DUFF & PHELPS
A KROLL BUSINESS

REPORT AND VALUATION

Of

140 High Street, Bromsgrove, B61 8ES

As of

28 February 2022

Prepared for

Moorgarth Group Limited
47 St Paul's Street
Leeds
LD1 2TE

Prepared by

Kroll Advisory Ltd
Real Estate Advisory Group

Private and Confidential

19 August 2022

Moorgarth Group Limited
47 St. Pauls Street
Leeds
LS1 2TE

Direct line 0207 089 4898
markwhittingham@duffandphelps.com

Dear Sirs

Addressee: Moorgarth Group Limited
47 St. Pauls Street
Leeds
LS1 2TE

The Property: 140 High Street, Bromsgrove, B61 8ES (the "Property")

Ownership Purpose: Investment

Instruction: To value the freehold in the Property on the basis of Market Value as at the valuation date in accordance with the terms of engagement entered into between Kroll Advisory Ltd and the addressees dated 24 June 2022.

Valuation Date: 28 February 2022

Instruction Date: 24 June 2022

Purpose of Valuation: Loan security purposes

Basis of Valuation: Our valuation has been prepared in accordance with the current RICS Valuation – Global Standards 2020 (the RICS Red Book), incorporating the IVS (the RICS 'Red Book'), on the basis of Market Value.

The report is subject to, and should be read in conjunction with, the attached General Terms and Conditions of Business and our General Principles Adopted in the Preparation of Valuations and Reports.

No allowance has been made for any expenses of realisation, or for taxation (including VAT) which might arise in the event of a disposal and the Property has been considered free and clear of all mortgages or other charges which may be secured thereon.

We have assumed that in the event of a sale of the Properties, they would be marketed in an orderly manner and would not all be placed on the market at the same time.

This Valuation is a professional opinion and is expressly not intended to serve as a warranty, assurance or guarantee of any particular value of the subject Property. Other valuers may reach different conclusions as to the value of the subject Property. This Valuation is for the sole purpose of providing the intended user with the Valuer's independent professional opinion of the value of the subject Property as at the valuation date.

Software: The valuation has been undertaken using ARGUS Enterprise.

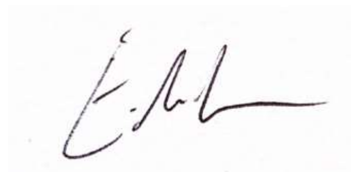
Inspection: The Property was inspected by Emily Brownlow MRICS on the 10 August 2022 specifically for this valuation.

Personnel:	The valuation has been prepared by Mark Whittingham MRICS (Managing Director), Emily Brownlow MRICS (Vice President), Alex Smith MRICS (Vice President) and Dan Worral MRICS (Senior Associate). We confirm that the personnel responsible for this valuation are in a position to provide an objective and unbiased valuation and are competent to undertake the valuation assignment in accordance with the RICS Valuation – Global Standards 2020 and are RICS Registered Valuers.
Capacity of Valuer:	External Valuer, as defined in the current version of the RICS Valuation - Global Standards.
Disclosure:	We are not aware of any conflicts of interest, either with the Property or yourselves, preventing us from providing you with an independent valuation of the Property in accordance with the RICS Red Book.
Standard Assumptions:	The Property details on which each valuation is based are as set out in this report. We have made various assumptions as to tenure, letting, town planning, and the condition and repair of buildings and sites – including ground and groundwater contamination – as set out below and in our General Principles when undertaking Valuations. We have relied on information provided by the client. If any of the information or assumptions on which the valuation is based are subsequently found to be incorrect, the valuation figures may also be incorrect and should be reconsidered.
Variation form Standard Assumptions:	None.
Special Assumptions:	We have made no special assumptions.
Sources of Information:	We have inspected the premises and carried out all the necessary enquiries with regard to rental and investment value, Rateable Value, planning issues and investment considerations. We have not carried out a building survey or environmental risk assessment. We have not measured the premises and have relied on the floor areas provided. We have been provided with the following documents, which we have relied upon: • Tenancy schedule dated February 2022 • HoTs for Pets Corner • Floor Areas
Market Rent:	**£45,000** **FORTY FIVE THOUSAND POUNDS PER ANNUM**
Market Value (Property Sale at 6.8% costs):	**£500,000** **FIVE HUNDRED THOUSAND POUNDS**
Market Value subject to Vacant Possession Value (Property Sale at 6.8% costs):	**£370,000** **THREE HUNDRED AND SEVENTY THOUSAND POUNDS**
Reliance:	We refer to our Engagement Letter in respect of Reliance and overall Liability.

Confidentiality and Publication:

In accordance with our normal practice we confirm that the Report is confidential to the party to whom it is addressed for the specific purpose to which it refers. no responsibility shall be accepted to any third party for the whole or any part of its contents. Our Report may be disclosed to third parties provided that such parties sign a release letter prior to being sent our Report. Neither the whole of the Report, nor any part, nor references 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.

Yours Faithfully,



Mark Whittingham MRICS, RICS Registered Valuer
Managing Director
For and on behalf of Duff & Phelps (Kroll Advisory Ltd)

Emily Brownlow MRICS, RICS Registered Valuer
Vice President

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Property Record

140 High Street, Bromsgrove, B61 8ES

Valuer	Emily Brownlow MRICS	**Inspection Date**	10 August 2022

Front Elevation

Front Elevation

Location

General

- Bromsgrove is a Worcestershire market town, located in the West Midlands, approximately 13 miles (21 km) southwest of Birmingham, 14 miles (24 km) north-east of Worcester, 7 miles (11 km) to the west of Redditch and 117 miles (188 km) north-west of London.

Communications

- The town benefits from good motorway access with Junction 1 of the M42 motorway (situated at the north of the town) and Junctions 4 & 5 of the M5 motorway (situated to the west of the town) all being within 4 miles (6.5 km) of the town centre.
- Bromsgrove Station is situated to the south of the town and was redeveloped in 2016 providing an hourly service from Birmingham New Street to the north (26 minutes journey time) and Worcester, Hereford and Cheltenham to the south.

Situation

- The subject Property is located to the northern end of the High Street and Bromsgrove town centre. The Property fronts the start of the pedestrianised High Street, close to the junction where three main roads (Stourbridge Road, Birmingham Road and Stafford Road) come into Bromsgrove. Stafford Road is the main arterial route which connects the A38 and A448 to the East and the M5 to the West. The rear of the Property backs onto Windsor Street.

Location and Site Plans

- The Property is identified on the GOAD Map extract below with the Property highlighted in red in accordance with our understanding of it. We would recommend that this is verified by your legal advisors.

