

Report and Valuation

Prepared for



Merritts Properties Portfolio

18 January 2013

**SMALLFORD WORKS
SMALLFORD LANE
SMALLFORD
ST ALBANS
AL4 0SA**



EXECUTIVE SUMMARY

SMALLFORD WORKS SMALLFORD LANE SMALLFORD ST ALBANS AL4 0SA

Location and Situation	<p>St Albans is a prosperous and historic market town, strategically located some 20 miles (32 km) north west of Central London.</p> <p>St Albans has a lower proportion of Happy Families but a significantly higher proportion of Symbols of success as well as a higher proportion of suburban comfort than the UK average.</p> <p>Smallford Works is situated 3 miles (4.8 km) east of St Albans city centre, in an isolated rural green belt location on the edge of a village.</p>
Description and Accommodation	<p>Smallford Works comprises 8.24 acres (3.34 hectares) or 302,774 sq ft (28,129 sq m) (excluding service road) of open storage land and buildings. The property is divided into 22 plots, each plot with its own hardstanding of either tarmac, concrete or compacted earth with fencing around the perimeter, laid out by numbers 1A to 15 in sizes ranging from 4,600 sq ft (427 sq m) to 41,982 sq ft (3,900 sq m). Of the total area, 20,041 sq ft (1,862 sq m) is comprised of industrial and other buildings.</p>
Building Condition	<p>The buildings on the site are in generally poor condition. The yard areas vary in quality, from uneven hardcore to level, smooth tarmacadam. The central spine road is in an average condition commensurate with its use. The majority of the occupied sites are fenced, some having security lighting.</p>
Tenure	<p>The property is held freehold.</p>
Occupational Leases	<p>The property is multi-let to 12 tenants on 17 leases. The weighted unexpired term certain is 1.62 years.</p> <p>The aggregate gross passing rent is £384,264 per annum equating to £1.27 per sq ft (£13.67 per sq m) overall. The rents payable overall are distorted in some cases by the presence of buildings upon some sites but the rents analyse over a range between £1.01 and £2.02 per sq ft (£10.87 and £21.74 per sq m) overall. There are three vacant units, two of which are assumed to be permanently void.</p>
Covenant Strength	<p>The property provides a mix of covenant strengths as would be expected of an asset of this nature.</p>
Investment Market Considerations	<p>The principal advantages and disadvantages of the investment are as follows:</p> <p><u>Advantages:</u></p> <ul style="list-style-type: none"> • Strong macro location close to M25/M2 and A1. • Secure yards with good lighting. • Large site of 8.20 acres (3.34 hectares) which may offer potential for redevelopment in the longer term, depending upon planning.

- Freehold tenure.
- Approximately 89% let at present.
- A reasonably diverse income profile, with the largest single tranche of income from any tenant being 18.74%, with eight tenants contributing 43.8% of the gross income, comprising less than 7.5% each.
- 40% considered to be good covenants, in the context of the subject property and rental liabilities.
- There is scope to increase the income by re-letting the vacant yard at Market Rent.
- Broadly rack-rented in the majority of cases, with the reversion on one unit counteracting over-renting on three units.
- Scarcity of open storage land of this nature in South East.
- Low capital value per sq ft and high yielding.

Disadvantages:

- Poor, isolated micro location, lacking prominence.
- Short term income (weighted unexpired term certain is only 1.62 years).
- 60% of the tenants are fair or worse covenant strength.
- A management intensive asset.
- Over-rented on three units by 12.1%.
- Limited rental growth prospects.
- Difficulty in achieving planning permission for a more enhanced use.
- Non-recoverable void costs on assumed permanently void units.

Market Rent We are of the opinion that the aggregate current headline Market Rent of the property is £390,710 per annum. This reflects an average rate of £1.29 per sq ft (£13.89 per sq m) on the total lettable building and land areas as existing, with a range of £1.00 to £1.75 per sq ft (£10.76 to £18.84 per sq m) on the open storage land.

Valuations **Current Market Value Subject to and with the Benefit of the Current Occupational Leases**

Having carefully considered the matter we are of the opinion that the current Market Value of the freehold interest in the property subject to and with the benefit of the leases detailed herein, is:

£4,300,000
(FOUR MILLION THREE HUNDRED THOUSAND POUNDS)



Our opinion of Market Value reflects a net initial yield of 8.25% based on the assumed net rent passing of £374,391 per annum.

On our assumptions, our valuation reflects an equivalent yield of 8.40% and a reversionary yield of 8.55% in say July 2013.

Our valuation assumes standard purchasers costs of 5.80%.

Current Market Value with Full Vacant Possession

Having carefully considered the matter we are of the opinion that the current Vacant Possession Value of the freehold interest in the property is:

£3,400,000
(THREE MILLION FOUR HUNDRED THOUSAND POUNDS)

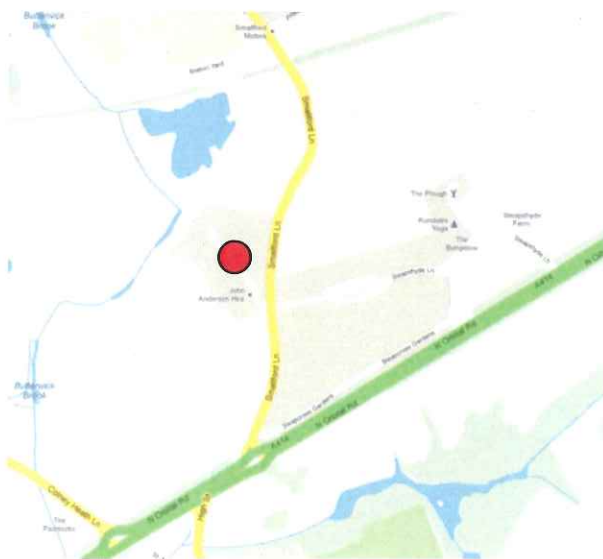
On our valuation assumptions, our opinion value reflects a 10.61% running yield on the assumed fully income producing date of April 2014, a 9.00% equivalent yield and a 9.46% true equivalent yield.

Our opinion of value is 79% of our opinion of the current Market Value of the property.

**SMALLFORD WORKS
SMALLFORD LANE
SMALLFORD
ST ALBANS
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Centre spine roadway



1.0 LOCATION

St Albans is a prosperous and historic market town, strategically located some 20 miles (32 km) north west of Central London. The City enjoys excellent road and rail communications with the M25 (Junction 21A), M1 (Junction 6) and A1 (Junction 3) motorways all within 6 miles (10 km) distance. In addition, the City benefits from two railway stations. St Albans mainline railway station, located just over 3 miles (5 km) east of the subject property provides a rapid access to St Pancras International (approximate travelling time of circa 20 minutes), Moorgate in the City and beyond to the south coast and Brighton, via Gatwick Airport. St Albans Abbey station is located approximately 5 miles (8 km) to the south west. Furthermore, London Luton Airport is located approximately 10 miles (16 km) north west, serving a vast majority of flight routes within Europe.

St Albans, according to the 2001 census data, has a resident population of 129,000 persons. St Albans council estimates this had grown to 139,000 by 2010.

The age profile of the resident population is broadly in line with the UK average, as follows:

Age Group	St Albans	UK
0-9	12.90%	12.20%
10-29	24.20%	25.40%
30-44	25.50%	22.60%
45+	37.40%	39.80%

In terms of Socio-Economic groups St Albans has the following Mosaic Consumer Classification profile:

Mosaic Consumer Classification	St Albans	UK
Symbols of Success	24.62%	9.70%
Happy Families	8.51%	11.64%
Suburban Comfort	21.47%	14.69%
Ties of Community	4.15%	16.36%
Grey Perspectives	5.73%	7.36%
Welfare Borderline	0.58%	6.16%

St Albans has a lower proportion of Happy Families but a significantly higher proportion of Symbols of success as well as a higher proportion of suburban comfort than the UK average.

Class Group	Croydon	UK
AB – Higher Intermediate Management/Administrative/Professional	38.5%	21.70%
C1 – Supervisory Clerical Junior Management/Administrative/Professional	30.60%	29.40%
E – State Benefit Unemployed	11.20%	16.60%
D – Semi-skilled and Un-skilled Manual Workers	10.70%	17.20%
C2 – Skilled Manual Workers	9.10%	15.10%

A General Location Plan, identifying St Albans in its regional context, is attached at the rear of this Appendix.

2.0 SITUATION

Smallford Works is situated 3 miles (4.8 km) east of St Albans City Centre. The property is accessed from Station Road which leads into Smallford Lane. It is bounded by Smallford Lane to the east, green fields to the north and south and Butterwick Brook to the West. The immediate vicinity is mainly open land and residential housing. There is a commercial nursery with glass houses less than 300 metres to the north of the northern edge of the site.



Looking North on Smallford Lane



Looking South on Smallford Lane

We attach at the rear of this Appendix an Ordnance Survey Extract which identifies the property.

3.0 DESCRIPTION

3.1 Overview

Smallford Works comprises 8.24 acres (3.34 hectares) or 302,774 (28,129 sq m) (excluding service road) of open storage land and buildings. The property is divided into 22 plots, each plot with its own hardstanding of either tarmac, concrete or compacted earth with fencing around the perimeter, laid out by numbers 1A to 15 in sizes ranging from 4,600 sq ft (427 sq m) to 41,982 sq ft (3,900 sq m). Of the total area, 20,041 sq ft (1,862 sq m) sq m) is comprised of industrial and other buildings.

The property is accessed from Smallford Lane through a gated entrance. Units 1A, 3, 4 and 5 have small buildings on the land, the remainder are used for either open storage or are part occupied by portacabins. The property is lit by a mix of streetlights and floodlights.

Unit 1A – This unit shares a building with Unit 4, with a dividing wall separating the units. Unit 1A comprises 1,670 sq ft (155 sq m) of warehouse with 23,975 sq ft (2,227 sq m) of yard.

