walls	Main building with predominantly red brick elevations, pebble dash rendered panels between timbers on front and rear facing projecting window gables.
Window Frames	Predominantly softwood framed Victorian sashes and casements, including those with some stained glass to the entrance hall and stairwell between the ground and first floors. Crittal metal framed example to first floor communal living/dining room. Later softwood framed casements to former garage used as office and store, with PVCu framed and double glazed rear entrance door.
Chimneys	Tall brick stacks to central and north-eastern gable end, shorter plain rendered stack to side of projecting gabled rear window.

## Services

We are advised that the property is connected to the following:

Mains Water	Electricity	Mains Drainage	Mains Gas	Central Heating
✓	✓	✓	✓	Gas

The property has a three-phase electricity supply, which we understand was installed to serve heavy duty commercial laundry equipment in connection with the previous use as a residential care home.

The gas-fired central heating and domestic hot water system is served by a recently installed Worcester wall-mounted boiler, located in the associated cupboard accessed from the ground floor communal kitchen.

The premises have a CCTV surveillance system, presently with two digital cameras, but this is due to be extended to 10 cameras, when the remaining eight units, which have already been purchased and are on site, are fitted by the contractor.

### Systems and Equipment

*Whilst it is beyond the scope of our instructions to undertake tests of services, equipment, fixtures and fittings, we assume that all such items are operating safely and efficiently and are appropriate for the purposes to which they are put.*

# External Property

Rear Elevations



Street Scene Looking South Along The Green



# External Property

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## Condition

It should be noted that we have not undertaken any form of survey, structural or otherwise and the following comments are based on our brief inspection of the property. Our valuations have been prepared on the assumption that there are no inherent structural defects associated with the property or any wants of repair which would attract a significant cost.

Externally, the brickwork is in need of repointing, the main roof of some repairs and maintenance; and the softwood joinery, particularly sash windows and verge and gutter boards require some repair or replacement as appropriate, prior to redecoration of the whole.

As a general comment, flat roof coverings have a more limited lifespan and will require ongoing maintenance, prior to renewal.

We have been informed by Miss Tyas that an asbestos survey has previously been undertaken, but we have not been provided with a copy. She also advised that the survey did not identify any areas containing asbestos materials.

At the time of our recent visit we observed Artex coated ceilings, which we would expect to be included in an asbestos survey; on both the main and secondary staircases to the second floor and associated landings; as well as the store cupboard approached from the main landing.

Our valuations have been prepared on the assumption that there are no asbestos related issues which would attract a significant cost.

An Energy Performance Certificate (EPC) prepared by Michael Knight of knightgunner@sky.com from St Leonards-on-Sea, was issued for the property on 22 April 2019, which rated the property as having a 54 EP rating, falling within Band E (39 - 54).

As Band 'E' or above is generally acceptable to loan sources, no further comment is required in this instance. The latter is also the MEES minimum requirement for commercial premises in the future being let, which came into effect on 1 April 2018.

### **Asbestos**

*All owners/occupiers of non-domestic properties and communal areas of domestic properties are required, under the Control of Asbestos Regulations (2012), to provide a record of an inspection to verify whether any form of asbestos is present. If asbestos is detected, then an appropriate management plan must be implemented. We have not inspected for asbestos and, unless otherwise stated, our valuations exclude any costs relating to this management plan.*

### **Energy Performance Certificate and Display Energy Certificates**

*All non-domestic properties over 50m<sup>2</sup> in size require an EPC when constructed, sold or let. There are certain exemptions, for example, if the building is to be demolished. The certificate includes an energy efficiency rating between A (most efficient) and G. It is valid for a period of 10 years assuming there are no changes to the building or its' use.*

*From 9 January 2013, a DEC is required to be prominently displayed in all buildings that are occupied in whole or part by a public authority or by institutions frequently visited, providing a public service to a large number of persons, and that have a useable space of 500 m<sup>2</sup> or more. They are valid for a period of one year. The accompanying advisory report is valid for a period of seven years, or 10 years if the building is less than 1,000 m<sup>2</sup> in size, assuming no changes to the property or use. If available, for example the building has been constructed, sold or let, the EPC for these buildings also needs to be prominently displayed, although there is currently no requirement to commission an EPC specifically for this purpose. From April 2018, it will become unlawful to let properties with the two lowest ratings of F and G.*

***Please contact us for further information about arranging an asbestos survey or EPC***

## Reinstatement Assessment

It should be appreciated that an assessment of the likely costs of fully reinstating a property is a complex and detailed exercise usually undertaken by a building or quantity surveyor. The following estimate is provided purely for guidance purposes to assist the named client in their consideration of the stated business proposal. It should not be relied upon by either the named client, or any other party, as a basis for assessing levels of insurance cover and Pinders accept no liability in this regard.

Whilst the estimate provided allows for the approximate costs of demolition, debris removal and professional fees, and assumes the use of modern materials, construction techniques and compliance with all current building regulations, it makes no allowance for any alterations to the layout or configuration of the property that may be required for the ongoing operation of the business.

On these specific assumptions, we suggest that the reinstatement figure for the existing structure (exclusive of VAT) should not be less than **£1,000,000**.