Site Plan

Description

- 140 High Street comprises a three storey purpose built retail parade of two well configured shop units, in a terrace of four retail units. The semi-end of terrace property extends to 17,573 sq ft (1,633 sq m) overall with ancillary storage on the first floor and second floor.
- Adjacent to the north is a small two storey end of terrace unit, which is currently vacant. The retail unit adjacent to the south is occupied by Funktional Fitness a local gym, a two storey building. 140 High Street fronts High Street with a small return frontage on the northern side of Argos on to Stratford Road.
- 140 High Street is a late 1970's building with brick elevations under a flat roof with single framed, metal glazed windows. The ground floor elevations have full height glazed frontages. Both units have servicing to the rear, accessed via a communal yard area from Windsor Road. There is a shared goods lift providing access to the upper floors.

The Argos Unit

- The Argos unit is 15,045 sq ft (1,461 sq m) and occupies the majority of 140 High Street, albeit the second floor of 5,925 sq ft (550 sq m) is redundant and currently vacant and part boarded up. This unit is positioned on the northern side of the property closest to the start of the High Street and Stratford Road.
- The Argos retail unit is broadly regular in shape and has been fitted out in the occupiers corporate fitout, which includes a fairly basic specification, including suspended mineral fibre ceilings incorporating recessed fluorescent lighting, emulsion painted walls and a tiled floor. At ground floor the sales area is to the front of the store with stock room, WC's and manager's office to the rear.

- The two upper floors are either accessed via a staircase located to the rear of the property or via a goods lift, and comprise storage space, with concrete floors, fluorescent strip lighting and racking. The first floor is occupied as the tenants stock room and the second floor is vacant.

ShoeZone Unit

- The ShoeZone unit is 2,527 sq ft (235 sq m) and situated adjacent to the south of the Argos unit.
- ShoeZone's unit is fitted in their corporate fit out including a basic specification including suspended mineral fibre ceilings incorporating recessed fluorescent lighting, emulsion painted walls and a linoleum floor. A small office/store area is located to the rear of the sales area.
- The first floor is accessed via a staircase located to the front of the unit and provides access to a small stock room of 961 sq ft (89.28 sq m). A communal corridor provides access to the goods lift which is shared with Argos.

Site

- The site is broadly level and irregular in shape.
- The Property occupies a site area of 0.194 (0.078 hectares).

Accommodation

- We have relied upon the measurements provided. We assume that these floor areas are complete and correct and are the Net Internal floor areas measured in accordance with the RICS Property Measurement (2nd edition, January 2018), incorporating the latest edition of the Code of Measuring Practice.
- We summarise these areas in the table below:

Unit	Use	NIA Size (sq m)	NIA Size (sq ft)
Ground	Retail Sales (sales and stock room)	450	4,156
First	Ancillary (stock room)	461	4,964
Second	Ancillary (vacant and not used)	550	5,925
TOTAL		**1,461**	**15,045**

- The ground floor Zone A is 1,465 sq ft (136 sq m).

Unit	Use	NIA Size (sq m)	NIA Size (sq ft)
Ground	Retail Sales	145	1,566
First	Ancillary	89.3	961
TOTAL		**234**	**2,527**

- The ground floor Zone A is 693 sq ft (64.38 sq m).

Building Condition

- We were not instructed to undertake any structural surveys, tests for services, or arrange for any investigations to be carried out to determine whether any deleterious materials have been used in the construction of the subject Property or subsequent additions.
- Our valuation has been undertaken on the basis that the Property is in good structural repair and condition and contains no deleterious materials and that the services function satisfactorily.

Life Expectancy

- Assuming normal routine maintenance and repair, as well as reasonable and prudent management of the Property, we consider the life expectancy will be in the order of at least 20 years.

Services

- We understand that all mains services are connected to the subject Property although we must stress that, unless otherwise specified, we have not tested any of these services, and for the purpose of our valuation we have assumed that they are all operating satisfactorily. We have not made any enquiries of the respective service supply companies.

Environmental Considerations

Contamination

- We have not been instructed to make any investigations, in relation to the presence or potential presence of contamination in the land or buildings and to assume that if investigations were made to an appropriate extent then nothing would be discovered sufficient to affect value. We have not carried out any investigation into past uses, either of the Property or any adjacent land, to establish whether there is any potential for contamination from such uses or sites and have therefore assumed that none exists.
- Our subsequent enquiries have not revealed any evidence that there is a significant risk of contamination affecting the subject Property or neighbouring properties that would affect our valuation. Therefore, for the purposes of this Valuation Report, we have assumed that no contamination exists in relation to the Property sufficient to affect value. However, we would stress that should this assumption prove to be incorrect the values reported herein may be reduced.
- We have made the assumption that ground conditions are suitable for the current units and structures or any future re-development.
- Since our normal enquiries and inspections did not suggest that there are likely to be archaeological remains pre-sent in or on the Property, we have assumed that no abnormal constraints or costs would be imposed on any future development at the Property by the need to investigate or preserve historic features.
- In practice, purchasers in the property market do require knowledge about contamination. A prudent purchaser of this Property would be likely to require appropriate investigations to be made to assess any risk before completing a transaction. Should it be established that contamination does exist, this might reduce the value now reported.
- We would recommend that your legal advisors obtain formal confirmation from the current owner and occupiers that no notices have been served on them by the Local Authority.