Unit 3 – This property comprises a warehouse of 4,260 sq ft (198 sq m) of warehouse, 2,817 sq ft (262 sq m) of low store and 2,203 sq ft (205 sq m) of yard space.

Unit 3A – This property comprises a warehouse of 2,131 sq ft (396 sq m), 1,172 sq ft (109 sq m) of covered bay and 5,600 sq ft (520 sq m) of yard space.

Unit 4 – This property comprises tarmac hardstanding forecourt to the yard with a building that is shared with Unit 1A totalling 970 sq ft (90 sq m). with painted brick walls under a pitched corrugated steel or profiled steel roof incorporating rooflights.

Unit 5 – The building comprises concrete floor, painted brick walls, corrugated asbestos pitched roof supported by timber trusses on brick pillars, single glazed metal framed window units, strip lighting, insulation panels, roof lights and a steel roller shutter door.



Entrance to site off Smallford Lane



Unit 3



Unit 4



Unit 7A



Unit 7D and 14



Unit 10B

4.0 ACCOMMODATION

We have relied upon the floor areas which have been provided to us by the Borrower and have been agreed with tenants over the years, generally at the time of lettings. We have assumed that these have been measured in accordance with the RICS Code of Measuring Practice on a gross internal areas basis in relation to the buildings, as follows:

Unit	Use	Sq Ft	Sq M
Unit 1 A	Warehouse	1,670	155.15
	Yard	23,975	2,227.35
	Sub-Total	25,645	2,382.50
Unit 1 B	Yard	23,316	2,166.13
Unit 1 C	Yard	7,938	737.47
Unit 1 D	Yard	5,238	486.63
Unit 2 A	Yard	10,706	994.62
Unit 2 B	Yard	10,317	958.48
Unit 2 E	Office	1,954	181.53
	Yard	2,646	245.82
	Sub-Total	4,600	427.35
Unit 3	Warehouse	4,260	395.77
	Low Store	2,817	261.71
	Yard	2,203	204.67
	Sub-Total	9,280	862.14
Unit 3 A	Warehouse	2,131	197.98
	Covered Bay	1,172	108.88
	Yard	5,600	520.26
	Sub-Total	8,903	827.12
Unit 4	Workshop	970	90.12
	Yard	11,892	1,104.80
	Sub-Total	12,862	1,194.92
Unit 5	Office	1,565	145.39
	Workshop	2,149	199.65
	Yard	27,082	2,516.00
	Sub-Total	30,796	2,861.04
Unit 6	Office	299	27.78
	Lean to	1,054	97.92
	Yard	13,366	1,241.74
	Sub-Total	14,719	1,367.44
Unit 7 A	Yard	10,560	981.06



Unit	Use	Sq Ft	Sq M
Unit 7 B	Yard	9,600	891.87
Unit 7 C, 7 D & 14	Yard	17,012	1,580.47
Unit 9	Yard	14,886	1,382.96
Unit 10B	Yard	18,741	1,741.10
Unit 11	Yard	41,982	3,900.26
Units 12	Yard	9,338	867.53
Units 15	Yard	16,335	1,517.57
Subtotal Yard Area		282,733	26,266.78
Subtotal Buildings		20,041	1,861.87
Overall Total		302,774	28,128.7

There are 6 car parking spaces adjacent to Units 12 and 14.

Having scaled from Promap, we estimate that the site area is approximately 8.24 acres (3.34 hectares).

5.0 CONDITION

As instructed, we have not undertaken a structural survey of the property, although from our inspection for valuation purposes, we make the following without liability comments:

- The property is in overall poor to fair condition.
- The roof of the building at Unit 3 was leaking.
- The building within Unit 5 is in bad repair.
- The mix of concrete hardstanding/compacted hardcore etc was in the main, in a poor condition.

We consider it likely that deleterious or hazardous materials could have been used in the construction or alteration of some of the buildings. This comment is made without liability.

In the absence of refurbishment, we consider the buildings have a remaining useful economic life of up to 5-10 years, subject to immediate and continued maintenance. The land will remain suitable for open storage indefinitely, subject to drainage, maintenance and repair of the surface material.

6.0 ENVIRONMENTAL CONSIDERATIONS

6.1 GroundSure SiteGuard Report

As instructed, we have commissioned a GroundSure SiteGuard Report completed by GroundSure Limited which is dated 10 January 2013 and is attached at the rear of this appendix, along with the Land Use Questionnaire. The report concludes the following points in respect of the subject property:

- Regarding acceptable banking security from an environmental risk prospective, the property is in need of further assessment.
- The report considers there is a need for further assessment regarding a risk of statutory or third party action being taken against the site.
- There is a need for further assessment to assess whether there is a risk to the value of the property due to environmental issues.
- There is considered to be a high potential for environmental risk associated with the property ownership.

The report states that the site has been identified as being located on or in close proximity to a past and current industrial feature that is likely to have left a legacy of contamination within the ground if suitable remedial action has not been undertaken. The site has also been identified as being located on or in close proximity to a landfill site which could potentially impact on the site.

We have been informed by the borrower that it appears there is underground migration of methane and carbon dioxide gases from the adjoining site owned by Hertfordshire County Council, which was used some years ago as a waste refuse site, but this is being monitored by contractors acting for the Council.

6.2 Assumption

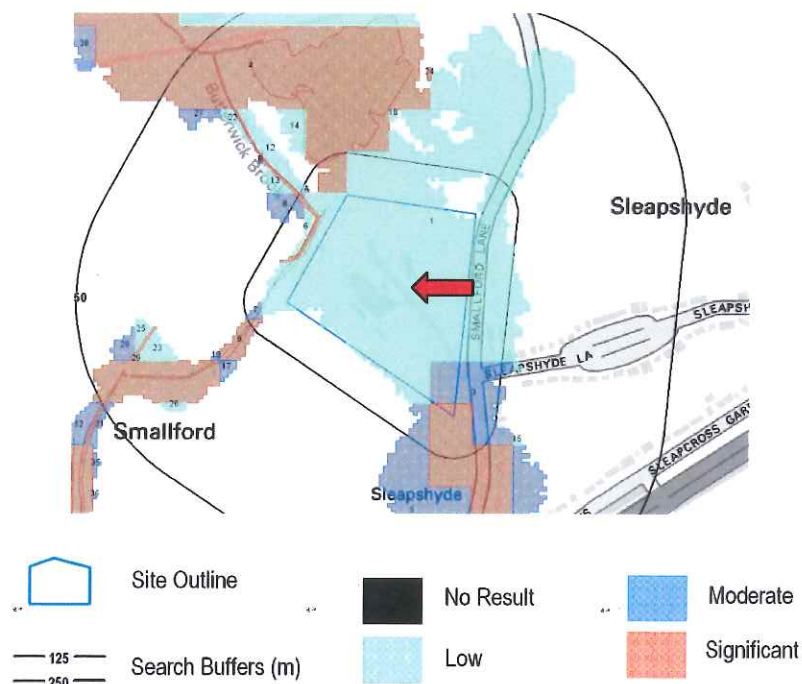
On the basis that the property is an open storage site and previous uses include brick works, railways sidings and unspecified works and given the contents of the above report, we consider it a possibility that land contamination exists. This comment is made without liability.

As the GroundSure report has concluded that there is need of further assessment, we have consulted with Alistair Wright, Barclays Environmental Risk Management. The conclusion is that the site is acceptable security from an environmental risk perspective: for continued use. We also attach a copy of the email confirming this at the rear of this appendix.

We have, therefore, valued the property on the basis that it has not suffered any significant land contamination in the past to the extent that the continued use is prejudiced, nor is it likely to become so contaminated in the foreseeable future. However, should it subsequently be established that significant contamination exists at the property or on any neighbouring land, which adversely affects the continued use of the property for its current use, then we may wish to review our valuation advice. We consider that prospective purchasers would in any event undertake an intrusive environmental survey.

6.3 Flooding

According to the GroundSure report, the Environment Agency consider there to be a Significant risk of river or tidal flooding, a 1 in 75 or greater chance of flooding in any given year. This contradicts our due diligence (see below), which concludes that there is a low risk of flooding. It also seems to contradict the map below as it shows that most of the property is within the blue (Low risk) zone and only the south eastern tip of the property is in the purple (Moderate risk) zone and a very small portion is in the orange (Significant risk) zone. The boundary indicated on the GroundSure Report is not absolutely accurate and the south eastern tip should be 200 metres to the north, therefore out of the Significant risk zone.



It is also reported in the officers report in connection with application number 5/2002/2112 for the new access road that the area has been known to flood.

We have made our own enquires with regard to potential flooding at the Environment Agency website, www.environment-agency.gov.uk and note that the property is located in an area, as shown in the map below with "Flooding from rivers or sea without defences" and "Extent of extreme flood". The likelihood of flooding from rivers in this area however is low. The location is unlikely to flood except in extreme conditions. The chance of flooding each year is 0.5% or 1 in 200 or less.



7.0 TOWN PLANNING

7.1 Local Development Framework

We have made informal enquiries of the local planning authority St Albans City and District Council, which states that the statutory plan covering planning policy and development control for the area is the District Local Plan Review 1994. The publication of the Strategic Local Plan is still under consideration following a Council meeting in November 2012. The preparation of the current Local Development Scheme is shortly to be superseded.

The property is zoned as land within the Metropolitan Green Belt and is protected under the National Planning Policy Framework (NPPF) and the District Local Plan for St Albans 1994.

The property is not Listed and does not lie within any Conservation Areas. We are informed that it is not directly affected by any highway, town planning or other schemes or proposals.

We have made enquiries with the local planning authority and confirm that there are no planning enforcement notices against the property. Within the officers report relating to application number 5/2002/2112 below for new access road, it states that although the existing uses on this site do not have the benefit of planning permission, no enforcement action may now be taken, due to the passage of time.

7.2 Planning Consents

We have inspected the website of the Local Planning Authority to ascertain the planning history of the property. Details of the most relevant planning decisions are listed below.

