Christie + Co
BUSINESS INTELLIGENCE

Valuation Report

March 2011

CARE

Parklands Nursing Home
33 Newport road
Woolstone
Milton Keynes, MK15 0AA

Prepared on the Instruction of
Barclays Bank plc

By Christie + Co
Milton Keynes Office
T 01908 300950

Valuation Report

Parklands Nursing Home, Milton Keynes

Contents

Introduction

In accordance with the instructions of Suzanna Heath, Barclays Bank plc, Cardinal Point, Hounslow, TW6 2AH (hereinafter referred to as the "Bank"), as set out in an emailed instruction via the Valuation Exchange dated 10 March 2011 (a copy of which is provided in Appendix II), we provide herewith our opinion of the Market Value of the freehold interest in **Parklands Nursing Home, 33 Newport Road, Woolstone, Milton Keynes, MK15 0AA** (hereinafter referred to as the "Property") in its existing use and present condition as a fully-equipped operational entity, having regard to trading potential and with the benefit of planning permission for an additional 43 bedrooms, as at 21 March 2011.

Market Value is defined in the RICS Valuation Standards 6th Edition (the "Red Book") published by the Royal Institution of Chartered Surveyors as:

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

In addition we have provided our opinion of the Market Value of the freehold interest in the Property subject to the following Special Assumptions:

(i) accounts and records of trade would not be available to or relied upon by a prospective purchaser
(ii) the business is closed
(iii) the inventory has been removed and
(iv) the licences, consents, certificates and/or permits are lost or are in jeopardy

We note that our valuations are required by the Bank for loan security purposes.

This Valuation Report has been undertaken by Stuart Sayer BSc FRICS MBII, an Associate Director of Christie + Co who has the appropriate knowledge skills and understanding to undertake the valuation competently. The Report must be read in conjunction with the Conditions and Assumptions of Valuation which are set out in the "Service Agreement" which has been previously agreed between Christie + Co and the Bank.

The Property was inspected on 21 March 2011, at which time we met Mrs Caroline Vaz, one of the partners of Parklands Nursing Home (hereinafter referred to as "your Customer"). Mrs Vaz conducted us around the Property and provided us with various data for the purpose of our valuation. We confirm that we have relied upon the information provided by your Customer but should this not prove to be true or substantiated, then we reserve the right to review our assessment.

This Report has been prepared in accordance with the Red Book and we confirm that neither the valuer nor Christie + Co have any known conflict of interest.

We confirm that Christie + Co has in place appropriate Professional Indemnity Insurance in respect of this valuation.

1.0 Executive Summary

This brief synopsis must not be read in isolation but only in conjunction with the full Report, Terms, Conditions and Definitions provided.

Property

- **Parklands Nursing Home, 33 Newport Road, Woolstone, Milton Keynes, MK15 0AA**
- Situated within the affluent suburb of Woolstone on the eastern side of Milton Keynes
- Substantial detached largely single storey building on a 'U-shaped' footprint with the original two storey building retained at the front of the site currently occupied as offices
- 22 single and four twin residents' bedrooms (25 en suite)
- Day space provision equating to approximately 4.42 sq m per registration
- Inner residents' courtyard garden leading to rear lawns and paddock
- Tarmac car park for 18 cars
- Existing planning permission for 43 additional bedrooms and ancillary day space

Tenure

- Our valuation assumes an unencumbered and marketable freehold Title

Registration

- The Property is registered with CQC for a total 30 service users falling within the following categories:
  - Old Age, not falling within any other category

Business

- Owned and operated by your Customer for a number of years
- At the time of our inspection, 26 service users were in occupation, representing an occupancy of 100% (against the effective occupancy of 26 on the basis that all twin rooms are now used as singles)
- Average weekly fee £631.61
- Of the current 26 service users, eight are privately funded with the remainder being referrals from local authority ,Primary Care Trusts and Continuing Healthcare
- Operated under full time management with Mrs Vaz adopting an overall strategic/supervisory role with the care side being managed by a clinical nurse manager

Strengths

- Well established business in a sought after location
- High number of en suite bedrooms
- Good day space provision
- Good average fee levels

Weaknesses

- Detrimental impact on trade resulting from management issues and a resident complaint which had the effect of reducing occupancy levels during the latter half of 2009 and the early part of 2010
- Some minor refurbishment to parts of the Property still required

Opportunities

- Consolidate current trading performance and occupancy levels
- Continue to look at major cost areas to the business, particularly staff costs with a view to reducing where appropriate

Threats

- The care sector is subject to stringent regulations and any future unforeseen changes to regulations could have an adverse impact on the Property
- The opening of a new care home with modern facilities within the locality could have an adverse effect on the occupancy of the Property

Financial

- We have been provided with management accounts for the years ended 31 March 2008, 2009 and 2010. We have also been provided with nine months management accounts to the period ended 31 December 2010 which we have annualised on a straight line basis. These accounts are shown in summary below and we include a copy of the full accounts at Appendix III.

	Management Accounts YE 31 March 2008		Management Accounts YE 31 March 2009		Management Accounts YE 31 March 2010		Nine Months Management Accounts To 31 December 2010 (straight line annualised)	
	£	%	£	%	£	%	£	%
Total Income	681,200		605,700		634,800		732,133	
Total Wages	437,000	64.2	403,500	59.2	414,200	60.8	479,467	65.5
Other Costs	194,500	28.6	167,300	24.6	207,600	30.5	216,133	29.5
Net Profit	49,700	7.3	34,900	5.1	13,000	1.9	36,533	5.0
Adjusted Net Profit	126,500	18.6	85,200	12.5	92,400	13.6	124,133	17.0

Valuations

In our opinion the Market Value of the freehold interest in the Property in its existing use and present condition as a fully-equipped operational entity having regard to trading potential, and with the benefit of planning permission for an additional 43 bedrooms as at 21 March 2011 is:

- **£1,455,000** **(One Million Four Hundred and Fifty Five Thousand Pounds)**

Furthermore, in our opinion, the Market Value of the freehold interest in the Property subject to the Special Assumptions set out previously is:

- **£835,000** **(Eight Hundred and Thirty Five Thousand Pounds)**

The valuations set out above exclude any liability that arises or could arise in respect of VAT, taxation and the costs of acquisition or realisation.

2.0 Location

Milton Keynes is situated 56 miles northwest of London and 72 miles south east of Birmingham. The City is a result of a planned development originating in the late 1960s and comprises a major commercial and retail centre within employed zones interspersed with residential suburbs. The M1 motorway and A5 trunk road run parallel on either side of the City, which also benefits from mainline rail connections with London Euston.

Milton Keynes continues to develop as a major commercial business and leisure centre and currently has a population of over 200,000. The town has a mixed service and manufacturing base and some of the largest local employers include BP Oil, the Open University, Abbey, BT, Argos and Mercury Communications.

Following completion of the extension to the retail shopping area at Midsummer Place, the retail centre now provides one of the longest shopping centres in the world. There is substantial further development ongoing at the Milton Keynes Hub, a complex of high tech offices together with new high quality retail units, residential flats/luxury apartments, restaurants and bars. A new football stadium and conference facility is also under construction at Bletchley. Milton Keynes also has a thriving leisure sector including the Xscape, the largest real snow indoor ski slope in Europe, the Milton Keynes Bowl which is developing into one of the biggest concert venues in the country and a thriving theatre district. Leisure attractions within easy distance of Milton Keynes include Woburn Abbey and Safari Park, Silverstone and Towcester Racecourse.

Milton Keynes is connected to the national motorway network by Junctions 13 and 14 of the M1 motorway. The town also has a good rail service to London Euston with the journey taking 35 minutes to complete and 52 miles distant. Other nearby towns of note include Bedford (17 miles) and Luton and Luton Airport (which are 25 miles to the south).

