IMA INDUSTRIES
Real Estate Redefined

Unit 28 Sarum Complex
Salisbury Road
Uxbridge
UB8 2RZ
T: 020 3371 1460
F: 020 7183 1544
E: info@imaindustries.com
W: www.imaindustries.com

Origination I Structuring I Asset Management

INVESTOR DOCUMENT

Corporate Tenancy Solution

June 2019

Mission Statement:

"Increasing and extracting capital through best-in-class lettings and management solutions"

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Confidentiality and Disclaimer

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1. Executive Summary & Introduction

IMA Group is an established, innovative real estate asset manager based in England.

We develop, build and manage residential-led schemes within the UK ranging from single units to high-density sites in excess of 150 units.

Through our subsidiaries, we own and/or operate a varied portfolio of residential-led assets located primarily in London and the south east of England.

We believe we have identified the right opportunities for IMA Group to capitalise on the changing landscape of fiscal and legislative amendments within the residential lettings sector.

We believe in our ability to efficiently and effectively manage these assets, leveraging off our knowledge, experience and operational skills, which we have built upon and enhanced over our period of operation.

We consider the sum of these parts to be our IP and consequently value that we can add to our clients and their assets.

Our strategy is to use our existing strengths and leverage our IP to enhance our USP, which will attract assets that will generate scale-enhancing growth.

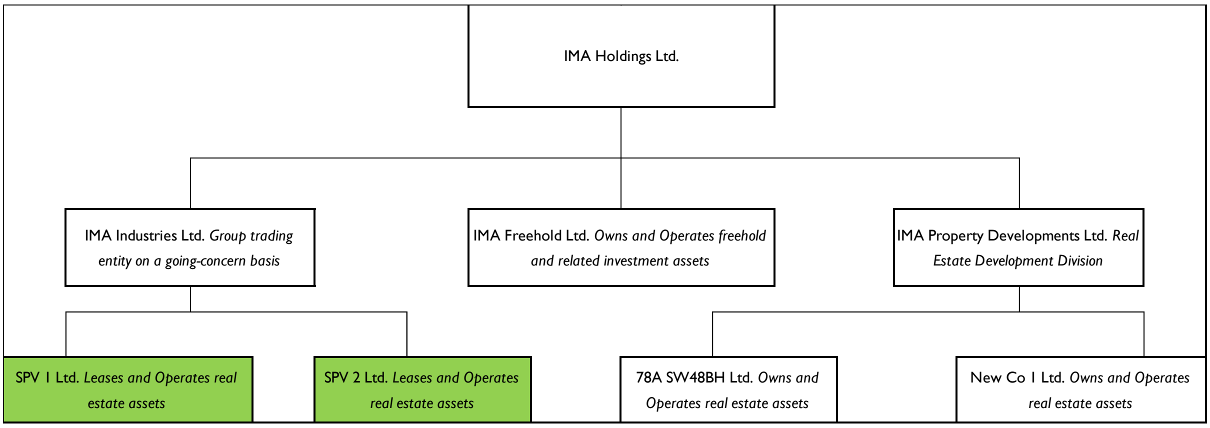
IMA Industries was formed in 2010.

In 2016 the group was restructured to account for exceptional growth and forecast future growth targets.

The restructure allowed IMA to remain lean in operational costs and to capitalise on greater taxation lateralisation, risk mitigation via cross-securitisation and therefore increased profits within the Group.

Sections 9, 10 and 11 within this paper discuss IMA's set up, capabilities and track record in more detail.

The IMA Group Organisational Structure



The Product

The product discussed within this document is IMA's Corporate Tenancy Solution (IMA CTS).

In Section 2, we outline and analyse the various models used in the lettings sector, which our product is set to compete against.

Of these, the self-managed model (or the traditional agency model) is discussed in greater depth in Section 3 (summarised in Section 2.3), where we summarise the current problems within the market for the traditional self managed lettings model and how the IMA CTS addresses these concerns.

The aim of IMA CTS is to provide an insurance-backed, long term income-generating asset capable of driving up net asset values by significantly increasing the success rate for letting a landlord's asset, in a shorter time (than average) and with a superior quality covenant.

This is a fully managed solution designed to capitalise on the above attributes to provide exit solutions for developers (and other landlords), lenders and receivers.

See Section 4.1 for analytical illustrations of how IMA's CTS achieves this exit.

IMA will lease client residential property assets for an initial period of five years – further detailed in Section 7.

The lease rental payments will be underwritten by an A-rated insurer, or better.

The client property asset will be professionally managed by IMA, voids will be underwritten and there will be zero lettings related costs for the landlord – providing a simple, transparent, armchair solution.

IMA will partner with client landlords to maximise return parameters and the underlying asset value by leveraging IMA's IP and operational efficiencies.

These are discussed in more detail within this paper.

IMA CTS Target Market

The target stock to suit the IMA CTS is residential: new build, refurbished, conversions or yet to be completed; though we can also consider existing (built and/or pre-owned) stock.

Ideally site proximity to West London should be within approximately 1.5 hours.

Multi unit blocks are more efficient to manage from IMA's perspective and therefore the more units we are able to secure as part of a landlord's portfolio, the more competitive we can be with pricing and guarantees.

There is however, no lower or upper end to the stock volume that we will consider.

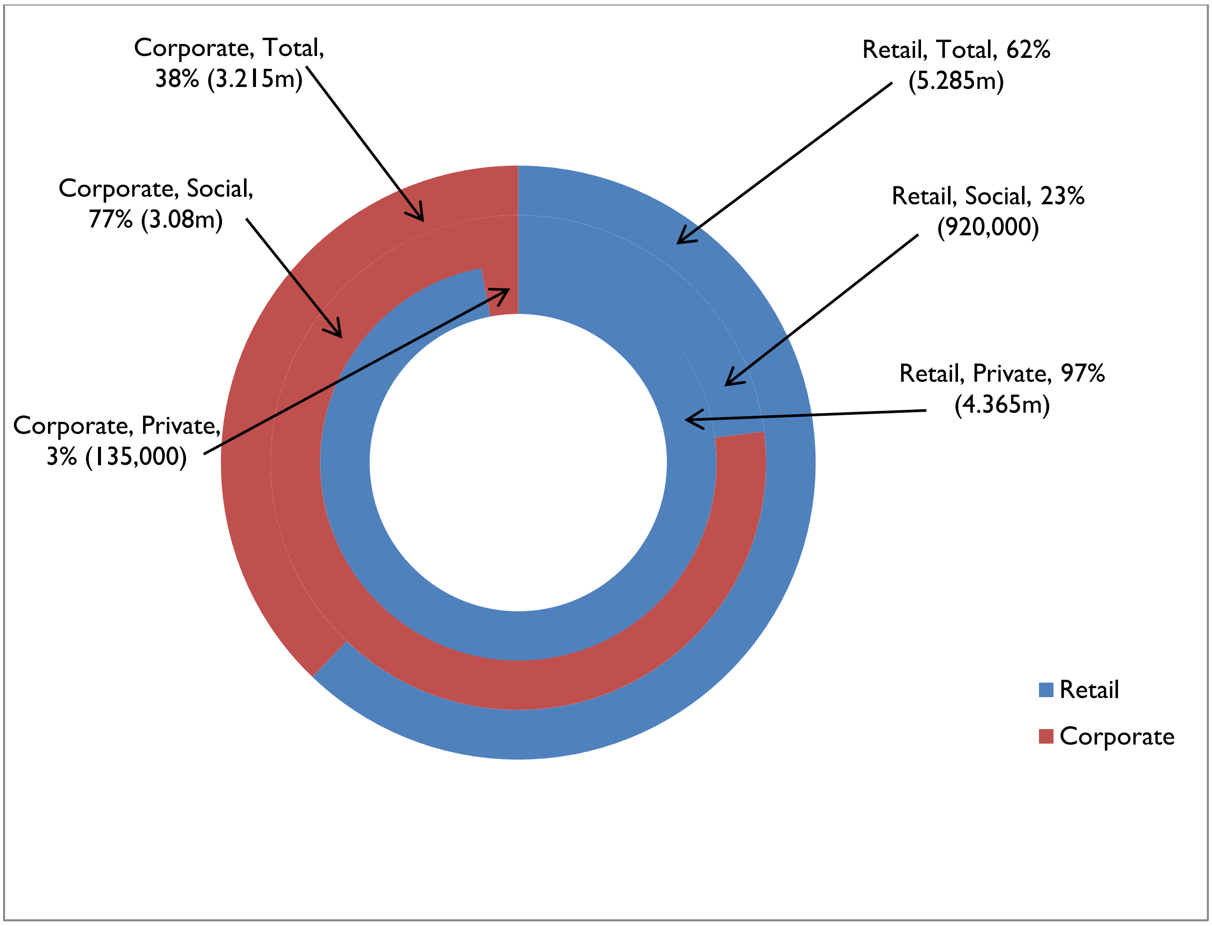
One strand of IP that the IMA CTS brings is the depth and breadth of in-house data, which has been compiled, analysed and manipulated over a period of seven years (as at the date of writing).

The data is leveraged to highlight which stock would most suit the exit aim.

IMA then focus resource on this stock, which means landlords and stakeholders can be comforted in knowing their stock has been statistically assessed as suitable for the short term and long term aims.

