

Proplend Security Limited
20-22 Wenlock Road
London
N1 7GU

18 January 2023
Our Ref: 20843-44

Dear Sirs/Madams,

SUBJECT: VALUATION ADDENDUM LETTER TO VALUATION REPORT DATED 1st DECEMBER 2022

PROPERTY: 171 & 175 LEA BRIDGE ROAD, LONDON E10 7PN

This letter should be read in conjunction with our valuation report dated 1st December 2022 as referenced below:

1.0 INTRODUCTION

1.2 Valuation Date

The date of valuation is 18th January 2023.

1.3 Basis of Value

We will specifically provide our opinion of the following:

- a. The **Market Value** of the freehold interests in the subject properties.
- b. The **Market Value** of the freehold interests in the subject properties on the **special assumption** of a sale being completed within a period of 90 days.
- c. The **Market Value** of the freehold interest in the subject properties on the **special assumption** of the proposed tenancies being in-situ as further detailed in this report.
- d. The **Market Value** of the freehold interests subject to vacant possession.
- e. The **Market Rent** of the subject properties.
- f. The **Reinstatement Value** of the subject properties for insurance purposes, as a guide only.



9.0 STATUTORY OBLIGATIONS

9.4 Energy Performance Certificates

The Energy Act 2011 and subsequently the Minimum Energy Efficiency Standards (MEES) stipulates that since April 2018, a property with an Energy Efficiency Rating below the prescribed level, being Band E, will not be able to be let until improvements have been carried out to improve the Energy Efficiency Rating at or above Band E.

Our research has revealed the following Energy Performance Certificates for the subject property:

Address	Valid until	Band
171 Lea Bridge Road, London E10 7PN	21 Jan 2030	C (54)
171a Lea Bridge Road, London E10 7PN	19 Jan 2030	D (56)
175 Lea Bridge Road, London E10 7PN	21 Jan 2030	D (79)
175a Lea Bridge Road, London E10 7PN	15 Jan 2033	D (62)

The existing EPCs indicate that the subject properties, fall within the acceptable energy performance range for the purposes of the regulations under the Energy Act 2011. The legislation is expected to be reviewed again in the near future and the method of assessment may change since the EPCs certificates were issued, further that on renewal of the EPCs the rating may change. We have assessed the considered risks to value moving forward in the light of the current EPC rating and any risks relating to a future re-rating of the asset.

13.0 VALUATION METHODOLOGY

13.1 Key Considerations

The subject properties are situated along a main arterial route of East London along a mixed used road. The properties form part of a retail parade of nine units within a secondary trading location. Lea Bridge railway station is situated in close proximity to the west and the area has an average PTAL of 3. Footfall is considered to be at modest levels along the subject pitch.

171 Lea Bridge Road is a two storey period building which has been extended to the rear of the ground floor to provide a ground floor Class E unit to the front, a commercial unit to the rear extension and a self-contained one bedroom flat on the first floor. The front retail unit extends to circa 389 sq. ft NIA and has an area ITZA of 342 sq. ft. The rear commercial unit measures approximately 286 sq. ft GIA and the flat above measures approximately 487 sq. ft. Given the layout and the fact that the unit to the rear is rated for council tax, we are of the opinion it has been previously unofficially utilised as a studio flat.

We were unable to categorically confirm planning consent for the ground floor extension to the rear of 171 Lea Bridge Road, together with the consented use of the upper parts into residential. We note however, the flat has been rated for council tax since April 2015. Our valuation assumes the rear



extension to be unlawful and at risk of enforcement. We have also accounted for the uncertainty as to the use of the upper floor.

The entire property is held on a single occupational lease from May 2015 for a term of 10 years without any break options. The initial passing rent of £8,500 per annum has not been reviewed in May 2020 as per the lease and therefore the rent review remains outstanding. The relevant lease allows for the subletting of the residential flat. We are of the opinion the property is substantially under rented and an uplift in rent could be sought.