Deleterious Materials

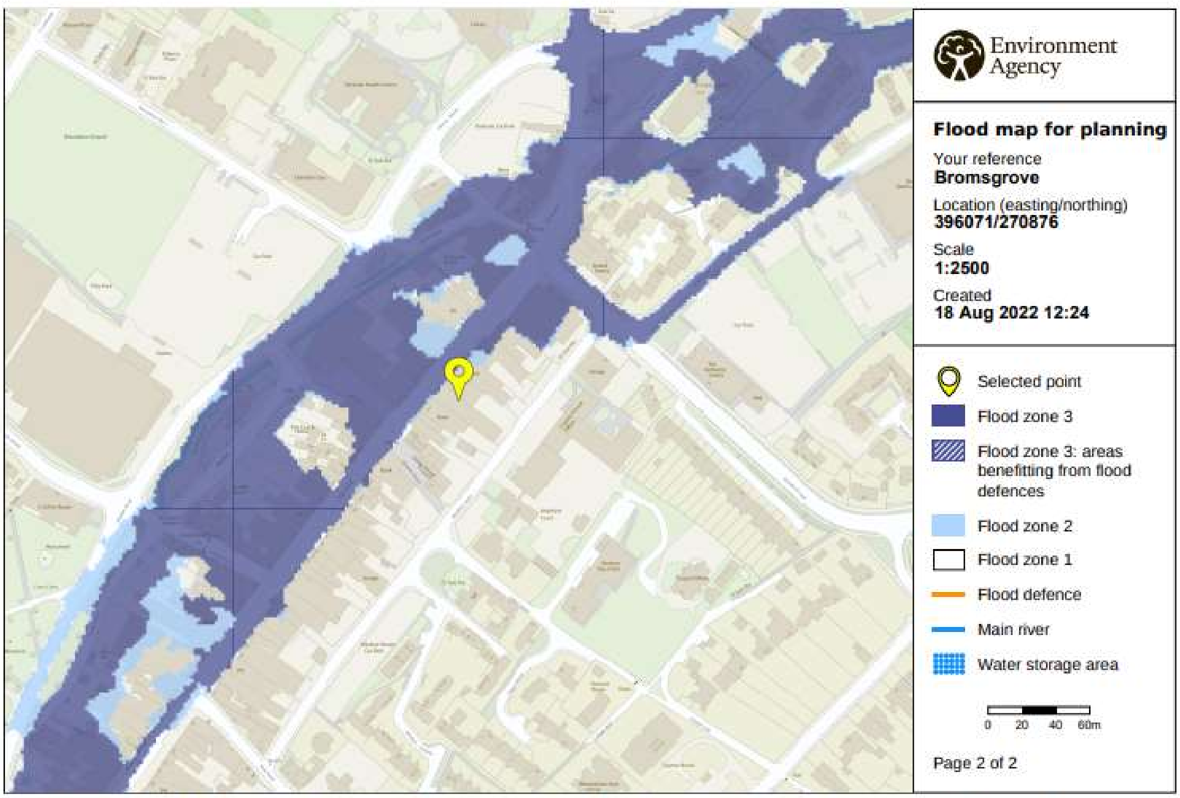
- Since 1999, the use within a building of asbestos containing materials (ACMs) has been banned. These are commonly found although are often in areas not visible from an inspection of the surface elements. While these can be sealed in place, public alarm is such that their removal and safe disposal is the more likely course of action and this can be particularly expensive. Removal and disposal will require specialist advice. Duff and Phelps does not specifically inspect for ACMs.
- Upon inspection we did not notice any obvious sign of deleterious and/or hazardous materials although the building is of an age when Asbestos Containing Materials (ACM) were in use. We have not had sight of the Asbestos Register.
- The Borrower should confirm that these recommendations are being adhered. We have assumed that if any ACM remains in situ that it provides no immediate risk if left undisturbed and that the presence of such materials will not have a significant impact upon the value of the Property.
- Our valuation is on the assumption that the Property is not adversely affected by any asbestos or any other deleterious materials. Should it subsequently be established that any deleterious material exists at the Property, then we may wish to review our valuations.

Ground Conditions

- We have made the assumption that ground conditions are suitable for the current building and structure or any redevelopment. Since our normal enquiries and inspections did not suggest that there are likely to be unknown archaeological remains present in or on the Property, we have assumed that no abnormal constraints or costs would be imposed on any future development at the Property by the need to investigate or preserve historic features.

Flood Risk

- We have had reference to the Environment Agency's flood map. The flood map identifies sites that may be at risk from sea or river flooding. The assessment of flood risk for the site of the subject premises is as follows:
  - The Property is located in a Flood Zone 1, which defines land as being assessed as having a less than 1 in 1,000 annual probability of river or sea flooding (<0.1%).
  - We would comment that the Property lies on the edge of an area that is in Flood Zone 3. Flood Zone 3 is defined as a location that has a high probability of flooding and need a flood risk assessment.



Sustainability Considerations

- The issue of sustainability is becoming increasingly important to participants in the property market. There is a general expectation that buildings that minimise environmental impact through all parts of the building life cycle and focus on improved health for their occupiers may retain value over a longer term than those that do not.
- The Government has set itself a target to reduce CO^2 emissions by 80% by 2050. With property representing around 50% of total emissions, the sector has become an obvious target for legislation. It is likely that, as we move towards 2050, energy efficiency legislation for property will become increasingly stringent.

Energy Performance

- Under the Energy Performance of Buildings Directive an Energy Performance Certificate (EPC) is required under Government legislation for a building of more than 50 sq m (538 sq ft) which is subject to sale or lease after 01 July 2008.
- Since 1 April 2018 the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the PRS Regulations) sets a minimum energy efficiency standard (MEES) of EPC E for private rented properties. This means that it is unlawful for landlords to grant a new tenancy of commercial property with an EPC rating of 'F' or 'G' (the two lowest grades of energy efficiency). This applies to both new leases and renewals (unless an exemption applies and the landlord has registered that exemption).
- **Commercial properties with an EPC rating of F or G**: Landlords should ensure that the EPC rating is improved where possible and that a new EPC is obtained or that an appropriate exemption is registered.
- **Commercial properties with an EPC rating of A to E**: Landlords should not be complacent. Consideration should be given to changes that may have occurred not only to the energy efficiency of the property since the date of the EPC, but also the current methodology and standards likely to be applied to calculate a new EPC. There are notable examples of new EPCs generating ratings that differ greatly to those granted when EPCs were first introduced some 10 years ago.
- Whilst we have yet to see the emergence of a set of "standard" MEES clauses in new commercial leases, we are beginning to see the emergence of specific lease clauses to cater for MEES particularly where the lease term will run beyond April 2023. The nature of such clauses will vary depending on a number of factors including:
    - The current EPC rating for the property to be let.
    - The relative bargaining strengths of the potential parties.
    - The impact that such clauses could have on the marketability of the lease and any future rent review.
- From 1 April 2023, the legislation will be extended to include existing leases making it unlawful for a landlord to continue to let commercial property (unless an exemption applies and is validly registered).
- The Government has confirmed in the Energy White Paper that it intends to make it unlawful to continue to let commercial property with an EPC rating of below B by 2030 and on 17th March 2021, it issued its proposed framework in a new consultation for private-rented properties. This forms part of its "*package of measures*" to reduce carbon emissions as it is estimated that bringing the minimum standard to a B rating will bring around 85% of commercial buildings into scope. The proposed framework sets out a phased implementation with the introduction of compliance windows as follows:
    - *First Compliance Window: EPC C (2025-2027)*
        - 1 April 2025: Landlords of all commercial rented buildings in scope of MEES must present a valid EPC.
        - 1 April 2027: All commercial rented buildings must have improved the building to an EPC ≥ C, or register a valid exemption.
    - *Second Compliance Window: EPC B (2028 – 2030)*
        - 1 April 2028: Landlords of all commercial rented buildings in scope of MEES must present a valid EPC.
        - 1 April 2030: All commercial rented buildings must have improved the building to an EPC ≥ B, or register a valid exemption.
- This may be an incremental pathway but landlords should be aware because at each enforcement in 2027 and 2030, landlords will need to demonstrate that the building has reached the highest EPC band that a cost-effective package of measures can deliver. In addition, the Government intend to introduce the necessity for landlords to present a valid EPC two years before the relevant enforcement date for each EPC target. In essence, this will involve submitting the current EPC to an online PRS compliance and exemptions database. This will trigger a clear time period within which landlords will be expected to undertake improvements if they have not done so already.
- We have seen the following EPC's for the Property, as noted below:

Address	Certificate Number	Expiry Date	Rating	Comparison to similar stock
Argos Ltd, 140 High Street, Bromsgrove, B61 8ES	9000-9935-0383-1270-7040	08 Oct 2027	G (231)	Below typical existing stock
Sports Direct. 140 High Street, Bromsgrove, B61 8ES	0690-0936-8859-2629-4002	28 Jan 2026	D (96)	Typical of existing stock

- We have provided our valuation on the basis that the Property performs in line with current legislation. However, in accordance with legislation, landlords should ensure that the EPC rating is improved where possible and that a new EPC is obtained or that an appropriate exemption is registered.

