

REPORT AND VALUATION



**GROBY LODGE CARE HOME
425 GROBY ROAD
LEICESTER
LE3 9QB**

Date of Valuation: 2 November 2021

Prepared on the Instructions of Proplend Security Limited

Your Reference: SP Synergy Real Estates Leicester Limited

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1 Executive Summary

Client	Proplend Security Limited 20-22 Wenlock Road London N1 7GU Attn: Brian Bartaby (borrower@proplend.com)
Borrower	Synergy Real Estates Leicester Limited
Property Address	Grobby Lodge Care Home 452 Grobby Road Leicester LE3 9QB
Business Type	Residential Care Home
Tenure	Freehold
Location	The city of Leicester which has a resident population of circa 350,000 is located around 28 mile south of Nottingham, 27 miles south east of Burton on Trent and 14 miles north east of Hinckley. The subject business is located around 1.5 miles to the north west of Leicester city centre, on the southern side of Grobby Road (A50) at its junctions with Grobby Road roundabout/New Parks Way (A563). This area is mainly residential in nature, with the housing stock comprising terraces of what would appear to be local authority/housing association properties and within 250 metres to the north is Glenfield Hospital.
Accommodation	This is a former private residence which would appear to date from circa the 1930's, which is of brick under a pitched slate clad roof. The home is registered to accommodate up to 12 residents all in single bedrooms, 11 rooms with en suite facilities. In addition, there are day space areas and to the rear there is a secure garden.
The Business	The business has been owned and operated by the vendor for the last 17 years. He has now decided to sell as he wishes to retire from the care industry. It is showing high levels of occupancy and an average fee of £587.75 per resident.
Proposals	We are not aware of any proposals in respect to the property and/or the business and have valued on this basis.
Valuation Date	2 November 2021
Date of Inspection	2 November 2021
Purpose of Valuation	Loan security

Valuations	<p>MV1 – Market Value as a fully equipped operational entity having regard to trading potential. £670,000</p> <p>MV2 – Market Value as a fully equipped operational entity having regard to trading potential subject to the following special assumptions: £500,000</p> <ul style="list-style-type: none"> • The timescale allowed for disposal is 90 days • The business is open for trade <p>MV3 – Market Value subject to the following special assumptions: £555,000</p> <ul style="list-style-type: none"> • Vacant possession • The home is fully fitted <p>Market Rent £45,000 per annum</p> <p>The valuations are prepared in accordance with the RICS Valuation – Global Standards 2020.</p>
Suitability for the Loan	<p>We consider the property provides suitable security for loan purposes subject to normal prudent lending criteria and the following:</p> <ul style="list-style-type: none"> • Any change in trading performance is likely to result in a change in value. • In the event of the registration being lost or in jeopardy value is likely to be adversely affected. • Our valuations assume that full audited accounts and VAT returns substantiating the trading information supplied to us would be made available to prospective purchasers and the current trading performance would be warranted by the vendor. • We recommend a full Report on Title is obtained.
Conflict of Interest	<p>Davis Coffery Lyons previously provided in valuation advice in respect to the property to Newable Finance in June 2021. The purpose of the advice was for loan security purposes.</p> <p>Our previous advice has been provided as independent valuers and we are not aware of any conflict of interest in this matter.</p>
Valuer	<p>Cameron Wright MRICS, Director</p> <p>We confirm Cameron Wright is an RICS Registered Valuer and has the appropriate experience and expertise to undertake this valuation.</p>
General Assumption	<p>This report must be read in conjunction with assumptions and conditions enclosed at Appendix 1.</p>
Specific Assumptions	<p>None</p>
Information	<p>Details of the information supplied and relied upon are set out in Appendix 2.</p>

**Professional Indemnity
Insurance**

Restrictions

Davis Coffery Lyons has the appropriate level of Professional Indemnity Insurance Cover in respect of this valuation.

Our valuation is provided for your benefit alone and solely for the purposes of the instruction in which it relates. Our valuation may not, without our written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees or is permitted to see a copy of our valuation report. If we do provide written consent to a third party relying on our valuation, any such third party is deemed to have accepted the terms of our engagement.

2 Location

The city of Leicester which has a resident population of circa 350,000 is located around 28 mile south of Nottingham, 27 miles south east of Burton on Trent and 14 miles north east of Hinckley. It lies on the River Soar and a stretch of The Grand Union Canal.

Leicester has excellent road communication links being situated a short distance to the east of the M1 with access via junctions 21 and 21A, the city also served by a number of A roads to include the A46, A6030 (ring road) and the A6. There are also mainline rail connections with regular services to London St Pancras and around 18 miles to the north west is East Midlands Airport.

Within the city centre, which is partially pedestrianised, there are the full range of national multiple retailers many centred around the Highcross Shopping Centre, Haymarket Shopping Centre and Fosse Park Retail Park.

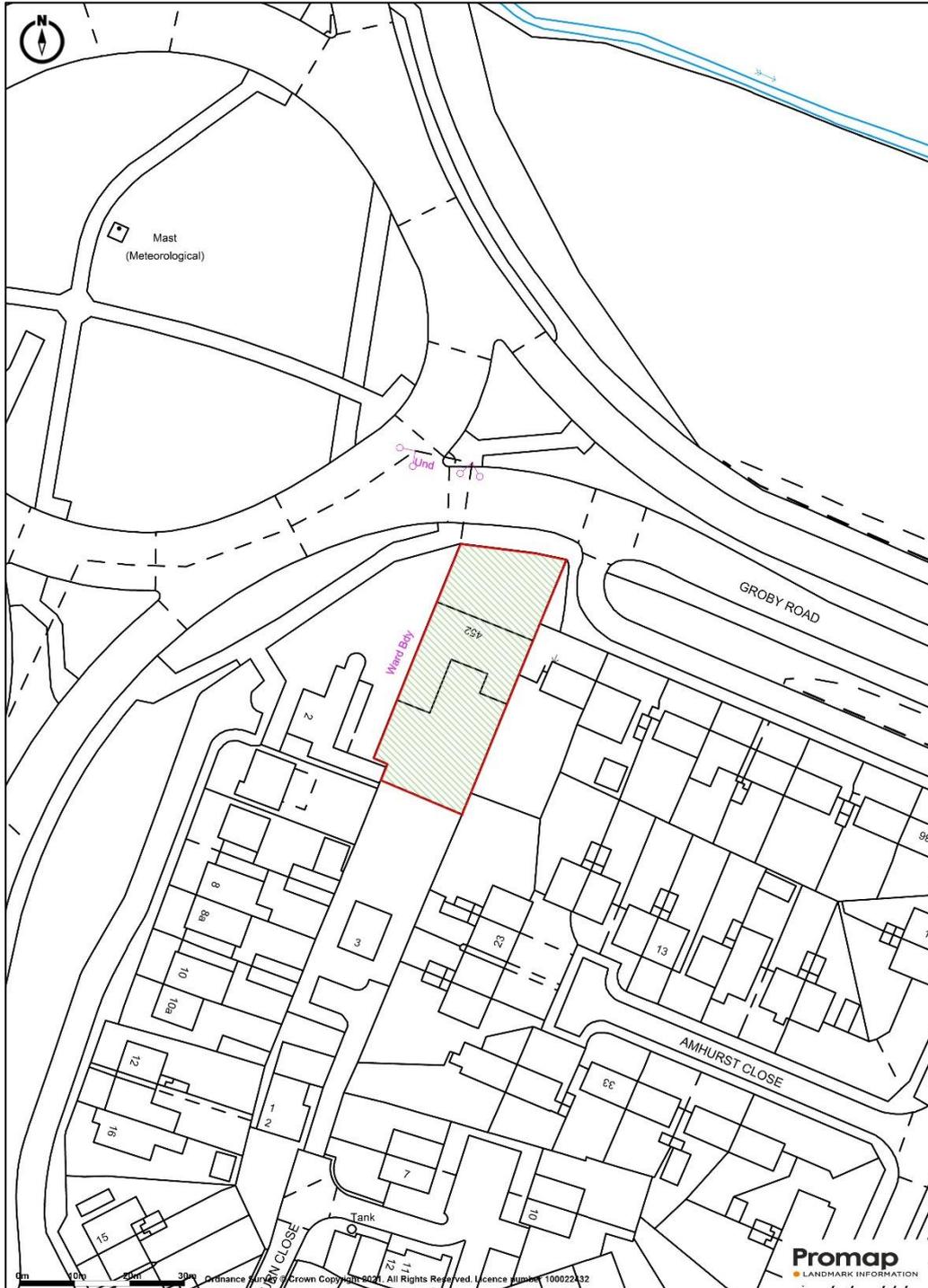
The subject business is located around 1.5 miles to the north west of Leicester city centre, on the southern side of Groby Road (A50) at its junctions with Groby Road roundabout/New Parks Way (A563). The A563 forms part of Leicester Ring Road and affords easy access to the M1 and to the North with the A46.