# Internal Property

Ground Floor Living Room



Ground Floor Kitchen



Ground Floor Bedroom 1



First Floor Bedroom 3



First Floor Wet Room - Wc



# Internal Description

## Property Areas

Area	Size m <sup>2</sup> (Approx)	Description
Entrance Porch	2.8	Original ceramic tiled floor, grey painted wall panelling below dado height, white painted above and coving. Round wall-mounted light.
Entrance Hall	25.4	Carpet covered floor, grey painted walls below dado height, white painted above and coving. Round wall-mounted light.
Lobby	3.3	To Bedroom 1 and disabled person's toilet. Carpet covered floor, cream painted walls below dado height, white painted above and part coving. Round ceiling mounted light.
Disabled Person's Wet Room	3.6	Non-slip floor covering, half ceramic tiled walls, whitened above and round ceiling mounted light. Fitted shower attachment over shower area, pedestal wash basin and low-level WC.
Communal Living/Dining Room	22.1	Carpet covered floor, yellow painted embossed wall papers, whitened and texture coated ceilings with drop light fittings. Access flap to roof space.
Passageway	2.2	To communal kitchen and secondary staircase. Non-slip floor covering, yellow painted walls and whitened ceiling with drop light fitting. Access to store cupboard 0.6 m <sup>2</sup> .
Communal Kitchen	14.8	Non-slip floor covering, white painted papered walls and plain ceiling with strip light. Fitted white finished wall cupboards, base units with granite effect melamine working surfaces, recessed stainless steel wash-up, wash hand basin and ceramic tiled splashbacks. Equipped with Flavel eight-burner gas cooker having two ovens, fume extraction hood over, two microwave ovens, washing machine, two fridge/freezers and two base refrigerators. Under-Stairs Cupboard, 1.0 m <sup>2</sup> with vinyl floor covering.
Inner Lobby	1.1	Carpet covered floor, yellow painted walls and whitened ceiling. Store Cupboard 0.6 m <sup>2</sup> .
Former Utility Room	11.3	Currently used as through store room, with disused link of 3.2 m <sup>2</sup> to hall in main building.
Management Office	11.6	Carpet covered floor, cream painted walls and whitened ceiling with round light fitting. White painted wall shelves.
First Floor Landing Areas	16.3	Carpet covered floor, cream painted walls and whitened ceiling with round light fitting. Store Cupboard 0.6 m <sup>2</sup> and Airing Cupboard 0.7 m <sup>2</sup> with slatted shelving.
Communal Galley Kitchen	8.2	Hardboard covered floor, cream painted embossed wall papers and whitened ceiling with light fitting. White melamine finished wall cupboards, base units with granite effect melamine working surfaces and recessed stainless steel wash-up. Equipped with four plate electric hob, filter fan hood over, electric oven, microwave oven, two fridge/freezers, kettle and toaster.
Communal Sitting/Dining Room	17.7	Carpet covered floor, cream painted walls below dados, white painted above and to ceiling with drop light. Fitted wash hand basin.
Communal Wet Room	4.2	Non-slip floor covering, modern ceramic tiled walls and plain whitened ceiling. Fitted radiator cover, shower unit over showering area, corner wash basin, white low-level WC having Champagne coloured seat and lid; and an extractor fan to wall housing.
Separate Toilet	1.6	Non-slip floor covering, white painted walls and ceiling with round light. Fitted low level WC having pine seat and lid.
Second Floor Landings	13.7	Carpet covered floor, yellow painted walls and whitened ceiling with drop light fitting.
Communal Bathroom	6.1	Fitted panelled bath, wash basin and low-level WC.
Under Eaves Store	4.9	Approached from second floor landing.

### Measurement of Accommodation

*We endeavour to measure the accommodation at the time of our inspection but, where this is not possible, we will either rely upon measurements taken from plans provided, schedules of measurements or other information advised to us by the owner of the business.*

# Internal Description

Letting Rooms	Single	Twin	Double	Family	Total Rooms	Total Beds
Ground	0	0	3	0	3	6
First	3	0	1	0	4	5
Second	4	0	0	0	4	4
<b>Total</b>	<b>7</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>11</b>	<b>15</b>

The letting accommodation comprises a total of 11 bedrooms, contained over three floors and accommodates a maximum of 15 residents.

## Schedule of Bedroom Sizes

Floor	Room No	IPMS3	Registered
Ground	1	21.0 m <sup>2</sup>	Double
Ground	2	17.5 m <sup>2</sup>	Double
Ground	4	21.7 m <sup>2</sup>	Double
First	3	18.5 m <sup>2</sup>	Double
First	5	12.5 m <sup>2</sup>	Single
First	6	11.5 m <sup>2</sup>	Single
First	7	14.9 m <sup>2</sup>	Single
Second	8	18.9 m <sup>2</sup>	Single
Second	9	17.3 m <sup>2</sup>	Single
Second	10	9.3 m <sup>2</sup>	Single
Second	11	15.7 m <sup>2</sup>	Single

Room facilities include; use of a single or double bed, fresh linen on arrival, other bedroom furniture, a wash basin, domestic hot water and central heating, electricity, a wi-fi connection through routers and a supply of allocated crockery, glassware and cutlery. Residents also have use of the communal living/dining rooms, kitchens, bath or wet rooms, separate toilets, parking area and rear garden.

Residents are expected to launder their bed linen, clean their rooms and wash-up their allocated crockery, glassware and cutlery.

KSL undertake to provide serviced rooms on arrival, clean the communal rooms and circulation areas.

# Internal Description

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## Access

Level access to premises	Level access to public areas	Disabled WC
x	x	✓

The approach to the property from the pavement in The Green, is through the rough gravelled car parking area in front of the main building. The approved parking layout plan that accompanied the planning application for change of use to a large HMO, provides for the creation of two disabled parking spaces.

From the present gravelled parking area there are two steps of different depths, or four smaller concrete slab steps, up to a standing in front of the entrance door with a threshold. Alternatively, on the north-eastern side of the main building is a pathway from which there are three deep steps up a side entrance door into the ground floor communal living/dining room.

Once inside the main building, there is no change in levels on the ground floor to reach the three letting bedrooms at this level, the disabled person's toilet communal kitchen or reception room. However, in respect of the latter, the floor of the living room area has sunk, hence a small incline up to the dining area at the rear of this small extension.

From the communal kitchen there is an external rear door to a platform and five steps with steel hand rails down to the rear path. Similarly, from Bedroom 2, there is an external door to five stone steps down onto this path. Additionally, there four concrete steps from this path down into the rear garden.

The remainder of the letting bedrooms and communal facilities are located on the upper floors of the main building, with 20 treads on the main staircase between the ground and first floors; whereas there are 18 treads on that between the first and second floors. In each case however, there is an Acorn Stair Lift 80, for persons of up to 120 kg (18.8 stone) for the convenience of those with mobility issues.

On the secondary staircases, there are 18 treads between the ground and first floors, but 17 treads between the first and second floors.

In connection with the management office and store within the former garage, there is a threshold on the front entrance door and two steps of different depth down to the floor of the through store, but two steps therefrom up to the passageway link to the main building.

