The **UKHA** Residential Investment Portfolio

For sale on the instructions of Mark Nicholas Cropper, Peter Mark Saville & Anne Clare O’Keefe at Zolfo Cooper LLP acting as LPA Receivers.

**Executive Summary**

- 224 properties located throughout England & Wales
  - 207 Houses / Bungalows
  - 17 Flats
- Current gross rental income of £1,827,806 pa
- Average management/maintenance costs – circa 22% of gross rent (2010 – June 2013)
- Rents reviewed annually upwards only to either RPI (74%) or 5% fixed (26%)
- Ongoing reversionary value due to average vacancy rate of 0.92 per week (2010 – 2013)
- For sale as a single lot, subject to the existing tenancies
Description

The portfolio comprises 224 properties geographically spread across England and Wales with the most significant concentration being in the North West of England. The vast majority of the portfolio comprises two and three bedroom terraced houses but there are a number of detached & semi-detached houses/bungalows and a small number of flats.

183 properties are held freehold while 41 are held leasehold. 8 of the leasehold properties have an unexpired term of less than 80 years.

Background & History

The properties were acquired by UK Housing Alliance (North West) Ltd (In Administration), 'UKHA' between October 2006 and June 2008 on a sale and leaseback structure. UKHA originally concentrated property acquisitions in the North West around Manchester and Liverpool but subsequently acquired properties across a wider geographic area following a nationwide media campaign. The former owners sold the properties to UKHA and the majority received 70% of a valuation carried out at the time of sale. A ten year tenancy agreement was signed and the intention was that UKHA pay the 30% balance of the consideration on the 10th anniversary of the original sale. It has been confirmed that this 30% payment represents an unsecured claim against the company in Administration and will not therefore be a liability for an incoming purchaser of the property assets.

UKHA was placed into Administration by Kaupthing Singer & Friedlander Limited (In Administration) on 3rd June 2010. Zolfo Cooper LLP were appointed as LPA Receivers on 22nd August 2013 and 9th September 2013 over certain properties owned by UKHA.

Overview – Income & Expenditure

<table>
<thead>
<tr>
<th>Period</th>
<th>Gross Rental Income</th>
<th>Total Management / Maintenance Costs</th>
<th>Net Income</th>
<th>% Gross to Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>£1,583,046</td>
<td>£313,964</td>
<td>£1,269,082</td>
<td>20%</td>
</tr>
<tr>
<td>2011</td>
<td>£1,677,696</td>
<td>£370,682</td>
<td>£1,307,014</td>
<td>22%</td>
</tr>
<tr>
<td>2012</td>
<td>£1,756,244</td>
<td>£402,595</td>
<td>£1,353,649</td>
<td>23%</td>
</tr>
<tr>
<td>Jan-Jun 2013</td>
<td>£898,686</td>
<td>£198,514</td>
<td>£700,172</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Overall Average</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>22%</strong></td>
</tr>
</tbody>
</table>

![Bar charts for 2010, 2011, 2012, Jan-Jun 2013 showing breakdown of expenditure]
The UKHA Residential Investment Portfolio

Geographic Location

National spread of the portfolio

Portfolio Split

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Properties</th>
<th>%</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>5yrs to 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td>91</td>
<td>41%</td>
<td>2.00%</td>
<td>3.50%</td>
<td>4.50%</td>
<td>2.50%</td>
<td>0.50%</td>
<td>13.60%</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>37</td>
<td>17%</td>
<td>1.50%</td>
<td>3.50%</td>
<td>4.00%</td>
<td>2.50%</td>
<td>0.50%</td>
<td>12.50%</td>
</tr>
<tr>
<td>North East</td>
<td>21</td>
<td>9%</td>
<td>1.50%</td>
<td>3.50%</td>
<td>4.00%</td>
<td>2.50%</td>
<td>0.50%</td>
<td>12.50%</td>
</tr>
<tr>
<td>South East</td>
<td>11</td>
<td>5%</td>
<td>5.00%</td>
<td>5.50%</td>
<td>6.00%</td>
<td>3.50%</td>
<td>2.00%</td>
<td>24.00%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>17</td>
<td>8%</td>
<td>4.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>3.00%</td>
<td>1.00%</td>
<td>19.30%</td>
</tr>
<tr>
<td>London</td>
<td>5</td>
<td>2%</td>
<td>6.50%</td>
<td>6.00%</td>
<td>4.00%</td>
<td>4.50%</td>
<td>2.00%</td>
<td>25.10%</td>
</tr>
<tr>
<td>East</td>
<td>7</td>
<td>3%</td>
<td>4.50%</td>
<td>5.50%</td>
<td>5.50%</td>
<td>3.50%</td>
<td>1.50%</td>
<td>22.20%</td>
</tr>
<tr>
<td>South West</td>
<td>10</td>
<td>4%</td>
<td>4.50%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>3.00%</td>
<td>1.50%</td>
<td>20.40%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>9</td>
<td>4%</td>
<td>2.00%</td>
<td>4.00%</td>
<td>5.00%</td>
<td>3.00%</td>
<td>0.50%</td>
<td>15.30%</td>
</tr>
<tr>
<td>Wales</td>
<td>16</td>
<td>7%</td>
<td>3.00%</td>
<td>4.00%</td>
<td>4.50%</td>
<td>3.00%</td>
<td>1.00%</td>
<td>16.50%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>224</strong></td>
<td><strong>100%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Savills Research
Tenancy Agreements

The tenants are all the former owners of the properties and no new tenancy agreements have been entered into since they were initially acquired by UKHA. Of the 224 properties, 158 are let to joint tenants while 66 are let to single tenants with the average tenant age being 63.2 years. Assignment or under-letting is prohibited under the agreement.