We know from data produced by the Ministry of Housing, Communities and Local Government, as well as the Office for National Statistics that the private rented retail market comprises the vast majority of residential lettings (see below):

Fig 1: Chart showing retail vs corporate market share in UK residential lettings – total share; sub-divided into private tenancies; sub-divided into social tenancies



Definitions:

- Retail: means less than 100 units
- Corporate: means more than 100 units
- Social: means Local Authority or Housing Association owned or managed and let to a housing benefit recipient
- Private: means let and managed by a private operator and let to a private renter

This data tells us that the vast majority (97%) of the retail market is dominated by private tenancies, but the majority (77%) of the corporate market is dominated by the social housing sector.

IMA's niche is to create a market out of the private retail sector, which statistically means we should have a larger market to select stock from, and transform that retail stock into corporate stock by leveraging off IMA's IP.

As a result of our focus on selecting stock from the private retail market, we will focus this paper on our main competitor, estate agents, which government data shows operates 77% (in excess of 3.4m tenancies) of this market.

Aims of this paper

This document seeks to discuss and outline the following key considerations:

1. Value-add of IMA's Corporate Tenancy Solution
2. Net yield uplift between using IMA's Corporate Tenancy Solution vs traditional lettings (agency) model[1] of between +25bps to +50bps

Further, this document attempts to clearly and concisely discuss various permutations and parameters from three core stakeholder groups' perspectives, which are as follows:

1. Developers, Investors, Buy-to-Let Landlords and Agents
2. Lenders
3. Receivers
[2]

[1] Section 2 outlines the various competitor solutions that exist in the marketplace. We are focusing on the traditional model of agency for the purposes of this paper as this model has the largest market share.

[2] The following ungeared gross-yield assumptions are used throughout this paper to demonstrate effect on net-yield:

- Net asset value = £300,000
- ERV = £12,000 pa
- Gross yield = 4.00%

2. Lettings Model Comparison

We recognise that there are several models in the lettings sector that currently exist for a stakeholder (whether retail or corporate), as outlined below:

	CTS	Rent to Rent	Short Let	Traditional Agency/Self-Managed	PRS
Type	Retail/Corporate	Retail	Retail	Retail	Corporate
Operators	IMA only	Assetgrove Apex Housing Denham etc...	Serviced Lets Short Let Space Sterling De Vere etc...	Every estate agent Every self-managing landlord	APG Grainger M&G etc...
0-100 Units	✓	✓	✓	✓	×
100+ Units	✓	?	×	✓	✓
Insurance Backed?	✓	×	×	×	×
Covenant Type	Long Term Professional Fully Referenced	Could be sublet to Local Authority Referencing Risk	Holiday Let Temporary Business No security of income	Knowledge to secure good covenant? Intensive tenant management	Focus on quantity (vs quality)
Zero Fees?	✓	? - possible management fees	? - possible management fees	? - Costs to market and set up?	? - possible management fees
Property Management	✓	? - possible management fees	? - possible management fees	? - agent management fees ✓ - none if self managed; but intensive	? - possible management fees
Planning/Lending Issues	None - C3 Residential	Social housing/HMO could be complex	Not C3 and Max 90 days in London	None if C3 Residential	None if C3 Residential
Earning Potential	✓- as CTS rent ↑	× - Fixed Rent	× - Fixed Rent	✓- but reduced with costs to run	× - Fixed Rent
Exit Plan	✓- added value	×	×	? - Need to strategise	✓

However, as the above overview demonstrates, only IMA's CTS – as a result of our unique combination of processes, people and experience – guarantees a fully packaged solution that provides ALL of the following:

- Secure income – rising with market rents
- Superior covenant
- Full tenancy and asset management
- Insurance underwriting
- Exit Plan (depending on stakeholder requirements and motivation) that capitalises on all the above

2.1 Retail Model

For the purposes of this paper, Retail is defined as landlords with fewer than (or sites comprising of fewer than) 100 units.

This encapsulates the majority of the lettings market (62% of all tenancies, according to the Ministry of Housing, Communities and Local Government).

In this section we will focus on two core elements that provide the crucial differences between the models – strength of covenant and exit strategy.

In order to achieve one of the CTS product's aims of increasing underlying net asset values, the strength of the underlying covenant backing the fixed income is important to highlight.

For example, as outlined in the above comparison table, the 'Rent to Rent' model could sub-let the entire asset to a local authority, who will house social housing tenants.

Alternatively, the Rent to Rent model could sublet privately but would then provide a corporate or personal guarantee to underwrite the lease – neither is particularly secure for the purposes of exit.

Firms such as Asset Grove or Denham International are two such examples who provide a guaranteed rent to landlords, but use Local Authorities as sub-tenants.

Whilst being a secure covenant, Local Authorities will usually pay local housing allowance (LHA) rates, which are significantly lower than market rates and therefore the achieved rent roll will not be high enough (close enough to market value) to achieve a satisfactory exit, which is seen as a downside and as a limiting factor:

Table 1: Table showing Landlord rent paid for a five unit site in Clapham, SW4, under IMA CTS lease (and associated capitalised exit value) versus Rent to Rent offer received by Landlord within limited scope for exits as outlined above

	IMA CTS	Rent to Rent
Landlord Rent pa	£131,845	£100,800
Landlord Share vs ERV	72.62%	55.52%
Rent Difference	**+ 30.80%**	
Capitalisation Rate	3.50%	4.00%
Capitalised GDV	£3,767,000	£2,520,000
GDV Difference	**+ 49.48%**	
Compound Difference (Rent over 5 Year Term + Exit)	**+ 46.37%**	

Note: ERV = £181,560

Note: Rent to Rent offer based on subletting to a local authority. Offer is approx. £100pcm per unit less than LHA rates, which is their risk and margin

Note: Although the IMA CTS offer is >25% discount to site ERV, this net figure which the landlord receives of £131,845 is still higher than the equivalent net figure if this site was self-managed using a traditional lettings agent. Section 3 explores this in greater depth and highlights IMA CTS' superiority to specifically the traditional self-managed model.

The traditional model/self managed for retail lettings is via estate agents is discussed in depth within Section 3.

An entire section has been dedicated to this model based on the significance of its market share (77%, according to the Ministry of Housing, Communities and Local Government).

Within this section we identify and dissect the structural flaws of the traditional agency model.

We conclude that based on the various systemic weaknesses of this model there is no commercially viable exit that can be utilised by a landlord and therefore IMA's CTS increases in value as it is the only model that can facilitate an exit strategy.

2.2 Corporate Model

Private Rented Sector (PRS) is defined as landlords with sites or portfolios over 100 units.

This mass brings economies relied upon by institutional financial models to achieve their targets.

There are two distinct camps within PRS: one is a fund that will forward fund and bear build risk; the other is a fund that will guarantee developer exits and purchase the built units for a pre-agreed price.

We shall focus on the latter for the purposes of this paper.

Capital valuations for exit take into account operational inefficiencies (such as void periods and management costs).

These are capped at 20% reduction to market value, though increasingly, the market is seeing as much as a 25% deduction of ERV as a result of increasing marketing costs to achieve the premium rents required to sustain PRS business models.

The deduction of gross rent to evaluate net asset values is similar to the IMA CTS model, but the crucial difference between the two is that IMA CTS is valued more by institutional PRS buyers (and so we are able to achieve higher exit net asset values).

This is because: (a) the asset is already income bearing and has stabilised over at least 3 years; (b) all subtenants are good covenants; and (c) the fixed income product is underwritten by an A rated insurer or better – all of which are underpinned by the efficiencies of IMA – and the potential uplift to net asset value is demonstrated in the below example:

Table 2: Table showing capitalised exit value for a 91 unit site in Reading, RG1, under IMA CTS lease versus traditional PRS fund

	IMA CTS	PRS
Average Landlord Rent pa	£700,617	*£741,812*
Capitalisation Rate	3.50%	4.00%
Capitalised GDV	£20,017,634	£18,545,308
Net Earnings (5 Yrs)	£23,520,720	£18,545,308
% Uplift of total Net Earnings (5 Yrs)	26.83%	

Note: ERV = £916,560 in Y1, increasing by 3% every 3rd year and PRS rent calculation based on 25% leakage in Y1 and 20% Y2-5 as per industry standard.

As the above table demonstrates, the stakeholder would be 27% better off (in excess of £4.975m) via IMA's CTS than the PRS route at exit over a 5 year term, if the stakeholder is willing and able to hold for this period of time to realise such gains.

This metric assumes a zero gearing scenario.

The GDV gain alone is in excess of £1m (before accounting for the guaranteed fixed income provided by IMA's CTS) and this is based purely on capitalisation of the rent, before taking into account any natural capital appreciation that the asset may benefit from.

2.3 Summary Comparison of Self-Managed Model vs IMA Corporate Tenancy Solution

We shall draw upon the perspectives of the three stakeholders for which this paper is written for, and what the IMA CTS attempts at accomplishing for each of these stakeholders, versus the traditional estate agency lettings model.

The following section aims to address current issues within the traditional lettings market.

The issues vary from inefficient management to the cost of the transaction.

In each identified weakness, we have aimed to highlight, summarise and recommend solutions (using IMA CTS).

The focus of this section is to increase the new yield of any given asset.