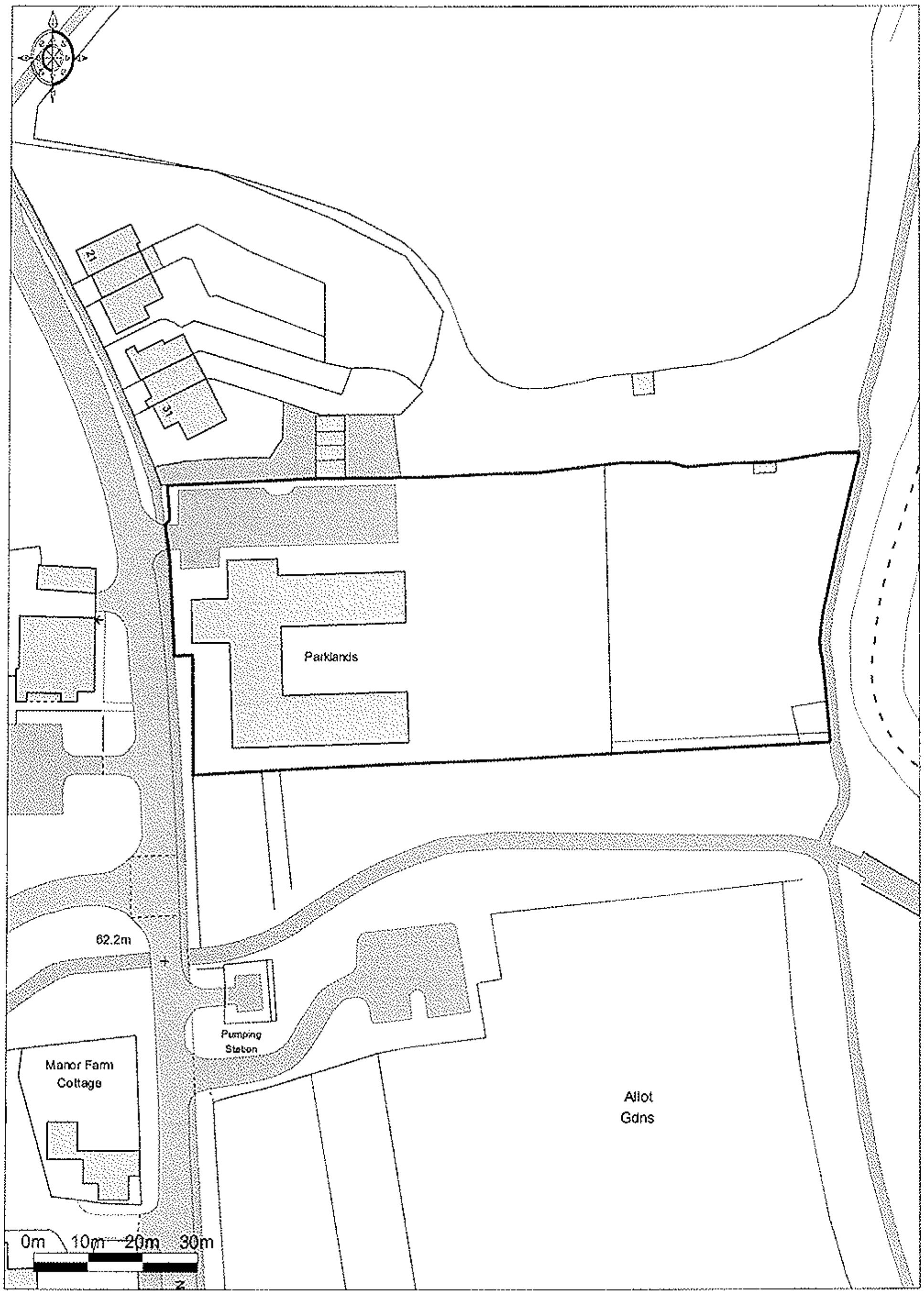
The Property is situated in the affluent suburb of Woolstone on the eastern side of Milton Keynes in an area of larger, mainly detached residential dwellings. The Cross Keys public house is located immediately opposite the Property. To the rear of the Property is a paddock which backs onto a small stream and open fields.

We have provided a site and location plan upon which the boundaries of the Property, as advised to us, are outlined in red.

Below is a summary of the demographic profile of the population within an approximate 10 kilometre radius of the Property, together with a comparison with that for the UK. We have summarised the key points as follows:

- The population age analysis within the 10km radius broadly mirrors the UK as a whole, although the percentage of the population Over Pensionable Age at 10.38% is significantly lower than the national average at 15.89%
- The area has a mixed ethnicity
- The percentage of the population in employment is above that of the UK at 62.26% compared to a national average at 49.05%. Other economic activity demographics broadly mirror the UK average.
- Social class distribution broadly mirrors the UK although, although social class AB at 24.83% is higher than the national average at 20.27% indicating an area of higher than average affluence, but the class sector on the whole is weighted slightly towards social grade C1 at 31.01%.

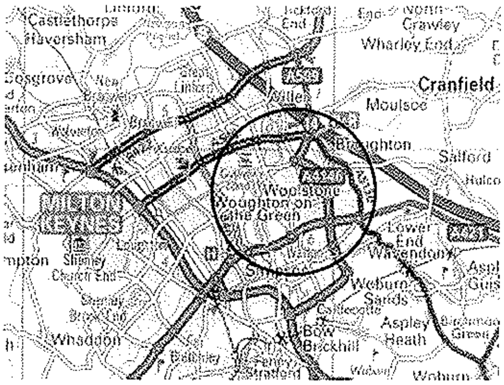
Parklands Nursing Home, 33 Newport Road, Woolstone, Milton Keynes, MK15 0AA



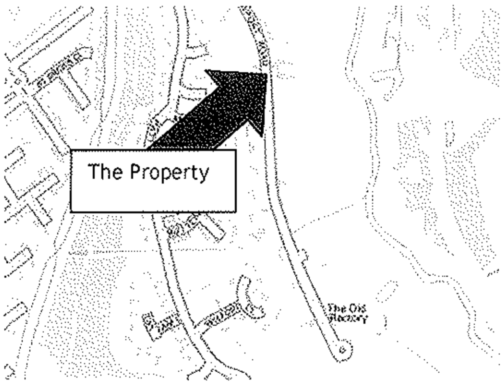
Promap

Christie + Co

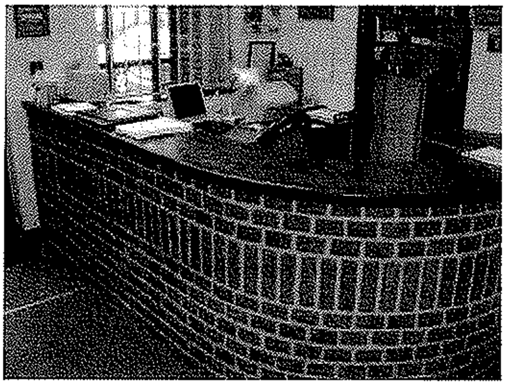
Road Map



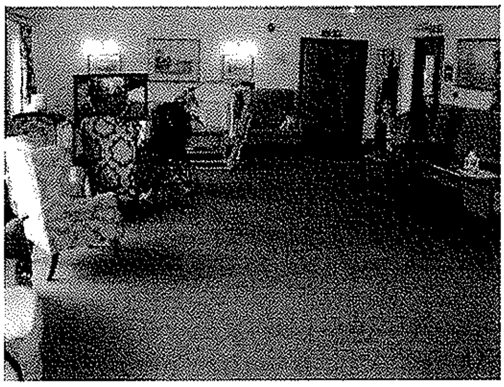
Street Map



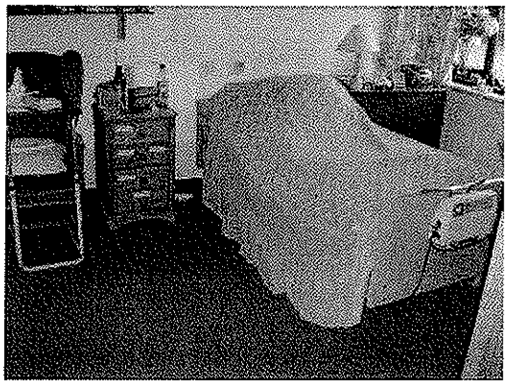
Reception Desk



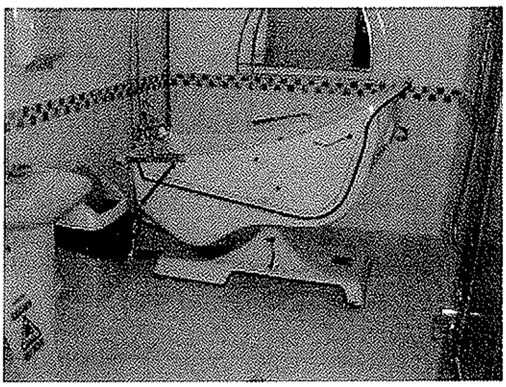
Residents' Lounge



Typical Bedroom



Assisted Bathroom



Car Park

Rear Elevation

3.0 Description

The Property comprises a two storey detached building of brick construction under pitched slate roofs which we assume was originally a private residence. In creating a care facility, a large 'U-shaped' single storey development has been undertaken to the rear of the original building linked in at ground floor level. The development to the rear is again of brick construction under pitched slate roofs. Fenestration throughout the original building and new development is primarily timber double glazed units.