Sustainability Comment

- It will be important that any future improvement or upgrading works achieve the highest feasible environmental standards to maintain its environmental credentials going forward.

Planning

- The Property is located within the jurisdiction of Bromsgrove District Council.
- The Property is not listed.
- The Property is situated Bromsgrove Town Conservation Area and Bromsgrove Town Centre Regeneration Area.
- We have accessed Bromsgrove District Council's planning portal and note that there have been no planning applications in relation to the subject since 2004.
- We assume that your solicitors will be making formal enquiries of the relevant bodies and that you will rely solely on their findings.
- For the purposes of our valuation, we have assumed that the Property has planning permission for the existing Class A1, which is based on the findings of our informal planning enquiries of the Council's website.

Business Rates

- The Uniform Business Rate for England for the year 2021/22 is fixed at 51.2 pence in the pound for larger business, for those businesses that qualify for Small Business Rates Relief the lower Uniform Business Rate of 49.9 pence in the pound will apply. However, the rates liability may also be affected by a number of reliefs and supplements. It is, thus, not simply a product of the rateable value and the UBR multiplier. If all or part of the subject premises should become vacant then your borrower will be liable for the payment of business rates on the vacant commercial accommodation. The current allowance is for three months of empty rate relief with full rates payable thereafter.
- The aggregate rates liability for the Property is £187,000. This is broken down as follows:

Address	Description	Rateable Value
140, High Street, Bromsgrove, Worcs, B61 8ES	Shop and premises	£56,000
Pt 140, High Street, Bromsgrove, Worcs, B61 8ES	Shop and premises	£24,750
		£80,750

VAT

- We are uncertain as to the Property's VAT registration status and, therefore, we have assumed that VAT issues should not adversely affect the value of the Site.

Tenure and Tenancies

Tenure

- We understand that the Property is held on a freehold title.
- We have not been provided with a report on title and have, therefore, made various tenure assumptions for the purpose of the valuation reported herein. We have assumed that the leasehold interest is free from any encumbrances, unduly onerous or unusual easements, rights of way, rights of light, restrictions, outgoings or conditions which would have an adverse effect upon the value of the Property.
- If we are subsequently provided with a report on title we would be able to comment upon any impact its content would have upon the valuation reported herein. We would remind you that if information should come to light which contradicts the assumptions made herein this could have a material effect upon our valuation.
- We therefore reserve the right to amend our valuation accordingly should this prove necessary. We advise that all information relating to the tenure of the subject Property is verified by your solicitors.

Number of Tenants and Lease Type

- We have been provided with the tenancy schedule by the Borrower which we have relied upon.
- The Property is let to Argos and part vacant. The salient terms are outlined below:

Address	Tenant Name	Lease End Date	Break Option	Rent Passing
140 High Street, Bromsgrove	Argos	27 March 2024	None	£56,350
140 High Street, Bromsgrove	Vacant (Former Shoe Zone)	-	-	-
TOTAL				**£56,350**

- The aggregate rent payable is £56,350 per annum.
- One of the retail units is vacant, it was formerly let to Shoe Zone who vacated at the end of their lease in September 2021. The unit has been vacant since this date.
- Taking into account landlord shortfalls in relation to the vacant unit, the Property produces a net rent of £46,350 per annum.

Covenant Strength

- Part of the Sainsburys Group. Argos is a leading UK general merchandise retailer offering more than 60,000 products through its website, apps, stores and convenient Click & Collect points inside Sainsbury's supermarkets the company was originally established in 1973.
- Employing around 30,000 colleagues, it is the UK's number one toy retailer and a market leader in furniture, homewares and electricals.
- Argos is a technology-led retailer; its website receives more than a billion visits a year and 90% of sales originate online.
- Its market-leading Fast Track delivery service is available across more than 90% of UK postcodes, seven days a week, and offers home delivery in as little as four hours up to 10pm.
- Sainsburys is a strong covenant, that would be viewed positively by investors. We summarise the Groups trading statistics over the last three years.

Financial Summary	2021/22	2020/21	2019/20
Group Revenue (exlc VAT, inc, fuel)	£29,895m	£29,048m	£28,993m
Profit/(loss) before tax	£854m	£(164)m	£278m
Profit/(loss) after tax	£677m	£(201)m	£170m

Basic earnings/(loss) per share	29.8p	(9.4)p	6.7P

The Market and Valuation

Economic Background

UK Economic Overview

- Across 2021, UK GDP grew by a record 7.5% according to the ONS, beating expectations and the highest rate of growth since WWII. In the three months to February 2022, GDP grew by 1.0%, although in the month of February itself growth was anaemic. The quarterly index figure suggests that the economy remains 0.4% below the pre-pandemic level in 2019 due to the 9.4% decline observed over 2020. However, due to differences in methods, the monthly GDP index reports that the economy has in fact risen 1.5% above the pre-pandemic level.
- February saw output from the construction sector shrink by 0.1% on a m-on-m comparison, while the production sector contracted by 0.6%. However, the much bigger services sector compensated by achieving growth of 0.2%. Within services a bright spot was travel and leisure as tour operators and travel agents enjoyed a surge in bookings for the summer.
- The recent lifting of Covid restrictions was followed by another surge in infections during February and March, peaking at 109,000 cases on 21st March 2022. The figure has since fallen to 53,000 on 4th April. This is well below the pandemic peak of 276,000 on 4th January 2022. All restrictions have now ended in England, Wales and Northern Ireland, and only limited rules on face coverings apply in Scotland.
- The Covid risk appears to be ebbing at present, however this has coincided with the outbreak of war between Russia and Ukraine. This caused sharp rises in commodity prices, increased pressure on supply chains and saw the imposition of sanctions on Russia. It is too early to accurately judge the economic impact of the war, although typically high energy prices act as a brake on growth.
- Public sector spending was £1.3 billion higher government revenue in February, although tax receipts did rise faster than spending on an annual comparison. Higher tax revenues helped to support government finances, but high RPI inflation has pushed up interest repayments on the immense level of government debt, estimated to total £2.3 trillion – the highest level since WWII.
- The IHS Markit composite purchasing managers indices (PMI) for March achieved a net balance of 60.9, up from the 59.9 recorded in February, driven by strong figures for services. This was the highest reading since June 2021.
- The services sector PMI jumped from 60.5 in February to 62.6 in March, probably reflecting better weather and the rollback of Covid restrictions. The construction sector flatlined at 59.1, while the manufacturing sector decelerated month-on-month from 58.0 to 55.2.
- BoE data reported that consumer borrowing grew £6.2 billion in February, up from the £5.5 billion increase recorded in January. This was mainly driven by more use of credit cards, which may indicate more households are having to rely on debt to get through the current household incomes squeeze.
- Gfk's consumer confidence index decreased to -31 in March from -26 in February, reflecting concerns over cost-of-living increases. Also, retail sales volumes declined in February by 0.3%, compared to a 1.9% increase in January, due to lower sales for non-store retailing (which is mostly online shopping) following two months of strong performance. Online as a share of retail sales declined to 27.8%, having peaked a year earlier at 37.7%, although this is still above pre-Covid levels.