Agency Fees

- Variances between agents can reduce net yield by 50bps to 100bps; equating to potentially 25% reductions from gross yield.
- As the lettings fee ban comes into place, we expect agency fees to increase for landlords, mitigated by an increase in rents commanded. We do not know, as at the date of publication, if the relationship between rent increase and fee increase can be modelled on a linear basis.

Perspective	Effect	IMA CTS
Developers, investors, BTL landlords and agents	Increased cost leads to lower Annualised Return on Investment Capital (AROIC)	Zero fees. Attracts tenants, lowers voids
Lenders	Lower yield for borrower may lead to less rent:interest cover	Zero fees. Quicker lets, lower voids
Receivers	Lower yields; reduced net asset values	Zero fees. Increased yield, increased net asset values

Voids

- A one month void can lead to a net yield deduction by 23bps. This equates to a deduction of 8.25% from gross yield.
- Strategy to mitigate this would be an asking price drop to compress vacancy rates for new tenancies. Our investment recommendations will always model for at least one month's voids within any 12 month cycle.
- It is possible to substantially offset the cost of voids by small sacrifices to the asking price.

- Our dedication to ensuring strong sub-tenants (who can be backed by the insurance) and strong management (leading to happier sub-tenants) helps lead to higher renewal rates, which reduces void periods over the longer term.

Perspective	Effect	IMA CTS
Developers, investors, BTL landlords and agents	Increased voids reduce AROIC and net asset value of asset	"No void" guarantee
Lenders	Increases risk for borrower to cover liabilities	"No void" guarantee
Receivers	Lower yields; reduced net asset values	"No void" guarantee

Cost Overrun/Contingency - (repairs and capital expenditure)

- Should be allowed for within a model as priority.
- A nominal £2,000 cost overrun attributes to the same net effect as a one month void (using our yield parameters of £1,000pcm rent and an asset net asset value of £300,000) – 67bps or a 16.75% reduction from gross yield.

Perspective	Effect	IMA CTS
Developers, investors, BTL landlords and agents	Increased cost leads to lower AROIC	Technical in-house knowledge of construction and trivial legal. Reduces need for full professional costs
Lenders	Lower yield for borrower may lead to less rent:interest cover	Costs built into model so no cashflow surprises
Receivers	Lower yields; reduced net asset values	Costs built into model so no cashflow surprises

Operational and Structural Differences in agency marketing, referencing, negotiation and management

- Cost of move for tenants is prohibitive and likely cause of increase voids – IMA's Zero Fee Policy key to lowering void rates and increasing covenant strength.
- Imminent law change to ban tenant lettings fees in UK likely to lead to increase in landlord lettings fees.

- Gazumping practice is an epidemic, so IMA's USP approach of clear visibility reservations is seen as a rare benefit to tenants.
- Thorough referencing and IMA's USP approach of clear visibility referencing with landlords is seen as a rare benefit to tenants, which ensures higher covenant strength and low delinquency rates.
- Using an agent with the ability and expertise to deal with an increased range of technical management issues – a rarity in pure lettings agents and indeed among block managers – is a critical factor in determining net AROIC.

Perspective	Effect	IMA CTS
Developers, investors, BTL landlords and agents	Referencing prone to errors, which could lead to lower quality tenants and non-payment of rent	IMA is sole lessee. Manual, verified referencing, approved by insurer prior to letting – for <u>all</u> sub-tenants
Lenders	Non-validated references lower covenant strength	Insurance-backed covenants
Receivers	Lower covenant strength means lower yield	High quality covenants aid higher net asset values

<u>Insurance Backed Rental Guarantee</u>

- Traditional Agency terms would not provide a rental guarantee. The IMA CTS rental guarantee has insurance backed covenant strength, as a result of IMA's operational efficiencies, and thus increases the value of the lease – capitalisation rates for asset value are improved because of this security.
- Rent to Rent 'guarantees' rely on the strength of the firm's covenant. The exception is where the sub-tenant is a Local Authority, which is secure but at lower (and capped) rent due to Local Housing Allowance rates, reducing net asset values (Section 2.1).
- For institutional PRS models, tenants are uninsured and covenant (tenant) risk lies with the operator (Section 2.2).
- IMA CTS underwrites each covenant using an A-rated insurer or better. 100% of the rent guaranteed to the landlord will be underwritten by the insurer. .

Block and Estate Management

- Asset preservation.
- Ability for IMA to deal with main contractor on issues such as snagging and defects liability.

Perspective	Effect	IMA CTS
Developers, investors, BTL landlords and agents	Usually estate agents are not block managers and lack necessary technical skills such as looking after specialist plant items	Review as-built, electrical and mechanical drawings to ensure all plant items and machinery is serviced and warrantied
Lenders	Dealing with multiple companies for tenancies and estate management	Asset protected from mismanagement, increasing security value
Receivers	Additional costs of site security, hoarding and services capping	100% occupied, insured and professionally managed, leading to fewer ancillary tasks

Legal Implications

- Short let v Long let debate.
- Short let or alterations such as HMO use would require freeholder consent, planning consent and lender consent.

IMA Structure and Operation

- Unlike agency fees, IMA CTS lease rentals are not subject to VAT – to increase stakeholder cashflow.
- SPV for lease held under IMA Industries Limited and ultimately under IMA Holdings Limited.

IMA's track record, people, experience and credentials are outlined in Section 9.

Outcome of this paper

The Corporate Tenancy Solution offered by IMA is, we believe, significantly superior to any (to our knowledge) traditional lettings model that currently exists.

Leveraging off IMA's CTS IP, investors, lenders and receivers should be able to achieve significant increases in net yield due to efficient management of tenants, property and block.

Landlords will also be able to leverage off IMA's IP to potentially create an exit after the initial 60 months – more than what their stock would be valued at with vacant possession.

We successfully demonstrate in the body of this paper how IMA, through our unique product, can increase AROIC and underlying asset value for any of our stakeholders.

The reasons demonstrated within this paper should be compelling to any investment committee.

2.4 Short Lets vs IMA Corporate Tenancy Solution

As a sub-topic of discussion, short let agreements are subject to London by-laws in addition to planning restraints by altering the classification of use required to operate such lettings.

Short letting for 90-days or longer in any given calendar year in London requires the owner to apply for a change of use under the current London by-law.

Throughout the UK the matter is subject to fact and degree.

There are key questions such as:

- Is a change of use from a single residential unit by single household to a short term let considered a material change of use?
- What can non-London property owners do to maximise prospects that the Local Authority agrees is not a material change from class C3 and therefore does not require planning permission?

Short lets can in theory earn more than long lets over an annual period, potentially increasing AROIC dramatically; however, and this is of paramount importance to all investment committees, unless the headlease in question or the freeholder consents to such use of an asset, a short let will not be a legally viable option.

Equally, even if the freehold title is owned by an investor, superior offices such as the local authority planning office will be able to grant or deny permission for such use.

A final point on the argument against short lets is the absolute discretion of a lender to allow their security to be jeopardised with a non-guaranteed income, the increase of wear and tear on an asset and the lack of rights possessed to remedy damages which may be malicious or accidental.

IMA's Approach

Taking the above restrictions into account, we do not believe that short letting is a sustainable model to base a long-term investment on, so for the benefit of doubt, all IMA leases focus on a long let strategy.

Further, this IMA long let strategy is able to fiscally compete with a short let strategy based on the below chart of what the IMA CTS includes compared to a short let model:

Table 3: Table to compare the IMA CTS against a short let model.

	IMA Long Let	Short Lets
Void Risk Negated	✓	×
Professional Block and Estate Management	✓	?
Wear & Tear Cover	✓	×
Rent Guarantee Insurance	✓	×
Guaranteed Rent	✓	×

The costs incurred for wear and tear by using a property as a short let can be significant and difficult to predict, while there is also a lack of insurers who are willing to provide rent guarantee insurance (in itself, this is telling of the high risks of short lets).

Finally, a short let provider, will not be able to adequately forecast their occupancy periods, based on the seasonal fluctuations that control this market and so their offer of a guarantee will be trimmed significantly.

We summarise below the fiscal impacts of using a short let model vs the IMA CTS:

Table 4: Table showing comparison of IMA rent guarantee model vs traditional estate agency short-lets model – live example (Nine units in West Hampstead, NW6) as of November 2018

	IMA CTS	Traditional Agency Model 26% + Fees
Type	**Long Let**	**Short Let**
Site ERV pa	£146,000	£299,000
Gross Rent after deducting 1 month void	£135,000	-
Gross Rent after deducting 4 month void	-	£203,000
Total Costs to achieve net rent	£0	£54,500
Landlord Gross Earnings	£108,000	£148,500
Zero Fee Policy for Tenants	✓	?
Professional Property Management	✓	✓

Operational Cost to Landlord	0	£40,500
Professional Block and Estate Management	✓	?
Wear & Tear	✓	£4,500
Void Costs	✓	×
Insurance Backed Rent Guarantee	✓	×
Net Earnings	**£108,000**	**£103,500**

Assumptions for the above table are as follows:

- Control ERV £146,000 per annum for long lets based on a combination of IMA's appraisal and the local agents' opinions
- Short let revenue of £299,000 per annum – based on local agent opinion
- Actual gross long let revenue £129,000 per annum - net after deducting one month void and discounting 5%
- Actual gross short let revenue £203,000 per annum - net after deducting four month void
- Agent short let fees @ 26% base, plus approximately £200 per unit £200 inventory (totalling £1,800 totalling £54,500
- Operational cost to run short let per unit £4,500 per annum, totalling £40,500
- Wear and Tear 'budget' per unit of £500 = total £4,500 per annum
- Rent Guarantee Insurance = approximately £2,000 per annum (c.£250-300 per unit)

Freehold value (residential portion) if the CTS is used (£110,000 @ 3.5% yield capitalised) = £3.143m; compared to short let agency model, which:

(i) Will be compared to a value calculation used for hotels such as value per key, taking into account vacancy rates and operational inefficiencies

(ii) Or will be valued on vacant possession value if short lets cannot be supported due to planning restrictions on classification of use.