All the care bedrooms, day space provision and ancillary staff facilities are provided in the single storey development to the rear with the front section now in effect being divided off and occupied by a separate company run by your Customers on an informal lease agreement.

The curtilage comprises an inner courtyard garden area bounded on three sides by the rear extension together with a large lawned garden and paddock area at the rear of the site. There is a tarmac car park to one side which can accommodate up to 18 cars.

4.0 Accommodation

The principal accommodation comprises:

Residents' Accommodation

- 26 residents' bedrooms (22 single, four twins)
- 25 of the bedrooms are en suite with shower
- Residents' dining room leading into lounge area with views over inner courtyard
- Residents' quiet room
- Two assisted bathrooms
- Two WCs
- Total day space provision equating to approximately 4.4 sq m per registration

Service Areas

- Main reception area with back office
- Laundry room
- Catering kitchen
- Staff room
- Staff/visitor's WC
- Two sluice rooms

Private Areas

- There are currently no private areas positioned within the subject Property. The former house at the front of the site is being converted to provide self-contained office accommodation occupied by a separate company also run by your Customer and held under an informal lease
- This accommodation comprises:
    - Ground floor
        - Reception Area
        - Kitchenette
        - Staff toilet
    - First Floor
        - Two offices
        - Training room
        - Staff toilet

Regulated Mortgages

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

As stated previously, there is currently no private accommodation provided within the existing building.

Fixtures, Fittings, Plant & Equipment

- All the residents' bedrooms are furnished and equipped to a reasonable standard and are currently the subject of an ongoing programme of redecoration and maintenance. This includes the provision of profile beds to most of the rooms
- 25 of the rooms benefit from an en suite shower facility with an ongoing programme of refurbishment updating and upgrading these to provide shower wet rooms
- The assisted bathroom and shower room are fitted with a range of equipment to include hoists and again have benefited from some upgrade. The bathroom is provided with a Parker bath
- The residents' day space areas are comfortably furnished and provide a pleasant environment for residents
- The catering kitchen appears to be suitably equipped for its purpose with a range of commercial inventory items
- The laundry room is equipped with commercial grade units
- The Property is heated via a gas-fired central heating system

A summary of the registered accommodation is as follows:

	Single	Single en suite	Double	Double En suite	Total Rooms	Total Beds	% Single Beds
Ground Floor	1	21	0	4	26	30	73.33
Total	1	21	0	4	26	30	73.33

Commenting on the above, it will be noted that although registered for 30 residents and with four twin rooms, the Property now trades with an effective registration of 26 with the twin rooms being occupied as singles. In terms of room sizes, from sample measurements taken on site and the information provided by your Customer it appears that all rooms have floor areas in excess of 10 sq m excluding en suite provision.

From the information and measurements taken, under the current registration, there is an average of 4.4sq m of day space per registered bed. The National Minimum Standards requirement is 4.1sq m per person, for new build and newly registered properties.

We refer you to our later comments in respect of registration and compliance issues.

5.0 Condition and Capital Expenditure

Whilst we have not carried out any form of building or structural survey we noted that generally the Property appeared to be in good structural order with no major defects being identified. During the course of our inspection, your Customer highlighted the ongoing maintenance programme which is in place to ensure the slow improvement in the quality of fixtures and fittings and decorations. At our inspection, it was indicated to us that the heating systems had been upgraded with new pipework being installed, the shower en suites were being upgraded and refurbished to provide shower wet rooms and ongoing redecoration and minor refurbishment to the communal and day space areas was also in hand.

6.0 Statutory Enquiries

We have made enquiries of the operator and the relevant various statutory authorities and report as follows:

6.1 Fire Precautions

On 1st October 2006 the Regulatory Reform (Fire Safety) Order 2005, came into force. All existing fire legislation has been repealed (including the Fire Precautions Act 1971, Fire Precautions (Workplace) Regulations 1997/99 and the Management of Health & Safety in the Workplace Regulations 1999. As such, Fire certificates are no longer issued and have been replaced with the requirement for a Fire Risk Assessment. The effect of this is that Employers are now solely responsible for fire safety within their workplaces.

At the time of inspection we were informed that the Property holds a current fire risk assessment and that there are currently no issues in this regard.

6.2 *Registration*

The registration for the Property, summarised on the CQC website is as follows:

Name of Registered Provider	Mr Vaz/Mrs M Officer
Name of Registered Manager	Mrs Caroline Ann Vaz
Categories of Registration	Care Home
Number of Beds	30
Registration Conditions	The registered person may provide the service of care home with nursing (N) to service users of the following gender: ▪ Category of old age - not falling within any other category (OP)

6.2.1 *Regulatory Background*

The Registration Authority for all care homes in England transferred on 1 April 2009 to the Care Quality Commission (CQC), which replaced the Commission for Social Care Inspection (CSCI), which was established in 2002. The stated aim of CQC is to "regulate and improve the quality of social care and look after the needs of people detained under the mental health act. Our work, bringing together the quality of health and adult social care for the first time will touch the lives of almost everyone in England".

The Department of Health published in 2001 National Minimum Standards (NMS) for care homes that affected, amongst other matters, the provision of adequate day space and bedroom sizes. Following feedback from the industry and the impact of their implementation, the NMS were effectively revoked for "pre-existing homes" (see below) whilst being retained for new build homes, extensions and first time registrations. The then Health Secretary commented that:

"The sizes of rooms and doors, availability of single rooms and the number of lifts are important but they should not mean good local care homes having to close".

In 2010, CQC implemented a change of policy away from NMS towards required "Outcomes" for care providers following the publication of the Health and Social Care Act 2008 (Regulated Activities) Regulations 2010 and the Care Quality Commission (Registration) Regulations 2009. These set out 28 areas where compliance will be monitored to ensure quality and safety are provided for residents and patients. Generally, these outcomes are less prescriptive than the NMS and whilst it is too early to gauge the reaction in the market, we consider that there will be a continued presumption by the market (reflecting clients, referring authorities and acquisitive operators) against pre-existing homes that do not meet the NMS for new build although at the present time there remains a significant market for such assets.

6.2.2 *Outcomes and National Minimum Standards*

The Care Standards Act received royal assent in July 2000 and enabled the Government to introduce the NMS under section 23 (1). The NMS are the basis on which CQC determine whether a care home meets the need and secures the welfare and social inclusion of the people that live there. These have recently been super-ceded by The Outcomes as described above but we consider that the NMS remain a useful means of benchmarking the physical characteristics of a care home.

The Outcomes

There are six main areas dealt with by the Outcomes, as follows:

+ Involvement and Information - dealing with the obligations of the provider to keep patients advised;
+ Personalised Care, Treatment and Support - ensuring that residents are provided with the relevant type of care;
+ Safeguarding and Safety - covering topics such as cleanliness, infection control, medicine management and so on;
+ Suitability of staffing - dealing with various aspects of employment;
+ Quality of management; and
+ Suitability of management.

Premises are dealt with in section 10 of Suitability and Safety. Generally, the Outcomes require that care homes provide premises that are suitable for the needs of the residents. The Outcomes are cross-references with other relevant legislation, such as the Disability Discrimination Act and the Fire Safety Act. Paragraph 10 L states that all rooms in care homes should be single occupancy unless the residents have made a decision to share. For new build care homes and first time registrations, bedrooms must be at least 12 sq m. The Outcomes do not specify the need for an en suite facility. Communal space should be of a sufficient size and bathrooms and toilets should be sufficient to enable people to maintain privacy and dignity, whilst being in close proximity to the living areas.

In essence, the Outcomes are much less prescriptive than the NMS. We consider that the market will continue to treat the NMS as a minimum standard for new build care homes but the threat of non-compliance with physical standards for older homes has now largely been removed. For the sake of completeness we set out below further information on the NMS.