### **The Equality Act 2010**

*The Equality Act came into force on 1 October 2010. The Act consolidates and brings together previous equality laws including the law on disability discrimination. Operators are under a duty to make reasonable adjustments to the provision of their services to accommodate people with disabilities. The duty is anticipatory - so adjustments must be made before a claim for disability discrimination is brought. What will constitute a reasonable adjustment very much depends on the size and nature of the service.*

## Decoration and Furnishing

Internally, the main building appears to have been decorated throughout in the present ownership, apart from some service areas, including the under-eaves store approached from the second-floor main landing. Additionally, the externally approached management office and store room within the former garage are poorly presently and would benefit from redecoration.

The subject premises appear to be suitably furnished and equipped for the trade conducted as an HMO providing short-term self-catering accommodation for the homeless and other vulnerable adults, supported by four Local Councils.

# Statutory Authorities

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For the purpose of this report and our valuations, we have assumed that there are no matters outstanding or that would be of concern to any of the Statutory Authorities, or any matters that would have a detrimental impact on Market Value.

## Planning and Highways

We are advised by Miss Tyas, of the following:

Listed Building	Conservation Area	Tree Preservation Orders	Section 106 Agreements	Adopted highway
x	x	x	x	✓

The most recent planning consent in respect of the subject property was made under application reference no HS/FA/18/00958 for 'Change of use from Care Home (C2) to a large HMO (Sui Generis), which was granted subject to a number of conditions.

We specifically bring to the reader's attention the following;

Condition 3 "Waste bins and recycling shall at all times (other than early on collection days) be neatly stored in the waste bin area shown on the approved parking layout plan."

Condition 5....."Before the House in Multiple Occupation hereby approved is first occupied details of appropriate on-site provision of secure, covered cycle storage facilities shall be submitted and approved in writing by the Local Planning Authority. The approved secure, covered cycle storage facilities shall be constructed in accordance with the approved details before the House in Multiple Occupation hereby approved is first occupied and thereafter retained and kept available to occupants of the House in Multiple Occupation at all times.

At the time of our recent visit, the designated parking area in front of the main building and former laundry building, had yet to be formally laid out.

On completion, the approved 'Parking' plan indicates that this is to include; two parking spaces for disabled persons, seven other parking spaces, two charging points for electric vehicles; a storage area for waste bins, bike stands, shrubberies adjoining the front and eastern boundary walls; and a pedestrian entrance gate with pathways adjoining the western boundary wall and in front of the main building.

The designated waste bin storage area is on the concrete surface on the eastern side of the former laundry building, whilst suitable for this purpose, is not enclosed and the covered cycle storage facilities had yet to be constructed. In the latter we are advised that the bike stands for this facility had been ordered, but yet to arrive.

Our valuations have been prepared on the specific assumption that planning permission exists for the property's existing use.

Therefore, as Condition 5 of the planning consent reference no HS/FA/18/00958 has yet to be met and the borrower has not in the meantime obtained statutory approval for a relaxation of it, we consider she could be challenged on this point, as the property is already being operated as a large HMO and had 14 occupants in place at the time of our visit.

Compliance with this condition therefore must be met, prior to the bank considering the grant of a loan. A retention should also be made against the cost of achieving the parking layout and remainder of the associated facilities.

## Article 4 Direction

Hastings Borough Council have previously made a Direction under Article 4(i) of the Town and Country Planning (General Permitted Development) (Amendment) (England) Order 2010 - Houses in Multiple Occupation.

The area covered by the Article 4 Direction relates to the whole of the Council Borough of Hastings, which includes St Leonards-on-Sea, this removing permitted development rights for the change of use of a Class C3 dwelling house to a Class C4 house in multiple occupation, as the Council sought to restrict the number of HMOs, in response to concerns being raised about local services being overstretched, and by owners of properties in fashionable residential areas.

Miss Tyas advises that the criteria being applied by the Council to planning applications for change of use to HMOs, has been to limit these to 10% of properties in each road, which after her successfully obtaining such consent at the subject property, she considers it unlikely further permissions will be granted in The Green.

# Statutory Authorities

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We have accessed the online planning database of the local authority, which revealed the following planning history in relation to the subject property:

Reference	Date	Decision	Proposal
HS/FA/79/00494	22/08/1979	Approved	Change of use to Old Peoples Home.
HS/FA/79/00627	27/09/1979	Approved	Alterations to convert dwelling into Old Peoples' Home (approved under reference No. 79/494)
HS/FA/86/00209	28/05/1986	Approved	Conversion of garage to laundry room
HS/FA/02/00497	12/09/2002	Approved	ERECTION OF 3 STOREY EXTENSION AND CONSERVATORY
HS/FA/09/00623	03/12/2009	Approved	Three storey residential care home extension to link properties and a conservatory
HS/CD/11/00551	19/09/2011	Approved	Discharge of conditions 2, 3, 8 and 10 of Planning Permissions HS/FA/09/00623
HS/FA/18/00958	07/03/2019	Approved	Change of use from Care Home (C2) to a large HMO (Sui Generis)

## Rates, Water and Environmental Charges

As an HMO, the property is not subject to Business Rates, but the operator is liable to pay Council Tax.

## Council Tax

The property falls within Tax Band 'G', with £3,306 per annum payable for 2019/2020.

## Fire Authority

The Fire Authority no longer routinely inspects premises and it is the responsibility of the occupier to undertake an appropriate Fire Risk Assessment.

According to Miss Tyas, the property has a Fire Risk Assessment, with no matters outstanding.

The property has a recently installed fire alarm and emergency lighting system, linked to a control panel located in the front entrance porch. This was installed by A B Electric 'Fusion' of St Leonards-on-Sea, who under their contract are to undertake monthly maintenance visits and six-monthly tests.

Fire-fighting equipment is supplied and serviced by J S Fire Protection Limited from St Leonards-on-Sea, whose last visit was in September 2016.

### Regulatory Reform (Fire Safety) Order 2005

*We have not undertaken any form of Fire Risk Assessment for the premises, nor can we confirm the adequacy, or otherwise of any Risk Assessments seen. We recommend that business proprietors fully acquaint themselves with the requirements of the Regulatory Reform (Fire Safety) Order 2005, which cover statutory fire prevention in almost every commercial property.*

## Environmental Health Authority

The property is not subject to periodic inspections under this legislation.