As the above table demonstrates, using revenue and cost figures from a real historic example from IMA's portfolio, IMA's CTS can be more profitable than a short let model – with fewer risks and less direct involvement required – for a stakeholder.

3. Traditional Lettings Model vs IMA Corporate Tenancy Solution

The traditional lettings model or self managed model can be encompassed under the broad stroke of estate agency.

In this section we will discuss the considerations when dealing with the traditional model and we will attempt to demonstrate the fiscal impacts this model has on an asset compared to IMA's CTS.

3.1 Agency Fees

The UK Residential agency market is worth in excess of £4bn (cf. Capital Economics).

Estate agency fees vary to almost limitless permutations but for consistency and simplicity in this document, we will work on the following assumptions:

- Full agency on a managed basis inclusive of VAT
- Tenancy set up fees inclusive of VAT
- Subsequent tenant fees inclusive of VAT

Using a commuter town in North West London, Uxbridge, UB8, as an example, the following table illustrates the respective fees of three local (Uxbridge and Hillingdon) estate agents to market and set up a fully managed service to landlords.

Table 5: Table showing total fees charged to landlords to market, set up and manage a tenancy

Service	Lakin and Co, Uxbridge	Haart Hayes	Gibbs Gillespie
Fully Managed	12%	14.4%	21.6%
Tenancy Set Up Fees	Nil	£354	£180
Check Out Fees	£95	Nil	Nil
Total landlord pays for Fully Managed tenancy	£1,440pa + £95	£1,728pa + £354	£2,592pa + £180

N.B All agents' prices and fees are live as of 08 January 2019 and publically available on the internet. All prices include VAT at 20%.

For the purposes of debate we will use an example of a typical property that rents at £230 per week or £1,000 per month and valued at £300,000, producing a 4% gross yield.

Sensitivity Metric 1:

Effect of All Fees on AROIC

	Lakin and Co, Uxbridge	Haart Hayes	Gibbs Gillespie
Annual ERV	£12,000	£12,000	£12,000
Fully Managed – Base Fee	12.00%	14.40%	21.60%
Net ERV after Agency Fees	£10,560	£10,272	£9,408
Tenancy Set Up Fees	Nil	£354	£180
Check Out Fees	£95	Nil	Nil
Net Revenue	**£10,465**	**£9,981**	**£9,228**
AROIC	**3.48%**	**3.31%**	**3.08%**
Deduction to Gross Yield	**12.79%**	**17.35%**	**23.10%**

N.B All agents' prices and fees are live as of 08 January 2019 and publically available on the internet. All prices include VAT at 20%.

We can see from the above sensitivity metric that the range of deduction to net yield due to agency fees is approximately 50bps to 100bps.

This is incredibly significant deduction – at the highest end, equivalent to a 23% deduction to gross yield.

Please refer to IMA's Investment Recommendation to the Investment Committee for further discussion regarding agency fee metrics.

3.2 Voids

Void periods (or vacancy rates) are easily the greatest cause of gross to net loss for yield play investments.

The average pro-rated void period in UK residential lettings is around 1 month per 12 month period.

Generally, an efficient operator is assessed on their ability to keep vacancy rates to a minimum, or renewal rates to an optimum level over an annual period.

Yield play investments can command higher capitalised rates for investments that boast comparatively low vacant periods, thereby increasing underlying net asset values.

In this section we shall take the previous example of how a 4% gross yield can erode over an annual period with relatively modest void periods.

Sensitivity Metric 2:

Effect of Voids on AROIC (table demonstrates a 1 month void period)

Annual ERV	£12,000
Gross Yield	4.00%
Revenue with nominal one month Void	£11,000
Net Yield	3.67%
% Deduction Gross:Net	8.33%

This demonstrates the (potentially catastrophic) effects of 23bps, or an 8.33%, reduction in net yield from just a one month void in an annual cycle; excluding the impact of agency fees on overall 'double-net' yield.

We are unaware of many gross yields that are able to adequately support such net deductions as a result of void related impacts.

Discussions regarding asset viability and void mitigation strategies will need to be conducted prior to purchase, at each stage of the investment's lifecycle.

IMA will present an Investment recommendation to the investment committee prior to asset purchase.

The viability of the asset can be presented in a Q&A style forum where voids and other metrics can be debated in depth.

3.2.1 Void Mitigation

Based on Sensitivity Metric 2, we are looking to explore the various common strategies that could be employed to mitigate voids in income bearing investments.

Price Realignment

Using mild negative variances in strike prices can have a positive net effect on AROIC by reducing vacancy periods.

We can support this theory using the illustration below, where a slight reduction in price can reduce the void period and consequently increase the yield, compared to no reduction in price and an accompanying longer void period.

Sensitivity Metric 3:

Relationship between price reduction:void reduction

Annual ERV	£12,000	£12,000
Variable	Void	Price Reduction
Reduction in ERV	0.00% = £0	5.00% = £50/month
Effective Yield	4.00%	3.80%
Rental Income net of Void	Nominal one month Void = £11,000	No void = £11,400
Net Yield	3.67%	3.80%
% Deduction Gross:Net	8.25%	5.00%

The assumption made regarding the extent of reduction in void as a net effect of a 5% price drop is based on a nominal amount for illustrative purposes only.

There are additional factors that we will not introduce within this Investment Memorandum such as quality of stock, location, competition and marketing – all of which can have a decisive net effect on vacancy periods and are considered by IMA within our model.

Our proprietary data assists this analytical process by proving statistics, trends and market forecasts.

It is because of this IP that IMA can demonstrate the added value required to satisfy short term and long term aims.

From a stakeholder perspective, however, price realignment is the key factor that determines overall void rates between tenancies.

Ensuring High Renewal Rates

For tenancies already in existence, not allowing any void period to develop is considered a key performance metric for the majority of lettings operators.

The higher the renewal rate is, the less fiscal risk the fixed income is subjected to and thus as concluded in the above sensitivity metric 3, the more profitable the investment becomes.

Below we illustrate an existing tenancy renewing into a new term, and one which terminates and requires a new tenant to carry on the fixed income:

Table 6: Table showing difference in net yield between a renewal and a terminated tenancy

	Terminated Tenancies	Renewed Tenancies
Annual ERV	£12,000	£12,000
Gross Yield	4.00%	4.00%
Average Void Period pa over 5 year term	1 month (no renewals = five different tenancies)	0.6 months (two renewals = three different tenancies)
Rental Income Net of Void	£11,000	£11,400
Net Yield	3.67%	3.80%
% Deduction Gross:Net	8.25%	5.00%

This shows that significant gains can be made by creating an environment that encourages tenants to renew, as opposed to allowing tenancies to terminate and then having to find replacement tenants.

The figures shown in the above table are purely the effects on AROIC of the void metric alone, and in reality the deduction of gross:net from additional void periods would be greater when considering costs to re-market and sign new tenants, as well as cosmetic/refurbishment work between tenancies.

3.3 Tenant Referencing

The tenant's covenant can be regarded as a primary consideration when determining the net asset value of investments.

Investment Committees will understand the binary example of an AAA-rated blue-chip tenant versus an independent family-run business and how the commanding yields and thus the net asset values can greatly vary between the two.

As with the discussion above regarding void rates (Section 3.2) where we successfully demonstrated the negative impacts on AROIC of a given investment, "stronger" covenants will lead to the same overall effect of low voids – increasing AROIC.

The difficulty most valuers have in general is placing a percentage or a fiscal metric on the "value" of a weak or strong tenant.

One key reason identified by valuers is because it is difficult to maintain a common denominator from which to measure these covenant differences.

Each asset's individual size, price, location, quality and specification will affect the overall AROIC.

This is before the complexities of almost infinite permutations that exist within individual leases are factored in to compute an overall "value" of tenant.

As a result of these difficulties, we shall discuss below how the *methodologies* in tenancy referencing can have an impact on the strength of the covenant; which ultimately increase or decrease overall capitalised values.

3.3.1 Using Tenancy Referencing Third Parties

The use of independent referencing firms is an increasingly popular business model for many agents in determining the suitability of a prospective tenant, as the algorithms were programmed to cast a linear conclusion to these input metrics.

The operational detail of *how* these conclusions were drawn were what prevented a full industry-wide use of these third party firms.

The problem with this practice, which effectively made it no more useful than existing referencing models, was the fact that the agents were still required to make the manual contribution of inputting the various factors such as total tenant income and monthly rental price themselves.

Naturally, agents – who are by their very nature, commission based sales people - had a financial incentive to ensuring tenancy approval rates remained high and so there was the possibility that these input fields could be manipulated to the agent's benefit.