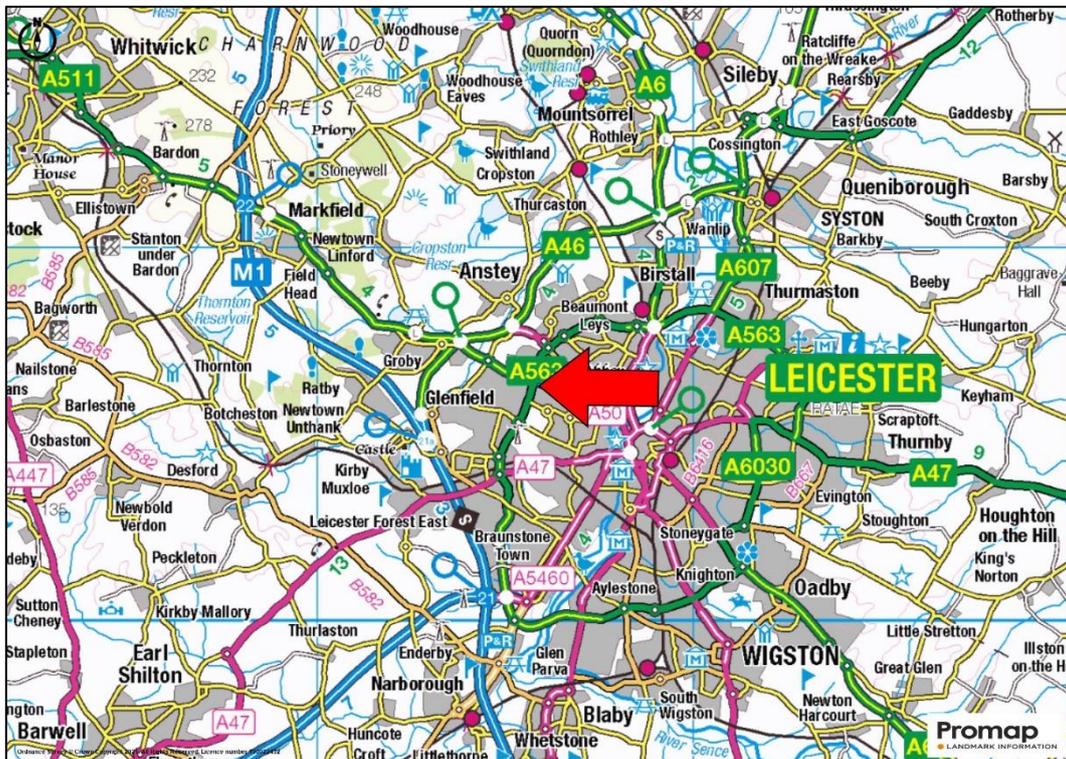
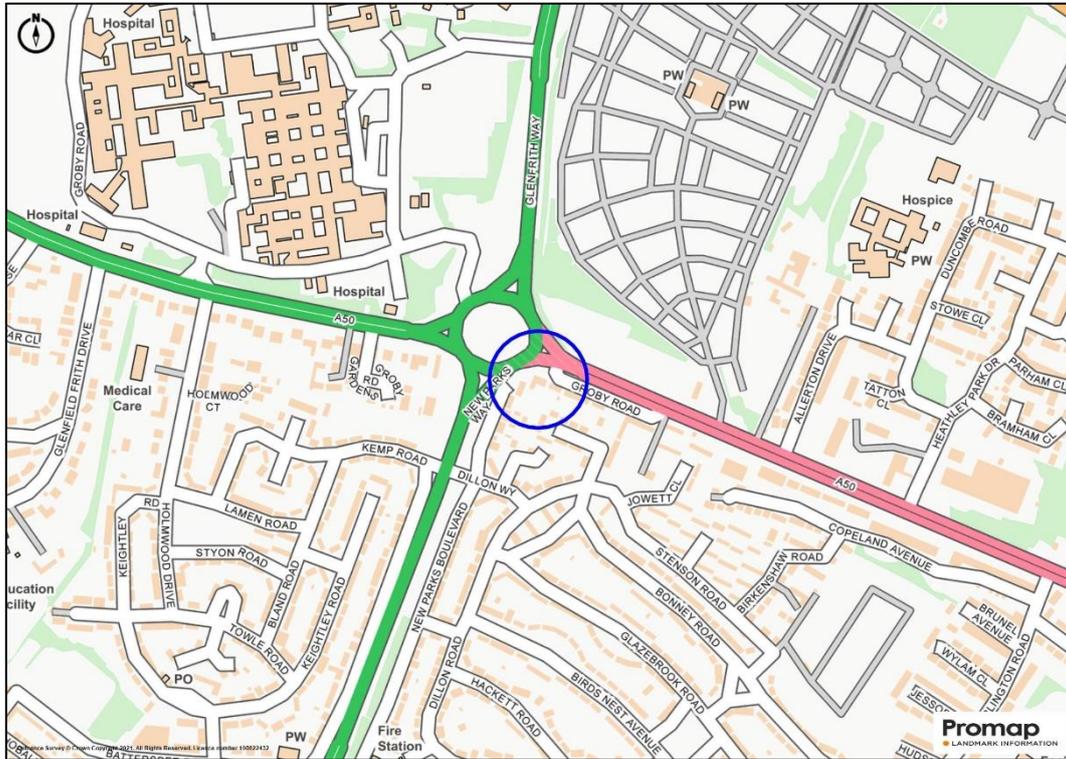
This area is mainly residential in nature, with the housing stock comprising terraces of what would appear to be local authority/housing association properties and within 250 metres to the north is Glenfield Hospital.

To the front of the property there is parking provision for up to four vehicles.



We set out below a location plan on which the boundaries of the property, as described to us, are indicated.





3 The Property

Description

This is a former private residence which would appear to date from circa the 1930's, the front section constructed of brick under a pitched slate clad roof. To the front there are three full height bay windows with what would appear to be leaded features between ground and first floors and there is an arched recessed entrance. To the southern elevation, there is a substantial single storey addition, again of brick, this rendered and colour washed externally under flat roofing and, to the rear, there is a further single storey addition of brick under pitched tile clad roofing.



Accommodation

Entrance

The principal entrance to the home is from the front via a recessed, single leaf, partially glazed door which leads into the carpeted entrance hallway with stair to first floor.



Bedrooms

The home is registered to accommodate up to 12 residents, all in single bedrooms with 11 rooms having en suite facilities. The room without en suite facilities has a wash hand basin and it is in close proximity to a bathroom.

At inspection, we were able to enter a sufficient number of bedrooms to confirm our opinions of standards. It appears that the rooms have mainly carpet flooring with plastered and painted walls and ceiling and have nurse call system and fire and smoke detectors.

The rooms have been furnished by the care provider to an extent, and we understand residents are permitted some of their own furniture and personal effects.

The rooms inspected were presented to a reasonable standard throughout, although décor in part is slightly dated and there has been an element of wear and tear, which is not unusual for a business of this type.

Both floors are connected by a four person/300kg lift and a stair.

The layout of the rooms and facilities are as follows: -

Floor	Single	Shared	En Suite	Total Rooms	Total Beds
First Floor	6	0	6	6	6
Ground Floor	6	0	5	6	6
Total	12	0	11	12	12



Communal Areas

Within the ground floor is the lounge with adjacent dining room, both areas having carpeted floors with part papered and part plastered and painted walls. The lounge section is furnished with high back chairs and here there is a television, and the dining room has secure upholstered timber chairs around timber tables. This section has a door leading to the rear garden.

In addition, at ground level there is a hairdressing salon with back wash.



Ancillary Areas

At ground floor level is the home's kitchen, which is presented to a domestic standard having a tiled floor, part ceramic tiled walls and there is a gas cooker with overhead extraction.

The laundry is relatively small and has a washing machine and dryer.

In addition, at first floor level there is an office.



External Areas

To the front of the home there is a surfaced car park for up to four vehicles, which is surrounded by mature trees and shrubs.

To the rear is the lawned garden which has a patio with garden furniture and timber hut.

This area would benefit from a degree of attention.



Floor Areas

We set out below a summary of the approximate gross internal floor areas which have been prepared in accordance with the Professional Statement Property Measurement 2nd Edition, January 2018 measurements taken from Promap.