Application Number	Decision Date	Description	Decision
5/1979/1162	30.11.1981	Established use certificate in respect of industrial class IV.	Refused
5/1980/0732	30.11.1982	Established use certificate.	Refused
5/1980/1283	25.11.1980	Outline permission for redevelopment of redundant industrial site to provide new industrial site.	Refused



Application Number	Decision Date	Description	Decision
5/1981/0055	23.02.1981	Outline permission for redevelopment of redundant industrial site to provide industrial and warehousing accommodation.	Refused
5/1982/0595	24.08.1982	Redevelopment of an existing industrial site to replace in a more effective layout with suitable parking for commercial vehicles from an improved access and to provide more industrial buildings.	Refused
5/1982/1130	14.10.1982	Unit 6, single storey workshop to replace fire damaged building. Appeal lodged 23.02.1983, appeal withdrawn 26.03.1986.	Refused
5/1983/0008	01.01.1984	Unit 2, to hire, repair and overhaul of various types of contractors plant.	Approved
5/1983/0382	01.01.1984	Redevelopment of site for industrial purposes.*	Approved
5/1988/0175	31.03.1988	Development of Business Park, Class B1.** Appeal dismissed 10.01.1990	Refused
5/1988/0852	29.06.1988	Erection of business Park Class B1. ** Appeal dismissed 10.01.1990	Refused
5/1988/1880	10.01.1990	Development of business park Class B1.	Refused
5/1995/0974	08.08.1995	Installation of cess tank.	Refused
5/1994/1656	18.05.1995	Certificate of lawfulness (existing) for B2, B8 and use for plant hire and builders yard.***	Refused
5/1983/0007	01.01.1984	Parts Unit 1 and 1A - To manufacture various stone products to be used for re-facing of existing stone clad buildings.	Approved
5/1995/15564	04.04.1996	Certificate of Lawfulness (existing) use of land for B2, B8 purposes and as a plant hire depot and builders yard.	Refused
5/2002/2112	26.04.2004	New access road.	Approved

**This decision appears to contradict other refusals on this site for such use and as there is no decision notice attached to the entry on the website and an erroneous decision date recorded, we are unable to establish if the implication of this decision is indeed contradictory to the tenor of the other earlier and later decisions.*

***The reasons for the Council's decision to refuse permission for the development relate to Policy 1 and 2 of the District Local plan which states that within the Green Belt permission will not be given except in very special circumstances, for development for purposes other than that required for mineral extraction, agriculture, small scale facilities for participatory sport and recreation, or other uses appropriate to a rural area. The Council stated "The proposed development cannot be justified in terms of the purposes specified and no exceptional circumstances are apparent in this case. The scale of the proposed development would lead to an unacceptable increase in traffic movements onto Smallford Lane and Station Road detrimental to the amenities of adjoining residents".*

****The reason for the Council's decision to refuse permission was; insufficient information has been provided to satisfy the District Planning Authority that the uses had continuously existed for a period of 10 years prior to the submission of this application.*

While there is no planning permission in relation to the site, the use of the site as existing appears to have become established under the planning acts. There is a plethora of refused permissions over the years for a more intensive or more formalised use of the property. The existing use technically falls within Class B8 storage and distribution, although permission has been refused most recently in 1995/96 and therefore we do not consider that a purchaser would expect any intensification of the use of this site.

8.0 RATING

From informal enquires of the Valuation Office Agency, we understand that the following entries appear on the 2010 Valuation List.

Property Address	Description	2010 Rateable Value
Unit 1A	Land Used for Storage and Premises	£19,250
Unit 1B	Land Used for Storage and Premises	£12,750
Unit 1C	Land Used for Storage and Premises	£7,600
Unit 2A	Land Used for Storage and Premises	£12,500
Unit 2B	Land Used for Storage and Premises	£13,000
Unit 2E	Offices and Premises	£22,750
Unit 3	Store and Premises	£22,500
Unit 3A	Store and Premises	£19,750
Unit 5	Land Used for Storage	£45,500
Unit 6	Land Used for Storage	£16,250
Unit 7C	Land Used for Storage	£3,650
Unit 7D	Land Used for Storage	£7,200
Unit 9	Land Used for Storage	£16,250
Unit 10B	Land Used for Storage and Premises	£20,250
Unit 11	Land Used for Storage and Premises	£29,500
Unit 14	Land Used for Storage and Premises	£4,700
TOTAL		£273,400

The Uniform Business Rate for 2012/2013 is 45.8 pence in the Pound, and therefore we calculate the rates currently payable are £125,217 per annum, excluding any transitional and other relief.

There are currently three vacant demises, Unit 1B, 1D and 2E, although Unit 1D is not rated. We estimate that the Borrower's empty rates liability in relation to our assumption of permanently void units (see valuation approach), is currently £5,840 per annum (£0.25 per sq ft / £2.70 per sq m) on Unit 1B. The empty rates liability in respect of Unit 2E would be £10,420 per annum after 3 months rate free. It should be noted that were Unit 1D to be let, we consider that it would then become rated.

9.0 TENURE

We have valued the freehold interest in the property as outlined in red on the Ordnance Survey extract at the rear of this Appendix.

We have not been provided with any tenure information and we understand that a Report on Title or Certificate of Title is not available.

In the meantime and given the absence of title documentation, we have assumed that the property benefits from a clean title with no onerous restrictions or obligations and full rights of access are enjoyed, and that no third parties enjoy any rights over the property. These assumptions should be confirmed by your solicitors as part of the due diligence process.

10.0 TENANCIES

10.1 Overview

We have been provided with a Schedule of Tenancies by the Borrower, and they have fed back additional comments in respect of queries we have raised. We have also been provided with all of the leases and we have inspected a sample of four. These comprise the leases for the four largest tenants (by gross income) on the estate. We provide a Schedule of Tenancies at the rear of this Appendix.

The property is multi-let to 12 tenants on 17 leases at an aggregate rent of £384,264 per annum equating to £1.27 per sq ft (£13.67 per sq m) overall. The rents payable overall are distorted in some cases by the presence of buildings upon some site but the rents analyse over a range of between £1.01 and £2.02 per sq ft (£10.87 and £21.74 per sq m) overall. The lease terms range from between 1 and 5 years, expiring between January 2013 and November 2015. There are three vacant units, Unit 2E, 1B, and 1D, totalling 33,154 sq ft (3,080 sq m) or 11% of total combined area. We assume the tenant at Unit 1C is holding over, following their lease expiry on 10 January 2013.

We have inspected the leases relating to Unit 1A (Versatile Utilities Ltd), Unit 3A (Screwfast Foundations Ltd), Unit 5 (Smallford Supplies Ltd) and Unit 11 (HDD Plant Hire Ltd). These leases are drafted on effective full repairing (good and substantial) and insuring terms and the tenant covenanted to keep tarmacadam surfaces in a clean and orderly and tidy condition and the surface repaired, cleansed and maintained and free of dirt, rubbish, weeds, snow, ice and unlawful obstructions and not to bring or keep any waste materials or debris onto the premises or the estate. There is an absolute prohibition on alienation. Alterations and additions may be undertaken with consent from the landlord and removed without damage at expiry of the lease if requested by the landlord. There is a provision for the tenants to contribute to the estate service charge.

In relation to Unit 3A, the tenant is not required to keep the premises in any better repair or condition than they are in at the commencement of the term as evidenced by the photographic schedule of condition dated 12 October 2009 which is annexed to the lease.

User clauses:

Unit 1A – As to the building on premises for storage purposes only and as to the yard area for open storage purposes and for vehicle parking.

Unit 3A – As to the warehouse part of the premises for the storage of plant and as to the yard part of the premises for parking.

Unit 5 – As to the single storey building at the area forming part of the premises for the purpose of an office and as to the workshop building forming part of the premises for the purpose of a workshop and as to the remainder of the premises as open storage.

Unit 11 – For storage of materials only.

We have seen from an agents letting brochure that there is an operator's licence in respect to the property as follows:

Monday to Friday

No vehicle movement over 7.5 tonnes before 7.00am or after 7.00pm.

Saturdays

No vehicle movement over 7.5 tonnes before 7.00am or after 12.30pm.

Sundays

No vehicle movement over 7.5 tonnes.

We have been informed by the letting agent involved in marketing some units in the estate that Unit 3a and Unit 12 occupied by Screwfast Foundations Ltd are available for letting and the tenant wishes to vacate once a replacement tenant has been found. The tenant has notified the landlord of their willingness to surrender. The leases have 1.79 and 1.19 years respectively unexpired on these units.

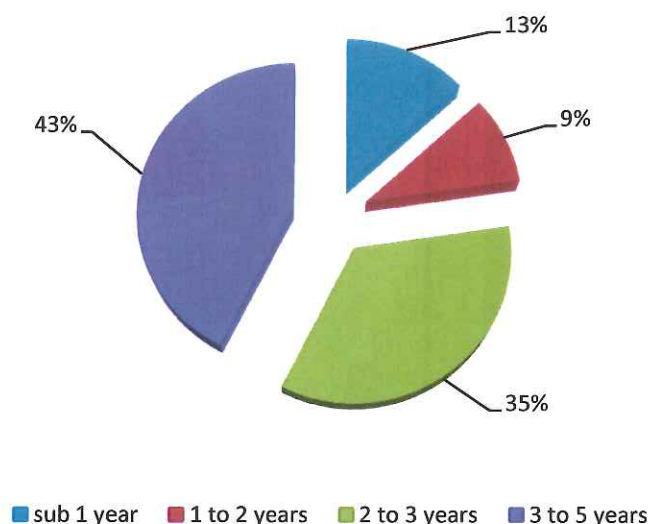
The four most significant tenants are as follows:

Tenant	Rent	% of Rent
Smallford Supplies Ltd	£72,000	19%
Screwfast Supplies Ltd	£62,100	16%
HDD Plant Hire Ltd	£50,000	12%
Versatile Utilities Ltd	£32,000	8%

The weighted average unexpired lease term is approximately 2.76 years and the weighted unexpired term certain is 1.62 years.