Pre-existing Homes

In essence a care home that existed at 16 August 2002 must continue to meet the environmental standards that it provided at that time (in terms of day space provision, bedroom sizes, door widths, single room to double room ratio etc). If a care home complied with the NMS as at that date, it must continue to do so. The Outcomes essentially replicate this requirement.

However, under the NMS, CQC "may also take into account other factors it considers reasonable or relevant...Compliance with national minimum standards is itself not enforceable, but compliance with regulations is enforceable subject to national standards being taken into account".

It is very important to consider that if a pre-existing home were to close and the registration lost, if it were subsequently sold and re-opened as a care home, it would most likely be treated as a First Time Registration and thus be subject to the standards laid out in the Outcomes.

New Build Homes, Extensions and First Time Registrations (hereinafter referred to as "New Facilities")

Such buildings must comply with the NMS, although we have come across a very small number of specific instances where this has not been the case.

NMS - The Environment

The main physical standards within the NMS are contained in Section 5 - The Environment. The NMS acknowledges that different service users prefer different types of accommodation and therefore "the onus will be upon the proprietor to make clear which clientele their homes are aimed at and to make sure that the physical environment matches their requirements". A summary of the physical standards that applied from 1 April 2002 (unless otherwise stated) is as follows:

+ **Standard 20 - Shared Facilities.** In all new facilities, communal area of 4.1 sq m per resident. For pre-existing homes not providing this level as at 16 August 2002, they should continue to provide the same level of communal space as they provided at 31 March 2002.
+ **Standards 21 - Lavatories and Washing Facilities.** In all new facilities, there should be one assisted bath (or shower) per eight service users, excluding any service users' bedrooms that provide en suite facilities. For pre-existing homes not providing this ratio as at 16 August 2002, they should continue to provide the same level they provided as at 31 March 2002. Each service user must have a toilet within close proximity of their private accommodation and there must be toilet facilities within close proximity to lounge and dining areas.
+ **Standard 23 - Space Requirements.** In all new facilities, all registered beds are to be provided in single rooms of a minimum of 12 sq m plus an en suite facility. Pre-existing homes with bedrooms over 10 sq m as at 16 August 2002 may continue to provide this level but homes not meeting this standard may continue to provide at least the same amount of space as at 31 March 2002.
+ Rooms that are currently shared must be at least 16 sq m. Service users in new facilities may only share two single bedrooms, for example as a bedroom and sitting room.
+ Pre-existing homes providing 80% of registered beds in single rooms as at 16 August 2002 should continue to do so. Other pre-existing homes may continue to provide the same level of beds in single rooms as at 31 March 2002.

NMS - Staffing

Staffing is contained within Section 6. The latest standards represent a substantial dilution from the original version, a brief summary of which is as follows:

+ Staffing numbers and ratios should be appropriate to the service users as well as the size and layout of the home.

- A minimum of 50% of staff should be trained to NVQ Level 2, or equivalent, by 2005, including agency staff.

From our inspection we note that all rooms are now used as singles producing an effective registration of 26 residents and that all these rooms are in excess of 10sq m. The Property provides 4.4sq m per service user of day space which is well in excess of the 4.1sq m per service user required under the National Minimum Standards.

In terms of staffing, we note that your Customer has an ongoing training programme with 40% of staff currently trained to NVQ 2 or above and another 40% training to reach NVQ 2 level. We therefore assume for the purposes of our valuation requirements in respect of staff training are being satisfied.

6.2.3 CQC - Quality Ratings

In May 2008 CSCI launched a new system of rating the quality of care services. The ratings give an indication about the quality of care provided, as judged by Inspectors. The bandings are as follows:

Number of Stars	Quality Rating
★★★	Excellent
★★☆	Good
★☆☆	Adequate
☆☆☆	Poor

The creation of the Care Quality Commission (CQC) put the spotlight on quality of care, as operators endeavoured to achieve the best possible star ratings.

On 19 May 2010 the CQC announced that the current quality ratings system will cease ahead of the new registration system and new standards, which took effect on 1 October 2010 under the Health and Social Care Act 2008.

CQC has already begun talks with stakeholders to discuss how a new system might work. It will also draw on feedback from the recent consultation on assessments of quality in 2010-11 and will launch a further programme of work later this year to develop different options.

We have seen that, in most cases, a poor rating results in an immediate cessation of referrals by the Commissioning Authorities and causes severe financial difficulties for the operator.

We have reviewed the CQC website and identified that the last quality rating was:

☆☆☆	Adequate

We have also had sight of the Key Inspection Report prepared by the CQC resulting from a visit on 22 February 2010 which did identify some issues with the home but also identified areas that had been improved since the last inspection. The report did not identify any outstanding requirements from the last inspection and did not identify any immediate requirements from the inspection of the 22 February 2010. A number of statutory requirements were identified briefly summarised as:

- The home must ensure that people can bathe and shower on a regular basis
- Residents in the dining room must be supported to eat their meals with a member of staff in the dining room to help them
- Provision to be made to ensure that bed pans and urinals are decontaminated using heated disinfection
- The registered manager and proprietor must ensure that there are sufficient staff with the right skills and knowledge at all times to meet people's needs and
- The electrical wiring must be inspected by a competent person and verified as safe

Timescale for action for most of these was by 30 April 2010 and we assume that these issues have now been resolved and have valued on this basis. The report did not make any further recommendations.

We were also made aware by your Customer that around the time of the last CQC inspection, a complaint from a resident led to an embargo on referrals until the matter was investigated and we have been provided with a letter dated 27 July 2010 from Milton Keynes Council stating that all investigations in this matter were now closed and that complaints were unsubstantiated. The letter also mentioned that all recommendations made by Continuing Healthcare, CQC and Milton Keynes Council were fully implemented. A copy of this letter has been enclosed at Appendix IV.

6.3 Environmental Health

Milton Keynes Council has a programmed, risk based inspection regime which covers all food businesses in the borough. They are inspected to ensure that food is being manufactured, prepared and handled in a hygienic and safe manner. Businesses are inspected according to their risk. The risk determines the frequency of inspection.

Businesses must have assessed food safety and put adequate controls in place to prevent problems occurring. There are various sanctions which can be imposed on businesses which fail to comply with the law ranging from written warnings to legal notices and prosecution. Businesses which are found to pose an imminent risk to health can be closed immediately.

On 4 April 2011 we accessed the Scores on the Doors portal of Milton Keynes Council's website which confirmed that the premises are registered under food safety legislation. The premises were last inspected on 2 September 2010 and was rated 5 star "excellent" rating. We have therefore valued on this basis.

6.4 *Council Tax*

We accessed the Valuation Office Agency website and contacted the Local Authority on 4 April 2011 and recorded the following information:

Billing Authority:	Milton Keynes
Band:	H
Financial Liability for year 2011/12:	£2,873.84

6.5 *Planning Enquiries*

On 4 April 2011 we accessed the Planning Portal of Milton Keynes Council's website and confirmed that the Property is not a Listed Building and is not located within a Conservation Area.

The last planning application in respect of the Property was for a renewal of extant planning permission 08/00103/FUL for the erection of two storey front and rear extensions and first floor extensions (incorporating rooms partially within the roof space) above existing side wings of nursing home to increase accommodation from 26 bedrooms to 69 bedrooms (application reference 11/00108/FUL) and at the time of writing this report is still Pending Decision.

We have valued on the basis of the following assumptions:

(i) The Property in its current format has formal planning permission and established use for its current use

(ii) All necessary licences, permissions and consents are granted at the date of valuation

(iii) There are no breaches of planning consents or building regulations or any outstanding enforcement notices in relation to the Property

(iv) There are no outstanding planning applications in relation to the Property or surrounding property that are likely to have a detrimental impact on our reported opinion of Market Value

(v) There are no onerous or restrictive covenants attached to the title, nor are there any onerous or restrictive planning conditions that are likely to have an impact on our opinion of Market Value herein reported

Prior to the release of funds we recommend that your solicitors undertake a detailed search to establish the full planning history of the Property together with details of any development proposals within the locality which could have an adverse affect on value. Should these reveal any matters of material concern, then our valuations may be affected and we reserve the right to reconsider our conclusions accordingly.

6.6 *Disability Discrimination Act*

The Disability Discrimination Act 1995 (the "DDA") covers the provision of goods, services and facilities directly to the public. From October 2004 a service provider is required to take reasonable steps to remove or alter any feature of a property that makes it impossible, or unreasonably difficult, for a disabled person to make use of the services at the property. Failure to do so or non compliance could result in civil proceedings. Christie + Co have not carried out or commissioned any investigations to determine whether or not the Property complies with the requirements of the DDA, nor have they made any allowance for the cost of compliance works.