Floor	Use	M ²	Ft ²
First Floor	Bedrooms and Ancillary Areas	168	1,808
Ground Floor	Bedrooms, Day Space and Ancillary Areas	305	3,282
	Total:	473	5,090

Site Area

From our understanding of the boundaries, using Promap mapping services the property has a total site area of approximately 898m² (0.22 acres).

The site flat and rectangular in shape.

At the time of inspection there appeared to be no evident site characteristics that might have a material adverse impact on value or saleability.

Access

The property fronts an adopted highway, Groby Road. To the front there is a surfaced car park for up to 4 vehicles.

It is assumed that the property has lawful unencumbered access and there are no highways proposals which could have an adverse impact on the subject property.

Services

We are advised that the property is connected to all mains services.

There is a 4 person/300 kg lift serving both floors.

We have not undertaken tests of any services, plant, equipment or systems, including software. We have assumed they are all in serviceable order; adequate and appropriate for the property in its current use.

Repair and Condition

We have not undertaken a building or site survey of the property and our inspection was limited to accessible areas only. We are unable to confirm whether the property is free from urgent or significant defects or items of disrepair. Apart from any matters specifically referred to below, we have assumed that the property is in sound order and free from structural faults, rot, infestation and other defects.

Externally, the property appears to be relatively well presented with no obvious wants of repair. We would point out, however, that flat roof coverings have a limited life span and can be subject to sudden failure. Also, the rear garden is slightly overgrown, and it would greatly benefit from a degree of attention.

Internally, the home is, to an extent, dated and has suffered from a degree of wear and tear in sections.

We confirm the property has a remaining economic life of at least 25 years assuming normal maintenance and periodic repairs.

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 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 implementing any such management plan.

We recommend an asbestos materials survey is obtained if deemed necessary as part of any secured lending process.

Environmental and Ground Conditions

Contaminated Land

From our inspection of the premises there were no obvious signs of potential risk of contamination. We do not consider further investigations to be required.

Ground Conditions

We are not aware of any evidence of subsidence heave or landslip at or in the vicinity of the property and have assumed that no such issues exist.

Flooding

We note from the Environment Agency's 'Flood Map for Planning' that the property is situated in a 'Flood Zone 1' area which indicates a low probability of flooding and as such we do not consider there to be a notable material risk of flooding.

Radon

We have made enquiries of the UK Radon website map which suggests that the property is not situated in an area which has undue radon risk.

Japanese Knotweed

We do not consider the property to be subject to any unusual risk of contamination from Japanese Knotweed or other invasive vegetation.

Sustainability

There is growing interest in sustainability which in due course may have an impact on value. We have assumed that the property and business is sustainable in the immediate future but any commentary beyond that is outside the scope of this report.

Planning

The property is situated under the jurisdiction of Leicester City Council.

We have made enquiries of the council's planning website and have identified that the property is not listed nor situated within a conservation area or designated policy areas under the council's Local Plan.

We have also identified the following material planning history in the last five years in respect to the property:

Date	Ref	Details	Status
29 August 2019	20190382	Construction of single storey rear extension to care home to create 2 additional bedrooms and habitable areas	Conditional approval

We have assumed there are no outstanding planning issues and no undue restrictions on the current occupation and use of the property.

We recommend a formal planning search should be obtained as part of the Bank's lending process.

Registration Compliance

We have made enquiries to the relevant local and national authorities and have relied on the information obtained assuming it to be accurate and comprehensive.

Groby Lodge is registered by the Care Quality Commission (CQC) as follows:

Registration Details	
Registered Provider	Pine View Care Homes Limited
Registered Manager	Mr Dinesh Raja
Overview of the Service	The Registered Provider must only accommodate a maximum of 12 service users at Groby Lodge.
Type of Service	Residential home
Regulated Activities	Caring for adults over 65 years Dementia Mental health conditions Physical disabilities

The premises were last inspected on 14 October 2020 and the inspector's report was published in November 2020. The home achieved the following ratings to the CQC's key questions/standards:

Standards	Rating
Is the service safe?	Good
Is the service effective?	Good
Is the service caring?	Good
Is the service responsive?	Good
Is the service well led?	Good
Overall	Good

Council Tax

We have made enquiries to the Valuation Office Agency website and note that the property is subject to a Band F listing for Council Tax purposes.

Statutory Regulations

Energy Performance Certificate

We have obtained from the Government Ministry of Housing Communities and Local Government website details of the Energy Performance Certificate (EPC) for the property which are summarised below:

Ref	Date	Score	Band Range	Expiry Date
5085-6996-5008-5310-6278	17 February 2021	59	Band C (51-75)	16 February 2031

Disabled Access

It is the owner's responsibility to take reasonable steps to comply with the requirements of The Equality Act.

At the time of inspection, the property was generally accessible, and that accessible bedroom and WC facilities were provided. As such it is assumed that the property in its current configuration complies with the requirements of The Equality Act.

We have assumed that any further required alterations to comply with requirements would not have a material impact on our valuation.

Fire Regulations

Under the Regulatory Reform (Fire Safety) Order 2005, occupiers of non-domestic premises are responsible for ensuring adequate fire prevention and precautions are in place.

We have not inspected the relevant documentation, but it is assumed for the purposes of this report that the property has been subject to an appropriate Fire Risk Assessment audit and does not represent a significant risk.

We recommend that the Bank seeks to obtain a copy from the borrower if deemed necessary as part of their secured lending process.

We have assumed that no significant works of a capital nature are required to comply with all fire authority requirements. We reserve the right to amend our advice if this is not the case.

Environmental Health

We understand that the property is registered under the provisions of the Food Safety Act 1990 and was awarded 5 out of 5 at the last visit by the Environmental Health Authority, in March 2018. We have assumed that the business continues to fully meet the requirements of the Act.

Tenure

The property is held freehold with vacant possession throughout.

We are not aware of any third-party rights of way or restrictive covenants in respect to the property and have valued on this basis.

We recommend that a full report on title is obtained.

Lettings

We are not aware of any third-party occupational agreements in respect of the property and have valued the property on this basis.

4 The Business

Overview

On the day of our inspection, we met with the homes manager who showed us around the home. We have also been provided with additional information by the vendor subsequent to the inspection.

We are advised that the vendor has owned and operated the home for some 17 years and that he has now decide to sell as he wishes to retire from the care industry.

As far as we are aware the home has largely been able to avoid any COVID 19 outbreak due to good practices to include full use of PPE, a prohibition on relative's visits, strict lockdown procedures etc.

The home has strong links with local hospitals, GP discharge teams and social services.

Little in the way of advertising appears to be undertaken with the home, we assume, relying on word of mouth recommendations due to its good reputation and manager links.

Occupancy and Fee Levels

We summarise below the weekly fees received as follows:

No of Residents	Weekly Fee	Total Fees
3	£533.00	£1,599.00
4	£601.00	£2,404.00
3	£605.00	£1,815.00
1	£615.00	£615.00
1	£620.00	£620.00
Total - 12		£7,053.00

The above indicates occupancy of 100.0% at an average fee paid of £587.75 per resident per week.

The home accepts both privately/part privately and publicly funded residents. We set out a breakdown below: -

Funding	%	Average Fee	No.	Revenue per Week
Private	16.7%	£601.00	2	£1,202.00
Public	83.3%	£585.10	10	£5,851.00

We understand that average occupancy is in the order of 95% - 98%.

Allowing for an average fee per resident of £587.75 per week for 12 residents at an average occupancy of around 95% (allowing for occasional voids) would equate to annualised fee income in the order of £350,000.

Staffing

We are advised that the owner undertakes overseeing/administrative duties, the day to day operation of the home in the hands of a full time manager, who is assisted by a part time deputy who works 24 hours per week.

The advised care shift rota is as follows: -

Hours	Staff Designation
7.00 am to 3.00 pm	1 x Senior Carer 1 x Carer 1 x Apprentice
3.00 pm to 9.00 pm	1 x Senior Carer 1 x Carer
9.00 pm to 7.00 am	2 x Night Carers

From the above, the care hours are as follows: -

	Hours per Week
Total Care Hours per Week (excluding apprentice)	336
Care Hours per Resident per Week (maximum occupancy – 12)	28

In addition, there is a cook who works 7.00 am to 1.30 pm seven days per week and a domestic working 8.00 am to 2.00 pm.

The current wage rates are as follows:

Designation	Hourly Rate of Pay
Senior Carers	£9.50
Carers	£8.72
Apprentice	£4.55
Cook	£8.72
Domestic	£7.20

From the financial information provided we summarise wages and agency staff costs:

Year ended 31 March	Wage Costs	Percentage of Fee Income
2021	£180,818	47.2%

From our knowledge of similar style concerns in the regional market, we are aware of similar homes working with wage costs of around 47% to 52% of fee income, depending on the resident's needs, location and average fee achieved.