Furthermore, we note that the unit to the rear has been sublet but we have not been provided with any subletting agreements. We note the lease indicates that any subletting shall not confer security of tenure on the sub-tenant, and as such we consider it reasonable to assume that the subletting of the rear extension has been drafted outside the provisions of security of tenure under the LTA 1954 and is at the latest co-terminus with the headlease. We strongly recommend your solicitors confirm the above assumptions are accurate and that they can be relied upon.

We are informed the above lease is intended to be surrendered by way of a mutual agreement between the parties and the same tenant will be granted a new occupational lease for the entire property, for a term of 15 years at the initial rent of £24,000 per annum, subject to a rent review on the fifth anniversary of the term. We are further informed the lease will consist of a Landlord break option on the seventh year and will be drafted outside the provisions of security of tenure under the Landlord and Tenant 1954 Act (LTA 1954).

We are informed the above proposed lease and the deed of surrender have not yet been formally documented and signed, as such our valuation is subject to the occupational lease agreement currently in place as detailed above.

The retail elements were presented in average condition commensurate to use. The flat above was presented in tired condition and finished to a basic letting standard. Both the ground and first floors include valid EPCs.

We note that the flat does not include the required selective licencing and therefore assume the property is in risk of financial penalties should it not comply.

175 Lea Bridge Road is a two storey period building arranged to provide a ground floor Class E unit and a self-contained one bedroom flat on the first floor. The retail unit extends to circa 444 sq. ft of NIA and has an area ITZA of 390 sq. ft whilst the flat above measures approximately 477 sq. ft.

We are unable to categorically confirm the residential use of the upper parts. The flat is rated for council tax since June 2020 and we are informed the unit has been used as such, for a period of time. We have accounted for the uncertainty as to the use of the upper floor.

The entire property was previously let on a single occupational lease. We are informed the lease has been surrendered and we have been provided with the signed deed of surrender dated 18th November 2022. As such our valuation is based on the benefit of vacant possession.



We are informed a new occupational lease will be granted a new occupational lease in respect of the ground floor only, for a term of 8 years at the initial rent of £15,000 per annum, subject to a rent review on the fourth anniversary of the term. We are further informed the lease will not include any break options and will be drafted outside the provisions of security of tenure under the Landlord and Tenant 1954 Act (LTA 1954).

We understand the above proposed lease has yet to be formally documented and signed, therefore our valuation is based on the benefit of vacant possession.

The ground floor is presented in poor condition. We are of the opinion any prospective tenant will require a rent free period to agree a new lease. The first floor flat is presented in average condition and finished to a basic letting standard.

The ground floor and the flat above are rated with a valid EPC within Band D.

We are informed the properties are held with individual freehold titles. Our research has revealed respective leasehold titles relating to the subject properties. We recommend your solicitors clarify the properties are held on separate freehold titles as this valuation is based on this assumption.

We are of the opinion that the subject property would predominately appeal to investors and owner occupiers to a lesser extent. Should the freehold interest be required to be disposed of in its current layout and condition, at the valuation date, we would anticipate a transaction would have been completed within a period of 6-9 months, at figures similar to our opinion of the Market Value reported. This is on the basis that the property is openly marketed by suitable local agents at the correct levels.

Rental demand for commercial property in the area is at modest to restrained levels. If the property were to be let on an occupational lease agreement based on market standards and following completion, we consider a marketing period of 6-9 months to be adequate to secure a tenant.

In terms of residential property, rental demand in the area remains strong. Should the units be required to be let on Assured Shorthold Tenancy agreements following completion on standard 6 to 12 month terms, we consider a marketing period of between 2-5 weeks to be adequate to achieve a letting in this regard.

13.2 Valuation Approach

We have used the income approach of valuation to value the properties. We have obtained suitable comparable evidence within the local area and have analysed this according to many factors, most particularly, the location, specification, tenure, size, age, unexpired term and re-letting opportunities. We have therefore made adjustments when comparison is made with the subject property and have combined this with our knowledge and expertise to result in our opinion of the Market Value of the property detailed further in this report.