If manipulated, the references would lead to short term tenancy approvals but longer term tenancy problems in relation to real affordability, delinquency rates and overall default percentages.

This is not a sustainable business model for landlords, vendors and asset managers.

A key argument used for using third party vendors to reference is that the responsibility of tenant strength is removed from agents, meaning future delinquency or voids are not blamed on agents and their overall accountability is nil.

It would be notable to add that after the Tenant Fee ban (inception is Summer 2019) market commentators expect for this third party referencing to be brought in-house as extra costs will not be able to be passed to tenants.

The fear commentators have addressed is a return to poor quality referencing.

Another argument used for third party vendor use would be to 'streamline' or increase efficiency for the agent.

However, we would suggest that while the agent's business is aided by the subcontracting of a crucial element of the investment decision process, an investor's investment is left open to risk – based on the potential for references to be manipulated as discussed above – and therefore the arguments in favour of third party referencing are not as strong as those for high-quality and transparent manual referencing, as discussed below.

IMA's Approach

In contrast to the third party referencing procedure used by most estate agents, IMA seeks to identify the tenant, their covenant and ultimately their strength by measuring against key metrics to determine how appropriate a particular applicant might be for the property in question.

IMA ensure all references are validated.

One could argue the IMA methods are less technologically advanced than the highly sophisticated algorithms of third party vendors.

However, a back-to-basics approach provides IMA and all of IMA's clients with a measured approach to making *subjective* decisions.

All references gathered are presented to landlords and more importantly our measured reasons for sanctioning (or rejecting) applicants are provided to the Landlords.

This method provides deeper and meaningful insight into viability, covenant strength and likelihood of delinquency to landlords – ultimately providing them with the opportunity to make fully informed decisions regarding accepting only the strongest applicants, and therefore a direct increase in AROIC.

Key Differences between IMA's approach and Agency approach

Unlike many of the sections within this paper, which are designed to invoke discussion and therefore allow stakeholders to make informed investment decisions, we suggest that there is almost nil upside of suggesting the use of third party vendors as a viable option for assessing tenancy viability and therefore should not be considered in the first instance.

Third party referencing companies tend to gather the applicant data via the agents in question; yet relying on agency input may be dangerous because of a fiscal incentive for all agents to ensure a higher success rate for tenant suitability.

This means that the data provided by agents carries the risk of being inaccurate and potentially untrustworthy, which in turn makes a reliable outcome difficult to predict.

Using unreliable sources to reach investment decisions that have capitalised ramifications can be potentially catastrophic.

In a geometrically opposed position, a manual methodology coupled with a subjective justification is far less likely to be manipulated for two key reasons:

1. Because references are received from source referees
2. Because references are discussed with landlords and our opinions on covenant strength are discussed subjectively, with the landlord able to make informed decisions;

Therefore manual referencing in the manner undertaken by IMA should be considered as the more reliable approach.

A manual methodology may also eliminate the need for guarantors, additional deposits, outright rejection of application for tenants, or increased provision of security – all of which reduce the applicant base substantially, which ultimately lead to a smaller selection sample, increasing the chances for voids or delinquency rates.

The ability to remain flexible in this regard, as opposed to following a rigid tick-box exercise, should be considered a strength of this approach.

Also, gaining references from manually verified sources is another layer of security IMA utilise, above what third party vendors seek to undertake.

IMA's internal processing and approval system enables even high numbers of references to be efficiently processed <u>without</u> compromising on the quality control.

Financial security alone is not the only metric possible to aid decision-making on whether to approve any particular applicant.

Ultimately, a stronger covenant can lead to lower delinquency rates and fewer voids, which, as demonstrated elsewhere in this paper, can in turn increase overall asset value.

We are unaware of a more defined reason as to why manual referencing, such as IMA's methodology, should not be considered as the preferred approach for <u>all</u> investors.

3.4 Agency Negotiation

The ability (and success rate) to attract tenants by various estate agents can be broken down into the following key areas:

3.4.1 Fees and Costs

The average cost of moving for a tenant has risen steadily in recent years.

This has been driven less so by the (industry standard as at the date of writing) six week deposit, which technically is held in trust by the landlord, under certificate for them (and therefore theoretically refundable), than the fees for referencing, creating the tenancy contracts and other check-in related costs.

The following table illustrates the three most local estate agents to IMA who offer a full-managed service to landlords, outlining their respective fees to tenants for moving in and creating the necessary paperwork.

Table 7: Table showing total fees charged to tenants to set up and manage a tenancy

Service	IMA	Lakin and Co, Uxbridge	Haart Hayes	Gibbs Gillespie
Tenancy Set Up Fees	Nil	£150 Tenant 1	£470 Tenant 1	£315 Tenant 1
Additional Tenant Fees	Nil	£150pp	£78pp	£75pp
Total two tenants pay for tenancy set-up	£0	£300	£548	£390

N.B All agents' prices and fees are live as of 19 Jan 2018 and publically available on the internet. All prices include VAT at 20%.

For the purposes of debate, we have used an example of a typical property that rents at £230 per week, or £1,000 per month, and valued at £300,000 producing a 4% gross yield.

The below table shows the sensitivity if total agency fees for Landlords (refer to 3.1 for current fees) were to increase by 10% from current rates, and the net effect on an investor's AROIC:

Sensitivity Metric 4:

Ten percent nominal increase in agency landlord fees:gross yield

	Lakin and Co, Uxbridge	**Haart Hayes**	**Gibbs Gillespie**
Annual ERV	£12,000	£12,000	£12,000
Total Cost	£1,440	£1,728	£2,592
Net AROIC	3.52%	3.42%	3.14%
Total Cost + 10%	£1,584	£1,900	£2,851
Net AROIC	3.47%	3.37%	3.05%
% Reduction from Gross AROIC	**13.20%**	**15.84%**	**23.76%**

Clearly demonstrated above is the net negative impact of agency fees being hiked by a nominal 10% on an annual basis.

We have used 10% as a nominal increase for illustrative purposes only.

By IMA's estimates (based on market sentiment and industry knowledge of agency business models) using the metrics within this paper, some agency landlord fees are likely to increase by up to 50% to make up the deficit due to the tenant fees ban.

Fees are discussed in detail in Section 3.1.

We do not see this concept of landlord fee increases as a contingency but rather a certainty that all traditional agency models will need to allow for going forward.

The erosion of net yield (due to increased agency costs) can be offset by raising gross yields.

We are therefore forecasting an industry-wide shift to allow for increased gross yields.

Data collected over time will confirm or reject our hypothesis, but we reasonably believe we are correct as the shortfall in fees will need to be made up from another source; in this case, landlords.

As with some other metrics, it is difficult to fiscally demonstrate the negative effects of total cost of move for a tenant.

It can, however, be reasonably assumed that the higher the fiscal impact of a move, the more prohibitive a move can be for a prospective tenant.

The imminent introduction of the lettings fees ban that will become UK law in summer 2019 is being judged by most industry commentators as a 'cost transfer' law.

This, in brief, means that instead of being able to charge fees to tenants, agents will make up the shortfall of this revenue through landlords by charging a higher fee, who will in turn endeavour to charge more rent to tenants to cover this additional cost.

It follows therefore that this section on Fees is relevant from a cost prohibitive perspective post summer 2019, highlighting further the erosion of gross yields due to agency fees as discussed in Section 3.1.

<u>IMA's Approach</u>

Zero tenant fees. Guaranteed. This is the basic IMA principal.

The below table shows the relative difference between IMA's total cost of move to that of comparative local agents:

Sensitivity Metric 5:

How much a tenant will typically pay in fees for a two bedroom, £1,000pcm rental with IMA compared with local agents

Service	**IMA**	**Lakin and Co, Uxbridge**	**Gibbs Gillespie**	**Haart Hayes**
Tenancy Set Up fee (Tenant 1)	Nil	£150pp inc refs	£315 inc refs	£330pp inc refs
Additional Tenant Fee	Nil	£150pp inc refs	£75 inc refs	£78pp
Check In Fees	Nil	Nil	Nil	£140
Total two tenants will pay for AST and references	**Nil**	**£300**	**£390**	**£548**

N.B All agents' prices and fees are live as of 08 Jan 2019 and publically available on the internet. All prices include VAT at 20%.

We do not charge the tenant to ensure that we attract the highest number of potential tenants possible (refer back to Section 3.3 – Tenant Referencing).

We find from our existing landlords and current tenants that the ethical underpinning of the lettings process (the IMA approach), against a backdrop of (often) underhanded and (often) out-dated tactics that they are used to with traditional agents, is proving more successful as tenants' renewal rates increase, thereby leading to less void risk and increased AROIC.

If we consider Summer 2019 (when the tenant fees ban comes into force), there will be seismic shifts in agency models to allow for the loss of revenue generated by current fees (our hypothesis being that agents will increase the total amount payable by the landlord to compensate of the loss in revenue from tenants – discussed further in Section 3.1).

IMA, in contrast, will not face this issue, and our model is not forecast to change.

In its elemental form, a wider pool of tenants allows IMA to reference from a greater selection leading to better quality covenants and a lower void period for the landlord.

The basic positive net effects of these factors are discussed in depth in Section 3.2 – Voids.