Within our own assessment, we have allowed for an external wage bill of £170,000, to include national insurance and pension contributions, some 48.6% of assessed fee income.

Financial Information

We have been provided with copies of trading accounts for the year to 31 March 2021 which we have summarised below.

Year to 31 March	2021	
Fee Income	383,289	
Purchases	16,844	4.4%
Gross Profit	366,445	95.6%
Accountancy	700	0.2%
Activities	-3,566	-0.9%
Agency Staff	5,136	1.3%
Bank Charges	382	0.1%
Cleaning Supplies	2,007	0.5%
COVID-19 Costs	6,459	1.7%
Equipment Expensed	3,387	0.9%
Equipment Hire	5,841	1.5%
Fire Safety	1,039	0.3%
Foods Costs Refund	-16	0.0%
Furniture/Equipment Rental	2,000	0.5%
Insurance	2,401	0.6%
Lift Maintenance	758	0.2%
Light and Heat	12,693	3.3%
Motor	1,604	0.4%
Legal and Professional	4,405	1.1%
Postage	200	0.1%
Rates	1,382	0.4%
Recruitment Costs	500	0.1%
Repairs and Maintenance	190	0.0%
Training and Welfare	1,295	0.3%
Subscriptions	2,239	0.6%
Telephone	808	0.2%
Telephone	672	0.2%
Training Costs	943	0.2%
Wages	175,683	45.8%
Waste Removal	746	0.2%
Water Charges	1,131	0.3%
Total Overheads	231,019	60.3%
Net Operating Profit	135,426	35.3%
Add Backs		
Equipment Hire	5,841	1.5%
EBITDA	141,267	36.9%

Trading Performance Commentary

We are advised that the reason for only one year's accounts being provided is that the vendor owns and operates other care homes and only normally produces consolidated accounts for all of his businesses.

We have been able to discuss the accounts with the selling agents and the vendor and we have been advised of the following:

Fee Income

The fee income stated for the year ended 31 March 2021 includes a COVID 19 grant of £29,830. Therefore "actual" fee income is, after deducting the grant, £353,459.

Repairs and Maintenance

Repairs costs in the account only amounted to £190. For a home such as this we would normally expect to see repair and renewable costs in the order of 3% of fee income. As such we have allowed for £11,000 in our own assessment.

Other Costas

All other costs would appear to be reasonably stated.

Fair Maintainable Trade Assessment

In our valuation, we are required to consider the fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP) achievable at the property assuming a reasonably efficient operator.

Taking account of the information provided we are of the opinion that the homes current trade represents the FMT achievable by a reasonably efficient operator.

Based upon an average occupancy of around 95% at an average fee of £587.75 would equate to fee income in the order of £350,000 per annum.

We have considered fair maintainable operating profitability on an FMOP basis. We have made various adjustments to reflect a level of earnings closer to industry norms for a business of this type, operating within a normal and expected external wage bill.

After allowing for the adjustments stated above, we consider the FMOP to be in the order of £115,000 (32.9% of fee income).

Fair Maintainable Trade Assessment		
Fee Income	350,000	
Purchase	15,000	4.3%
Gross Profit	335,000	95.7%
Wages	170,000	48.6%
Other Overheads	50,000	14.3%
FMOP	115,000	32.9%

5 Competitive Environment

The main competitors we consider to be relevant to this property and business are:

Name & Address	Description
Gratia, 472 Groby Road	This care home is registered to accommodate up to 20 residents, all in single rooms and with 9 rooms with en suite facilities. It was rated by the CQC as Good in July 2019.
Glenfield Woodlands, Holmwood Drive	This care home is registered to accommodate up to 17 residents, all in single rooms and with 15 rooms with en suite facilities. It was rated by the CQC as Good in January 2019.
The Chantry, Chantry Lane	This care home is registered to accommodate up to 13 residents, all in single rooms en suite rooms. It was rated by the CQC as Good in August 2020.
Abbey House, Stokes Drive	This care home is registered to accommodate up to 37 residents, all in single rooms and with 4 rooms with en suite facilities. It was rated by the CQC as Good in March 2018.

6 Proposals

We are not aware of any proposals in respect of the property or business and have valued on this basis.

7 Market Appraisal

UK Economic Commentary

In common with the rest of the world, the UK economy has been severely affected by the COVID-19 pandemic, with the ensuing lockdowns and other government measures leading to a contraction of the economy.

The UK economy suffered its worst annual GDP slump on record in 2020, with a contraction of 9.9%. This has been followed by a sharp recovery in the latter half of 2021. The August 2021 Bank of England Monetary Policy Report forecasts GDP growth of 7.25% for the whole of 2021. Predictions suggest the UK economy is unlikely to recover to pre-pandemic size until at least mid-2022. The speed of the recovery is very difficult to predict and will depend on a multitude of factors including consumer confidence, international travel, employment and inflation trends.

The Consumer Price Index (CPI) measure of inflation rose to 3.2% in the 12 months to August 2021, up from 2.0% in July. This is the highest increase recorded for this measure of inflation since January 2012, due to rising food, fuel and car prices amongst other items. Petrol prices are currently at their highest in 8 years while used car prices are up almost 20% since April due to increased demand for second hand cars as well as a shortage of computer chips for new cars. Forecasts suggest inflation is likely to continue to rise throughout the rest of 2021 due to increasing wholesale gas prices as well as the phased expiration of VAT cuts for hospitality businesses and the impact of Brexit on supply chains. The BoE rate setting Monetary Policy Committee has taken the view that the current inflation surge is transitory and will fall back to around the target 2.0% after peaking at between 4%-5%. The BoE base rate remains at a record low of 0.1% however it is anticipated that there could be implications for interest rates if inflation remains persistently higher than expected.

The UK unemployment rate is currently estimated at 4.6% in the three months to July 2021, 0.9 percentage points higher than pre-pandemic but 0.3 percentage points below the previous quarter. There is increasing evidence of labour shortages in many sectors, including transport and logistics, construction, and hospitality. The causes of these shortages are complex and include perceived labour mobility restrictions resulting from Brexit, as an estimated 1.3 million non-UK workers have left the country during the pandemic, other mobility restrictions arising from the pandemic, as well as employment inertia, arising because staff were unable or unwilling to change jobs whilst protected by furlough.

Employment experts believe people are being put off from work in certain sectors that have developed reputations for low pay and poor conditions in recent years. Sustained labour shortages could lead employers to push up wages, which could in turn feed through to rising inflation if companies raise their prices to accommodate higher wage bills. Unemployment statistics remain masked by the government's Job Retention Scheme which came to an end on 30 September 2021. The most recent figures suggest that around 1.6 million people were still on furlough at the End of July 2021. Forecasts continue to suggest that UK unemployment is expected to rise further in Q4 2021, particularly when the scheme ends, however to a lesser extent than previously feared.

The level of government subsidy for the economy is unprecedented. Estimates suggest the government has spent over £100bn on support for jobs, including £5bn for new Restart Grants to closed businesses and almost £50bn on the Job Support Scheme which expired at the end of September 2021. A cumulative total of 11.5 million jobs have been protected by the scheme, with 8.9 million workers covered by the scheme at its peak in April/May 2020.

The hospitality sector has been disproportionately hit by the pandemic. An estimated 813,000 payroll jobs have disappeared since March 2020, with the hospitality sector accounting for 355,000 of these – 43% of the total decline in paid employees. Four in five of the total jobs lost have been among the under-35s, reflecting the fact that hospitality, along with retail, employs large numbers of young people.

A sharp decline in international tourism has deeply affected the hospitality sector, especially in central London, with Heathrow Airport seeing passenger numbers plunge 92% in H1 2021 compared with H1 2019. London's unemployment rate is reflective of this and is currently one of the UK's highest, standing at around 6.0% in the three months to July 2021. England eased its international restrictions at the start of October, and it is hoped that this will contribute to increased tourist numbers throughout the remainder of 2021.

The pandemic has resulted in a sharp rise in household saving, as the lockdowns and social restrictions have prevented spending on a range of services and activities. This has increased consumer spending since the restrictions have been lifted, although survey evidence suggests that the majority of additional savings is concentrated in higher income bracket households who are planning to use most of the extra money to reduce debt or to make a range of investments.

A Brexit trade agreement was reached in December 2020 and the UK now has a deal in place with the EU. It is yet unclear of the full impact this agreement will have on the economy however the impact to the supply chains is pushing up consumer prices.