### Food Safety Act 1990

*We recommend that business proprietors fully acquaint themselves with the terms and conditions of the Food Safety Act 1990 and its various subordinate regulations. These include the introduction of a scheme for compulsory registration of all food premises under The Food Premises (Registration) Regulations 1991, the latter relating to England, Scotland and Wales, and applying to most types of businesses, with few exemptions.*

# Statutory Authorities

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## Licensing

Felicity Tyas has initially been issued with an HMO Licence under Part 2 of the Housing Act 2004, for no 5 The Green, St Leonards-on-Sea, by Hasting Borough Council, under reference no WK/201900355, for the period 9 April 2019 to 8 April 2024, for a maximum of 13 occupants, to be accommodated within the existing eleven letting bedrooms using shared facilities.

However, Condition 4.2 of the licence indicates that the maximum number of occupants permitted can be increased to 15, if the premises are provided with two additional sets of toilet facilities, which are to include both a wash hand and WC.

Following discussion with Miss Tyas, it appears that this requirement can cost-effectively be achieved, firstly; by adding a wash hand basin to the existing separate toilet on the first floor and secondly; creating a further separate toilet within the disused link between the main building and former laundry room, where there is already a wash hand basin. The initial estimation for the cost of these works is £500.

# Methodology and Comparable Evidence

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When preparing our valuations, we have had principal regard to the comparable method of valuation, together with an analysis of comparable market information and regard to our own extensive database.

## Comparable Evidence

Relevant comparable evidence includes the following, but due to the confidential basis on which much of our comparable information is obtained and held, we are only able to divulge limited information and/or that which is already within the public domain:

### Comparable Evidence – Residential Flats

Location	Date	Sale Price	£ per m <sup>2</sup>
Flat B, no 3 The Green, St Leonards on Sea	May-2018	£108,000	£1,800
Flat C, no 3 The Green, St Leonards on Sea	Mar-2017	£120,000	£1,081
Flat 1, Chestnut Lodge, no 1 The Green, St Leonards on Sea	Feb-2017	£156,000	£2,400
Flat 2, Chestnut Lodge, no 1 The Green, St Leonards on Sea	Jul-2015	£149,950	£2,499
Flat 5, Chestnut Lodge, no 1 The Green, St Leonards on Sea	Sep-2014	£149,950	£2,380

The above schedule includes a selection of nearby residential flats in The Green, which have been marketed and sold during the last approaching five years, with the sale prices of analysed against the size of each unit that appears in the associated EPC.

- ❖ The first comparable relates to a self-contained residential first floor flat of 60 m<sup>2</sup> TUFA, within a late Victorian detached three-storey converted building in what the selling agents described as a highly sought-after location in St Leonards-on-Sea. The property was sold for a reported £108,000 in May 2018, equating to £1,800/m<sup>2</sup> TUFA.
- ❖ The second comparable is in respect of a self-contained second floor residential flat within the same building, comprising; internal hallway, lounge, kitchen, two double bedrooms and shower room. Extending according to the EPC to 111 m<sup>2</sup> TUFA, the property was marketed at an asking price of £129,950 and sold in March 2017 for a reported £120,000, equating to £40,000 per habitable room and £1,081/m<sup>2</sup> TUFA.
- ❖ The third comparable relates to a self-contained ground floor residential apartment within a mid-1980s three-storey purpose-built block of six such units, located in a similarly sought-after position in the Burton area of the town, albeit next to a garage forecourt selling second hand cars. Extending according to the EPC to 65 m<sup>2</sup> TUFA, it comprised; a spacious entrance hall, lounge, kitchen, two double bedrooms and a bathroom, had the benefit of a single garage within a block and use of the communal gardens. Extending according to the EPC to 65 m<sup>2</sup> TUFA, the property was marketed at an asking price of £159,950 and sold in February 2017 for a recorded £156,000, equating to £52,000 per habitable room and £2,400/m<sup>2</sup> TUFA.
- ❖ The fourth comparable is in respect of another self-contained ground floor residential apartment with single garage in the same development, comprising; entrance hall, living room, kitchen/breakfast room, two double bedrooms and bathroom. Extending according to the EPC to 60 m<sup>2</sup> TUFA, the property was marketed at an asking price of £149,950 and sold at this figure in July 2015, equating to £49,983 per habitable room and £2,499/m<sup>2</sup> TUFA.
- ❖ The final comparable relates to a further self-contained one reception room, two-bedroom apartment within Chestnut Lodge, but this time on the second floor. Extending according to the EPC to 63 m<sup>2</sup> TUFA, and with the benefit of a garage, the property was in September 2014, also for £149,950 equating to £49,983 per habitable room, but £2,380/m<sup>2</sup> TUFA.

# Methodology and Comparable Evidence

## Comparable Evidence – Residential Property

Location	Date	Sale Price	£ per m <sup>2</sup>
no 4 The Green, St Leonards on Sea	Feb-2019	£500,000	£1,859
no 5 The Green, St Leonards on Sea	Aug-2018	£665,000	£1,642
Simar, The Green, St Leonards on Sea	Jan-2016	£392,000	£1,815
no 6 The Green, St Leonards on Sea	Jan-2016	£497,500	£1,171

The above schedule compares the borrower's recent purchase with the sale of adjoining and nearby properties, which have previously had a quasi-commercial connotation.

- ❖ The first comparable relates to no 4 The Green, a late Victorian detached three-storey house occupying a site of approximately 0.309 of an acre. Marketed as having six bedrooms and extending according to the EPC to 269 m<sup>2</sup>, the property had an asking price of £599,950 and was sold in February 2019 for a recorded £500,000, equating to £1,859/m<sup>2</sup> TUFA.
- ❖ The second comparable is in respect of no 5 The Green, which had prior to the borrower's acquisition been operated as a residential care home, registered for 7 residents. The property was marketed as an attractive detached three-storey Victorian house with three/four reception rooms and 10/11 bedrooms, occupying a double width plot with potential for 16 one/two-bedroom apartments, subject to planning consent, at a freehold asking price of £700,000.