It will be noted that all the bedrooms and residents' day space provision is currently at ground floor level with level access from the car park into the main reception area. It will also be noted that most corridor widths are of a reasonable size suited to wheelchair or less ambulant users. Upgrades to the en suite provision means that many of the bedrooms are provided with en suite shower wet rooms with good access for disabled users.

6.7 *Asbestos*

From 21 May 2004 new legislation requires property owners, occupiers and managers to identify and control Asbestos Containing Material ("ACM") in their property. If potential ACM is in good condition and undisturbed the Health & Safety Executive ("HSE") recommends that the ACM is identified and a management plan formulated as follows:

- Identify its position
- Inspect its condition regularly
- Take a precautionary approach to maintenance and minimising disturbance that could cause fibre release
- HSE sees removal as a last resort unless the material is in poor condition or at risk of damage.

In carrying out and providing this report and valuation Christie + Co have not undertaken an ACM inspection and understand that the owner of the Property has not obtained or commissioned a report from an ACM inspector. Furthermore, Christie + Co have made no allowance for the potential liability.

6.8 *Energy Performance Certificates*

From 4th January 2009 all sellers and landlords are now required by law to provide an Energy Performance Certificate (EPC) for all buildings or parts of buildings when they are sold or rented. Those carrying out the construction of a building will be required to provide an EPC to the owner.

An Energy Performance Certificate gives prospective buyers or tenants information on the energy efficiency and carbon emissions of a building.

The certificate provides energy efficiency A-G ratings and recommendations for improvement. EPCs were first introduced for the marketed sale of domestic homes, as part of the Home Information Pack, although from April 2008 this was extended to newly built homes and large commercial properties. The ratings - similar to those found on products such as fridges - are standard so the energy efficiency of one building can easily be compared with another building of a similar type.

The seller or landlord is responsible for ensuring that an EPC is available to a prospective purchaser or tenant at the earliest opportunity and no later than when a viewing is conducted or when written marketing information is provided about the building, or in any event before entering into a contract to sell or let.

EPC's are produced by accredited energy assessors and for commercial properties are valid for a period of 10 years, or until a newer EPC is prepared.

As our valuation does not relation to a sale of a Property, an EPC has not been commissioned and we are unable to comment further in this regard.

7.0 Services

We are advised that the following services are available:

Water	Mains
Gas	Mains
Electricity	Mains
Drainage	Mains

8.0 Site and Ground Conditions

The site stands on a broadly level rectangular plot in a suburban location to the east of the centre of Milton Keynes. At our inspection we did not note nor were we made aware of any adverse site or ground conditions and have valued on the basis that none exist.

Your Customer did inform us however that the most extreme part of the site to the rear does lie within a flood plain although we were not provided with any historic records or information relating to this area being affected by flood. Please note our comments below in respect of the GroundSure Siteguard Report.

9.0 Environmental Issues

The Property is situated in a residential suburb of Milton Keynes with surrounding properties being predominantly larger detached private residences. There is a public house immediately opposite. We did not note any major developments in the immediate vicinity likely to have any impact in relation to contamination. Whilst we cannot categorically state that no contamination exists, we believe the probability to be low and have valued on the basis that none exist.

We should however advise that the Bank may consider it prudent to undertake further due diligence through making enquiries of the Environment Agency, the British Geological Survey and the National Radiological Protection Board. Should such investigations reveal any matters of material concern then our valuations may be affected and we reserve the right to reconsider our conclusions.

As per the Bank's instructions, we have undertaken a GroundSure Siteguard Report which based on the information gathered states that the Property is considered to be an Acceptable Environment Risk for banking security purposes. We have attached a copy of this report and completed LUQ at Appendix V.

10.0 Tenure

We are advised that the Property is held on an unencumbered and marketable freehold Title.

11.0 Occupational Leases

We are advised by your Customer that the front two storey section of the Property is currently occupied under an informal lease by a separate company run by your Customer dealing that deals with recruitment. We have not been provided with details of this agreement and have assumed for the purposes of our valuation that in the event of sale, vacant possession of this part of the Property can be obtained.

12.0 Business Commentary

Background

We are advised that the Property was originally acquired by Mr Vaz and his former wife, Mrs Officer who are the owners of the Property with Mr Vaz's current wife, Mrs Caroline Vaz being the registered manager. We understand that Mrs Vaz, although not from a medical background has completed the necessary qualifications to be manager of the Property with the care side being dealt with by a clinical nurse manager.

Trading Format

- The Property is registered with CQC for a total 30 service users falling with the following categories:
    - Old Age, not falling within any other category

As stated earlier, Mrs Vaz is the registered manager for the Property adopting an overall strategic/supervisory role with staff matters being retained and undertaken by a full time clinical nurse manager.

Fees and Occupancy

At the time of our inspection there were 26 service users in occupation representing 100% occupancy on the basis of all rooms being occupied as singles.

We provide below a table showing the current breakdown of service users and fees paid.

Number of Service Users	Fee per Service User £	Total £
4	567.06	2,268.24
1	569.46	569.46
1	575.00	575.00
1	576.00	576.00
2	600.00	1,200.00
1	618.00	618.00
2	630.00	630.00
1	634.00	634.00
1	642.36	642.36
4	650.00	2,600.00
1	658.70	658.70
1	670.00	670.00
1	675.00	675.00
1	679.98	679.98
1	685.00	685.00
1	690.00	690.00
1	700.00	700.00
1	720.00	720.00
Average Fee	631.61	

In summary, the current weekly fee income is £16,422 which equates to an average fee of £631.61.

Of the current 26 service users eight are funded from private sources with the remainder being funded by a mix of local authority, PCTs and Continuing Healthcare.

Expenditure

Staffing

During the course of our inspection, your Customer confirmed that the Property currently employs a registered manager, clinical nurse manager, RGNs and care assistants within a structured shift pattern which is detailed later within this report.

We are informed that the manager and the clinical nurse manager are supernumerary. Non-care staff comprise two kitchen staff, two domestics, maintenance undertaken by external contractors and an activities co-ordinator brought in. Other duties such as laundry are generally undertaken by the carers. We summarise the remuneration rates per key staff grade as supplied by your Customer below:

Staff	Salary/Payment £ per hour
Manager	£45,000 per annum
Clinical Nurse	£27,000 per annum
RGN's	£11 per hour
Carers	£6.20 per hour
Kitchen staff	£6 to £7.50 per hour
Domestics	£6.20 per hour

The remuneration rates generally are in line with those we would expect to see and reflect an average rate based around a pay grid where staff receive higher rates of pay in relation to qualifications and ongoing training. For the purposes of our valuation and based on valuer judgement, we have adopted remuneration rates in line with the above but have valued on the basis that the Property would in the hands of a reasonably efficient operator be run with a registered manager with a care background and a deputy manager who would work most of the time on rota.

Principal Terms of Employment

The home operates a three shift day system with a night shift with varying levels of cover through the week. To follow is a representation of the shift system operated by the Property on a typical day:

Hours	Staff Designation	Numbers
Morning/Day 8am to 4pm	RGN	1
	Care Assistants	4.5
Afternoon/Evening 4pm to 8pm	RGN	1
	Care Assistants	4
8pm to 10 pm	RGN	1
	Care Assistants	2
Nightshift 9:45pm to 8:15am	RGN	1
	Care Assistants	2

The above rota provides 27.3 average care hours per resident user per week on the current occupancy of 26.

We are aware that the above rota provides slightly in excess of the number of care hours we would expect to see for such an operation but reflects some of the measures that were implemented following the review into the complaint made last year. The Property is in effect over staffed at certain times until training of staff in relation to the issues raised is completed.

On the basis of the information provided to us, we are of the opinion that the gross external wage bill of the home in the hands of a reasonably efficient operator and assuming stabilised trading performance is in the region of £445,000 per annum.

Food & Provisions

Within the accounts provided, food and provisions has tracked at between 2.7% to 3.1% of Turnover which is slightly below the level we would expect to see for an operation such as this. In our own assessment we have adopted a sum of £3.50 per resident per day.