Care Home Market Commentary

Background

Recent published statistics indicate that the UK has an aging population which can be summarised as follows: -

- There are nearly 12 million people aged 65 and above in the UK, of which:
 - 5.4 million people are aged 75+
 - 1.6 million are aged 85+
 - Over 500,000 people are 90+

It is anticipated within the next 50 years there will be an additional 8.6 million people aged 65 years and over – the population roughly equivalent to the size of London. By 2030, one in five people in the UK (21.8%) will be 65 or over, 6.8% aged 75 and over and 3.2% will be aged 85 plus.

Since the start of the 19th century the UK has seen mortality rates decline and life expectancy increase, and by 2017 life expectancy at 65 was a further 21 years for women and 18.5 years for men. It is projected that 23.4% of male and 29.2% of female babies born in 2018 will survive to the age of 100.

Increases in life expectancy in the UK have stalled since 2011. Although a slowdown has been evident internationally, life expectancy in the UK is lower than many other comparable countries. The causes of this slowdown are likely to be complex and are not yet clear; theories include austerity, health and care system integration challenges and increased prevalence of conditions such as cardiovascular disease, obesity and dementia.

This projected demographic shift towards old age has raised debate at government level about how retirement and the provision of care for the elderly will be financed. With government finances suppressed and private and public pensions struggling to match requirements, the main political parties have all had to address the previously taboo subject of the statutory retirement age. The state pension age equalised at 65 for men and women in 2018, and it will increase to 66 by October 2020, 67 by 2028 and 68 by 2037.

Overview

There is a relatively fragmented sector within the care industry from large corporate operators providing in excess of 10,000 beds to sole traders with one or two homes, care homes operated by charities and other non-profit making organisations, all of which comprise the constituent parts as a whole of the vital social service. The ten largest providers make up under 25% of the market with around 38% of capacity provided by smaller groups and the remainder owned by operators with one or two homes.

There are around 7,500 residential care homes and 4,700 nursing homes within the UK and, in line with the UK's demographics, the largest regional care home markets are the south east, north west and the Midlands, while Scotland accounts for 7% of the UK market in bed numbers. The majority of homes in the UK are less than 40 beds.

Broadly speaking, the number of new beds being added is being counteracted by the number of homes being removed, a trend which has been evident over the last few years.

There would appear to be three principal reasons for home closures as follows: -

1. Falling care standards – two thirds of the closed homes were rated 'Inadequate' or 'Required Improvement'.
2. Financial stress – in most of these cases increasing costs and dwindling profitability have been a reason for closure.
3. A small number of homes will be subject to alternative use.

The potential crisis in the UK care home bed provision shows no sign of abating and the issue will be further exacerbated as the 'baby boomer' generation ages at a faster rate than new care homes can be developed. This will lead to greater pressure on the government to provide sufficient funding for social care and encourage local authorities to support care home development in order to speed up their rate of delivery.

In real terms, total expenditure on social care by councils is still £700million below 2010/11, this spread individually by all of the local authorities. There is no national social care budget, although the amount available to spend locally is affected by national government decisions on the formula underpinning local government finance. Although local authorities have increased spending on adult social care in the past two years, the cost to them of providing residential and nursing care and home care has risen by more than the rate of inflation.

UK health spending has grown by 1.6% a year over the last four years, which is much less than half the historical average rate growth. In England, the strategy for the NHS is underpinned by a funding settlement up to 2023/24 with average annual increases of 3.3% a year which started in 2019. However, maintaining current standards of care will require funding to increase by at least 3.4% a year - £3billion of funding in 2023/24 above current announcements.

With up to £47billion of development required in care homes alone, the private sector has an opportunity to use its considerable resources to make significant investment into a market with long term demand drivers, whilst aiding social policy. The private sector will continue to invest where risk/return relationships are favourable. Local markets deemed to pose too high a risk may limit investor appetite and lead to major imbalances in the quality and availability of social care infrastructure regionally.

The care sector has relied heavily on migrant workers from the EU for many years. The Government's announced strategy in respect of migrant workers does not promote the free movement of workers either from EU countries or beyond and seeks to control it. As such it is possible that these sectors could experience a further increase in labour shortages in the future if this policy is implemented. This could lead to increased wages costs as well as operational difficulties.

Occupancy

Occupancy rates in care homes are considerably higher than nursing homes across all regions, except for the north west where nursing care occupancy is marginally higher. This trend is driven by many factors, including longer average length of stay for care residents, the continued growth of personal care for dementia and the increasing demand for personal care from self-funders.

Due to the ever-increasing elderly population, it is predicted that there will be a demand for at least 75,000 additional elderly care beds by 2030 and that based on recent trends, demand will outstrip supply by 2022.

The south east of England maintains leading levels of supply and demand, with one of the largest elderly populations and concentrations of newer purpose-built provisions. Many other regions still have an under-supply of market standard beds (i.e. with en suite provision), therefore competition is most relevant on a localised market basis.

Opportunities

Demand for healthcare is set to continue which will increase demand for residential care, but also primary and acute care with the elderly leading users of such services. New development is key to the future and will create entry points for many investors.

Challenges

The key challenges facing operators, large and small, across the UK relate to staffing, funding and a tougher regulatory environment. These challenges were highlighted in the 2018 Adult Social Care Report which showed a deficit of 20,000 nurses currently in the UK and with a 13% drop in nurse registrations in 2018 the availability of nurses looks set to shrink further. This has been a constant focus for operators who have been developing programmes to help recruit and retain trained staff.

There are a potential 6,500 care homes at risk of closure over the next five years, equating to 140,000 beds. This shortage will be exacerbated by the increased demand for care homes by 2050, which will see a national bed crisis in the UK as the share of people over the age of 80 is expected to surge over the next 30 years, with one in ten adults set to be over 80 by 2050, compared to one in 20 currently. Predictions are that by 2040 there will be a shortfall of 300,000 market standard beds so there is need for inward investment as demand will continue to outstrip supply.

The average staff costs have increased 50% over the past decade, rising to circa £26,000 in 2018/19 on a per resident per annum basis. The rise is generally down to increases in the National Living Wage.

Income per resident has increased by 4.5% annually, however this is less than the 4.7% increase in staff costs per resident. This is directly impacting the 'bottom line' with average profit margins down by nearly 5% over the past 10 years.

Property costs rose by 15% over the past year, including the increases in utilities, council tax, insurance and repairs and maintenance. Food costs also grew by 8%, partially due to a weakening pound, which has made imported goods more expensive.

Availability of stock was one of the biggest barriers to investment in 2019 and the care funding crisis, which mostly affects care operators dependent on local authority or government funds, is not likely to be resolved soon.

Requirements

Previously registered care homes were required to meet National Minimum Standards for the environment within a care facility. With effect from 1 October 2010 the CQC implemented a new registration and inspection regime to all regulated health and adult social care services. The new system has its primary purpose to:

"make sure that people can expect services to meet the standards of quality and safety that respect their dignity and protect their rights. The new system is focussed on outcomes, rather than systems and processes, and places the views and experience of people who use the services at the centre"

The essential standards of quality and safety consist of 28 regulations (and associated outcomes) that are set out in two pieces of legislation; the Health and Social Care Act 2008 (Regulated Activities) Regulations 2014 and the Care Quality Commission (Registration) Regulations 2009.

For each regulation, there is an associated outcome. The 16 regulations (out of the 28) that are contained within Part 4 of the Health and Social Care Act 2008 (Regulated Activities) Regulations 2010 are the ones that most directly relate to the quality and safety of care. Providers must have evidence that they meet these outcomes.

In respect of the suitability of premises to be used for the purposes of a care home we would highlight key points as follows:

Safety and Suitability of Premises

Regulation 15(1) - The registered person must ensure that service users and others having access to premises where a regulated activity is carried on are protected against the risks associated with unsafe or unsuitable premises by means of:

1. All premises and equipment used by the service provider must be –
 - a. Clean
 - b. Secure
 - c. Suitable for the purpose for which they are being used
 - d. Properly used
 - e. Properly maintained
 - f. Appropriately located for the purpose for which they are being used.
2. The registered person must, in relation to such premises and equipment, maintain standards of hygiene appropriate for the purpose for which they are being used.
3. For the purposes of paragraph (1)(b), (c), (e) and (f), “equipment “does not include equipment at the service user’s accommodation if –
 - a. Such accommodation is not provided as part of the service user’s care or treatment, and
 - b. Such equipment is not supplied by the service provider.