Extending according to the EPC to 370 m<sup>2</sup> TUFA, the negotiated purchase price of a recorded £665,000, equated to £47,500 per habitable room and £1,797/m<sup>2</sup> TUFA. However, based upon our on-site measurements, the main building appears to extend to a calculated 382 m<sup>2</sup> IPMS2 and the former garage previously used as the in-house laundry for the care home, a further 23 3m<sup>2</sup> IPMS2, a collective 405.3 m<sup>2</sup>, thereby reducing the sale price to £1,642/m<sup>2</sup> IPMS2.

- ❖ The third comparable relates to Simar, a modern detached three-storey family house with integral garage, standing in a plot of 0.12 of an acre, which had originally formed part of the garden of adjoining no 3 The Green, a late Victorian detached three-storey house, more recently occupied by a registered osteopath.

The new house was erected following the grant of planning permission in 1984 and comprises; a ground floor storm porch, hallway and reception/utility room; first floor landing, lounge, study and kitchen/diner with doors to balcony; and second floor landing, four bedrooms and bathroom. Extending according to the EPC to 216 m<sup>2</sup>, the property was sold in January 2016 for a recorded £392,000, equating to £56,000 per habitable room and £1,815/m<sup>2</sup> TUFA.

- ❖ The final comparable is in respect of no 6 The Green, which in conjunction with adjoining no 5 The Green, had in the previous ownership been operated as Edendale Residential Care Home, in 2010 with a combined registration for 31 residents within the DE – dementia care and MD – mental disorder categories. The vacated late Victorian three-storey property arranged with five reception rooms and nine bedrooms, standing in a plot of 0.223 of an acre, was sold in January 2016 for £497,500, equating to £35,536 per habitable room and £1,171/m<sup>2</sup> TUFA.

None of the above properties analysed were operating as trading entities when they were sold, hence effectively the sale prices are reflective of their freehold vacant possession value in an area that is predominantly residential in character. The most recent and best comparable for the subject property would appear to be adjoining no 4 The Green, where the new owner is presently in the process of subdividing what was two large self-contained residential maisonettes, into a greater number of flats, hence involving additional investment.

## Comparable Evidence – HMO Sales/Marketing

Other recent sales of HMO style property investments include:

Westbrooke, Worthing – a three floor 12 bedroom HMO with mix of bedsit, studio and one bed flats sold at auction in April 2019 for £800,000. The gross rent potential is advised as £94,560 suggesting a gross yield of 11.8%, although it is believed that this property is not fully let at present, but no further details were available.

In Littlehampton a seven bedroom, one studio HMO was sold at auction in April 2019 for £275,000. This had a potential rent advised of £41,000, but was only achieving £21,972 at time of sale, with the price representing 7.98% gross initial yield or 14.9% on advised potential rent.

In July 2018 a six floor 14 studio apartment HMO sold at auction for £1,545,000. It is advised to have been almost all let with a gross rental income potential of £114,000, with the sale price equating to a gross yield of 7.3%.

# Methodology and Comparable Evidence

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In October 2017, a similar but smaller HMO in the same street sold for £1,200,000. The property, a licensed HMO had a gross rental income of £103,500 per annum from its 13 studios, with the sale price equating to a gross yield of circa 8.6%

Whilst not yet a confirmed sale, a helpful comparison can be drawn from another investment property being offered for sale currently. Two 5 storey houses just back from the seafront in the Kemptown area of Brighton have been established student lets for over 20 years and provide a total of 21 bedrooms within four maisonettes. The properties are subject to an HMO licence and occupation is via Assured Shorthold Tenancies with guarantors.

The anticipated rental income for the coming year is £132,080, equating to £121 per week, with this expected to increase to £129 in 2020. The asking price of £2,200,000 equates to a gross yield of 6% on the current rent.

Another yet to be completed sale is of a 20 bed three storey detached property in Hove. Formerly a hotel, the property is now used for accommodating temporary guests, of a similar nature to that at the subject property. A ten year lease has been agreed with the advised sale price, just over £2,000,000 reflecting a gross yield of just over 11%, which presumes that the terms of the lease and personal guarantees are sufficiently robust to ensure the rent is secured for the full term of the agreement.

We are also aware of the marketing, but not yet confirmed sale, of a 33 unit HMO in St Leonards, of long standing nature, comprising two freehold buildings, on the seafront with an advised annual rent roll of £183,840. The asking price of £1,750,000 equates to a gross initial yield of 10.51%.

## Methodology

Since Miss Tyas purchased the subject property as a former care home, falling within Use Class C2 – ‘Residential Institutions’, she has successfully gained planning permission for a large HMO for up to 15 guests within 11 bedrooms, hence making the proposition more appealing to this sector of the letting market, which has traditionally been operated from residential properties.

In respect of the vacant possession value, we have considered this having regard to other local residential properties and HMO sales.

We have adopted a rate per m<sup>2</sup> to the GIA of the subject property that extends to a calculated 405.3 m<sup>2</sup> IPMS2, of just under £2,000, higher than the comparable properties noted above, which reflects that property occupies a site in excess No 4 and that there may be potential, subject to planning permission, for further development.

We have also considered the potential to operate as a traditional HMO, without the benefit of KSL Guaranteed Rent Limited’s contacts with the local authority’s and the premium rents this company is able to secure. On this basis we have assessed the rental value of the property to be in the region of £55,000 per annum. Adopting a 7% yield to this rent supports a similar value to the comparison method above.

As an investment, we have adopted a yield of 11% to the passing rent for the duration of the lease, as now advised at ten years, then reverting to the passing rent and above yield thereafter. The weaker yield is reflective of the significantly higher rent being received, and the relative youth of the tenant’s business model, having been trading as a limited company only since 2017. This Investment Value is provided on the strict understanding that the terms of the lease and are sufficiently robust to ensure the rent is secured for the full term of the agreement.

## Potential for Alternative Use

The subject site as a whole occupied by no 5 The Green was, when the property was being marketed for sale prior to Ms Tyas’s acquisition, deemed by the selling agent as being suitable for a comprehensive redevelopment after demolition of the existing buildings into 16 self-contained residential flats. The rationale behind this appears to be that prior to the erection of Simar in part of the former garden of no 3 The Green, planning permission had been granted on the original double sized site of 0.429 of an acre for redevelopment with this number of flats.