Other Expenses

Commenting on the accounts provided, Other Expenses allowing for add backs are broadly in line with the level we would expect to see at 17.1%, 19.3%, 20.1% and 17.6% of Turnover respectively. Add backs that have been provided for include depreciation, the internal rent for the Property, loan charges interest and an allowance for what we regard as excessive repairs costs. It will be noted that much of the refurbishment work that has been undertaken over the last three years has actually be shown under a repairs cost heading and has therefore inflated the figure for repairs costs usually associated with such a Property.

Trading Accounts

We have been provided with management accounts for the years ended 31 March 2008, 2009 and 2010. We have also been provided with nine months management accounts to the period ended 31 December 2010 which we have annualised on a straight line basis. These accounts are shown in summary below and we include a copy of the full accounts at Appendix III.

	Management Accounts YE 31 March 2008		Management Accounts YE 31 March 2009		Management Accounts YE 31 March 2010		Nine Months Management Accounts To 31 December 2010 (straight line annualised)	
	£	%	£	%	£	%	£	%
Total Income	681,200		605,700		634,800		732,133	
Total Wages	437,000	64.2	403,500	59.2	414,200	60.8	479,467	65.5
Other Costs	194,500	28.6	167,300	24.6	207,600	30.5	216,133	29.5
Net Profit	49,700	7.3	34,900	5.1	13,000	1.9	36,533	5.0
Adjusted Net Profit	126,500	18.6	85,200	12.5	92,400	13.6	124,133	17.0

Commenting on the above, it will be noted that trading performance for 2009 and 2010 reflects comments made earlier in terms of the issues concerning poor management and latterly the complaint made by a resident and the subsequent investigation by the local authority. Now that these issues have been resolved as evidenced by the letter of 21 July 2010, it can be seen that the annualised performance on a straight line basis shows good growth in fee income which we believe is being sustained as evidenced by 100% occupancy at the date of our inspection. The income from rent shown in the accounts for the year ended 31 March 2010 and nine months to 31 December

2010 relates to the building at the front of the site which has been segregated to form a separate office suite. This is currently let to a separate company of your Customer under an informal lease arrangement, a copy of which we have not been provided with but which on the current basis of occupation, provides an additional income stream to the Property.

In terms of costs, we have commented upon staff and other costs earlier and would reiterate that staff costs currently are slightly in excess of those we would expect to see for the reasons mentioned.

In terms of Adjusted Net Profit, the figures shown for the year ended 31 March 2009 and the year ended 31 March 2010 at 12.5% and 13.6% of Turnover respectively are lower than we would expect to see but reflect our earlier comments concerning poor occupancy levels, fee income and higher staff costs. Performance in the nine months accounts to 31 December 2010 have shown an improvement reflecting conclusion of the investigation into the complaint, improved occupancy and fee levels and resolution of staff issues. It is expected that the full 12 months management accounts to 31 March 2011 will actually show an even bigger improvement because the straight line annualisation does not reflect the continuing improvement in performance.

Christie + Co Assessment of Trade

As the Bank will be aware, the value of an operational entity such as this is assessed through having regard to the Fair Maintainable levels of Turnover and profitability (FMT) that a reasonably efficient operator would expect to achieve. In assessing FMT, valuers generally place most weight on historic financial performance whilst also considering current trading conditions and, indeed, the trading performance of other similar businesses.

Having regard to the factors discussed above and from our own evidence, experience and investigations, we provide below our assessment of the sustainable trade in the hands of a reasonably efficient operator:

	Current Sustainable Trade
Registration (effective)	26
Average Fee £	631.61
Occupancy %	87.5
Fee Income £	747,189
Wages £	445,000
Wages %	59.6
Other Expenses £	134,903
Other Expenses %	18.1
Adjusted Net Profit £	167,286
Adjusted Net Profit Margin %	22.4

The figure for net profit is provided before depreciation, loan interest charges, tax and proprietors' emoluments.

Commenting on the above, we have adopted the current fee level and taken an occupancy level at 87.5% on the effective occupancy of 26. This is lower than that currently being achieved but reflects a slightly higher level than the average of the last six months occupancy performance. We feel this is reasonable bearing in mind the fact that the business is now seemingly through a difficult period with the various issues previously outlined now resolved. As the ongoing improvements continue to be made and trading performance on this basis is consolidated it is not unreasonable to assume that the current higher average occupancy levels will be retained.

We have not made provision in our assessment of income for the rent currently received for the front section of the Property but have made an allowance for this separately.

Our assessment of staff costs, other costs and levels of EBITDA are in line with our previous comments.

Competition

We have provided a map and table in Appendix VI showing the location of competing homes as provided by the published directories within a 10 km radius of the Property but would caution that some entries will be historic and may not be a true representation of current fee levels and registration achieved.

It will be noted that there is strong competition within Milton Keynes mainly from larger, more modern purpose-built units run by corporate operators. Some of these are operated with block contracts from the local authority. There are however, fewer smaller homes such as the subject Property which provide a more personal service and surroundings which still proves popular to many residents.

13.0 Market Commentary

13.1 Statistical Background

The care home sector has performed strongly since 2003, following several years of difficult trading conditions. The fundamentals of the market have also changed over this period, being characterised by falling levels of both supply and demand. The latter has been caused by referring authorities seeking to reduce the number of referrals and rely on alternative types of care, such as domiciliary packages, whereas the supply of registered beds has declined as the number of beds in new facilities has been less than those in homes that have closed.

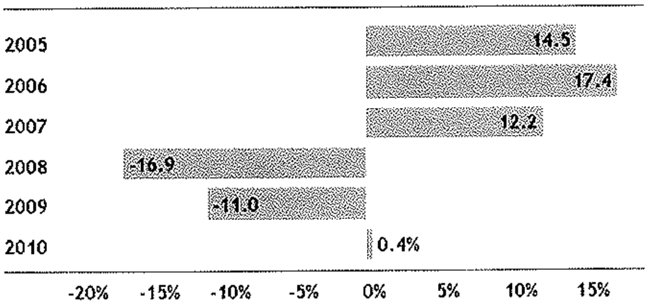
The total number of care homes in the UK declined by 145 between 2009 and 2010 and now stands at 17,625 registered homes. This figure excludes homes with less than five registered beds and Local Authority owned Care Homes. The average number of beds registered for Care Homes only is 20.54, although there is an increasing popularity of larger homes over 40 beds. Care Homes providing nursing care continue to be much larger with an average of 46.06 registered beds. 73.9% of Care Homes with Nursing have registrations for more than 30 beds.

Movement in Care Values

Christie + Co's care price index, which uses average price information derived from care transactions brokered by the company, shows that care property values marginally increased during 2010, by 0.4%. This reverses the steep falls in value over the previous two years, although as with 2009, it should be borne in mind that there has been a general shortage of sales of high-quality, purpose-built stock.

Care

0.4% movement in average prices



13.2 *Market Activity*

Although there was plenty of demand for care businesses in 2010, a lack of quality stock coming to the market severely hindered transactional activity. The number of individual care home deals we completed increased by 21%, compared to the previous year. Remarkably, just 5% of the businesses we sold had been rated by the Care Quality Commission as 'excellent' – the balance had some form of distress, be it of an operational or financial nature. The care sector saw a +0.4% movement in the average price index during 2010.

The trading environment across the UK care sector remained challenging during 2010. Many operators came under further pressure as operating costs increased, fee levels barely changed and occupancy fell.

According to the Care of Elderly People UK Market Survey 2010-11, published by Laing & Buisson, private and voluntary care home occupancy rates slipped to 89% in 2010, as new capacity entered the market and outpaced the static demand. Whilst this annual review estimated operating cost inflation of 2.1%, baseline fee rates rose by just 0.8% on average for the UK as a whole – with cuts experienced in some regions.

The total number of care homes in the UK declined by 145 between 2009 and 2010 and now stands at 17,625 registered homes. This figure excludes homes with less than five registered beds and Local Authority owned care homes. The average number of beds registered for care homes only is 20.54, although there is an increasing popularity of larger homes over 40 beds. Care homes providing nursing care continue to be much larger with an average of 46.06 registered beds. 73.9% of care homes with nursing have registrations for more than 30 beds.

Local authorities continue to come under pressure to reduce costs, in the face of rapidly increasing levels of central government borrowing. The impact of the Government's Spending Review will be the main focus for operators during the coming year, with local authorities looking to tighten their belts and some fee cuts a possibility. The scale of these cuts will determine what the year will hold for many operators. Fee rates received for publicly funded care home occupants will play a big part in influencing the standard and consistency of care that operators are able to provide.