Suitability of Bedrooms

The CQC document “Guidance about compliance – Fundamental Standards” is one of the most definitive in its outcome as it refers to the suitability of bedrooms:

People who use the service have bedrooms that:

- Are single occupancy except where two people have made a positive choice to share. (Pre-existing care homes, which provided at least 80% of places in single rooms as at 16 August 2002, may continue to do so. Where they did not provide that percentage of places in single rooms as at that date, they provide at least the same percentage of places in single rooms as they provided as at 31 March 2002);
- Are of a size and shape that supports their lifestyle, care, treatment and support needs and enables access for care, treatment and support and equipment;
- They can personalise and in which they can make choices about their environment, including temperature, furnishings and decor;
- For new build care homes and other care homes seeking to register for the first time, are no smaller than 12 m².
- For existing care homes, are no smaller than they were as at 31 March 2010.

Market Segmentation

There has been substantial reconstruction within the care market away from public funded provision to the private sector. The types of elderly accommodation generally fall into the following categories:

- Care homes – these provide accommodation with residential and personal care but do not offer medical nursing care. Residents can usually choose the level of care they receive and the costs for such ancillary services will vary accordingly.
- Nursing homes – these provide 24 hour care and support with added nursing care and assistance for residents who require input from and supervision by a registered nurse who is in situ to devise and monitor care places, provide and administer treatment and carry out timely medical interventions.
- Assisted living – these are often referred to as extra care housing, retirement housing and close care housing. These typically comprise blocks of apartments, a series of bungalows or small self-contained communities. They offer a flexible independent living environment.
- Sheltered housing – offer the most independence as residents effectively live in their own home but with an onsite warden and alarm system.

Impact of COVID 19

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, impacted global financial markets and resulted in severe social restrictions being implemented by many countries.

During 2019 around 2/3 of care homes reported cases of coronavirus amongst its residents and official estimates revealed that over 12,500 people died, although it is thought that the true figure could be much higher.

In certain homes, resident numbers dwindled, leaving a gap in the cashflow. This was through a combination of relatives removing their loved ones from an environment they believed to be risky, fewer new residents being admitted, as well as the rising number of deaths occurring daily in these establishments. If occupancy rates dropped, care homes had very little way of plugging this gap in revenue. Unlike state run NHS hospitals, care homes are, for the most part, privately owned and funded by way of residents’ fees. As occupancy levels fall, so does this funding, and when finances are stretched there is no state safety net with which to fall back on.

Also, with staff members ordered to self-isolate if they or a member of their household displayed symptoms of COVID-19, many care workers had no choice but to call in sick, increasing staffing problems. This meant that agency staff needed to be drafted in, at a high daily rate, to cover absences, with the costs of an agency worker being up to 40% more than a permanently employed staff member.

In addition, care homes are required to obtain adequate levels of disposable personal protective equipment (PPE) as well as cleaning products including hand sanitiser. The cost of purchasing these vital resources further added to financial stresses of certain care homeowners as increasing demand led to increasing prices. Care homes estimated the cost of adequate PPE during the initial coronavirus outbreak to be as much as £253 per care resident per week.

Insurance premiums also soared due to an influx in legal cases being mounted against care homes in the wake of coronavirus deaths. Homes were not offered indemnity during the pandemic, like the NHS, meaning that this potentially had a huge impact on homes’ future finances. Insurance providers were worried about this increased risk and upped their premiums.

Moving forward, as more support became available, the situation certainly improved and during the second wave homes were much better prepared in terms of having the equipment, resources and the support needed. Admission levels have slowly recovered due to increased testing and other innovations, although most operators expect that large scale recovery will take place in the latter part of 2021, following the roll out of the vaccine.

Published information through a number of specialist healthcare agents states that demand for assets has remained strong and, overall, pricing has held up well. This is due to a number of factors to include a relative shortage of stock and buyers taking a longer-term view of the sector, as it is underpinned by strong needs and increasing demand for services. Also, the development of new facilities is essential to keep up with changing demographics and the current undersupply of bed spaces.

In summary the pandemic has demonstrated the resilience of the care market and the performance of the majority of operators, and it has highlighted the requirement for adequate levels of central government funding.

8 Marketability and Other Valuation Considerations

Even during the major periods of the COVID Pandemic when it was significantly impacting on care home operations, there was demand for both traditional and specialist residential care homes in the immediate and wider surrounding areas with well managed homes able to achieve good occupancies and fee levels and, as a result, good levels of profit despite wage cost pressures. This has continued as we come out of the pandemic.

The positive trading conditions have made the local market attractive to independent operators and both small and large corporate organisations. With limited new supply entering the market, this has resulted in good levels of interest in properties coming to the market particular those with good CQC ratings and trading track records.

We consider that given the property's location and scale and the business' proven track record that it would likely attract good levels of interest from independent seeking an entry into the market and both small multi-site operators looking for additional units as part of a small portfolio.

Given the underlying land and buildings values in the area, the property may also attract developers/investors seeking to convert the property for residential use subject to obtaining planning consent for a change of use.

However, we consider given the strength of the business that the alternative residential value to be below our assessment of the market value of the property and more realistically underpins the vacant possession value of the property.

The subject property is located in a good trading situation in a densely populated residential area. The home has been developed to a reasonable standard with all rooms being single and the majority having en suite facilities.

9 Approach to Valuation

Method of Valuation

In arriving at our opinion of value, we have adopted the following methods of valuation:

Profits Method

The profits method requires the valuer to assess the trading performance of the business.

The valuer assesses the likely level of fair maintainable turnover (FMYT) and operating profitability (FMOP) of the business assuming a reasonably efficient operator. The FMOP on an EBITDA (earnings before interest, tax, depreciation and amortisation) basis is multiplied by an appropriate year's purchase (YP) to reflect all market conditions, the location and nature of the business, property, tenure and competition.

The selection of year's purchase is based wherever possible, on relevant comparable evidence from sales of other similar businesses and properties. In the absence of directly comparable evidence, the valuer will use judgement and experience.

Comparable Method

The comparable method involves the direct consideration of transactions in respect of similar properties or businesses. The valuer makes a direct comparison between the subject property and the comparable transaction on an appropriate unit basis.

Comparables

Our market analysis has been undertaken using market knowledge within Davis Coffey Lyons, enquiries of other agents, searches of property databases, as appropriate and any other information provided to us.

We set out below details of relevant comparable evidence. Due to the confidential basis on which much of our comparable information is obtained and held we are only able to divulge information which is already within the public domain.

Property	Details
Confidential Sale - Staffordshire	Home sold for around £1.4 million off fee income of £1.255million and profits of £270,000. The sale price equates to around 5.5 times profits. Sold in Q2 2020.
Confidential Sale - Leicestershire	24-bed care home sold for around £920,000 off fee income of £430,000 and profits of £135,000. The sale price equates to 6.8 times profits and circa £38,000 per bed. Sold in Q1 2020.
Confidential Sale - West Midlands	30-bed care home sold in early 2019 for £950,000 off fee income of £508,000 and profits of £156,000. The sale price equated to 6 times profits and circa £32,000 per bed.
Confidential Sale - Staffordshire	23-bed care home all in single rooms sold in Q2 2019 for £820,000 off fee income of £462,000 and profits of £135,000. The sale price equates to 6 times profits and circa £35,500 per bed.
Confidential Sale - Staffordshire	23-bed care home all in single rooms sold in Q2 2019 for £820,000 off fee income of £462,000 and profits of £135,000. The sale price equates to 6 times profits and circa £35,500 per bed.
Confidential Sale - West Midlands	15-bed care home sold in Q3 2019 for £520,000 off fee income of £323,000 and profits of £95,000. The sale price equates to 5.5 times profits and circa £35,000 per bed.
Confidential Sale - East Midlands	47-bed care home sold in Q1 2020 for £1,200,000. The sale price reportedly equates to 6.2 times profits and circa £25,000 per bed.
Confidential Sale - West Midlands	35-bed care home with potential for expansion under offer at reported £1,300,000 off profits of £240,000. The sale price equates to 5.4 times profits and circa £37,000 per bed. Sold in Q1 2020.
Confidential Sale - Staffordshire	28-bed care home under offer at reported £1,100,000 off fee income of around £880,000 and profits of £176,000. The sale price equates to 6.25 times profits and circa £39,000 per bed.
Confidential Sale - Nottingham	This home sold in Q4 2020 for 6 times EBITDA profits of £125,000. It was registered for up to 17 residents in 13 single and 2 shared rooms. No rooms had en suite facilities. Tired and basic concern.
Confidential Sale - West Midlands	This home sold in early 2021 for around £1.5 million which equated to circa 6.5 times profitability. It was registered for up to 31 residents in 23 single and 4 shared rooms, 4 rooms with en suite.

Valuation Calculation

We set out below a summary of our valuation calculation.