However, a pro-rata reduction for the smaller site of 0.326 of an acre at no 5 The Green, might instead suggest a comprehensive redevelopment instead for 28 flats, a GDV of £4.76m and a residual value for the site as a whole of £1,190,000, but say £1.2m.

Any such development proposals would of course be subject to planning permission and other Statutory Consents, which may or may not be granted.

# Additional Commentary

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## Marketability

Due to the nature of the existing lease, the bank should be aware that a lower rental income and commensurate market value would result if the current tenancy was to fail

If offered with full vacant possession, the property would have good appeal for residential redevelopment subject to obtaining planning permission.

## Loan Security

Clearly, the value of a property is subject to fluctuation over time, resulting from changes in local market forces, legislation and national economic conditions. Whilst it is for the lender to assess the risk attached to such fluctuations over the period of any loan, and to determine an appropriate level of security, we are unaware of any foreseeable events or circumstances, other than those detailed within this report, which would suggest that the subject property is unsuitable security for loan purposes.

Additionally we would expect the property to have a useful economic life over a typical loan term for a business of this nature. This assumes that the necessary maintenance and upgrades are made to the property to ensure that it continues to meet legislative and market requirements.

Whilst it is possible for sales to complete quickly, in the current market we would not consider it unusual for a marketing period of some over 12 months to be required. However, if the property were disposed of in the event of foreclosure, or if a restrictive time period were imposed then we would expect a reduction in realisable value. It is impossible to be definitive as to the extent of this as it would be dependent upon the particular circumstances, but the valuations subject to assumptions outlined herein provide some illustration of this scenario.

# Valuations

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Within the opinions of valuation stated:-

- ❖ The term '**asset**' refers to the property and/or business inspected and as described within our report, subject to any stated assumptions. Where appropriate, opinions of Proposed Valuation are provided on the assumption that any changes to the property and/or business, as outlined herein, have been completed, the business is trading in line with our Projection and formal trading information can be made available in support of such.
- ❖ All opinions of valuation provided assume that **full and unrestricted title** would be transferred to a prospective purchaser with the current owner permanently vacating all rights to the property and removing all of their personal belongings ("*chattels*").
- ❖ Where the term '**Trade Inventory**' is used, it is assumed to include all items of relocatable furniture and equipment (beds, chairs, tables, crockery, etc) but not permanently installed fixtures and fittings, sanitary ware, floor-coverings, etc.
- ❖ In view of the unpredictability of the conveyancing process, valuations that are expressed subject to a **specified time restriction** are provided on the basis that a sale has been agreed within that timescale, subject to contract, rather than legally completed.

## MARKET VALUE

- (a) The Market Value of the current asset is ..... **£800,000**  
*(eight hundred thousand pounds)*

## MARKET VALUE

- (b) The Market Value of the current asset, subject to the tenancies detailed herein, is ..... **£1,250,000**  
*(one million, two hundred and fifty thousand pounds)*

## MARKET RENTAL VALUE

- (c) The annual Market Rental Value of the current asset is ..... **£55,000**  
*(fifty five thousand pounds)*

# Valuations

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## Basis of Valuation

The bases of value above are as defined by The Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards, and are subject to the qualifications and limitations referred to within this report. Full definitions of the valuations are outlined below.

*Market Value - 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 Rental Value - 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.*

## Market Value – Special Assumptions

Unless otherwise specified, this valuation assumes that the asset is to be offered for sale free of any perceived blight resulting from factors such as the threat of action by statutory authorities or the appointment of Receivers. It should be appreciated that the impact of the specified restricted sale period will be more significant during periods where transactions are prolonged due to uncertain market conditions.

# Explanatory Notes

**(Effective from 19 May 2014)**

*This Appendix forms part of the Report, and it is assumed that the Client is fully conversant with its contents.*

## **(a) Definitions**

*Unless the context otherwise requires, the following terms have the meanings ascribed (where appropriate, references in the singular will also apply in the plural):-*

"Pinders"	<i>means Pinders Professional &amp; Consultancy Services Limited whose registered office is at Pinder House, Central Milton Keynes, MK9 1DS.</i>
"the Client"	<i>means the person(s) or body from whom the instructions to prepare the Report have been received. Reference to the Client, who shall be identified on the front page of the Report, shall in all cases be interpreted to mean only this person(s) or body.</i>
"Proposed Borrowers"	<i>means the individual(s) or company whose proposal is the subject of the Report. Any reference to Proposed Borrowers within these Explanatory Notes also applies to alternative forms such as "Proposed Purchasers", "Proposed Vendors", etc.</i>
"the Property"	<i>means all those freehold/leasehold premises which have been inspected by Pinders and reported upon.</i>
"the Business"	<i>means the business trade or profession carried on or to be carried on by the Proposed Borrower in respect of which Pinders has been requested to prepare the Report.</i>
"the Report"	<i>means a Report on the Property and/or Business prepared by Pinders.</i>
"date of Inspection"	<i>the date on which Pinders' representative carried out the inspection of the premises.</i>
"date of Valuation"	<i>the date on which the opinion of value applies.</i>

## **(b) Limitations of Report**

*Pinders has prepared this Report for use only by the Client to assist them in the consideration of the proposal stated and in respect of the subject business and/or premises, and for no other purpose whatever. It is confidential to the Client and other than for information purposes it is not for use by the Proposed Borrowers or any other party in any way.*

*Pinders accepts responsibility to the Client alone that the Report will be prepared with the skill, care and diligence to be expected of a competent business valuer and appraiser, but accepts no responsibility whatsoever to any person other than the Client. No person or body other than the Client may rely on the Report and neither the whole, nor any part of the Report, nor any reference thereto, is to be included in any published document, circular or statement, nor published in any way without the written approval of Pinders as to the form and context in which it may appear.*

*The Report may include an appraisal of a business concern together with comments as to its trading potential. In making such assessments Pinders accept no responsibility for loss of whatever nature which may result directly or indirectly from:*

- ❖ the suppression, deception or falsification of material facts by the Vendor, Proprietor, and/or Proposed Borrowers;
- ❖ any mismanagement of the business;
- ❖ insufficient capitalisation, stock and staffing levels;
- ❖ changes in the financial and market situation compared to those prevailing at the date of the Report;
- ❖ material alterations to the nature, character, extent and pricing structure of the business;
- ❖ failure to maintain all proper and prudent insurance cover.