171 Lea Bridge Road

The property is held on a single lease at the passing rent of £8,500 per annum which has been in effect since the commencement of the lease in May 2025. The rent review in 2020 remains outstanding and



the lease expires in May 2025. The flat above can be sublet. We are of the opinion the property is substantially under rented and an uplift in rent could be sought.

Due to the distinct lack of direct and recent retail letting transactions we have used more historic transactions and relied on our experience in valuing similar units in the specific location to form our opinion of the Market Rent.

The most recent transaction occurred at 642 Lea Bridge Road, a Class E unit situated within a superior commercial location of the wider area. The unit is set over the ground floor, is of a similar size however, newly refurbished. The agreed rent of £22,500 per annum reflects a rate of £33.00 psf overall and £47.27 psf ITZA.

The transaction at 336 Lea Bridge Road which was agreed in August 2021 at a rent of £18,000 per annum, reflects £33.46 per sq. ft overall and £43.59 per sq. ft ITZA. We have made adjustments to reflect this is a new build unit with return frontage. We have made further adjustments to reflect the unit was offered in shell condition. More historic evidence demonstrates a consistent range of rents between £19.50 psf and £24.57 psf overall, while in terms of Zone A, rents range between £29.60 psf and £39.59 psf.

The ground floor, excluding the rear extension, measures approximately 389 sq. ft NIA and 342 sq. ft ITZA. Our opinion of Market Rent is in the region of £11,000 per annum.

In relation to the rental value of the residential flat, we are of the opinion this would achieve a rent in the open market, the region of £1,100 per calendar month / £13,200 per annum, in its current condition and specification.

To arrive at our opinion of Market Rent subject to the current lease we have discounted the rental value of the upper residential part by 35% to account for management, voids and re-letting costs. As such we consider the Market Rent to be in the region of £19,580 per annum.

To value the property, we have employed the term and reversion method of valuation.

To value the term, we have capitalised the passing rent for a period of 30 months up to the expiry date in May 2025 at the All-Risks-Yield (ARY) of 4.00%. Based on the above our opinion of rental value following reversion is in the region of £24,200 per annum. We have then capitalised our opinion of the future rental value at the reversionary yield of 6.25% deferred by 30 months. Finally, we have deducted costs for void and rent free periods in order to secure a tenant for the ground floor unit.

In light of the above, our opinion of the Market Value is £345,000.

To value the property, on the special assumption the new proposed lease is in situ, we have employed the straight capitalisation method and capitalised the proposed new rent, at the All Risks Yield (ARY) of 6.75% to reflect the property will be overrented with a single lease and to reflect planning enforcement risks for the rear extension and the uncertainty in relation to the flat above. The capital value equates to £355,000.



To value the unit with the benefit of vacant possession we have capitalised our opinion of the reversionary rental value, being £24,200 per annum with an ARY of 6.75% and have allowed a void and rent free period for marketing and fit out purposes of nine months to result in a capital value of £350,000.

175 Lea Bridge Road

We have similarly used the income approach of valuation to value this property.

We are of the opinion the ground floor has a Market Rent of £12,000 per annum.

In relation to the residential flat we are of the opinion this would achieve a rent in the region of £1,100 per calendar month / £13,200 per annum.

We have employed the straight capitalisation method of valuation and have applied an ARY of 6.75% and have allowed a nine month void and rent free period for marketing and fit out purposes for the retail unit to result in a Market Value of £365,000.

To value the property, on the special assumption the new proposed lease is in situ, we have employed the straight capitalisation method for the retail unit and capitalised the proposed new rent together with our opinion of rental value of the flat above at the All Risks Yield (ARY) of 6.50%. The yield reflects the retail unit will be overrented and uncertainty as to the lawful use of the flat above. We have finally allowed a nine month void and rent free period for marketing and fit out purposes for the retail unit to result in a Market Value of £430,000.

14.0 LOAN SECURITY

In setting the loan facility, the Bank must consider the factors noted within this report and that the valuation is carried out as at the valuation date. The Bank must also be aware that values can fall, as well as rise, over time and can change rapidly in periods of economic decline and uncertainty.