On the acquisition of each property by UKHA the former owners entered into an agreement which can be summarised as follows:

- 10 year term.
- Rent reviews are annual and upward only. Approximately 74% of the properties have rent increasing in line with RPI and for the remainder of the portfolio the rent increase is at 5% p.a. fixed.
- All but 29 of the agreements have tenant only break clauses which can be exercised at any time after the sixth anniversary, providing six months prior notice is given.
- All but 14 of the agreements allow the tenants the option to extend the agreement.
- The agreement terminates on the death of the last surviving tenant.

UKHA is responsible for the maintenance and repair of the exterior and structure of each property and the fixed gas, electrical and heating appliances. They are also responsible for insuring the properties and settling ground rent / service charges for the leasehold properties.

Vacancies

Since UKHA was placed in administration in June 2010, the average vacancy rate through repossession and consensual surrenders has been running at 0.92 properties per week. Despite the diminishing size of the portfolio there has not been a commensurate reduction in the vacancy rate.
Maintenance / Capital Expenditure

Capital Expenditure

Prior to UKHA acquiring the properties, they were all subject to RICS surveys with a retention utilised to cover remediation work required where necessary. As a result, there have been few examples of significant levels of capital expenditure on individual properties. Further details of capital expenditure from 2010 - June 2013 are provided in the dataroom.

Maintenance and Repairs

Total expenditure for the properties in respect of repairs and maintenance from 1 July 2012 - 30 June 2013 was £139,564. The average repair and maintenance expenditure per month per property has averaged £43 for the past three years and can be summarised as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Average No. of Properties</th>
<th>Average Maintenance Costs per Property per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 months to 31 December 2010</td>
<td>365</td>
<td>£13</td>
</tr>
<tr>
<td>6 months to 30 June 2011</td>
<td>335</td>
<td>£30</td>
</tr>
<tr>
<td>6 months to 31 December 2011</td>
<td>307</td>
<td>£34</td>
</tr>
<tr>
<td>6 months to 30 June 2012</td>
<td>286</td>
<td>£43</td>
</tr>
<tr>
<td>6 months to 31 December 2012</td>
<td>265</td>
<td>£45</td>
</tr>
<tr>
<td>6 months to 30 June 2013</td>
<td>243</td>
<td>£46</td>
</tr>
</tbody>
</table>

Property Management

Management Costs

The portfolio is currently managed by Sterling Property Co. Ltd. Their management fee is 10% of the gross rents collected. A copy of the management agreement is provided in the dataroom.

Insurance

The landlord is responsible for buildings insurance and under the current policy obtained by the LPA Receivers the annual average cost is £214 per property.

Leasehold Properties - Ground rents & Service Charge

41 properties are held leasehold. Ground rents in aggregate total £565 per annum.

The average aggregate service charge for the 3.5 years from November 2009 to April 2013 was £4,665 per annum.

Health & Safety / Regulatory

UKHA, as the landlord, is responsible for health and safety including legal matters such as compliance with boiler maintenance requirements (e.g. gas safety certificates). The costs in this respect are included in the repair and maintenance figures provided.

Debtors

As at 6th September 2013, the aggregate arrears/credit over 2 months was £18,355. Possession proceedings have commenced in all cases where arrears are in excess of two months. The profile of arrears/credits is as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Tenants</th>
<th>Arrears 000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit balances</td>
<td>16</td>
<td>(£7,137)</td>
</tr>
<tr>
<td>Nil arrears</td>
<td>106</td>
<td>£0</td>
</tr>
<tr>
<td>0 – 1 month</td>
<td>54</td>
<td>£27,513</td>
</tr>
<tr>
<td>1 – 2 months</td>
<td>39</td>
<td>£39,787</td>
</tr>
<tr>
<td>Over 2 months</td>
<td>9</td>
<td>£18,355</td>
</tr>
<tr>
<td>Total</td>
<td>224</td>
<td>£78,518</td>
</tr>
</tbody>
</table>
Online Dataroom
Further information as summarised below is provided in the dataroom which can be accessed at [www.savills.com/ukha](http://www.savills.com/ukha). Please register to gain access:
- Sales Process Letter
- Full portfolio schedule & financial model
- Sample tenancy agreements
- Historic expenditure
- Copy leases for leasehold properties
- Title documentation
- External & internal photographs
- Property inspection sheets
- Energy Performance Certificates
- Background information on Rightmove AVM
- Sample original survey

Method of Sale
The portfolio is offered for sale by private treaty with offers being sought for the freehold and long leasehold assets, subject to the existing tenancies. Further details are provided in the Sales Process Letter.

VAT
VAT is not chargeable on the sale.

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