*This Report is not intended to replace any of the investigations or enquiries normally undertaken in connection with the purchase or mortgage of a property/business and we do not accept responsibility for loss of whatever nature directly or indirectly arising out of failure to make such enquiries. Such enquiries include, but are not limited to, the taking of independent professional advice from solicitors and accountants, the entering into of a professionally drawn acquisition agreement with the appropriate warranties being taken from the Vendor or Proprietor, the taking up of all necessary trade and bank references, the inspection of the Vendor's or Proprietor's or Proposed Borrowers' accounts, examinations of all necessary consents, regulations, permissions, licences and bylaws.*

*Furthermore it is the Client's responsibility to ensure that all trading information provided to Pinders is substantiated by audited/certified accounts and, where appropriate, an Accountant's Certificate. Any discrepancy arising from such documentation should be reported to Pinders as soon as practicable in order that any necessary adjustments may be made to the Report. The Report may point to further enquiries being necessary and failure to make such enquiries will be taken as evidence of non-reliance upon the Report and valuations therein.*

*It must be remembered that the Report does not contain a decision as to whether the stated proposal should proceed. It should also be noted that we do not supply "investment advice" either for the purposes of the Financial Services Act 1986 or at all. We do not offer advice as to whether shareholdings or debentures should be taken in the case of an incorporated business or equity acquired in the case of an unincorporated business or partnership. Should the Client and/or the Proposed Borrowers require such advice, they should seek assistance from their independent financial adviser.*

*Unless otherwise stated, the Report is not a Report of a survey, whether "Building Survey", "Structural Survey" or otherwise and no such building or structural survey has been carried out. In making the Report regard will be had to the apparent state of repair, construction and condition of the Property, taking into consideration major defects which are obvious in the course of a visual inspection of so much of the exterior and interior of the Property as is accessible at the time of inspection with safety, and without undue difficulty. The inspection will view those parts of the Property as can be seen whilst standing at ground level within the boundaries of the site and adjacent public/communal areas and whilst standing at the various floor levels, which Pinders considers reasonably necessary to provide the service, having regard to its purpose.*

*Pinders shall be under no duty to examine those parts of the Property which are covered, unexposed or inaccessible, or to raise boards, inspect woodwork, move anything, or use a moisture detecting meter. Neither shall Pinders have a duty to arrange for the testing of electrical, heating or other services which, unless indicated to the contrary, shall be assumed to be in a working and serviceable condition. If Pinders' inspection suggests that there may be material hidden defects Pinders will so advise and may exceptionally defer submitting a final Report until the results of further investigations are available.*

*It is assumed that those parts of any building erected on the Property which have not been inspected or made available for inspection would not reveal material defects of such a nature as to cause Pinders to alter the Report and Valuation.*

*In making the Report Pinders has made the following assumptions:*

- (i) We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of this property, or has since been incorporated, and we are therefore unable to report that the property is free from risk in this respect. For the purpose of this Report we have assumed that such investigation would not disclose the presence of any such material to any significant extent.*
- (ii) Pinders cannot give any opinion whatsoever regarding the structural design of any construction upon the property nor as to the suitability of any foundations to such constructions.*
- (iii) That the plant, machinery, equipment, fixtures and fittings are in serviceable order, adequate for the effective trading of the business, and will remain so for the foreseeable future.*

**(c) Aspects of Title**

*In making the Report Pinders has made the following assumptions:*

- ❖ That the Property is not subject to any unusual or especially onerous covenants, restrictions, encumbrances or outgoings which might affect Pinders' valuation or which might prevent all or part of the Property from being properly used in connection with the Business.
- ❖ That the Title is as described to Pinders and as referred to in this Report and that there is good and marketable Title to the Estate or Interest which Pinders has valued. Unless indicated to the contrary, title deeds and/or lease documents have not been inspected. Any interpretation of leases and other legal documents and legal assumptions given in our capacity as Business Valuers and Appraisers must be verified by a suitably qualified lawyer if it is to be relied upon.
- ❖ That the valuation of the Property/Business is unaffected by any matters which would be revealed by any searches and replies to such enquiries as are raised or should properly be raised by the Client/Proposed Borrower and/or by Solicitors acting on his/their behalf or by any statutory notice, restriction or liability; Pinders must be advised of any variations as to this assumption.
- ❖ That the Property and/or Business, its use or intended use, or its condition is not in any way unlawful or in breach of any provisions of the Town and Country Planning Acts, Building Control, Licensing Acts, Registered Homes Act, Environmental Health Acts, or other statutory requirements, and that the Property has direct access from a publicly maintained highway.
- ❖ Pinders' understanding of the boundaries is noted, but Pinders has no knowledge (expressed or implied) of the responsibilities for fencing and legal advice should be sought in this respect, if required. Pinders assumes that such boundaries show the true extent of the property and that there are no potential or existing boundaries or other disputes or claims outstanding. Where indicated site areas are obtained from published plans or as advised to Pinders. They are not derived from a physical site survey and are approximate unless otherwise indicated. Unless otherwise stated, any measurements noted are carried out in accordance with the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors.