We have assumed that the remaining leases are drafted on similar effective full repairing and insuring terms by way of a service charge in relation to the common areas and estate road.

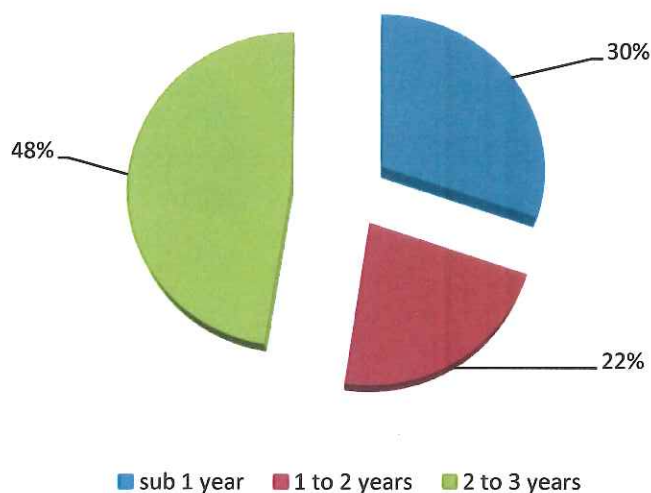
Income Percentage by Unexpired Term



Unexpired Lease Term	Rent	Percentage
0-1 years	£50,704	13%
1 – 2 years	£35,500	9%
2-3 years	£133,200	35%
3-5 years	£163,860	43%
Total/Average	£384,264	100.00%

Having regard to the tenant break options, 52% of the income expires within the next two years and 48% within the next 2 to 3 years.

Income Percentage by Unexpired Term Certain



Unexpired Lease Term	Rent	Percentage
0-1 years	£116,064	30%
1-2 years	£85,000	22%
2-3 years	£183,200	48%
Total/Average	£384,264	100.00%

10.2 Service Charge

We have been provided with service charge accounts for the years ending 31 December 2009, 31 December 2010 and 31 December 2011. This shows that the service charge has been running at an average of £67,121 per annum, or £0.22 per sq ft (£2.39 per sq m).

We have also been provided with a service charge budget for the year ending 31 December 2012 and a more detailed breakdown of this service charge expenditure together with the historical charge is provided below:

Year Ending	Management	Utilities	Soft Services	Hard Services	Insurance	Total/£ Per Sq Ft
31 Dec 2012 (Budget)	£5,500.00	£5,200.00	£56,000.00	£2,500.00	£0	£69,200.00 (£0.23)
31 Dec 2011	£5,373.25	£4,957.47	£55,965.00	£2,422.00	£0	£68,717.72 (£0.23)
31 Dec 2010	£5,550.67	£4,093.87	£55,441.96	£3,603.00	£0	£68,689.50 (£0.23)
31 Dec 2009	£5,903.87	£4,058.65	£51,395.54	£2,497.00	£100	£63,955.06 (£0.21)

We have also had discussions with the Borrower who informs that the service charge shortfall estimate for the current year is £5,839.50 for Unit 1B (Unit 1D, the other vacant unit is not included in the service charge figures), which we have assumed remain permanently void. Regarding Unit 2E, which fell vacant on 4 January 2013, the service charge amount allocated is £3,436 per annum.

10.3 Occupation

At the date of our inspection all the tenants appeared to be utilising their premises as open storage etc, although a number of the occupiers were not present at the time of our inspection.

10.4 Sub-Tenancies

We are not aware of any sub-tenancies at the property.

11.0 TENANT COVENANT STRENGTH

As valuers, we are not qualified to comment on or interpret financial accounts. Nevertheless, we have obtained Dun & Bradstreet Compact Reports, where available, and have formed an opinion as the financial strength of the tenants.

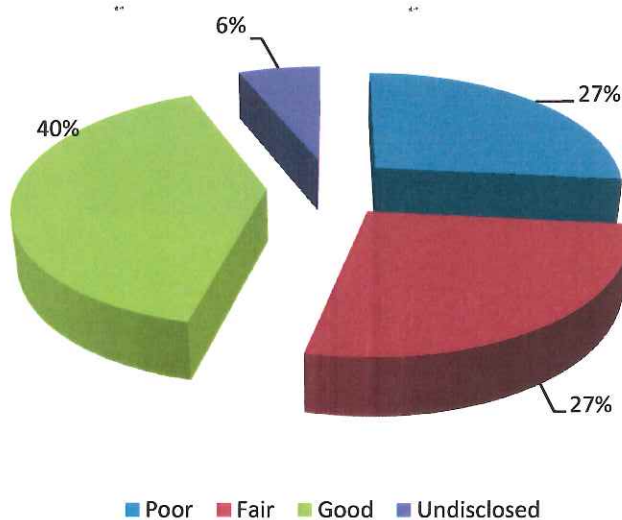
We consider the property has the following covenant strength profile and we summarise the credit ratings in the table below.

Tenant	Current Rent	% of Overall Rent	Unexpired Lease Term (To Break)	Unexpired Term Certain Income	Tangible Net Worth	D&B Rating	Perceived Covenant Strength
Versatile Utilities Ltd	£32,000	8.33%	4.54	£49,238	£7,745 as at 30 September 2012	H4	Poor
Vacant	£0	0.00%	-	£0	-	-	-
KP Waste Co Ltd	£8,500	2.21%	-0.02	-£186	£883,670 as at 30 September 2011	1A2	Good
Vacant		0.00%		£0	-	-	-
Shaca Construction Ltd	£15,500	4.03%	2.50	£38,745	£89,830 as at 31 March 2012	D2	Fair
K P Waste Co Ltd	£18,204	4.74%	0.28	£5,134	£883,670 as at 30 September 2011	1A2	Good
Vacant	£0	0.00%	0	£0	-	-	-
JJ Roofing Supplies Ltd	£12,500	3.25%	3.41	£5,133	£2,328,952 as at 31 May 2011	2A2	Good
Screwfast Foundations Ltd	£18,000	4.68%	1.79	£32,230	£1,011,730 as at 31 May 2011	1A2	Good
Anthony Michael Clayton	£24,000	6.25%	0.18	£4,337	-	-	Undisclosed
Smallford Supplies Ltd	£49,700	12.93%	2.20	£109,129	£49,445 as at 31 March 2012	E2	Fair
P N Daly Ltd	£25,860	6.73%	3.87	£22,373	£9,645,743 as at 30 September 2011	3A1	Good
Smallford Supplies Ltd	£11,700	3.04%	2.20	£25,690	£49,445 as at 31 March 2012	E2	Fair
Smallford Supplies Ltd	£10,600	2.76%	2.20	£23,275	£49,445 as at 31 March 2012	E2	Fair
Screwfast Foundations Ltd	£25,600	6.66%	2.40	£61,468	£1,011,730 as at 31 May 2011	1A2	Good

Tenant	Current Rent	% of Overall Rent	Unexpired Lease Term (To Break)	Unexpired Term Certain Income	Tangible Net Worth	D&B Rating	Perceived Covenant Strength
Rahilly Plant Ltd	£20,100	5.23%	2.18	£43,749	(£29,165) as at 30 April 2011	N2	Poor
CRH Fencing & Security Group (UK) Ltd	£27,000	7.03%	3.83	£8,723	£4,796,000 as at 31 December 2011	2A2	Good
HDD Plant Hire Ltd	£50,000	13.01%	4.78	£139,220	£67,160 as at 31 December 2011	E3	Poor
Screwfast Foundations Ltd	£18,500	4.81%	1.19	£22,084	£1,011,730 as at 31 May 2011	1A2	Good
ROL Construction Ltd	£16,500	4.29%	3.90	£31,306	£191,354 as at 31 July 2011	C2	Fair
Vacant	£0	0.00%	-	£0	-	-	-

We consider the property has the following covenant strength profile:

Income by Tenant Covenant Strength



The above chart demonstrates that approximately 40% of the income is secured on tenants of good covenant strength in the context of the subject property and the level of rent payable, that is, of D&B rating of 1A2 or 2A2. The remaining tenants are of fair or worse covenant strength.

While, approximately 34.9% the total gross income from the property is derived from two tenants (the largest tenant, Smallford Works, comprising 18.7% and the second largest, Screwfast, contributes 16.2%), eight of the remaining tenants with a total contribution of 43.8% of gross income contribute less than 7.5% each.

12.0 ST ALBANS INDUSTRIAL MARKET COMMENTARY

12.1 Overview

St Albans has a limited industrial market. Between the two world wars years St Albans became a centre for emerging high technology industries, most notably aircraft manufacture and making electrical goods. It became the centre for the Marconi plc which remained the city's largest employer until the 1990s. This industry has now gone from the area.

After the Second World War the council tried to attract new industries to the city. Valley Road industrial estate was built in the mid 1950s. However St Albans remained largely a commuter town. This probably reflects the establishment of larger concentrates of industrial/distribution uses along the M25 at for example, Enfield (Brimsdon Industrial Area) and at Hoddesdon on the A1, and on the edge of other large business areas in the surrounding towns.

Nearby/competing industrial centres to St Albans include Hemel Hempstead, Welwyn Garden City and Watford.

Hemel Hempstead

Hemel Hempstead is located approximately 10 miles (16 km) west of the subject property. Hemel Hempstead's industrial stock is concentrated on the eastern edge of the town, close to the M1 and M25 motorways with good access to major commercial centres in the midlands and north, as well as London and much of the south east. The Maylands Industrial Area is the focus in Hemel Hempstead, with some properties dating back to the 1960s although much of the older stock has been redeveloped to provide purpose built facilities and modern warehousing units alongside office space.

Manufacturing firms in Hemel Hempstead mostly comprise small firms occupying trade counter space or mixed use business units. There are some larger employers related to the construction industry. Take up in Hemel Hempstead rose by 42% in 2011. The town saw a two year surge in big shed demand over 2010/2011, although the market has since quietened.