We have applied an overall Years Purchase (YP) of 6.0 times to our assumed FMOP in line with the comparable evidence above, as all rooms are single and only one does not have en suite facilities and to this we have added £20,000 for the value of the planning permission. This equates to a total of £710,000. From this we have then deducted £40,000 for upgrading works to the rear garden and for a general freshening up of the home internally. The end value equates to circa £55,800 per registered bed.

MV1 Valuation		
FMOP	115,000	
YP Multiplier	6.0	690,000
Value for planning permission		20,000
		710,000
Deduct upgrading costs		40,000
	Say	670,000

For our MV2 valuation we have applied a 1.5 YP/ circa 25% discount (approximately £14,000 per registered bed) to reflect the restrictive 90 day disposal period.

MV2 Valuation			
FMOP		115,000	
YP Multiplier		<u>4.5</u>	517,500
Value for planning permission			20,000
			537,500
Deduct upgrading costs			40,000
			497,500
		Say	500,000

In assessing our vacant possession value (VPV), on the assumption the business is closed, it is fully fitted and no accounts are available, we have had consideration to the property on the basis of recommencing trade as a care home together with alternative residential use.

For our closed care home assessment, we have deducted 1.00 times our FMOP to reflect the build-up time for recommencing trade to achieve the FMT.

VPV Valuation			
MV1 Value			670,000
less			
FMOP Build Up Period	1.00	115,000	115,000
			555,000
		Say	555,000

There is very little to no comparable evidence of market rents for similar care homes principally due to the home being small in nature and comprising a converted residential property. As such we have used our experience and knowledge of the market in applying our 'valuer judgement' to arrive at an appropriate rental value.

In our assessment, we have considered a fair rental bid for the property based on 12% of turnover and 40% of our assessed FMOP which produces a rent range of approximately £42,000 to £46,000 per annum. Based on this range we consider, given the location, a rent of £45,000 per annum, equating to circa £3,750 per registered bed, to represent a fair market rent.

10 Valuations

Our opinions of value in respect of the freehold interest in Groby Lodge, 452 Groby Road, Leicester LE3 9QB on the requested bases are as follows:

MV1 – Market Value as a fully equipped operational entity having regard to trading potential

£670,000
(Six hundred and seventy thousand pounds)

MV2 – Market Value as a fully equipped operational entity having regard to trading potential subject to the following special assumptions:

- The timescale allowed for disposal is 90 days
- The business is open for trade

£500,000
(Five hundred thousand pounds)

MV3 – Market Value subject to the following special assumptions:

- Vacant possession
- The home is fully fitted

£555,000
(Five hundred and fifty five thousand pounds)

MV4 - Market Rent

£45,000 per annum
(Forty five thousand pounds per annum)

As at 2 November 2021

Building Reinstatement Cost Assessment

We estimate that the approximate cost of reinstatement is in the order of £840,000.

We have disregarded all parts of the building that do not form part of the security. This estimate is prepared on a full reinstatement basis, inclusive of professional fees, demolition costs, external works and site clearance. No allowance is made for the cost of any fitting out. No allowance is made for any loss of profit and/or rent or VAT.

This informal assessment has been prepared by a valuation surveyor based on current guidelines assuming the use of modern materials, construction techniques and compliance with all current building regulations. A more formal assessment which could be relied upon as the basis for insuring the property would require specialist advice from a quantity or building surveyor. We recommend that our informal estimate is compared with the sum insured. In the event of a material discrepancy between the two figures we recommend that a formal assessment is undertaken.

11 Summary of Recommendations and Suitability for the Loan

We consider the property provides suitable security for loan purposes subject to normal prudent lending criteria and the following:

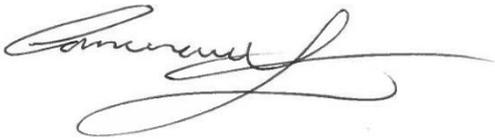
- a) Any change in trading performance is likely to result in a change in value.
- b) In the event of the registration being lost or in jeopardy value is likely to be adversely affected.
- c) Our valuations assume that full audited accounts and VAT returns substantiating the trading information supplied to us would be made available to prospective purchasers and the current trading performance would be warranted by the vendor.
- d) We recommend a full Report on Title is obtained.

12 Limitations and Publication

Our valuation is provided for your benefit alone and solely for the purposes of the instruction in which it relates. Our valuation may not, without our written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees or is permitted to see a copy of our valuation report. If we do provide written consent to a third party relying on our valuation, any such third party is deemed to have accepted the terms of our engagement.

Neither the whole nor any part of this report may be included in any published document, circular or statement, or published without our prior written approval.

We trust this report is satisfactory for your present purposes, but should you require any further information or clarification please do not hesitate to contact us.



4 November 2021

.....
Cameron Wright MRICS
Registered Valuer
For and on behalf of Davis Coffey Lyons

.....
Date



4 November 2021

.....
Trevor M Watson BSc MBA FRICS
Registered Valuer
For and on behalf of Davis Coffey Lyons

.....
Date

APPENDICES

Appendix 1

Report Assumptions, Conditions and Valuation Methodology

Definitions

Unless the context requires otherwise the following terms have the meanings ascribed:

- The **"Bank" or "Client"** – means the person(s) or body identified within the Report from whom the instructions to prepare the Report have been received. Reference to the Client within the Report and shall all in cases by interpreted to mean only this person(s) or body.
- The **"Property"** – means all those freehold or leasehold premises, which are the subject of this Report, and in the case of development, schemes those that are proposed.
- The **"Business"** – means the business, trade or profession that is, or is intended to be, carried on at the Property.
- The **"Report"** – means the contents of this Report including the Valuation Certificate and all appendices and addendums.
- The **"Borrower"** – means the person(s) or body identified within the report who is seeking to secure funding in respect to the property and/or business identified in the Report.

Market Value

Market Value is defined in the RICS Valuation – Global Standards 2020 (*The Red Book*) as:

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

The assessment of the value of the operational entity will usually include:

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

Consumables and stock in trade are normally excluded.

Assumptions and Conditions

The following applies to all properties forming part of this Report.

Valuation date

Values change over time and as such a valuation provided as at a specified date may not be valid on either an earlier or later date.

Information

We have relied upon all information provided which is assumed to be complete and accurate.

It is the client's responsibility to ensure that all trading information provided is substantiated by audited/certified accounts and where appropriate an accountant's certificate. Any discrepancy arising from such documentation should be reported to us as soon as practicable in order that necessary adjustments can be considered.

Our Report may point to further enquiries being necessary. Failure to make such enquiries will be taken as evidence of non-reliance upon the Report and valuations therein.

We reserve the right to amend our advice in the event of additional material information becoming available.

Title

We recommend that a full report on title and/or lease is obtained. We have not inspected the title deeds or other legal documentation in relation to the property and we assume that there are no unusual or onerous restrictions or obligations attaching to the property and that it enjoys good marketable title.

We have relied upon documentation supplied but cannot guarantee to have seen all relevant documentation. We reserve the right to amend our advice in the event of additional documentation becoming available.

Our understanding of the boundaries of the property is as noted in the Report but should not be relied upon and should be verified. It is assumed there are no current or past boundary disputes. It is assumed that the property has lawful unencumbered access.

All leases are assumed to be drawn up in a fully assignable commercially acceptable format unless otherwise stated.

Condition and Repair

Our inspection for valuation purposes does not constitute a building survey (alternatively known as a structural survey) of the property. We have assumed that the property is of sound design and construction and free from any inherent defects. We have not inspected woodwork, roof voids or any other parts of the property which were covered, unexposed or inaccessible at the time of our inspection and such parts are assumed to be in good repair and condition.

Our Report should not be taken therefore as expressing a definitive opinion as to the structural condition of any part of the property. Should a building survey be commissioned, or any significant defects discovered, we reserve the right to amend our advice. Unless otherwise stated any signs of structural movement are assumed to be of an historic and non-progressive nature. We have not however undertaken any investigations and therefore we can make no assurances in this respect.

Planning

All planning enquiries have been made of the relevant planning authority's website. We have relied upon the information obtained and assume it to be comprehensive. We reserve the right to amend our advice in the event of the existing and/or proposed planning permissions being subject to unusual or onerous conditions or undertakings of which we are not aware, and which are not referred to in our Report.

Unless otherwise stated our advice assumes:

- a) The property has formal planning permission and established use rights for its current use.
- b) There are no breaches of planning consent, building regulations or any outstanding Enforcement Notices in relation to the property.
- c) There are no outstanding planning applications in relation to the subject property or surrounding properties that are likely to have a detrimental impact on our Reported opinion of value.