It is therefore the assertion of this paper that based on a zero fee approach; IMA will stand a significantly greater chance of successfully letting a landlord's asset, in a shorter time and with a superior quality covenant.

After working with numerous family office set ups and investment committees we are certain that our business model is built around the aim of securing these key objectives.

3.4.2 Goodwill, Efficiency and Approach

The most successful estate agents, measured by their letting success rates, are all efficient operators.

Firms such as Foxtons and Gibbs Gillespie invest heavily in IT and infrastructure so that their sales negotiators can be prepared at all times to close a prospective tenant.

Lettings deals were historically paper intensive, but now electronic contracts with digital signatures make signing tenancy agreements an easy and straightforward process.

However, tenants do spot patterns, and as we know, bad news spreads fast.

With forums and review sites such as Trust Pilot, a prospective tenant can decide which agent to avoid based on independent reviews from fellow renters.

Agents who use the practice of 'gazumping' usually only manage to carry that success on for further one or two tenancies before they are publically reviewed.

Gazumping promotes an underhanded sales technique that relies on one agent bringing a higher bid for an already reserved property.

The first set of tenants, thinking they have security of reserving and almost always having paid a deposit, lose the property to another tenant for sometimes a negligible difference in rent.

There is currently a live debate in Parliament regarding the use of the gazumping practice by agents and measures to prevent it in future.

It is frowned upon, and tenants almost inevitably are the sole losers of the practice.

At the date of writing this paper, the practice has not been outlawed.

<u>IMA's Approach</u>

Once a deposit is taken for a property we do not show that property to another applicant, no matter what circumstance we face.

If the references for the first (deposit-paying) applicant then start to highlight probable issues that may prevent us accepting them as the final tenants to let to, then we will <u>discuss</u> the matter with the applicant and inform them that in the best interests of the landlord, further viewings may start to take place.

We ensure all references are received within a pre-set timeframe to allow for an informed decision, or to move forward with further viewings.

This is another reason tenants receive further comfort from IMA – as they know their references will be shared in their entirety with the landlords – providing transparency.

This practice is enveloped within the ethical approach underpinning IMA's standard operational procedures.

The practice of reserving an asset after deposits are paid and providing transparency between IMA, tenant and landlord, coupled with the zero fee policy, provides IMA a healthy reputation within the rental sector as an agent who operates with integrity and honesty; this in turn attracts a wider pool of tenants and therefore leads to increased covenant strength for the landlord (through reduced void rates).

We also assert that our renewal rates are higher than the average agent leading to lowered void rates, which is discussed in more depth within this paper.

IMA work on a pure electronic system during the entire lettings process, apart from the paper based referencing practice outlined in Section 3.2.

This practice, much like the rest of the sector, provides the tenants with a centralised vault of documents to provide a simplified and clear explanation of documents, agreements and information.

It is therefore the assertion of this paper that based on a no gazumping approach; IMA is able to achieve its key tenet: a superior quality covenant.

3.5 Agency Management

This section can be broken down into two core sub-sections:

1. Effect on Tenants
2. Effect on Asset

In turn, we can discuss the impacts of inefficient management for both areas.

Many estate agents carry 'property management' as a bolt-on, add-value part of their total business offerings.

Many agents also have dedicated 'property managers' to oversee and coordinate this division of the business.

Some agents that invest heavily in IT and infrastructure, such as Foxtons, also have user-friendly applications that tenants can use to efficiently log issues which require management attention.

This at first appears to illustrate that ordinary estate agencies are able to take property management as a serious business division.

In truth, many estate agents do not have a full grasp on issues that management of a real estate asset requires.

Certainly, looking after the tenant and attending to common issues such as leaking washing machines, dishwashers and lightbulbs that have gone out is important – but are we considering issues that could arise that could have legal and reputational ramifications for an asset, asset occupier or an asset owner?

These considerations may include, but not limited to:

- management of a leasehold flat within a freehold block, or
- notice served upon a freehold such as those which fall into the Party Wall Act, or
- management of a block or estate including legislation around service charges, accounts and budget approvals

The above considerations are not exhaustive and we cannot assume that the average estate agent will have the capacity to deal with the immediate aftermath of such issues.

Of course, professionals such as surveyors or lawyers will take the overall lead on relevant matters, but estate agents will be the key responders as 'managers,' who should be expected to have a working knowledge in the interests of asset preservation and efficient management.

It is therefore reasonable to assume that an asset owner could require the assistance of a suite of professionals for (seemingly) non-standard real estate management related tasks – an unviable assumption if we take this discussion back to AROIC.

Earlier in this paper, we demonstrated in great detail the effects of voids and price realignment on an annualised yield.

Below we demonstrate how a moderate issue requiring some legal insight and therefore the cost of professional expertise could instantly reduce the yield, suppressing annualised numbers to a commercially unviable level.

Sensitivity Metric 6:

Relationship between additional cost:net yield

Annual ERV	£12,000
Gross Yield	4.00%
Cost of Professional	£2,000
Net Yield	3.33%
% Deduction Gross:Net	16.67%

In Section 3 we explored in detail how the net effect of agency fees and voids can have a significant negative impact on the overall yield driven investment.

Our nominal example illustrated a 40bps reduction in net yield, which amounted to a total 10% deduction in overall net yield.

Section 3 highlighted methods of operational variance such as void mitigation strategies and a cross section of agencies, whose fees had an impact delta of 50bps on net yield.

However, the above demonstration of professionals' costs cannot be mitigated.

Circumstances outside the control of the investor, the manager or the committee could lead to the utilisation of the professional fees contingency.

We should discuss to prioritise a commercial solution that can achieve the backing of an investment committee by ranking this contingency above that of agency fees and voids in the model.

IMA's experience within the legal, block management and construction backgrounds enable us to initially deal with the immediate responses required for the above example such as receipt of notice under the Party Wall Act.

IMA will know what type of issue or event means, and therefore how best to advise our landlords.

It may well mean that a specialist is brought in; but this could be at a much later stage, reducing their costs.

In the 10 years of operation since 2009, IMA has rarely been in a position where we have not managed to remedy a situation prior to escalation and introduction of a third party specialist.

We therefore are able to bring add-value within this area of the offering under the CTS, alongside the other benefits already mentioned.

References from existing landlords with historic difficulties are available upon request to support our track record of successfully dealing with management issues prior to requiring additional professional aid, which we do not believe the majority of estate agents would be capable of achieving.

4. Insurance Backed Guarantee

The chosen panel of insurers are classified as A-rated or better.

The strength of a strong insurer's covenant should be considered superior to any one entity that could provide any form of corporate or personal guarantee.

The IMA CTS underwrites the lease with an insurance-backed guarantee for rent payable to landlords.

The key benefits of doing so are:

- Security of yield investment
- A-rated (or better) insurer covenant underpinning yield
- Increase in capitalised rates for asset
- Malicious and accidental damage for asset covered by insurer

The insurer underwrites every sub-tenant's liabilities under their AST.

The underwriting is based on IMA demonstrating a track record and key operational conditions (detailed further in Section 3.3) that satisfy the requirements set by the insurers.

This backing from an A-rated insurer or better enables IMA to provide landlords with 100% rent cover.

In practise, a claim to the insurer can be made one day after the first default by the sub-tenant.

IMA's operational practice enables us to provide 100% rent cover as a result to the landlord.

The insurance policy will note the landlord's interest by virtue of the head-lease and will remain on risk for as long as the head-lease remains active.

In comparison to other lettings models in Section 2, the IMA CTS is the only model that we are aware of to guarantee the fixed income and have an A-rated insurer or better underwrite the lease.

We have engineered the insurance to complement the CTS offering to reduce risk for landlords and their lenders.

The lease will have more detailed wording on the mechanisms of the policies but below is an exhaustive list of scenarios where the insurer will not pay out (thereby giving IMA a fixed set of rules to abide by):

- Fraud
- Not giving them up to date and accurate as possible information when asked
- Our withdrawal from a claim
- Settling with Tenant outside of claim
- Not having references or conducted credit history search prior to inception of policy
- Not serving apt Notices (e.g. of Rent Arrears) as per AST

- Non-compliance with TDS regarding deposit treatment
- Not having an Inventory (i.e. not doing Check-In properly)
- Not inspecting property at least every 6 months

4.1 Yield Driven Capitalised Rates

An income bearing investment underpinned and held up by an insurance-backed guarantee is an added benefit to the IMA CTS.

We expect this additional benefit to contribute to the compression of yields on a capitalised basis, allowing greater asset capital appreciation or realisation.

From discussions and research conducted to date, the expected increase in capitalised rates based on an A-rated (or better) insurer underpinning the yield is greater than or equal to the UK Government (in the form of local council leases).

Case Study: Nine-unit block in Bicester, 2019 build

Table 8: Table showing yield capitalisation rates to achieve freehold value.

Model	Landlord Target Gross Income pa	Landlord Guaranteed Net Income pa	Insurance-backed?	Capitalisation Rate	Freehold Value
Traditional Agency	£87,000	0	×	4%	£2.175m
IMA CTS	£87,000	£81,000	✓	3.5%	£2.314m

The above live example demonstrates how a more favourable capitalisation rate (50bps) is applied (demonstrating the value placed on IMA's offering) that includes an insurance backed guaranteed income to provide an estimated freehold value of almost £140,000 in addition to that of an unsecured 'potential' income via the traditional agency route.