In Hemel Hempstead, top rents stood at £7.75 per sq ft (£83 per sq m) at mid 2012. Recent rental trends in Hemel Hempstead reflect the wider economic downturn. There has been little transactional evidence on sizeable lettings of prime space recently, though Multi-distribution Ltd are recorded to have paid £7.00 per sq ft (£75 per sq m) for 20,700 sq ft (1,923 sq m) of good quality secondary space in the fourth quarter of 2011. As in other centres, higher rents are achieved on small trade counter and mixed-use units, such as those at McDonald Business Park. Large units typically command lower rents, as demonstrated by the Palmer & Harvey letting in 2011, which achieved £5.95 per sq ft (£64 per sq m) on 168,000 sq ft (15,608 sq m) of prime warehousing space.

Welwyn Garden City

Welwyn Garden City is located approximately 5 miles (8 km) north east of the subject property. The town was developed from 1920 as a "garden city" and its design saw separate residential and industrial areas laid out amongst landscaped parkland and tree lined boulevards.



There are a number of industrial areas in Welwyn Garden City, including Bridgefields, Chancerygate Business Centre, Bessemer Trade Work, Bessemer Road, Little Ridge Industrial Estate, Mundells Industrial Estate and Welwyn Point at Bridge Road.

The town benefits from good communications links and is located immediately east of the A1(M) between junctions 4 and 6. It is 7 miles (11 km) north of the M25 Junction 23 and similar distance east to the M1 junction 9, and fast frequent rail service to London Kings Cross and Moorgate with a journey time of approximately 30 minutes.

Rents within Welwyn Garden City range between £4.30 per sq ft (£46 per sq m) for a 3,382 sq ft (314 sq m) 1980s building to £7.75 per sq ft (£83 per sq m) for a more modern building with higher eaves height and totalling 24,047 sq ft (2,234 sq m). In September 2012, a tenant took a 16,660 sq ft (1,548 sq m) column free warehouse on a 10 year lease with review and tenant break option at year 5 at a rent of £6.00 per sq ft (£65 per sq m).

Watford

Watford is located approximately 12 miles (19 km) south west of the subject property. Traditionally Watford had a strong manufacturing base, especially in printing and engineering, however, these industries have contracted their presence in the town significantly over the last two decades, Watford's largest manufacturing employers are from the dominant printing and publishing sector, namely Alpine Press and Trinity Mirror, consolidation at the latter resulted in 250 job losses.

Industrial take up was 15% above the five year average. Pre lets and purpose builds have been of little importance with no such transactions recorded in the last five years. The majority of activity in Watford has been within smaller production/warehouse units, driven by existing local occupiers with little demand for large units. The 10,000 to 25,000 sq ft (929 to 2,323 sq m) sizeband has seen the largest share of take up at 35%.

Watford has not seen a significant number of transactions agreed in 2012, although the market was boosted significantly in the second quarter by an exceptional data centre acquisition, boosting the first half of the years take up, higher than Watford's total annual figure for 2011. The industrial market in Watford is small and has been contracting over the last decade or so, there remain a number of relatively substantial industrial parks in the area. The majority of these provide small warehousing, light industrial and trade counter space.

Watford is less attractive to those firms looking for large amounts of space for either manufacturing or logistics operations, due to high land prices and competition from other more profitable uses. In Watford, top rents stood at £7.50 per sq ft (£81 per sq m) at mid 2012. In the third quarter of 2012, 2,600 sq ft (242 sq m) off industrial space was taken at Imperial Way at a rent of £6.64 per sq ft (£71 per sq m) and 6,500 sq ft (603 sq m) of space was let within Grecaines House at a rent of £3.46 per sq ft (£37 per sq m).

Open Storage Land

Land for open storage is not often found in large quantities in conventional industrial areas due to the likelihood that it has been developed or has the prospect of being developed into conventional industrial use. It is generally the case, therefore, that occupiers of storage land of this nature would need to seek out such lettable opportunities in the less prime locations such as Smallford Works. Land in this use is generally of restricted use ie cannot be built upon due to planning or other constraints. Rental levels vary from around £1 to up to £2 per sq ft (£10.76 to £21.53 per sq m) depending upon the quality of the site lighting surface security fencing etc.

Industrial land and buildings in non commercial, semi rural edge of village locations tend to be occupied by local, small business enterprises. Occupiers of open storage land are likely to be used for storage of plant and other equipment hire companies, pallet supplies, construction companies and other service industries to the local market, small local distribution companies who have heavy or bulky 'outdoor friendly' products or equipment and other goods that needs storage. Tenants often occupy makeshift portacabins and other structures for indoor facilities and are happy with basic amenity on site.

Higher rents are obtained for the best land, which is determined as well secured, fully fenced, well lit and having top quality surfacing, with drainage, for example, concrete or tarmac hardstanding, with medium grade land having either a combination of the above surfaces and perhaps some compacted hardcore or at the poorer end compacted earth/hardcore.

There is generally good demand in Herfordshire for industrial as there is not much stock. St Albans tends to be more expensive than it's neighbouring markets and occupiers favour the cheaper areas such as Hemel Hempstead and Welwyn Garden City. There is generally a scarcity of open storage land in this north west M25 quadrant, largely due to the likelihood that any industrial land has already been developed more intensely.

Evidence within the estate is the most relevant in assessing Market Rent, with lettings taking place during 2010, 2011 and 2012. These are illustrated below.

12.8 Rental Evidence

The most relevant rental evidence is from within the property itself, with the most recent evidence being as follows:

- Unit 1D – this unit is current under offer on a 5 year lease with a tenants break option at 12 months at a rent of £7,000 per annum, equating to **£1.34 per sq ft** (£14.38 per sq m). This unit comprises a yard of 5,238 sq ft (487 sq m) and is situated on the south eastern side of the estate, near the entrance.
- Unit 2E – This unit which comprises an office of 1,954 sq ft (182 sq m) and 2,646 sq ft (246 sq m) of yard is currently under offer at £14,000 per annum, equating to **£3.04 per sq ft** (£33 per sq m) overall on a 5 year term with a 3 year break clause.
- Unit 11 – in November 2012, HDD Plant Hire Ltd took 41,982 sq ft (3,900 sq m) of storage yard on a 5 year lease with a tenant break option in November 2015 at a rent of £50,000 per annum, equating to **£1.19 per sq ft** (£12.81 per sq m). There is a fixed uplift in November 2015 to £62,500 per annum, equating to **£1.49 per sq ft** (£16.04 per sq m).
- Units 1A – in August 2012, Versatile Utilities Ltd took 1,670 sq ft (155 sq m) of warehouse and 23,975 sq ft (2,227 sq m) of yard area on a 5 year lease with a tenant break option in August 2014 at a rent of £32,000 per annum, equating to **£1.25 per sq ft** (£13.45 per sq m) overall or **£1.09 per sq ft** (£11.73 per sq m) on the yard area, with **£3.50 per sq ft** (£37.67 per sq m) on the building area.
- Unit 2B – in May 2012 K P Waste Co Ltd took 10,317 sq ft (958 sq m) of yard area on a 1 year lease at a rent of £18,204 per annum, equating to **£1.76 per sq ft** (£18.94 per sq m).
- Unit 15 – in December 2011, ROL Construction Ltd took 16,335 sq ft (1,518 sq m) of yard area on a 5 year lease at a rent of £16,500 per annum, equating to **£1.01 per sq ft** (£10.88 per sq m).

- Unit 6 – in December 2011, P N Daly Ltd took 14,719 sq ft (1,367 sq m) of office, yard and lean to at a rent of £25,860 per annum, equating to **£2.17 per sq ft** (£23.36 per sq m) overall.
- Unit 10B – in November 2011, CRH Fencing & Security Group (UK) Ltd took 18,741 sq ft (1,741 sq m) of yard area on a 5 year lease at a rent of £27,000 per annum, equating to **£1.44 per sq ft** (£15.50 per sq m).

There has been a limited number of recent letting transactions in the immediate vicinity and so we highlight below some historical lettings in St Albans and other more recent transactions elsewhere;

- At 223A and 233A Hatfield Road, there is currently 0.430 acres (0.174 hectares) or 18,731 sq ft (1,740 sq m) with a range of buildings is on the market for sale. The properties are tucked away and situated on the north side of Hatfield Road, in an area of mixed residential and commercial uses. The agents have advised that there hasn't been much interest from prospective buyers due to its lack of prominence, and reduced quality of the stock. The quoting price for vacant possession is £700,000 which equates to **£1.63 million per acre** (£4.02 per hectare) or £37.37 per sq ft (£402 per sq m) on the land. This is a redevelopment opportunity, subject to planning permission. As this site is less than half an acre a premium would be paid for this.
- G Park Dunstable, Boscombe Road, Dunstable – this property comprises 8 acres (3.2 hectares) of open storage land. In December 2011, CHEP UK Ltd took a 3 year lease on this property at a rent of £331,079 per annum, equating to **£41,385 per acre** (£102,220 per hectare) or **£0.95 per sq ft** (£10.20 per sq m) subject to a mutual break option at any time with 90 days notice. A discount would apply to a single letting of a large site of this nature.
- Village Point, Trafford Park, Manchester – a 4.3 acre site was let to CHEP in December 2011 for a term of 10 years with breaks at years 6 and 8 at a rent of £172,000 per annum, equating to **£40,000 per acre** (£98,800 per hectare). This also equates to **£0.92 per sq ft** (£9.90 per sq m) on the open storage land. This rent was considered high for the area which are normally around £25,000 to £30,000 per acre (£0.57 to £0.75 per sq ft / £6.13 to £8.07 per sq m) but the tenant was considered a special purchaser given they occupy the adjacent site.
- Open Storage Land, Eythorne Street, Hollingbourne – In March 2011, this yard totalling 5,555 sq ft (516 sq m) with a dilapidated building of 382 sq ft (36 sq m) was let to CW Surfacing Ltd on a 1 year lease at £3,000 per annum, equating to **£0.54 per sq ft** (£516 per sq m).
- Open Storage Land, Botany/Lower Road, Northfleet – In June 2010, this fenced yard of 1.4 acres (0.56 hectares) with small office of 800 sq ft (74 sq m) was let for **£40,000 per annum**, equating to **£0.73 per sq ft** (£7.85 per sq m).