Although demand for quality single assets remained strong in 2010, supply was a key issue, particularly in the elderly market. Whilst the number of distressed assets for sale at the start of 2010 was not as high as expected, the challenging trading conditions took their toll as the year progressed and further distressed stock was brought to the market. Businesses that struggled were often over-leveraged, of poor quality, badly located, or non-compliant, with poor management. Unfortunately, many businesses suffered from a combination of these factors.

The funding issue played a major role in prolonging the transaction process, as banks generally continued to be highly selective. Whilst debt was available, the funding process was slow and due diligence levels were much higher than witnessed in previous years.

Nonetheless, there were areas of encouragement. A number of transactions completed in "asset light" business, such as domiciliary care and supported living. Other services, such as acquired brain injury (ABI) and mental health, attracted increased interest from private equity buyers. In the rare instances that good quality assets were available for sale, there was no shortage of buyers, many of whom had significant cash resources. Good quality care businesses, despite all the challenges that undoubtedly exist, continue to produce a healthy return.

Throughout 2010, there was a considerable focus on quality, whether it was in relation to assets, the robustness of financial performance or improving unit or company management. An opportunity may therefore exist for operators to sell poorer quality businesses and thus improve the average quality of their portfolios. This has to be in the longer term interests of owners, investors, management and debt providers.

There can be no doubt that the operating environment is going to remain difficult for the foreseeable future, but signs of encouragement are not wholly absent.

Generally, debt funding has been harder to obtain, with most operators reporting a difficulty in raising fresh loans. Many operators are reluctant to accept a markedly different cost of money compared to the boom years. A general tightening of terms, such as reduced loan to value ratios, higher margins and fees are all increasing the need for borrowers to increase their equity input. The healthcare sector as a whole, like many other asset backed industries, is also exposed to the requirement to refinance a substantial amount of fixed term loans that originated in very different market conditions and will expire in 2011 and 2012. This is likely to be a significant factor in the market in the next 12 to 24 months. Any rise in interest rates will merely exacerbate the adverse lending environment.

There continued to be strong activity in the specialist care market during 2010, especially in the supportive living sector. Lifeways Community Care, the UK's leading provider of supported living for people with complex needs, embarked on a major expansion drive during the year, backed by the independent private equity firm, August Equity.

The ongoing problems faced by the residential property market continued to present development and land acquisition opportunities for care operators. There remains a desire for new builds as operators seek to exploit the qualitative opportunity presented by the current market. In many cases, lower land and development costs have enabled developers to construct higher quality buildings that are well ahead of the required standards. En suite wet rooms, enhanced day space including atrium features, cinema rooms, hairdressing salons and spa style bathrooms have become the norm for new builds, rather than the exception they would have been in the past.

The Care Quality Commission (CQC) recently phased out the quality rating system (star ratings), which was believed to be too subjective to provide consistency. Its new standards are less prescriptive and are expected to form the basis under which a new rating system will be created.

CQC has also spent a lot of time reregistering all care providers, a process that had a considerable impact upon transactions. There have been many illustrations of delayed deals caused by this process but we hope to see a smoother and quicker system in operation going forward.

Notable transactions in 2010 include:

+ Care UK was taken private in a transaction reportedly valued at around £442 million in Q1 of 2010. The buyer was Bridgepoint Capital.The business incorporated a wide range of elderly care facilities, plus childcare and primary care, some of which have subsequently been sold on.

LNT Group sold seven new-build care homes let to Ideal Homes in a sale and leaseback transaction for over £33 million during Q3 of 2010, one of the largest investment sales of the year.

Market sector outlook

At a macro level, market conditions are difficult with a number of factors all combining against operators. Issues arising from the impact of the Spending Review are not likely to be mitigated in the near term. Debt market conditions are also unlikely to improve significantly in the near future, but good quality businesses will continue to produce an attractive yield for owners and investors. Quality will remain the key theme.

13.3 Market Drivers

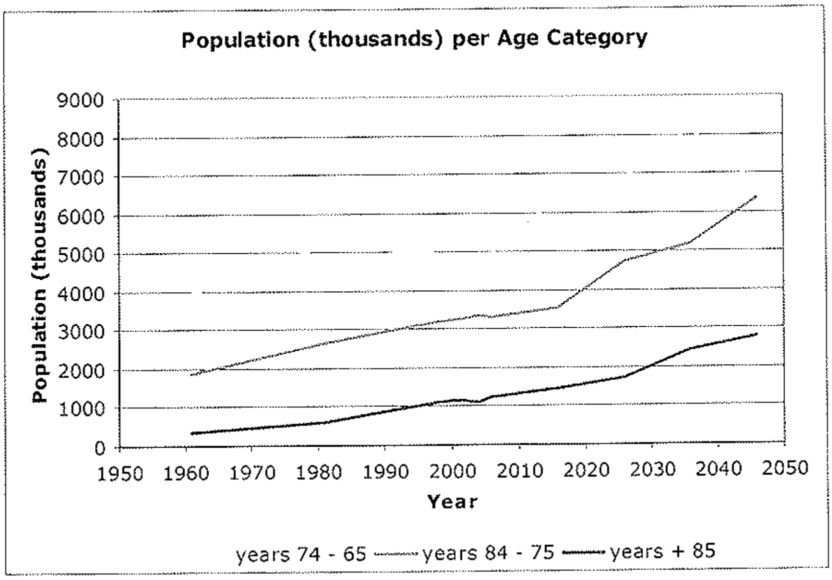
Local fee levels and wage costs remain major influences upon the profitability of businesses in the care sector and changes to the funding and fee arrangements for clients are undoubtedly continuing to affect operations. As a market characterised by low rates of pay to the majority of staff, profitability within the industry remains vulnerable to any further increases in levels of the national minimum wage, national insurance and wage rates in competing sectors.

There is also no doubt that the market generally is seeking to apply the NMS wherever possible. New build care homes are increasing in number for the first time in many years, even in areas where there is an apparently adequate existing supply of registered beds.

On a cautionary note, it must be mentioned that the Government has stated that it wishes to see in the future a greater proportion of the elderly cared for in their own homes. Whilst no detail has yet been provided on how this will be achieved, nor how the demographic influences on the sector will be reflected (see below) in the medium to longer term, this could have an impact upon the shape of the sector. In principle, however, it is possible that domiciliary care services, assisted living schemes and the like could expand to support a wider range of care services for the user to choose from.

13.4 Demographic Drivers

The segment of the UK population aged 85 years and older is projected to rise over the next century as the proportion of elderly persons grows. It is this segment that is most likely to require some form of long term care. According to industry figures, the number of elderly persons in this category is expected to rise from around 1.25 million at present to 3.3 million by 2056. This change is illustrated in the following graph:



13.5 Local Commentary

The Milton Keynes office continues to experience a shortage of care homes coming to the market across the region. It should be noted that due to the current economic climate although there remains a good demand for compliant well performing units, the time taken to conclude deals is lengthening as a result of increased due diligence on behalf of most lending institutions.

14.0 Rental Value

We have not been asked to provide our opinion of Market Rental Value.

15.0 Capital Value

15.1 Methodology

In preparing our valuation we have utilised a number of methodologies which we consider appropriate to such businesses.

Our principal approach, and the one upon which we place most reliance, is the Income Approach or Earnings Multiplier. This method of valuation has a long pedigree and is the approach used most widely by investors and operators and, consequently, valuers. An "all risks" yield or multiplier is applied to maintainable income, which a valuer assesses following a review of historic and current trading information. The multiplier is selected to directly reflect market sentiment.

15.2 Assessment

Based on the historic information provided to us, our discussions with your Customer regarding the current trade and future projections, together with our own assessment of the fair maintainable levels of income and profit we have calculated as follows:

	£
Current Sustainable Trade	747,189
EBITDA	167,286
Multiplier (equating to 14.29% yield)	7
Capital Value (rounded)	1,170,000
Value attributable to planning permission for 43 single en-suite bedrooms and additional day space	215,000
Notional allowance for office suite at front section of Property	70,000
Total (rounded)	**1,455,000**

The assessment of trade and EBITDA assumes competent management of the Property and business.