Labour Market

- The employment rate stood at 75.5% in the three months to February 2022. This remains 101 basis points below the level observed in the three months to February 2020 before the pandemic, due to a higher inactivity rate.
- The unemployment rate decreased to 3.8% in February, which is below its pre-pandemic level of 4.0%. This indicates a tight labour market, which could act as a brake on growth going forward. Although recent labour market indicators paint a positive picture, it is likely that there is some distortion from the size of the labour pool changing.

- The increase in the economic inactivity rate at the end of the furlough scheme suggests that a considerable portion of employees removed themselves from the labour market rather than become unemployed.
- Nonetheless, labour demand continues to outpace supply, with vacancies in March reaching a fresh record of 1.3 million. Pay growth appeared to peak in the Summer of 2021, and stands at 4.0% in nominal terms, but is negative in real terms (-1.0%). This is contributing to the household incomes squeeze this year.

Inflation

- CPI inflation increased by 7.0% in the year to March 2022, up on 6.2% in February and the highest figure since 1992. This figure surpassed consensus expectations, with the strongest upward contributions coming from Transport and Housing and Restaurants and Hotels.
- In the March meeting of the BoE's Monetary Policy Committee (MPC), the decision was taken to increase the UK base rate to 0.75%. While domestic inflationary pressures – and inflation expectations – were central to the rate rise, the MPC would have been conscious that the US Fed is now tightening policy. Without some form of reciprocal action from the BoE, the UK would run the risk of importing more inflation from the US due to the pound weakening and the dollar strengthening.
- For the UK property market, the increased base rate means that the cost of debt is no longer as favourable. Around three quarters of UK mortgages have fixed interest rates, so the increase is unlikely is unlikely to have an immediate impact on most homeowners.
- For commercial property, higher rates mean that investors will be looking for higher yields, typically attained through increased risk or rental growth. Hospitality and retail may serve those with an appetite for risk, although for consumer-facing property the household income squeeze is fast replacing Covid as a major risk to the outlook. More risk-averse investors are likely to look toward the industrial sector, due to better prospects for rental growth relative to other commercial sectors.

Outlook

- The sustained growth seen in the UK economy during the latest surge in infections, relative to previous Covid waves, provides hope that future Covid variants (which are likely to decrease in severity) will ease as a major downside risk. Nonetheless, the war in Ukraine and above expectations inflation has caused GDP forecasts for 2022 to be downgraded, with Oxford Economics anticipating 3.6% growth.
- Higher living costs, including three interest rate hikes, a rise in national insurance taxes and the energy price cap increase in April, may mean that more of those who left work during the pandemic choose to return, providing some relief to tight conditions in the labour market. Conversely, the financial squeeze may mean that consumer expenditure drops, particularly at the lower end of the wealth scale.
- Further increases in inflation are anticipated in 2022, with Bank of England forecasting inflation to reach 8.0% in Q2 and perhaps go higher. The interest rate is also expected to be pushed up to 1.00% according to Oxford Economics, following March's increase to 0.75%.
- The interest rate rise – and the anticipated further increase in the base rate, up to 1.00% later this year – may provide a drag to growth, particularly in the short-term outlook. Also, the war in Ukraine has emerged as a major downside risk, as it has already pushed up commodity prices and further disruption to supply chains is expected.
- Another point to note is that the majority of the recovery thus far has been sourced through consumer activity and government expenditure – businesses have been relatively quiet. Business investment has lagged in recovery and was 10.4% below the pre-pandemic level in Q4 2021. As Brexit and Covid uncertainty ease and begin to fade in terms of market impact, there is considerable scope for corporate investment to rapidly increase, injecting a new lease of life into the UK economy. Adding to this potential is the tax super deduction which incentives plant and machinery investments through providing a 130% rebate on the cost.
- However, this also comes with the caveat that the uncertainty caused by the Ukraine war could encourage a 'wait and see' attitude among firms towards investment.

Retail Market Q1 2022

UK Retail Consumer and Occupational Trends

As the Office for Budget Responsibility pointed out in the Spring Statement, UK households are facing a decline in real disposable incomes on a scale that hasn't been seen since the Second World War. There can be no doubt that this will negatively affect spending behaviour at a time when retailers are also facing dramatic rises in their costs.

The fall in real incomes that is currently being experienced is not just about the high inflation that is occurring due to Covid reopening and Ukraine, but also due to a rising tax burden due to the National Insurance increase and the freezing of income tax thresholds.

While UK consumers came out of the Covid-19 period with higher than normal levels of savings, the household saving ratio has already fallen below its pre-crisis level, and the fact that the higher levels of savings were concentrated in higher-earning families leaves middle- and low-income households with little or no cushion against rising prices.

We expect that CPI will peak at just under 9% in Q2 2022 and be back below the 2% target by late 2023. Some of the coming pain will also be offset by stronger wage inflation, though this will not be enough to protect the retail economy from a period of falling real incomes and the inevitable knock-on effect that this will have on consumer spending.

Oxford Economics is forecasting that consumer spending will fall quarter on quarter through the remainder of this year, a recession in all but name.

However, things will improve as energy prices start to fall in 2023 and the state benefits also rise sharply due to their linkage to inflation. The planned 1p cut in the basic rate of income tax in April 2024 will also mean that the consumer recession is comparatively short and shallow.

Because poorer households tend to spend a higher proportion of their incomes on food, fuel and energy, the pain will definitely be felt harder in some parts of the country more than others, and this could mean that discounters (who have fared very well in previous downturns), might not be so insulated this time around. That having been said, the latest Kantar data shows that Aldi and Lidl have continued to take market share from their mid-market rivals, which indicates that some trading down is already taking place in terms of family food spending choices.