13.0 MARKET RENT

Having regard to the rental evidence summarised above, our opinion of the aggregate headline Market Rent is £390,710 per annum. This compares with the current aggregate rent gross passing of £384,264 per annum.

In aggregate, the property is reversionary by 1.68% on a headline basis, including a reversion on the vacant Unit 2E of £14,000 per annum, excluding the units assumed to be permanently void. On a like for like basis, excluding the vacant site, the property is 2% over-rented.

We provide our opinion of headline Market Rent for each of the demises on the Schedule of Tenancies attached at the rear of this Appendix.

Our opinion of Market Rent is in a range of £1.00 to £1.75 per sq ft (£10.76 to £18.84 per sq m) which in relation to the recent lettings in 2010 to 2012 represent rack rented income.

14.0 INDUSTRIAL INVESTMENT MARKET COMMENTARY

14.1 Overview

Investors in land of this nature would look in the long term to secure a settlement to the planning possibly either as residential use or some form of industrial/workshop development, while in the meantime generating a return from open storage lettings. The site can be gradually upgraded in terms of the quality of fencing, lighting and surfacing in order to increase/maximise rent per sq ft/per sq m.

We provide a commentary on the UK investment market at Appendix 13 of the Front End Report.

14.2 Comparable Evidence

The subject property is a tertiary multi-let short term income opportunity, being relatively management intensive, and is always likely to be so. Its appeal is that it is relatively high yielding and lower levels of maintenance and repair due to the low number of buildings on the site. Open storage land of this nature is rarely traded and when traded, there tends to be many factors that contribute towards the price achieved. In many cases there is potential for development whether to be for industrial use or in an outside chance, for residential use, particularly in green belt areas such as the subject property. In some cases where there is pressure to convert brown field land to more acceptable uses, a purchaser will seek in the medium term to engage with the local planning authority for change of use or all or parts of sites of this nature.

Given the current low transactional volume levels, there is a shortage of recent comparable evidence of open storage land in existing use and in particular the difficulty of obtaining directly comparable open storage land investment sales, especially in a local geographical area, we have sought evidence from across the south east and other parts of the UK and had regard to evidence of industrial land values, bearing in mind that any restrictive planning such as the subject site where a discount will apply where consent will not be obtainable to build on the site.

- **Maybrook Industrial Park, Armley Road, Leeds** – this property comprises 12 units totalling 110,415 sq ft (10,258 sq m) in two back to back terraces and one detached unit, constructed in the early 1980's. The property is 24% secure against Just Car Clinics Plc and 40% against Brake Bros Ltd, two units are vacant. The property has an unexpired term of over 6 years. The property was sold in June 2012 for **£5.945 million**, equating to **8.80%**.
- **Kingsteignton Trading Estate, Newton Abbot** – This industrial estate comprises 13 units developed in the late 1970s and 1980s totalling 97,870 sq ft (9,092 sq m) on a site of 6.55 acres (2.65 hectares) providing a site coverage of 41%. The property is let to 11 tenants, two have exercised their break option. The property was sold in September 2012 for **£4.425 million**, equating to a net initial yield of **8.15%**.
- **Sands Industrial Estate, High Wycombe** – This industrial estate is multi let to 5 tenants and there are 4 vacant units with an unexpired term of 3.4 years. The property was constructed between 1970/80s and totals 132,261 sq ft (12,288 sq m). The property was sold in January 2012 for **£4.618 million**, reflecting a net initial yield of **10%**.

- **G Park Dunstable, Boscombe Road, Dunstable** – This property comprises 32 acres. 8 acres of this site was let in December 2011 to Chep UK Ltd on a 3 year lease at a rent of £331,079 per annum. In the final quarter of 2012, Prologis bought the entire 32 acres for £16 million, equating to £500,000 per acre.
- **Old Chase Farm, Hyde Lane, Danbury, Essex** – This 17.7 acre site comprising storage and distribution use is on the market and seeking offers of circa £5 million, this reflects £282,486 per acre.

Vacant Sales

- **Ashburton Road, Trafford Park, Manchester** – This property is situated within immediate access to junction 10 of the M60. It is one of Trafford Park's busiest roads accommodating occupiers such as Eddie Stobart, Man Truck, &Q, Asda and Carcraft. Gap Plant Hire and Global Logistics both took 1 acre plots for £300,000 in July 2011. The sites are unfenced and without main road frontage but within the heart of Trafford Park.
- **Rugby Mill, Chadderton, Oldham** – This property comprises a former derelict cotton mill on a site of 3 acres with access to junction 21 of the M60. The property was in a derelict state of repair at the time of sale and it is understood the purchaser intended to demolish the building. The property was sold in October 2011 to an adjoining owner for £520,000 which equates to £173,333 per acre.
- **11 Thornton Street, Collyhurst, Manchester** – This site had benefitted from a previous residential planning consent which had lapsed at the time of sale. The buyer has subsequently had this consent renewed for 5/6 townhouses. The site is an open plot with security fencing approximately 0.75 miles (0.3 hectares) west of Manchester City Centre. The land totals 0.35 acres and was sold in July 2011 for £50,000, equating to £142,857 per acre.

15.0 PRINCIPAL VALUATION CONSIDERATIONS

The principal valuation considerations are as follows:

15.1 Location

St Albans is not an established industrial area and is overshadowed by the neighbouring centres of Hatfield/Welwyn Garden City, Hemel Hempstead and Watford. It is an historic market town and has a limited industrial market. Other centres around the M25 have become more established as industrial locations, although for conventional industrial premises, rather than for open storage, the latter being a scarce product, given that much of the available industrial land has been developed.

15.2 Situation

Isolated, secondary, edge of village position and lacks prominence. The subject property is located in a relatively isolated and secluded position in a rural, green belt location on the edge of a residential village. The property is reasonably accessible from the M25/M1/A1, all within 6 miles (10 km).

15.3 Building Quality

The property provides functional secured open storage land, some of the units also have a mix of largely old buildings, many in a deteriorated condition.

The yard areas vary in quality, from uneven hardcore to level, smooth tarmacadam. The central spine road is in an average condition commensurate with its use. The majority of the occupied sites are fenced, some having security lighting.

15.5 Tenure

The freehold tenure will be attractive to prospective purchasers, particularly given its longer term redevelopment potential.

15.6 Tenancies

The property is 89% let (by total area) to 12 tenants on 17 leases (one of which is holding over) on effective full repairing and insuring terms and is therefore a well occupied multi-let investment of open storage, in its context. The remaining two areas of land (assumed permanently void) are under offer or interest has been shown.

The average weighted unexpired term is 2.77 years and the weighted unexpired term certain is 1.62 years with eight of the leases having either tenant or mutual break clauses (there is only one mutual break clause). We consider the weighted unexpired term to be in-line with expectations for a property of this nature and it is likely that a similar income profile will be maintained going forward.

We consider that a property of this nature is likely to have a rolling void and have therefore reflected this in our valuation. At present by yard area, the void space amounts to 11.0% of the total lettable yard areas.

15.7 Covenant Strength

The covenants are largely local and medium sized covenants, typical of an estate of this nature. The covenant profile is in line with expectations with the largest proportion of the income at 18.7% let to one tenant, Smallford Works and the second largest, Screwfast, contributing 16.2%, eight of the remaining tenants with a total contribution of 43.8% of gross income contribute less than 7.5% each. Approximately 40% of gross income are considered to be good covenants in the context of the subject property and level of rent payable, with the remainder being fair or worse.

15.8 Market Rent

Our opinion of the aggregate headline Market Rent is £398,710 per annum, which reflects a range of £1.09 to £1.75 per sq ft (£11.73 to £18.84 per sq m) on the yard areas and a range of between £2.50 and £5.00 per sq ft (£26.90 and £53.80 per sq m) on the office, warehouse and other ancillary buildings. This Market Rent in this range depends on facilities, quality and position within the estate. The property is 1.6% reversionary overall (excluding the void yards), including the vacant unit, although without the reversion on the vacant unit, the property is 1.97% over-rented. The over-renting applies to three yard areas, which were those let before 2010, being together over-rented by 14.2%. This assumes that the two vacant yards, Units 1b and 1d remain permanently void. The full Market Rent were all unit to be let at Market Rent is £427,712 per annum.

15.9 Lettability

The open storage land has good lettability in view of the scarcity of open industrial storage land of this nature in and around the M25 and the home counties. This is demonstrated by the constant stream of lettings over the last two years and the well let nature of the property.

We would anticipate a letting void range of 3 to 9 months on any vacant yard areas, with rent free periods of up to 6 months depending on lease lengths which we consider would be of 3 or 5 years term certain.

15.10 Saleability

The property has good saleability and would generate good levels of interest in the current market despite the management intensive nature of the asset and the reasonably high risk income profile. The property would appeal to small to medium sized property companies, attracted by its high yield and longer term redevelopment potential.

We estimate the property would achieve a sale within say 6 to 9 months from the date of the decision to commence marketing to completion of the sale contract.

16.0 VALUATIONS

16.1 Market Value

Having carefully considered the matter we are of the opinion that the current Market Value of the freehold interest in the property, subject to and with the benefit of the existing leases detailed herein, is:

£4,300,000
(FOUR MILLION THREE HUNDRED THOUSAND POUNDS)

Our opinion of Market Value also reflects an absolute net initial yield of 8.25% based on the current net income passing of £374,391 per annum, as detailed in Section 17.1 (i.e. rent less landlord non-recoverables).

In the analysis below, the running and equivalent yields are based on the absolute net income passing at that point in time. We attach a valuation printout at the rear of this Appendix, and below we highlight the significant events in the running yield profile:

Date	Running Yield
Net initial Yield	8.25%
July 2013	8.55%

On our valuation assumptions, the equivalent yield is 8.39% and the true equivalent yield is 8.86%.