*Pinders shall be under no obligation to verify any of these assumptions. It remains the responsibility of the Client to ensure that all appropriate enquiries and investigations are made and the report is not intended to replace any of those enquiries/investigations.*

**(d) Environmental Matters**

*Pinders has not carried out, nor has it commissioned, a site investigation, geographical or geophysical survey and therefore can give no opinion or assurance or guarantee that the ground has sufficient load bearing strength to support the existing constructions or any other construction that may be erected upon it in the future. Pinders cannot give any opinion or assurance or guarantee that there are no underground mineral or other workings beneath the site or in the vicinity nor that there is any fault or disability underground. It is not possible for Pinders, therefore, to certify that any land is capable of further development or redevelopment at a reasonable cost for the use for which there is permission.*

*Unless otherwise stated, we are not aware of the content of any environmental audit or any other environmental investigation or soil survey which may have been carried out on the property and which may draw any attention to contamination or the possibility of any subsequent contamination. In our undertaking we will assume that no contaminative or potentially contaminative uses have ever been carried out in the property. We have not carried out an investigation into past or present uses, either of the property or of any neighbouring land, to establish whether there is any potential for contamination to the subject property from these uses or sites, and have therefore assumed that none exist. Should it be established subsequently that any contamination exists at the property or on any neighbouring land, or that the premises have been or are being put to a contaminated use, this might reduce the values now reported.*

**(e) Generally**

*This Report has been prepared in good faith on the basis of enquiries made and information supplied to us. We reserve the right to claim qualified privilege in respect of any part of this Report should the contents be subsequently challenged by a party claiming to be aggrieved at anything stated herein. Sections 12 to 16 of the Supply of Goods and Services Act 1982 (or any statutory enactment thereof for the time being in force) are hereby excluded.*

*Valuations may be relied upon for the stated purpose as at the date specified. It is for the Client alone to make judgement as to their reliance upon the contents of the Report thereafter. In normal market conditions the value may not change materially in the short term (approximately 3-6 months). However, the property market is constantly changing and is susceptible to many external factors which can affect investor confidence and corresponding values.*

*Value added tax, taxation, grants and allowances are not included in capital and rental values as, unless otherwise specified in the report, these are always stated on a basis exclusive of any VAT liability even though VAT will in certain circumstances be payable. Unless otherwise specified no account is taken of any existing or potential liabilities arising for Capital Gains or other taxation or as a result of grants or capital allowances.*

*In the event of a dispute arising in connection with a valuation or the contents of the Report, unless expressly agreed otherwise in writing, Pinders Professional & Consultancy Services Limited and the Client will submit to the jurisdiction of the British Courts only. This will apply wherever the property or Client is located, or the advice provided.*

*Pinders are deemed to be "External Valuers" with no other current or presently foreseeable fee earning relationship concerning the subject property and/or business apart from the valuation fee. Pinders will disclose to the best of its knowledge previous inspections undertaken. Pinders is not however able to disclose any present or previous relationship with any of the interested parties, contrary to the requirements of the Valuation - Professional Standards of the Royal Institution of Chartered Surveyors.*

*None of our employees, partners or consultants individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.*

*If you suffer loss as a result of our breach of contract or negligence, our liability shall be limited to a just and equitable proportion of your loss having regard to the extent of responsibility of any other party. Our liability shall not increase by reason of a shortfall in recovery from any other party, whether that shortfall arises from an agreement between you and them, your difficulty in enforcement, or any other cause.*

Our contract with you for the provision of this valuation is subject to English/Scots Law (as appropriate to the location of the subject property). Any dispute in relation to this contract, or any aspect of the valuation, shall be subject to the exclusive jurisdiction of the Courts of England and Wales/Scotland, and shall be determined by the application of English/Scots Law regardless of who initiates proceedings in relation to the valuation.

**(f) Valuations**

The valuations provided will be made on the assumptions stated within the Report and/or these Explanatory Notes in respect of the individual subject business/property, unless otherwise agreed, on whichever of the following or other bases as have been agreed between Pinders and the Client, such bases where applicable to be as defined or referred to in the Valuation - Professional Standards of the Royal Institution of Chartered Surveyors.

The valuations provided are for the value of the business/property as described. No account has been taken of any special tax or other inducement or liability which may arise as a result of any transaction in contemplation nor of normal costs involved in the execution of such a transaction. The full definitions of the valuations provided in the Report are set out below: If the Report contains other valuation bases, these are as specifically requested by the Client with our advice identified within the Report to be on a basis not recommended by the Royal Institution of Chartered Surveyors, and provided for guidance purposes only.

**DEFINITIONS OF VALUATION**

Market Value (MV)	The estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.
Market Value with special assumptions	Opinions of Market Valuation can be provided in accordance with special assumptions which are indicated by the client. These assumptions will be clearly stated within the body of the report.
Market Rental Value (MRV)	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 acted knowledgeably, prudently and without compulsion.

Interpretive Commentary, as published the RICS Valuation – Professional Standards January 2014.

(a) ‘The estimated amount ...’

Refers to a price expressed in terms of money (normally in the local currency) payable for the asset in an arm’s-length market transaction. Market Value is the most probable price reasonably obtainable in the market on the date valuation date in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.

(b) ‘... an asset should exchange ...’

Refers to the fact that the value of an asset is an estimated amount rather than a predetermined or actual sale price. It is the price in a transaction that meets all the elements of the Market Value definition at the valuation date.

(c) ‘... on the valuation date ...’

Requires that the value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

(d) ‘... between a willing buyer ...’

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present owner is included among those who constitute ‘the market’.

(e) ‘... a willing seller ...’

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be. The factual circumstances of the actual owner are not a part of this consideration because the willing seller is a hypothetical owner.

(f) ‘... in an arm’s-length transaction ...’

Is one between parties who do not have a particular or special relationship eg parent and subsidiary companies or landlord and tenant, that may make the price level uncharacteristic of the market or inflated because of an element of Special Value. The Market Value transaction is presumed to be between unrelated parties each acting independently.

(g) ‘... after proper marketing ...’

Means that the asset would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The method of sale is deemed to be the most appropriate to obtain the best price in the market to which the seller has access. The length of exposure time is not a fixed period but will vary according to the type of asset and market conditions. The only criterion is that there must have been sufficient time to allow the asset to be brought to the attention of an adequate number of market participants. The exposure period occurs prior to the valuation date.

(h) ‘... and where the parties had each acted knowledgeably and prudently ...’

Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses and the state of the market as of the valuation date. Each is further presumed to use that knowledge prudently to seek the price that is most favourable for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the valuation date, not with benefit of hindsight at some later date. For example, it is not necessarily imprudent for a seller to sell assets in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other exchanges in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

(i) ‘... and without compulsion’

Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase, and without offset for any associated taxes.