What people cut back on in hard times is a fairly well-rehearsed story, with spending on discretionary items and bigger ticket items likely to see the largest falls. While bigger-ticket household items such as carpets, furniture and white goods have had a good run recently, on the back of a strong year in the housing market last year, we expect spending on these items to fall back in 2022.

Leisure spending is arguably the most discretionary area of household spending, and is often not recognised as the single largest. The ONS Living Costs and Food Survey suggests that spending on recreation, culture, restaurants and hotels accounts for 21.9% of a typical household's spending, far in excess of housing (13.6%) and transport (13.7%). However, past downturns have shown us that people do not cut back on leisure or pleasure as much as they could, with the desire for a treat in difficult times meaning that spending in some segments holds up better than might have been expected.

This time around, we expect spend on eating and drinking out to fall slightly, as people treat themselves to home-delivered food and supermarket-bought alcohol.

Clothing and footwear typically account for only around 4% of family spending, and thus, while cutbacks are likely in this segment, they will not have a huge impact on how much money people are saving or diverting to less discretionary spend. However, the latest ONS data suggests that clothing and footwear prices are 8.9% higher than they were a year ago, which indicates that retailers are being quicker to pass on rising costs to the consumer than they have been in previous periods of high inflation.

One area that might prove more defensive is DIY, with Kingfisher's and Wickes's recent statements appearing confident that people will carry on spending on their homes, and there is definitely some evidence from past downturns that DIY spend actually increases as people become more cost-conscious.

The speed at which some retailers appear to be passing costs on to consumers is a clear sign that cost pressures in retail, manufacturing and distribution are just as (if not more) significant than they are in household budgets.

We should not forget that companies do not benefit from an energy price cap, so the dramatic rise in gas bills is already being felt in retail stores and schemes across the country. Added to this is a similarly large increase in the price of diesel, and rises in the operating costs of the retailers who supply shops with their products.

Staff costs will also be a challenge, with workers and unions demanding that wages rise in line with inflation, and this was the single largest area of cost increase that was highlighted in Next's recent trading statement.

Next also made the point that they had made significant reductions in property costs in recent years, with an average rent reduction of 44% on 49 stores. Kingfisher echoed this view, with an average rent reduction of 20% last year on those stores where leases were renegotiated. While the property cost savings alone will not be enough to fully insulate retailers from margin erosion, they will help. This means that we probably see some equally forceful negotiations in 2022.

The Q1 trends in terms of rents and terms agreed were a continuation of the gradual improvement in the rent levels being achieved, with the most notable change this quarter being that the headline rents achieved were actually 7.5% higher than were achieved in Q1 2019.

On a year-on-year basis, the headline rents achieved were up 16.7% this quarter and net effective up 29.5%, which suggests that the nadir of the rental cycle in some locations was reached last year. The most acquisitive retailer groups continue to be F&B and Value brands, with Athleisure still on the expansion trail on the back of a strong Covid period.

Looking ahead, while there have been a few recent announcements on large-scale expansion programmes, we expect caution to prevail against the background of rising operating costs and falling sales. This should mean that rents plateau for a while rather than continue to grow at their recent pace.

Herefordshire and Worcestershire Local Market Overview

Retail rents in the Herefordshire & Worcestershire Market were decreasing at a -2.5% annual rate during the first quarter of 2022, which represents the weakest performance in over five years. While 36,000 sq ft has delivered over the past three years (a cumulative inventory expansion of 0.5%), nothing is currently underway. Vacancies were basically in line with the 10-year average as of Q1 2022, and were little changed over the past four quarters.

Total employment increased by about 1.2% over the past year. Over the past five years, employment has grown at an average annual rate of 0.8%, or an additional 12,000 jobs cumulatively. Nationally, employment has increased at an average annual rate of about 0.3% over the past five years. Retail trade employment has contracted at an average annual rate of -0.8% over the past five years, compared to a -0.9% average annual change nationally. That represents a cumulative decline of about -2,700 retail jobs over that timeframe.

Retail vacancies in Bromsgrove were roughly in line with the five-year average during the third quarter, and they were essentially unchanged from this time last year. The rate also comes in below the region's average. Meanwhile, retail rents have fallen on a year-over-year basis, dropping by -2.0%. That is the weakest performance observed over the past five years.

The development lull presses on in Bromsgrove. Nothing is underway, and nothing has delivered over the past three years.

Retail investors are reasonably active in Bromsgrove, but in the past year, deal flow cooled in the submarket. At £162 sq ft, market pricing is considerably lower than the region's average pricing.

Rental Evidence

- In arriving at our opinion of the current headline Market Rent we have had regard to the rental evidence detailed below.

Address	Date	Type	£ per annum	£ per sq ft overall	Comment
140 High Street, Bromsgrove (Subject Property)	On the Market	OML	£25,000	£12.77 (GF only)	• The unit is one the market. • There has been limited demand since September 2021.

The Bedroom Centre, 27-29 High Street, Bromsgrove	Oct 2021	OML	£25,000	£8.13	• Let to a local covenant. • Temporary 1 year lease.
Fresh Flowers, 4 Mill Lane, Bromsgrove	Apr 2021	OML	£12,500	£16.66	• Let to a local covenant. • 5 year lease.

- Generally there is limited demand from national retailers in Bromsgrove but there is reasonable demand from independent operators and from national budget retailers. The Argos unit is larger than the majority of the High Street units and therefore may take slightly longer to let. There is a high level of vacancy in Bromsgrove, which further suppresses rents in the town.
- We have spoken to local agents and been advised that retail units tend to be let on an annual rent basis and do not tend to be Zoned. This is primarily due to the fact that the occupiers tend to be local covenants who are more concerned about the annual and monthly payments than any tone.
- The upper floors are
- We summarise our opinion of Market Rent as follows:

Unit	£ Per Annum	Comment
Argos	£25,000	This equates to an overall rent of £6.02 per sq ft on the ground floor sales area and £17.06 ITZA. We have not rentalised the upper parts, as we deem these floors to be surplus to any retailers' requirements.
Vacant	£20,000	This equates to an overall rent of £12.77 per sq ft on the ground floor sales area and £28.86 ITZA. We have not rentalised the upper parts, as we deem these floors to be surplus to any retailers' requirements.
Total	**£45,000**	

- We are therefore of the opinion that the aggregate Market Rent for the subject Property is £45,000 per annum making the Property 25% over-rented.

Marketability	
Typical Void Letting Period:	6 to 12 months
Typical Lease Length:	5 years, break at year 3
Typical Rent Free Period:	6 to 12 months

Investment Market

UK Retail Investment Q1 2022

With more than £1.6bn traded over the last two quarters, it is clear that some investors want to buy shops again.

The biggest change in purchaser profile over the last six months has been the return of income-focused investors who are hoping to call the retail and capital value cycle.