Our choice of multiplier is based on our knowledge of the market and by reference to sales of relevant businesses and properties. We summarise this sales evidence as:

No	Location	No of Beds	Date of Sale	Sale Price £	T/O £	ANP/ EBITDA £	ANP/ EBITDA %	YP	Price Per Bed £	YP T/O
1	Crowthorne	23	April 2010	2,100,000	684,111	263,000	38.4%	8.0	91,304	3.07
2	Rickmansworth	28	Aug 2010	1,875,000	562,000	231,000	41.1%	8.1	66,964	3.34
3	Huntingdon	53	April 2010	2,850,000	n/a	n/a	n/a	n/a	53,774	n/a
4	Gerrards Cross	29	Exchanged	2,000,000	911,610	n/a	n/a	n/a	68,966	2.19

A brief synopsis of these comparables is as follows:

- Confidential One - a substantial detached Period property in large grounds in a very affluent area. This home provides dementia care and has 21 rooms (two being doubles but with only two en suite). 3 star last CQC rating with a fee range of £550 to £650 per week
- Confidential Two - a substantial detached property arranged over three floors with 28 single bedrooms (12 en suite). The home provides residential care with a fee range of £420 to £600 per week
- Confidential Three - is a cosmetic surgery hospital with 12 ward rooms plus an adjoining 41 bed care home. The hospital had shut and the care home only had 13 residents at date of disposal. The unit was sold by Christie + Co Ipswich office with no formal marketing. Interest was mainly received from buyers looking to convert fully to a care home. It is a good quality building with all bedrooms being greater than 12sq m
- Confidential Four - is a detached property close to the town centre. It is registered for care with nursing and comprises 19 single and five twin rooms 11 of which are en suite. The last CQC rating was 2 star. Trading at a 95% occupancy level. Fee range is £560 to £750 per week. Contracts Exchanged December 2010

15.3 Valuation

In our opinion the Market Value of the freehold interest in the Property in its existing use and present condition as a fully-equipped operational entity having regard to trading potential, and with the benefit of planning permission for an additional 43 bedrooms as at 21 March 2011 is:

- **£1,455,000** **(One Million Four Hundred and Fifty Five Thousand Pounds)**

Furthermore, you have requested our opinion of the Market Value of the freehold interest in the Property based on the following Special Assumptions:

(i) accounts and records of trade would not be available to or relied upon by a prospective purchaser
(ii) the business is closed
(iii) the inventory has been removed and
(iv) the licences, consents, certificates and/or permits are lost or are in jeopardy

In our opinion, the Market Value, subject to the Special Assumptions, is:

- **£835,000** **(Eight Hundred and Thirty Five Thousand Pounds)**

Whist we have been asked to provide our opinion of MVSA including an assumption that a sale be completed within a restricted time scale, we draw your attention specifically to the matters referred to under "Section 6.2.3" above. It is not clear at this stage how CQC intend to process the re-registering all care homes prior to October 2010 whilst at the same time managing the usual volume of registration applications arising from transactions. It is quite possible that delays will be incurred in the process that are unpredictable and as a result we can accept no responsibility for any affect upon the MVSA figure quoted above that arises directly from a delay in the registration process.

The valuations set out above exclude any liability that arises or could arise in respect of VAT, taxation and the costs of acquisition or realisation.

The definition of Market Value should be interpreted in the context of the Conceptual Framework, as published in International Valuation Standard 1 and reproduced in Appendix I to this report.

Special Comment on Current Market Conditions

A substantial part of the world economy has experienced a sharp economic slowdown which has manifested itself in property markets by a hiatus in transactional activity due to the restricted availability of funding and hence lower levels of leverage. This was initially dubbed the "Credit Crunch", although it subsequently evolved into a global financial crisis and led to the failure of a number of major banks and a loss of confidence in parts of the banking system. The crisis has naturally impacted on funding for property, leading to a reduction in transaction volumes and the softening of yields in many property classes.

The UK government, along with the governments of a number of other major economies, has taken various steps to support and restore confidence in the banking sector, but to date, whilst the cost of funding has theoretically fallen substantially, access to credit remains difficult and when credit is offered, it is alongside a requirement for borrowers to inject greater amounts of equity than has previously been the case. This creates a degree of inertia which will overshadow the commercial property market until credit market conditions improve.

Guidance Note 5 of the Red Book refers to valuations being provided in the following context:

"Unforeseen macroeconomic or political crises can have a sudden and dramatic effect on markets. This could manifest itself by either panic buying or selling, or simply disinclination to trade until it is clear how prices in the market will be affected in the longer term. If the valuation date coincides with the immediate aftermath of such an event, the data on which any valuation is based may be confused, incomplete or inconsistent, with an inevitable effect on the certainty that can be attached to it".

The Red Book expects the valuer to comment on the degree of uncertainty attaching to the valuation. In our opinion the degree of uncertainty in the financial markets, affects debt pricing over the short term, which in turn affects the inclination and ability to trade between prospective vendors and purchasers, most notably at a corporate M&A level.

We cannot speculate as to future changes in the markets, nor their impact upon specific transactions. We have, however, used valuer judgement to interpret the most recent available evidence and current market sentiment to arrive at the valuation.

We caution that in present circumstances the "shelf life" of a valuation report may be substantially reduced. Therefore if market conditions are substantially different as at the date of completion, it may be prudent to seek confirmation of the valuation.

16.0 Development Issues

Other than the matters referred to within this report, we are not aware of any development issues and have valued on the basis that none exist.

17.0 Insurance Reinstatement Cost

In the absence of a detailed inspection by a qualified building surveyor, our informal opinion of the Insurance Reinstatement Cost on a Day One Basis would be in the region of £1,225,000. This figure is inclusive of demolition, legal and professional fees, but exclusive of VAT and is for guidance purposes only. It should be noted there is no direct relationship between the Insurance Reinstatement Cost of a property and the Market Value of the same property.

18.0 Security for Loan

The Property is situated in an affluent suburb to the east of Milton Keynes in an area of largely higher end value detached residential properties. There is a traditional public house/restaurant situated immediately opposite. The Property comprises a registered care setting from a modern single storey building occupying a 'U-shaped' footprint with an original two storey building at the front of the site now converted to an office suite. The Property has been the subject of ongoing refurbishment and benefits from all single rooms in the current format with all bar one of these provided with an en suite mainly shower wet room facility. Day space provision is good with most of the day space areas overlooking an attractive inner courtyard.

Trading levels at the Property suffered during 2009 and 2010 as a result of firstly issues with a manager made worse by the fact that your Customer was distracted from the business at the time due to starting a family. Subsequently during 2010 further problems arose from a complaint made by a resident which led to an embargo on referrals until fully investigated. Both of these issues have now been resolved as confirmed in a letter provided by Milton Keynes Council. Occupancy rates during the latter half of 2010 and into the early part of 2011 have improved strongly as has fee income and at the date of inspection, the Property was trading at 100% occupancy.

Our assessment assumes that the improved performance since August 2010 continues and that our trading assessment is achieved on a stabilised trading basis.

The small office suite at the front of the Property although currently let to an associated company of your Customer does not we feel represent a true market letting and it may be that in the hands of a reasonably efficient operator this area would be taken back as additional staff and administration accommodation. Should it be let out separately, then the fact that it is in the middle of a large residential estate and adjoining a care home may restrict potential occupiers and we have made an allowance for a lower rent in our assessment of the value of this part of the Property should it be treated separately.

The Property currently benefits from a planning permission for an additional 43 bedrooms which is in the process of being renewed. The value of such a planning permission has diminished in the current market with the drop in land values generally although due to the number of rooms it relates to it does open up the Property to a wider range of potential purchasers. We understand that a renewal notice is imminent and our valuation assumes a renewed planning permission is obtained.

Subject to the above, we are of the opinion that the Property offers sufficient security for loan security purposes, the amount of which must be a matter for your own judgement but that we assume will not exceed a proportion of our valuation, in accordance with normal commercial lending practice. Furthermore, we have assumed that the Property is free and clear of all legal mortgages and/or other charges that may be secured thereon.

Stuart Sayer, BSc FRICS MBII
Associate Director
Valuation Services
On behalf of Christie + Co
T 01908 300954
E stuart.sayer@christie.com

Martin Robb, BSc MRICS
Director
Corporate VS Healthcare
On behalf of Christie + Co
T 020 7227 0700
E martin.robb@christie.com

11 April 2011

Appendix I

Market Value Conceptual Framework