We recommend your solicitors confirm the assumptions marked within this report, prior to the release of funds.

We do believe that the property would offer adequate security for the loan, assuming that in accordance with best commercial practice, such loan is for a sensible portion of the Market Value reflecting the risks noted above.



15.0 VALUATION

The following opinions of value are as at **18th January 2023**:

- a. The **Market Value** of the freehold interests in the subject properties is **£710,000 (Seven Hundred and Ten Thousand Pounds)**, subdivided as follows:

171 Lea Bridge Road: £345,000

175 Lea Bridge Road: £365,000

- b. The **Market Value** of the freehold interests in the subject properties on the **special assumption** of a sale being completed within a period of 90 days is **£640,000 (Six Hundred and Forty Thousand Pounds)**, subdivided as follows:

171 Lea Bridge Road: £310,000

175 Lea Bridge Road: £330,000

- c. The **Market Value** of the freehold interests in the subject properties on the **special assumption** of a proposed tenancy in-situ as detailed in this report is **£785,000 (Seven Hundred and Eighty Five Thousand Pounds)**.

171 Lea Bridge Road: £355,000

175 Lea Bridge Road: £430,000

- d. The **Market Value** of the freehold interests in the subject properties with the benefit of vacant possession is **£715,000 (Seven Hundred and Fifteen Thousand Pounds)**, subdivided as follows:

171 Lea Bridge Road: £350,000

175 Lea Bridge Road: £365,000

Valuation Note:

The above valuations assume that the properties can be sold off individually with freehold interests. Should the properties be sold as a single lot, then a discount for quantum should be expected.

- g. The **Market Rent** of the subject properties is **£44,780 (Forty Four Thousand Seven Hundred and Eighty Pounds) per annum**, subdivided as follows:

171 Lea Bridge Road: £19,580 per annum

175 Lea Bridge Road: £12,000 per annum

175A Lea Bridge Road: £13,200 per annum

- e. The **Reinstatement Value** of the subject properties for insurance purposes, as a guide only, is a figure in the region of **£700,000 (Seven Hundred Thousand Pounds)**.

Valuation Note: The above is provided for guidance without any liability. We assume clearance and reinstatement using modern methods and materials. The figure is not reflective of any extra

costs relating to conservation area status or listed buildings (or indeed proximity to listed buildings). The above figure should not be relied upon, prior to building surveyor or other professional with replacement costs experience, undertaking a formal reinstatement valuation to confirm the above is accurate.

15.1 Valuation Definitions

Our valuation has been carried out in accordance with the **RICS Valuation Global Standards**, effective from 31 January 2022, incorporating the IVSC International Valuation Standards produced by The Royal Institution of Chartered Surveyors.

IVS104 defines **Market Value** as; the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

IVS104 defines the **Market Rent** as the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction after proper marketing, and where the parties had each acted knowledgeably, prudently, and without compulsion.

17.0 SIGNATURES

Sotiris Charalambous MSc MRICS inspected the property. The valuation has been undertaken by Sotiris Charalambous MSc MRICS and Achilleas Pilides MSc MRICS. We confirm that the above-named and Quest Property Consultants, the firm, are independent valuers as defined by PS 2 of the, "The RICS Red Book Global". Sotiris Charalambous MSc MRICS and Achilleas Pilides MSc MRICS have the relevant experience in valuing the type of property concerned in the particular location and are RICS Registered Valuers.

We confirm that we do not have a conflict of interest in carrying out this instruction. Our Valuations and Reports are confidential to the party to whom they are addressed and for the specific purpose to which they refer, and no responsibility whatsoever is accepted to any third parties.

Neither the whole, nor any part, nor reference thereto, may be published in any document, statement or circular, nor in any communication with third parties, without our prior written approval of the form and context in which it will appear.



Sotiris Charalambous MSc MRICS
Director
For and on behalf of
Quest Property Consultants Ltd
18th January 2023
Ref: 20843-44



Achilleas Pilides MSc MRICS
Director
For and on behalf of
Quest Property Consultants Ltd