While these buyer's confidence will definitely be knocked by worsening consumer sentiment over the second quarter of 2022, we do not expect it to last long enough to drive a rise in retailer failure or voids, and as such the occupational confidence story that was driving this group at the start of 2022 should remain. This confidence should be boosted by the Q1 rent collection figures, which showed an 8.6% rise on the previous quarter.

We expect that the main group of vendors of high street shops will remain the institutions, and the main buyers will be private investors.

Non-domestic private investors will be focusing on the well-known streets in the largest cities, while domestic privates will be chasing 8%+ yields on the high streets in smaller towns and suburban locations.

The lack of institutional buyers in the market will mean that the average lot size transacted will remain low, and that evidence for larger parades in prime locations will be hard to find.

Given that we have already hardened our prime high street yield from 6.75% in October 2021 to 6.25% in March 2022, one could argue that the window to call the cycle has already closed. This might mean that the depth of the buyer pool for true counter-cyclical investments might have shrunk. However, the fact that high street retail yields were as low as 4.25% in 2018 should be enough to assure some chartists that more yield compression is to come.

We certainly expect to see a further 25 bps fall in the prime high street yield over the next nine months, predominantly on the back of limited prime stock coming to the market. However, the recent suggestion that landlords might be forced to let vacant shops is yet another potential speed bump on the road to recovery.

Investment Comparables

We set out below details of some recent sales transactions and schemes that have recently been brought to market which we have considered in arriving at our opinion of Market Value. We have examined comparables which, in our opinion, are able to assist and guide us into forming our opinion of value and have extrapolated from these.

Address	Date	Tenure	Area sq ft	Sale Price	NIY %	Tenant (WAULT)	Comment
30 The Shambles, Worcester	Feb 2022	F/H	1,584	£326,000	6.66%	Nero Holdings Limited (T/A Caffe Nero (4.74 yrs)	The property is entirely let to Nero Holdings Limited (T/A Caffe Nero) on a lease expiring in 2026. Located in the pedestrianised City Centre. Close to M&S, Waterstones, The Entertainer, Savers & Poundland amongst others. *This transaction would be deemed superior to the subject due to it being located in a stronger pitch and longer unexpired term certain. We have applied a higher blended net initial yield to the subject.*
18 Wood Street, Stratford-Upon-Avon	Dec 2021	F/H	5,300	£650,000	8.04%	CEX (Franchising) Limited and Retirement Security Limited (4.15 yrs)	Ground floor shop let to CEX (Franchising) Limited on a lease expiring in 2025. First & Second floor offices let to Retirement Security Limited on a lease expiring in 2027. The

							gross passing rent is £55,000 p.a. There is long term potential to convert offices to residential use, subject to consents. *The Property is fully let for a longer term certain and located in a superior retail location. Given the subject Property's weaker income profile we would expect it to command a higher blended net initial yield.*
608 Bearwood Road, Smethwick	Dec 2021	VFH (999 yrs from Nov 21)	972	£162,000	9.08%	Local Covenant (2.88)	The property is entirely let to Craft Inn Ltd (a local covenant) with a rent passing of £15,000 per annum. The property is located in a densely populated residential area in close proximity to the local shopping centre. *This property is let to a local tenant with a similar unexpired term certain to the Argos lease. It is located in a weaker town. All things considered we would expect the subject to command a lower blended net initial yield.*

Principle Valuation Considerations

- The principal factors that have an impact on the value of the Property are summarised below:
  - The Property is held on a freehold title.
  - It comprises a partly let retail Property, situated in a secondary position on a busy local thoroughfare.
  - The immediate vicinity is characterised by mixed land uses to include both retail, residential and leisure.
  - Average WAULT of 2.3 years to lease expiry, no breaks. The Property is partially vacant.
  - The Property is over-rented.
  - The Property is dated, and would benefit from refurbishment.

- Opportunity to surrender the unused upper floors and seek a change of use to say an office or residential use.

Marketability

The Property is too large for current retail requirements, there is future development potential to convert the unused upper floors.

If a retail unit were to become available, subject to reinstatement to its original specification we would anticipate a void period in the order of 6 to 12 months along with rent free which should be anticipated at between 3 to 12 months on each 3 year term certain. It should be possible to obtain a full repairing and insuring lease subject to the current tenant conforming with their reinstatement and repairing obligations, albeit any lease would most likely be subject to a schedule of dilapidations.

During any void there will be associated holding costs including empty rates, security and maintenance.

Liquidity (Saleability)

The lot size of approximately £500,000 is within the reach of private purchasers and small property companies. Over recent years the amount of investment product offered in this location is limited and accordingly when opportunities do arise there is good demand.

Should the Property be put to the market we consider that the asset would attract interest from a wide range of investors, including owner occupiers, developers, small property companies and private individuals. Accordingly, we would anticipate a sale period in the order of 6-9 months.

With regard to a sale with vacant possession the market is much more volatile and to secure an owner occupier the marketing period may be extended and in the order of 12 months. If a sale had to be achieved within a shorter timeframe and an owner occupier could not be found then the amount which would be paid by investors would be much less.

Active Management

We have summarised below the potential asset management initiatives. The key ones we have identified are as follows:

- Let the vacant unit.
- Enter negotiations with Argos to renew their lease and surrender the unused upper floors.
- Ensure the Property is well maintained to prolong its useful economic life expectancy.

Future Value Prospects

The future performance of the Property will depend upon three principal factors, namely (a) the performance of the local occupational and general investment market; and (b) the future movements in cost of finance and investment yields; and (c) the ability of your customer to maintain the quality and duration of the income stream. Taking these in turn:

a) Whilst we are unable to forecast the occupational and investment outlook, this being no different with any other commercial property sub-sector, we would comment that rental growth in the locality is expected to remain stable over the next five years. Investment performance is driven by the prospects in rental growth as the occupational market continues to improve with the additional prospect of a medium-term hardening of yields (although unlikely to be significant), set against the weakening income security.
b) The continued uncertainty within the stock and equity market has resulted in an increase in demand for property investment by institutions, owner occupiers and property companies.
c) The sustainability of the rental income over the term of the proposed loan is perhaps the most significant risk to the value, and therefore the suitability for loan security. The requirement for pro-active asset management cannot be underestimated. Dealing with the lease events over the next five

year period, the letting of units in the event any became vacant and the re-gearing of existing leases is essential to preventing any value erosion and only through these asset management activities, which will minimise shortfalls (protecting the net income) and maintaining or potentially increasing the WAULTC, will the value of the asset be maintained or increased.

Clearly, asset management and a high level of occupancy is key to the value of the asset. However, regardless of how successful this may be, any weakening in the investment market and softening of yields could negate any value added by good asset management. This is beyond the control of the Borrower, nevertheless, this risk remains.