We recommend a detailed search is undertaken to establish the full planning history of the property together with details of any development proposals which could have an adverse effect on value. We reserve the right to amend our advice should such investigations reveal any matters that may materially impact on the property.

The Equality Act 2010

The Equality Act 2010 merged and replaced the Disability Discrimination Acts 1995 and 2005 (DDA) to cover discrimination by race, sex, sexual orientation, age, religion or belief and disability. Detailed guidance on the new legislation is located at www.equalities.gov.uk.

Under the legislation service providers are required to make changes, where needed, to improve service for disabled customers or potential customers. These include making reasonable changes to the built environment, such as making changes to the structure of a building to improve access. What is reasonable will be determined on all the circumstances, including the cost of an adjustment, the potential benefits it might bring to other customers, the resources an owner/business has and how practical the changes are.

We have not carried out or commissioned any investigations to determine whether or not the Property complies with the requirements of the Equality Act, nor have they made any allowance for the cost of compliance works.

Asbestos

All occupiers of non-domestic properties (and communal areas of domestic properties) are required under the Control of Asbestos Regulations (2012) to identify and control Asbestos Containing Material (“ACM”) in their property.

If the potential ACM is in good condition and undisturbed the Health & Safety Executive (“HSE”) recommends that the ACM is identified, and a management plan formulated as follows:

- Identify its position
- Inspect its condition regularly
- Take a precautionary approach to maintenance and minimising disturbance that could cause fibre release.

HSE sees removal as a last resort unless the material is in poor condition or at risk of damage.

We have not inspected for asbestos and, unless otherwise stated, our valuations exclude any costs relating to implementing any such management plan.

Fire Safety

The Regulatory Reform (Fire Safety) Order 2005 covers fire safety across England and Wales. The legislation ended the system of issuing fire certificates and replaced it with a requirement for a fire risk assessment and a fire management plan to be completed by the property/business owners, who are now deemed solely responsible fire safety in and at their workplaces except at domestic dwellings and a small number of very specialist property types.

In Scotland, fire safety is legislated by Part 3 of the Fire (Scotland) Act 2005, supported by the Fire Safety (Scotland) Regulations 2006. The legislation imposes the requirements on property and business owners to complete of a fire safety risk assessment to identify and implementing necessary fire safety measures, ongoing control and management and administration.

Environmental and Ground Conditions

Unless otherwise stated, we are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of contamination.

We have assumed that no contaminative or potentially contaminative uses have ever been carried out at the property.

We have not carried out informal investigations into past or present uses either of the property or neighbouring land to establish whether there is any contamination or potential for contamination to exist and have therefore assumed that none exists. Should it be established subsequently that any contamination, seepage or pollution exists at the property or any neighbouring land, or that the property has been or is being put to a contaminative use, we reserve the right to amend our advice.

Hazardous Materials

We have not carried out investigations nor planned for any investigations to be carried out to determine whether any deleterious or hazardous materials, substances or gases have been used in the construction of the property or have been stored on it at any time. We are therefore unable to report whether the property is free from risk in this respect. We have assumed that any such investigations would not disclose the presence of any such materials to any significant extent.

Energy Performance Certificates

All sellers and landlords are required by law to provide Energy Performance Certificate (EPC) for all buildings or parts of buildings when they are sold or rented. The certificate should be produced by an accredited energy assessor and provide an energy efficiency A-G rating and recommendations for improvement. The certificate is valid for a period of 10 years or until a newer EPC is prepared.

Since April 2018, MEES Regulations have made it unlawful for commercial and residential landlords of properties with an EPC rating of less than "E" to grant new leases, or renew tenant leases, except in the following cases:

- Listed buildings if the recommendations to get it higher than an F would affect the listing;
- Properties with a short lease (6 months or less) or with a long lease (greater than 99-years);

Exemptions also arise when:

- All cost effective improvements with a simple payback period of 7 years have been undertaken
- A landlord is unable to obtain third party consent, for example from the planning authority, lender, superior landlords, sitting tenant etc
- An independent surveyor determines that the energy efficiency improvements would devalue the property by more than 5%.

Exemptions last for 5 years and to qualify for an exemption a landlord must register the property on the Private Rented Sector [PRS] Exemptions Register stating the reasons for the exemption.

If a non-compliant property occupied by a tenant is sold or is transferred to a lender in the case of receivership, the new owner/landlord has 6 months to comply with the regulations.

The regulations will not apply to owner-occupied properties, and initially they will also not apply to existing leases not requiring renewal. From 1 April 2023 however, the regulations will apply to all privately rented property in scope of the regulations, including where a lease is already in place and a property is occupied by a tenant.

We have assumed where the property does not currently have an EPC that upon assessment would achieve a rating of E or higher which would allow for sale or letting of the property.

Regulated Mortgages

From 31 October 2004 mortgage applications by private individuals relating to commercial property, where more than 40% of the area of a property is used for residential purposes, are treated as Regulated Mortgage Contracts by the Financial Services Authority.

If a loan is to be made, we have assumed that it would not be treated as a regulated mortgage contract by the Financial Services Authority.

Trade Fixtures, Fittings, Furniture, Furnishings, Equipment and Services

We have assumed that the property is to be valued with the benefit of an unencumbered and full trade inventory. It is assumed that all plant machinery, equipment, fixtures and fittings are in serviceable order adequate for the existing and proposed level of trade and will remain so for the foreseeable future.

It is assumed that all items of decoration, bric a brac, works of art and the like have no additional inherent value over and above that attributable to them as part of the existing and/or proposed business. In the event of there being specific items of high value, we would recommend expert valuation advice is sought. Unless otherwise stated, any current or proposed hire purchase, leasing or rental costs, have been excluded in our financial assessments.

The Business

In the event of a change in trading potential or actual levels of trade from that indicated, our opinion of value could vary. Verification of the accounting information should be obtained as part of the due diligence process.

It is assumed that;

- i. The business is competently managed or operated.
- ii. The business is properly capitalised stocked and staffed.
- iii. The nature, character and pricing structure of the business will not materially alter unless specifically stated to the contrary in our Report.
- iv. All proper and prudent insurance for the business is taken out and maintained.
- v. There is no suppression, deception or falsification of material facts by the vendor, proposed borrower, any advisor thereto or any other party.
- vi. There are no known onerous features of the business against which the proposed borrower should make specific provision.
- vii. That all accounting information supplied would be made available to a prospective purchaser and could be substantiated by independent audit.

These assumptions are not verified by Davis Coffery Lyons.

We do not accept responsibility for losses or damages of any nature whatsoever which may result directly or indirectly from mismanagement underfunding or under staffing of the business, market trends or fluctuations or any other factors which are outside our influence or control or changes in the nature character extent of pricing structure of the business, or the absence of adequate insurance cover for the business or for the suppression of material facts.

Whether stated in the Report or not, if there is any qualification as to the source of any information, it remains the responsibility of the client and the proposed borrower (where appropriate) to ensure that all the usual prudent and appropriate enquiries are made prior to the offer of finance or purchase.

Such enquiries shall include without limitation the taking of independent professional advice from solicitors and accountants, the entering into of a professionally drawn up 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 accounts of the vendor or proprietor or proposed borrower, examinations of all necessary consents, regulations, permissions, licences, registrations and bye-laws, and all the usual searches and other precautions taken by a solicitor and accountant or other professional advisor in connection with the purchase or mortgage of a property and/or business.

Our Report is not intended to replace any of these investigations or enquiries, and we do not accept responsibility for losses or changes of any nature whatsoever whether directly or indirectly out of the failure of the client and the proposed borrower where appropriate, to make such enquiries. The Report may indeed point to further advice being necessary.

It is the client's responsibility to ensure that all trading information is substantiated by audited/certified accounts and, where appropriate, and accountant's certificate. We reserve the right to amend our advice upon receipt of additional information.

The Report does not offer advice as to whether money should be advanced or lent or whether appropriate security should be taken or indeed whether the business itself should properly be acquired by the proposed borrower or purchaser.

Stock

We have disregarded the value of all consumable stock at the premises.

Taxation

Our advice does not reflect the incidence of VAT or other taxation of any type relating to the property or company other than those directly referred to in our Report.

Appendix 2 Information

We have relied upon the information listed below which has been provided by the Borrower or on behalf of the Borrower. We have also relied upon information supplied to us verbally. We reserve to the right to amend our advice in the event of material additional information becoming available to us.

1. An inspection of the home with the manager.
2. CQC rating information.
3. Valuation Office Agency.
4. Trading accounts to 31 March 2021.
5. An up to date fee schedule.
6. Discussions with the vendor.
7. Sales particulars.