The source of the above valuation was an RICS chartered valuer from a tier 1 valuation house and this valuer has provided written confirmation of their support for IMA's CTS.

4.1.1 Macroeconomic Changes

A potential risk identified for stakeholders of committing to a long term (5-10 year) lease with IMA is the erosion of capitalised yield (and hence reduced net asset value,) if interest rates rise.

The UK Bank of England Base rate has been sub-1% since March 2009 – over a decade – and this has meant historic (and sustained) low interest rates.

As the economy stabilises, and to facilitate growth, the expectation is that the Base rate will – gradually, but surely – rise over the next few years; so the question raised is whether this is likely to have a corresponding effect on rental yields and thus net asset value?

History suggests that there is in fact no direct correlation and that rental yields are only partly influenced by interest rates, as a combination of other factors also have an effect, including: demographics (such as employment figures); the availability of debt; and government policy, among others.

The CTS model a mix of a fixed income product (guaranteed monthly rent via the insurance backing) and a growth asset (stakeholder income can be increased with the efficiencies provided by IMA).

This uniquely allows the assets utilising the CTS (and thereby leveraging off its IP) to withstand macroeconomic factors that might adversely affect other asset classes and maintain underlying net asset value.

See Section 8.1.1 for detail on how annual yields increased by up to 5% net and net compound yield over a 5-year term is more than 17-21% higher than a traditional self-managed route of lettings over the same period.

4.2 Additional Considerations

4.2.1 Conflicts of Interest

A common question from stakeholders may be that an over-reliance on IMA – being both lessee and property manager – may be a risk for the stakeholder.

In response to this and to mitigate this stakeholder identified risk, the CTS has been specifically designed to reduce – and effectively, nullify completely – that risk for stakeholders via the insurance-backed guarantee, which insulates against financial risk and sub-tenant risk.

4.2.2 Alternative Exits

The CTS is designed to provide stable, fixed income, maximise net returns per annum and reduce the need for stakeholder direct involvement in the lettings and management of their properties.

The underlying asset value – as a result of the fixed income and value generated from IMA's IP, is underpinned by the insurance-backed guarantee.

This insurance backed guarantee has been demonstrated as having the potential to increase in 4.1 and IMA can subsequently work with stakeholders to design an exit plan, if stakeholders so wish.

These include, but are not limited to:

- Auction – as fully managed investment, selling down the CTS lease
- PRS
- Flotation – via IPO and potential entry into REIT, or similar

All are possible with the insurance-backed guarantee and the structure of the CTS allows for multiple exits to be considered.

From research conducted by IMA and from input from our advisory committee, we are able to succinctly summarise the best and worst case scenarios in terms of exit options.

	Exit Options Analysis				
	Par Comparative	IPO/ECM	Gain/(Loss)	Block Sale	Gain/(Loss)
GDV	£5,770,101	£6,782,096	£1,011,995	£5,934,334	£164,233

The above table summarises the best and worst case scenario of exits against a par of vacant possession value.

Assumptions made in conducting this research include:

Par = average GDV achieved for IMA's sites at vacant possession value.

Vacant possession value = net income from traditional agency/self managed model, capitalised at 4% gross.

IPO/Equity Capital Markets = average GDV achieved for IMA's sites based on net landlord revenue via CTS capitalised at 3.5% net. Section 8 Table 9 gives a detailed explanation why the CTS attracts compressed yield capitalisation rates.

Block sale/auction = average GDV achieved for IMA's sites based on net landlord revenue via CTS capitalised at 4% net. This cap rate is an assessment of market sentiment for the retail, private sector. i.e. a 4% net, low risk yield secured against residential real estate is attractive to investors comparative to their options available in the market.

5. Block and Estate Management

In Section 3 we explored the efficiencies and abilities of estate agents in the management of real estate.

We adequately demonstrated that an estate agent's skill set would be rapidly outweighed by the demands of the majority of freehold or leasehold related issues.

We then explored the effects of yields on providing a contingency within investment models.

The conclusions were that although the net negative effect for nominal cost overruns was circa 100bps, or 25%, of our example gross yield, the irresponsibility to remove such contingencies from appraisals would be too great to recommend.

We further concluded that cost overruns should be ranked ahead of agency fees and voids in investment appraisals and that the IMA recommendation would maintain consistency in this regard.

It must be noted in the interests of balance that the Rent to Rent model would incur minimal or zero capital expenditure because the lease with the local authority would cover a great degree of, if not total wear and tear and refurbishment costs.

The caveat to note though is that local authorities will provide a standardised finish (usually magnolia paint and blue carpets) at handover (at the end of the lease term).

This level of finish is incompatible with the standard of sites IMA take on.

PRS models allow for such operational costs, but based on the industry standard models of a net deduction in rent of 20% to allow for these inefficiencies, any over-runs beyond 20% will then need to be pro-rated over the course of time.

This, and on-going management of tenancies and block is operational risk that fixed income product buyers would wish to eradicate - IMA's CTS allows for this to happen.

To allow for future part or whole sale of the asset, efficient block management with up-to-date handover packs are a growing necessity in the purchases of freehold or leasehold titles.

Making the process less cumbersome for a conveyance lawyer can shrink sales timeframes and reduce the possibility of abortive deals.

IMA's operational approach to set up is the best example of the holistic approach undertaken.

Detailed and comprehensive Requests for Information are sent to set up the correct block management structure, service contracts and budgets.

The key areas that IMA undertake as a part of the stand-alone solution of Block and Estate Management are:

5.1 Operations & Maintenance Manuals and Handover Packs

How a building works mechanically and operationally is crucial to providing the occupiers with efficient management.

It can also keep the service charge budget as low as reasonably possible – both of which are factors in making the asset as 'sellable' as possible.

There are various legal and insurance requirements, such as fire risk assessments and the up-to-date and regulation-abiding servicing and maintenance of key plant items, such as automatic vents and fire alarms.

Other considerations that may require appropriate specialist involvement may include the servicing and maintenance of special plant items such as lifts, sump and pump systems, pressurisation units and booster tanks.

Knowledge of construction contracts and the mechanisms of defect liability periods are critical in dealing with the specialist mechanical plant once client handover and certification has been undertaken.

Mismanagement can lead to voiding warranties and insurance policies and ultimately the freeholder can suffer fiscal loss.

It is therefore crucial that management is undertaken by those with appropriate in-depth knowledge.

IMA Group consists of an entire division of Construction and Development Management including surveyors and other professionals who understand building pathology.

IMA's Estate and Block Management undertakes the process of putting together and setting up owner operation manuals and creating handover packs on behalf of the freeholder.

We often liaise with main contractors to translate from a technical construction stage handover, to a user-friendly occupancy stage handover.

5.2 Accounts and LPE1 Enquiries

5.2.1 Service Charge Accounts

The importance of service charge accounts is that they must be maintained, both legally and from an asset-value protection perspective to consider:

5.2.1.1 Regulation

Dealing with costs, payments and administration for Block and Estate Management – including budgeting, billing leaseholders, maintaining records, and preparing and filing accounts – is bound by rigid legal requirements, such as deadlines for filing and wording of service charge bills.

The risk of mismanagement is that it can be fiscally detrimental to a Freeholder.

For instance, if a service charge bill is incorrectly served and a leaseholder successfully argues at tribunal against it to render a bill void, this cost of the Block Management may have to be borne by the Freeholder and thereby reduce yield of the rental units, as the below example illustrates:

<u>Sensitivity Metric 7:</u>

Cost of mismanagement:gross yield

Annual ERV (rented unit)	£12,000
GDV (rented unit)	£300,000
Gross Yield	4.00%
Loss of service charges (sold unit)	£2,000
Net yield	3.33%
% Deduction Gross : Net	16.67%

Assumptions include:

- Service charge contribution of £2,000 to the landlord
- No additional net deduction from gross rent, as highlighted elsewhere in this paper

5.2.1.2 Sales

From a marketing perspective for individual unit sales, it is important to maintain costs to balance being sufficient enough to keep the site running to a high standard, yet remain attractive (low) enough incoming buyers.

Service charges that are perceived as too high can detract buyers – indeed, can be the decisive factor even if potential buyers are otherwise satisfied with the sales price and property itself.

In addition, up-to-date and well organised accounts can aid the sales process itself, such as the ability to produce a full pack for LPE1 enquiries; whereas there is a risk of delays in reaching sales completions if the accounts are poorly maintained.

5.2.1.3 How and Why IMA is different

A standalone managing agent (the traditional agency model) may carry out the service charge accounts process diligently enough to abide by the regulatory obligations described in 5.2.1.1 and stick to the budgets required as in 5.2.1.2 to remain competitive.

A PRS operator may outsource this element, leading to fees and net reductions in yield as a result.

There may also be no need to deal with service charges based on whether a sale or part sale of the asset is on their investment horizon.

Agents with no other vested interest may only carry out the 'bare minimum' to discharge their contractual duty.

IMA's long-term service is designed to be proactive because we understand:

(a) The perspective of freeholders in terms of maximising income and maintaining/increasing freehold value

(b) As superior tenants (by virtue of the lease), IMA require a certain standard of block and estate management – underpinned by a high quality service charge accounts process, as explored later in this section – to succeed with the individual unit lettings portion of our Solution (such as attracting new tenants and increasing the likelihood of renewals)

We therefore take an intense, hands-on approach to service charge accounts (and indeed Block and Estate Management as whole) that we believe is above and beyond the level of detail that an average standalone block manager is willing or able to dedicate.