Valuation Approach

- We have adopted the traditional "all risks yield" method, having regard to comparable investment transactions and current market sentiment.
- We have made the following specific assumptions which we consider to be appropriate and reasonable to reflect the approach likely to be adopted by prospective purchasers:

Current Void and Non-recoverable Revenue

- The gross passing rent is £56,350 per annum.
- There are landlord shortfalls in relation to the vacant unit.
- As at the valuation date the net income is £46,350 per annum.

Tenant Retention and Re-letting Assumptions

- Argos has 2.3 years unexpired. The second retail unit is vacant and has been since Shoe Zone vacated the Property in September 2021.
- We have assumed a 9 month void period and 6 month rent free on the vacant unit.

Capital Expenditure

- The Property is dated, and under-utilised. It would benefit from refurbishment in the short to medium term. However, it would be advisable to wait to see whether Argos intend to vacant or stay renew their lease before committing to any capital expenditure. This would be a good opportunity for the Landlord to take back the unused upper floors for a potential change of use or development.
- We have not explicitly allowed for any other non-recoverable expenditure in undertaking our valuation and have reflected the risk of any other potential future shortfalls in our yield selection.

Purchasers Costs

- We have undertaken our valuation adopting full purchasers' costs, with SDLT of 2.90%, and 1.8% agent fees, legal fees and VAT.

Yield Consideration

- In undertaking our valuation of the Property, we have had regard to the rental and sales evidence above which shows that well located retail buildings in this location should achieve net initial yields within a range of approximately 6.66% and 9.08%. We are of the opinion that the subject Property would fall within these parameters on a blended basis.
- In assessing the Market Value of the subject Property, we have adopted a split yield approach to reflect the different income tranches as follows:

	Capitalisation Rate
Argos	8.5%
Vacant	9.5%

- This equates to a blended net initial yield 8.88%.

Market Value

- This results in a market value of the heritable interest subject to the occupational leases of **£500,000,** reflecting a net initial yield of 8.88% and an equivalent yield of 8.87%.

Vacant Possession Value

- In arriving at our opinion of the current Market Value of the Property subject to full vacant possession, we have had regard to the likely price that would be achievable in today's market from an entrepreneurial investor seeking to re-let the vacant building to create an income-producing investment. An entrepreneurial purchaser would want a suitably generous profit margin to reflect the re-letting risks and associated void costs until the building is fully let.
- In arriving at our vacant possession value we have made the following assumptions:
    - A headline Market Rent of £45,000 per annum
    - An equivalent yield of 9.50% applied
    - A letting void of 9 to 12 months and a rent-free period of 6 to 12 months
    - Letting and Legal Fees at 15% of Market Rent.
    - Void costs accounting for empty rates and service charge totalling £22,500
- Our overall vacant possession value is £370,000. This represents 74% of Market Value reported herein.

Suitability for Loan Security

- It is usual for a valuer to be asked to express an opinion as to the suitability of a property as security for a loan, debenture or mortgage. However, it is a matter for the lender to assess the risks involved and make its own assessment in fixing the terms of the loan, such as the percentage of value to be advanced, the provision for repayment of the capital, and the interest rate.
- In this report we refer to all matters that are within our knowledge and which may assist you in your assessment of the risk.
- On the basis of the information provided and subject to the comments contained within this Report, we consider that the Property should form suitable security for a mortgage advance assuming it is managed proactively given its current state and the proposed change of use and extension. In accordance with normal commercial practice, however, we would anticipate any advance being for only a proportion of our opinion of the Market Value reported.

Lenders Action Points

- Confirmation on Title.
- Commission of an Environmental Report.
- The Borrower should confirm that they have an appropriate Asbestos Management Plan (AMP). We recommend the Borrower is given 6 months to obtain an Asbestos Report and that as and when other units become vacant, Asbestos Reports are undertaken and that all recommendations relating to the control of asbestos as set out in the Asbestos survey are complied with.

Valuation as at 28 February 2022

Market Value:	£500,000	FIVE HUNDRED THOUSAND POUNDS	
	Initial Yield:	Equivalent Yield:	Reversionary Yield:
	8.88%	8.88%	8.62%

Purchaser's Costs:	• We have allowed for Stamp Duty Land Tax as follows: Market Value of up to £150,000, zero; next £100,000 (the portion from £150,001 to £250,000), 2.00%; remaining amount (the portion above £250,001), 5.00%. • We have also allowed for agents and legal fees plus VAT at standard market rates which amount to 1.80%.	
Market Rent:	£45,000 per annum	Blended rate of £2.56 per sq ft
Market Value on the Special Assumption of Vacant Possession:	£370,000	Assumed to be in the same physical state as it currently exists. We have assumed that the current tenants would not be in the market if the property were assumed to be vacant.

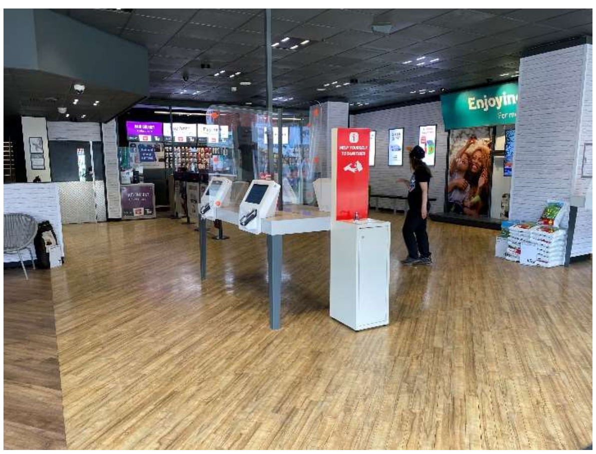
Appendix 1

Valuation Calculations

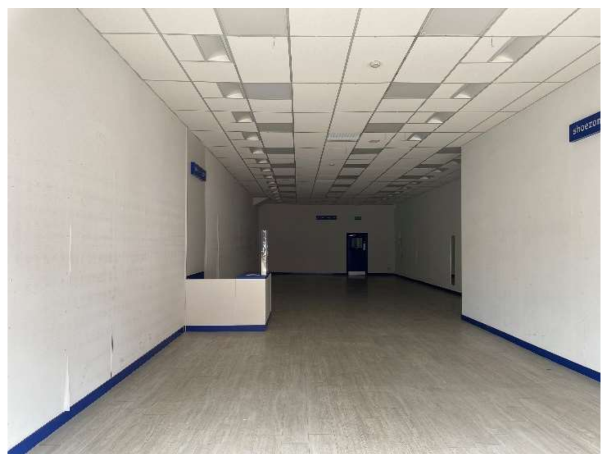
Appendix 2
Photographs

Retail Frontages

Retail Frontages



Internal – Argos



Internal - Vacant

Rear Elevation

Appendix 3

Engagement Documents