This equates to £15.21 per sq ft (£164 per sq m) on the total yard area or £522,174 per acre.

16.2 Vacant Possession Value

Having carefully considered the matter we are of the opinion that the current Vacant Possession Value of the freehold interest in the property is:

£3,400,000
(THREE MILLION FOUR HUNDRED THOUSAND POUNDS)

Our valuation printout is attached at the rear of this Appendix and highlights in the running yield profile are detailed below. These are expressed net of purchasers' costs of 5.80%. The negative yield profile in months 0-12 reflects the fact that void rates and empty services charge are payable.

Net Initial Yield	-2.21%
April 2013	-5.70%
January 2014	-0.28%
April 2014	10.61%
Equivalent Yield	9.00%
True Equivalent Yield	9.46%

Our opinion of the Vacant Possession Value equates to 79% of the Market Value and £12.20 per sq ft (£131 per sq m) overall on the total yard area which is broadly in line with our expectations given the characteristics of the asset. This equates to £420,732 per acre.

16.3 Market Rent

Having carefully considered the matter we are of the opinion that the Market Rent of the property is:

£390,710 per annum
(THREE HUNDRED AND NINETY THOUSAND SEVEN HUNDRED AND TEN POUNDS PER ANNUM)

Including the units assumed to be permanently void, this increases to £427,712 per annum. For a detailed analysis of our opinion of Market Rent please refer to Section 13.0. We also detail our opinion of Market Rent for each demise on the Schedule of Tenancies at the rear of this Appendix.

17.0 APPROACH TO VALUATIONS

17.1 Market Value

We have adopted the traditional investment method of valuation adopting the "all risks yield", having regard to the principal valuation considerations at Section 15.0, the comparable evidence cited above and the current market sentiment. Our principal assumptions are as follows:

- The current net rental income is £374,390 per annum. This is income net from the gross current contracted rent of £384,264 per annum, the deduction being void service charge and empty rates on the vacant accommodation.
- Unit 1D, if occupied is likely to be rated and may need to be incorporated in the service charge calculation. Our valuation, while assuming this unit is a permanent void, does not deduct any running costs on the assumption of Market Value or Market Value Vacant Possession.
- It should be noted that in view of the 90% let nature of the property, we consider that a prospective purchaser would allow a permanent void portion, i.e on the assumption that the property would generally exhibit a maximum percentage occupancy at any one point in time. As is evidenced by recent demand and Unit 1D being under offer.
- We have deducted void service charge monies of £4,304 per annum to cover the permanent void on Unit 1B.

- We have assumed tenants yield up their respective demises on vacating and thus we have deducted no capital expenditure.
- Empty rates of £5,840 per annum or £0.55 per sq ft (£5.92 per sq m) of yard area - following a 3 month holiday for the permanent void on Unit 1B in perpetuity.
- Service charge shortfall of £4,034 per annum in respect of Unit 1B in perpetuity.
- Unit 1D is also assumed to be permanently void but no additional permanent void costs have been deducted. This unit is not correctly rated or included within the service charge figures.
- While there would be an additional shortfall of £10,420 in respect of rates after 3 months and £3,436 in respect of service charge in respect of the now vacant unit 2E, we have not deducted this from the valuation in view of the prospect of an immediate letting of this unit. The approach to the valuation has been rather to reflect the void risk in the establishment of a permanent void throughout.
- The very nature of this asset is that it is likely that, with the short weighed unexpired term, there will be regular rolling vacancies, which has been reflected in the yield applied to the investment.
- We have capitalised the income profile at 8.25% initial yield which is 8.40% equivalent yield.

17.2 Vacant Possession Value

In undertaking our vacant possession valuation we have assumed that the property is yielded up by the tenant in full repair in accordance with its lease obligations. Our other valuation assumptions are as follows:

- We have assumed no capital expenditure.
- We have factored in an average letting void of twelve months and an average rent free period of three months on the basis of 5 year leases.
- The property re-lets at our opinion of headline Market Rent of £390,710 per annum as detailed in Section 13.0.
- Void service charge costs at £69,200 per annum or £0.23 per sq ft (£2.47 per sq m) and empty rates at £125,217 per annum £0.41 per sq ft (£4.45 per sq m) - following a 3 month holiday - have been deducted for the length of the re-letting period.
- We have deducted re-letting fess (10% agents and 2.5% legal) at 12.50% of our opinion of Market Rent.
- We have capitalised the income profile at a 9.0% equivalent yield.

We have cross-checked the resultant value on a capital value per sq ft basis and also as a percentage of the current Market Value to ensure that it is in line with expectations.

18.0 REINSTATEMENT COST VALUATION

You have sought from us an indication for insurance purposes of the current reinstatement cost of the buildings on the site on the assumption that it has been completed on the basis as detailed herein. This we are pleased to provide below but it is given solely as a guide as a formal estimate for insurance purposes can only be given by a quantity surveyor or other person with sufficient current experience of replacement costs. We confirm that the property has not been inspected by such a person, and therefore the cost estimate below is provided without liability.

On this basis, therefore, we would estimate the reinstatement cost on a day-one basis as follows:

Building reinstatement cost	£1,054,737
Demolition and site clearance costs	£52,737
Fees	<u>£166,121</u>
Total Estimated Reinstatement Cost	£1,273,595
VAT (if applicable)	<u>£222,879</u>
TOTAL	£1,496,474

We attach at **Appendix 14** the Basis of Assessment and Assumptions, under which the above indication has been prepared.

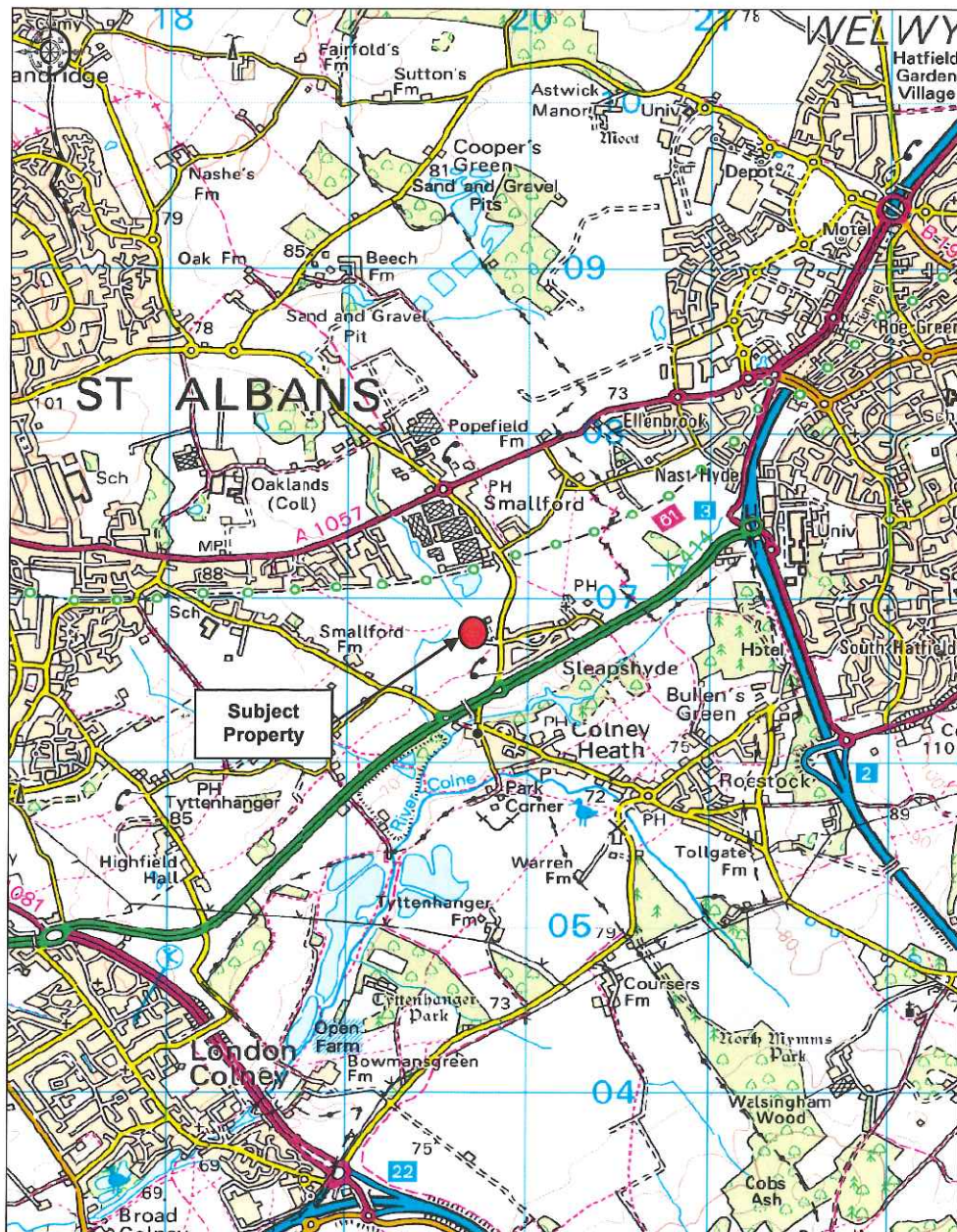
19.0 SUITABILITY FOR LOAN SECURITY

Having regard to all the matters contained in this Individual Property Report and the Front End Report we consider that the property offers reasonable suitability for loan security purposes at the level of our valuation. We do not expect that this will change in the short to medium term.

In valuation terms, over say a 10 year timeframe, we expect the value of the property to remain relatively static, with shorter lease terms being the norm for a property of this nature. It will remain management intensive but given its lettable characteristics, we perceive a relatively stable net income profile. Such factors are reflected in the level of return an investor would require as this asset is an income driven investment offering a high yield. The planning history indicates that an intensification of the industrial use would not be permitted but the rural green belt location points towards a longer term redevelopment opportunity, necessarily requiring a change of planning policy.

We do not consider that there are any factors which would materially affect the status of the property as security.

**SMALLFORD WORKS
SMALLFORD LANE
SMALLFORD
ST ALBANS
AL4 0SA**



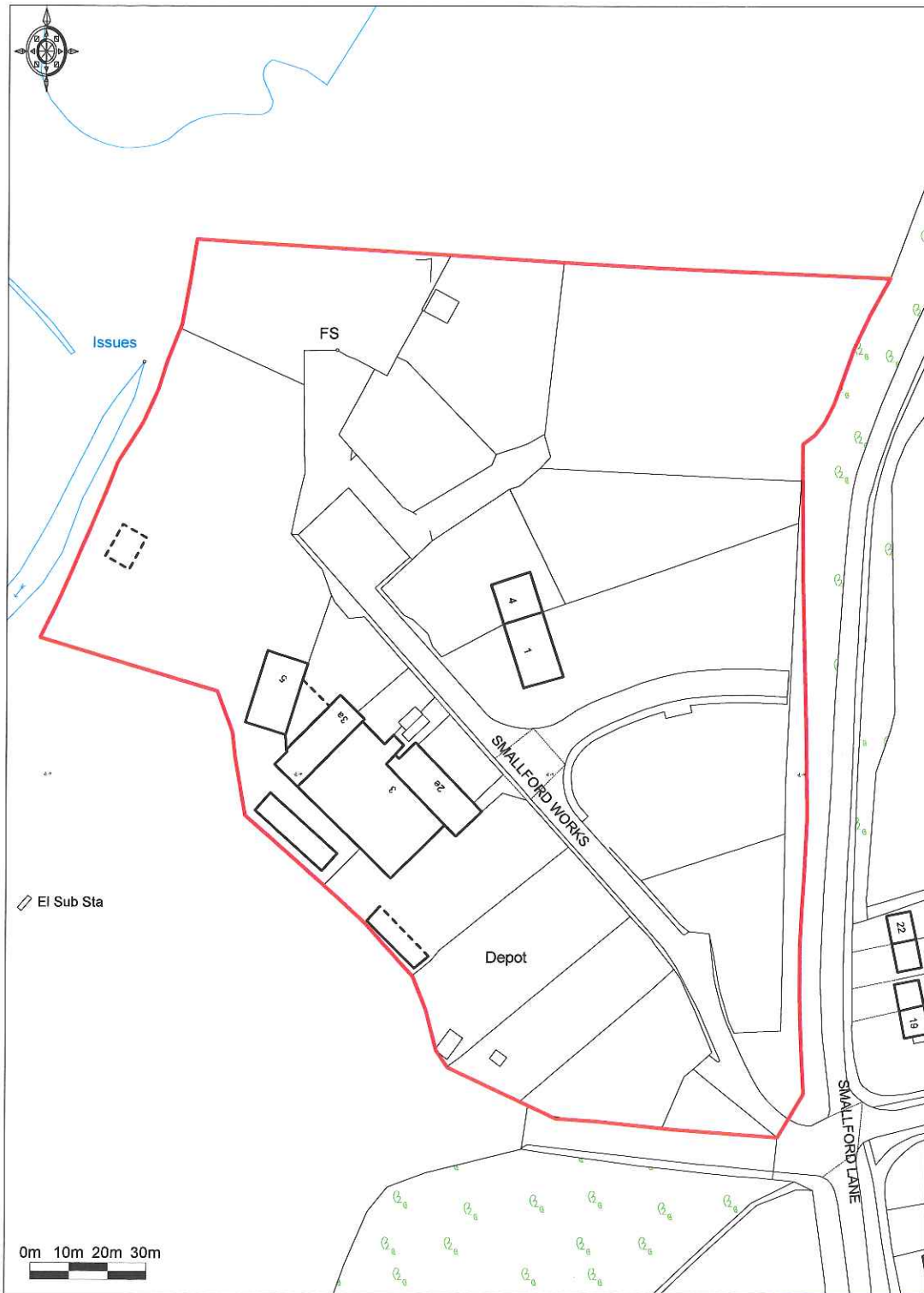
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Portfolio: Merritts Portfolio
 Borrower: Merritts Properties Limited
 Property: Smallford Works, Smallford Lane, Smallford, St Albans AL4 0SA
 Bank: Barclays Bank plc
 Date: 18 January 2013

SMALLFORD WORKS, ST ALBANS, HERTFORDSHIRE, AL4 0SA

SCHEDULE OF TENANCIES

Unit	Tenant	Use	Net Internal Area Sq Ft	Total Net Internal Area Sq Ft	Lease Commencement Date	Lease Term (Years)	Lease Expiry	Tenant Break Option	Unexpired Term	Term Certain	Contracted Rent PA	Contracted Rent PSF	Headline Market Rent PA	Comments
Unit 1 A	Versatile Utilities Ltd	Warehouse Yard	1,670 23,975	25,645	03-Aug-12	5	02-Aug-17	03-Aug-14	4.54	1.54	£32,000	£0.79	£32,000	Fixed uplift to £35,000 pa on 31/03/2014. Outside Act. Deposit of £9,600 held by Darlington Harcastles
Unit 1 B	Vacant	Yard	23,316	23,316										Assume as permanent void
Unit 1 C	KP Waste Co Ltd	Yard	7,938	7,938	11-Jan-11	2	10-Jan-13		-0.02	-0.02	£8,500	£1.07	£8,500	Assume tenant still in occupation and is holding over
Unit 1 D	Vacant	Yard	5,238	5,238										Assume as permanent void
Unit 2 A	Shaca Construction Ltd	Yard	10,706	10,706	21-Jul-10	5	20-Jul-15	Landlord or Tenant on 12 months notice	2.50	2.50	£15,500	£1.45	£15,500	Fixed uplifts 21.07.2013 - £16,000 and 21.07.2014 - £16,500. Deposit held of £9,106.25 by Darlington Harcastles
Unit 2 B	K P Waste Co Ltd	Yard	10,317	10,317	02-May-12	1	01-May-13		0.28	0.28	£18,204	£1.76	£18,050	L & T break on 2 weeks notice
Unit 2E	Vacant	Office Yard	1,954 2,646	4,600									£14,000	Deposit of £3,000 held by Darlingtons. Tenant has given notice to break lease on 4 January 2013. Now vacant
Unit 3	JJ Roofing Supplies Ltd	Warehouse Low store Yard	4,260 2,817 2,203	9,280	17-Jun-11	5	16-Jun-16	17-Jun-13	3.41	0.41	£12,500	£2.93	£12,500	Annual breaks 2013, 2014 and 2015
Unit 3A	Screwfast Foundations Ltd	Warehouse Covered Bay Yard	2,131 1,172 5,600	8,903	04-Nov-09	5	03-Nov-14		1.79	1.79	£18,000	£8.45	£16,900	Outside Act
Unit 4	Anthony Michael Clayton	Workshop Yard	970 11,892	12,862	25-Mar-08	5	25-Mar-13		0.18	0.18	£24,000	£2.02	£21,200	
Unit 5	Smallford Supplies Ltd	Office Workshop Yard	1,565 2,149 27,082	30,796	01-Apr-10	5	31-Mar-15		2.20	2.20	£49,700	£4.18	£49,700	
Unit 6	P N Daly Ltd	Office Lean to Yard	299 1,054 13,366	14,719	01-Dec-11	5	30-Nov-16	30-Nov-13	3.87	0.87	£25,860	£2.17	£25,860	Deposit of £7,758 held by Darlington Harcastles
Unit 7A	Smallford Supplies Ltd	Yard	10,560	10,560	01-Apr-10	5	31-Mar-15		2.20	2.20	£11,700	£1.11	£11,700	
Unit 7B	Smallford Supplies Ltd	Yard	9,600	9,600	01-Apr-10	5	31-Mar-15		2.20	2.20	£10,600	£1.10	£10,600	
Unit 7C, 7D & 14	Screwfast Foundations Ltd	Yard	17,012	17,012	15-Jun-10	5	14-Jun-15		2.40	2.40	£25,600	£1.50	£25,600	Deposit of £14,452.50 held by Darlingtons

SMALLFORD WORKS, ST ALBANS, HERTFORDSHIRE, AL4 0SA

SCHEDULE OF TENANCIES

Unit	Tenant	Use	Net Internal Area Sq Ft	Total Net Internal Area Sq Ft	Lease Commencement Date	Lease Term (Years)	Lease Expiry	Tenant Break Option	Unexpired Term	Term Certain	Contracted Rent PA	Contracted Rent PSF	Headline Market Rent PA	Comments
Unit 9	Rahilly Plant Ltd	Yard	14,886	14,886	25-Mar-10	5	24-Mar-15		2.18	2.18	£20,100	£1.35	£20,100	JE Rahilly & DE Rahilly act as Guarantors. Fixed uplift to £22,000 on 25 March 2013
Unit 10B	CRH Fencing & Security Group (UK) Ltd	Yard	18,741	18,741	17-Nov-11	5	16-Nov-16	16-May-13	3.83	0.32	£27,000	£1.44	£27,000	Deposit of £8,100 held by Darlington Hardcastles
Unit 11	HDD Plant Hire Ltd	Yard	41,982	41,982	01-Nov-12	5	31-Oct-17	01-Nov-15	4.78	2.78	£50,000	£1.19	£50,000	Fixed uplift to £62,500 on 1 November 2015. Deposit of £15,000 held by Darlington Hardcastles
Unit 12	Screwfast Foundations Ltd	Yard	9,338	9,338	31-Mar-09	5	30-Mar-14		1.19	1.19	£18,500	£1.98	£15,000	
Unit 15	ROL Construction Ltd	Yard	16,335	16,335	12-Dec-11	5	11-Dec-16	12-Dec-14	3.90	1.90	£16,500	£1.01	£16,500.00	MN Reidy & P O'Leary act as Guarantors
Car spaces adj 12 & 14	Vacant		6 spaces											Break on 2 months notice. Assume as permanent void
TOTAL/AVER				302,774					2.76	1.62	£384,264		£390,710	