This includes:

(a) A comprehensive understanding of building pathology to efficiently manage the asset

(b) Established operational procedures to ensure cost management and accountability of lessee or client funds

This provides legally required transparency – helpful to keeping leaseholders of sold units onside and maintain their service charge payments – and allows us to employ sub-contractors that will provide the best-in-class quality work for reasonable cost.

This in turn increases the likelihood of management items being maintained to a good standard from Day 1, thereby reducing the risk of excess costs to 'make good' any poorly maintained items.

(c) Construction, Legal and Technical knowledge – being proprietary developers and freeholders in our own right, we have experience and combined staff expertise to understand construction contracts including handover, practical completion and defect liability periods.

IMA would use information gathered via building take-offs to understand servicing history and warranties, and any appointed sub-contractors would be instructed to undertake full takeover surveys prior to appointment.

This would provide us with an understanding of the <u>likelihood</u> of this type of issue occurring, serve notices in advance and budget accordingly.

This would overall aim to compress unexpected and ‘emergency’ costs over and above the budgeted amounts.

We would be able to assess whether the sub-contractor’s report appeared fair and logical and assess that any work carried out was done to the required industry standards and certified appropriately.

(d) Quality Control

These terms include a strict policy of work completion confirmation, including the production and receipt of certificates and reports; which in turn enables IMA to inspect work and instruct re-attendance if not completed to the required standards.

In-depth involvement in the quality control process can also aid the lettings element of our Solution, in that ensuring sub-contractors’ work is carried out adequately reduces the risk of tenants becoming dissatisfied with the building within which they are renting and therefore early terminations of tenancies – see Section 3.2 within this paper relating to voids and the net negative effect on AROIC.

<u>Conclusion</u>

All of these items demonstrate that an adequate service charge accounts’ takeover, undertaking and operational/administrative process is crucial to aiding our overall service offering of the block and estate management.

Our two key tenets (above the satisfaction of standard regulatory framework policies) are achieved based on the processes and checks outlined above:

i. Service charges are kept as low as possible to keep the saleability of the block as attractive as possible
ii. Current tenant retention and satisfaction keeping future lettings demand as high as possible

6. Legal Considerations

A 60 month lease, discussed further in Section 7.3, provides a void-free, risk free guaranteed income, which, when backed up with A-rated (or better) insurance, can be sold to provide higher net asset values.

Considerations that we shall discuss in this section include third party, lender imposed or receiver imposed step-in rights; and planning restrictions.

Consideration to note, but not discussed within this paper, include those regulatory and compliance considerations of setting up the IMA CTS lease to allow for admission into the London Stock Exchange's AIM index.

6.1 Lender's Step-In Rights

Traditional agency models make use of Assured Shorthold Tenancy (AST) agreements.

There is strict legislation with these types of rental agreements, such as requiring notice periods for early termination (the period and manner of such notices distinguished by whether there is mutual 'no fault' termination or actual breach of tenancy).

The law requires a breach of contract in order for a landlord to enforce early termination of an AST (there is no pre-condition for a tenant to terminate early).

No-fault early termination can currently be obtained with two months' notice under Section 21 of the Housing Act, 1988 with consent of the tenants.

No-fault termination can be obtained when either a fixed term tenancy reaches it natural end, or if the tenancy is periodic (rolling monthly structure) with two months' notice under Section 21 of the Housing Act, 1988.

As a result this legislation, landlords can be comfortable in the knowledge that they can obtain vacant possession (if they so desire), within a certain time frame, by following AST laws.

By the virtue of the objective of providing a longer term security solution for fixed income, IMA's use of a longer term lease could be seen as a hindrance in this scenario.

To allow for this flexibility for landlords and their lenders, the (lender produced) Duty of Care document provides the lender protection in the event the borrower defaults.

The lender can choose at this stage whether the lease continues to exist.

6.2 Planning and Classification of Use

Concerns raised by various investment committees of whether the IMA lease would breach the classification of use of the asset from a planning perspective have been addressed below.

Generally, the IMA lease would bind the freeholder's asset in contract for use by IMA.

It would permit IMA to then sub-let the assets under long term agreements which would be acceptable under the general classification of residential C3 use.

7. Technicals

7.1 Corporate Structure

The lease will be held in a UK registered company SPV, referred to hereafter as 'Lease SPV.'

The Lease SPV will be held under IMA Holdings Limited.

The estate and block management will be agreed under will be responsible for the day to day management of the site and properties with specific duties outlined in the lease and the Block Management Agreement.

If the exit aimed for is for a REIT, then we will structure the lease in accordance with guidance from the corporate advisor.

If the exit is aimed for the retail market then we will structure the lease in accordance with maximising value for the exit.

If there is no exit and the short term aims are the only aims, then the lease will be structured to allow the landlords to maximise the value of their investments accordingly.

7.2 VAT

IMA Group do not issue invoices to the landlord's ownership entity for property management fees or rentals.

This should mitigate filing, cash-flow and administration for landlords.

IMA Industries Ltd will issue a VAT invoice for block and estate management related activities only, as any other managing agent would do, at market rates.

7.3 Lease Length and Renewals

The proposed term as a standard medium term investment is 60 months.

We have run various analytical models and permutations and concluded that a 60 month forecast is most appropriate in the residential real estate market.

Notwithstanding this, a 120 month model may be most appropriate for those landlords wishing to exit into a corporate model of a REIT.

The reason for this increase in length is that a 10 year lease would smooth out the net compound effects of PV calculations – a metric used by valuers for the purposes of providing a net asset value for the securitised stock.

By way of an example, we currently have a partnered landlord with whom we are looking to build a portfolio of approximately 400 units, which we have strategised to conduct an exit.

This 400 unit strategy requires at least a 10 year term for the lease length.

Shorter term forecasts tend to skew the averages of rental growth and underlying capital appreciation.

Longer term forecasts simply cannot provide accurate enough predictions about the market and hence lose validity for aiding investment decision-making as a result.

We offer renewals at 36 months for a further 60 months, which is not compulsory but is available to allow lenders, receivers or incoming buyers to remain flexible with the asset.

8. Conclusion

The basic aim for this paper was to demonstrate the key reasons why and how IMA's Corporate Tenancy Solution can be beneficial to our stakeholders, landlords/investors, lenders and receivers – which we believe it achieves.

8.1 Comparisons between IMA Corporate Solution and Other Lettings Models

8.1.1 Traditional Agency Model vs IMA Corporate Tenancy Solution

The CTS has created and demonstrated how IMA's model may be more viable and valuable than traditional estate agency/self managed model to any one of the three core stakeholder groups described in the Introduction.

We aim to break down the key components of the traditional agency model and add some commentary of how IMA's solution seeks to lateralise risk while breaking back each component to the fiscal metric of AROIC.

What we can adequately conclude from this paper is that the following statements are true when comparing IMA's Corporate Tenancy Solution to a tradition agency model:

For the landlord:

- No fair wear and tear risk, no void risk, no void costs, with a rent guarantee and potential for income increase over the term = IMA model preferable
- Void risk and cost, wear and tear risk, with potential for income increase, but no rent guarantee = traditional agency route

For our target demographic, the above considerations deemed most important would usually be limiting void and management risk and having a guaranteed fixed income; which means therefore that the IMA CTS model would usually be most appropriate for their needs.

In addition, purely from an annual earnings perspective a landlord's net income is higher using the CTS than the self managed route; even though the gross income may be higher using the self managed route, as illustrated below:

Table 9: Table showing comparison of IMA rent guarantee model vs traditional estate agency lettings model – live example (Nine new build units in Bicester, Oxfordshire) as of May 2019

	IMA CTS	Agent 10% + Fees
Type	**Long Let**	**Long Let**
Site ERV	£112,000	£112,000
Gross Rent after deducting voids	£102,000	£102,000
Total Landlord Costs to achieve Gross Earnings	£0	£15,000
Landlord Gross Earnings	£81,000	£87,000
Zero Fee Policy for Tenants	✓	?
Professional Property Management	✓	?
Professional Block and Estate Management	✓	?
Wear & Tear	✓	×
Void Costs	✓	×
Insurance Backed Rent Guarantee	✓	×
True Net Rental Earnings pa	£81,000	£77,000
Rent Difference pa	**+ 5%**	
Capitalisation Rate	3.50%	4.00%
GDV	£2.314m	£1.925m
GDV Difference	**+ 20%**	
Compound Difference (Rent over 5 Year Term + Exit)	**+17%**	

Assumptions for the above table are as follows:

- Control ERV £112,000 per annum - based on a combination of IMA's appraisal and the local agents' opinions
- Actual gross revenue £102,000 per annum - net after deducting one month void
- Agent fees @ 10% base, plus costs of £25,000 (fees, costs, insurances)

- Wear and Tear, Insurance backed Guarantee and Void related costs are all value-add upsides provided under the IMA CTS

Freehold value (residential portion) on the rent guarantee basis (£81,000 @ 3.5% yield capitalised) = £2.314m; compared to agency model (£77,000 @ 4%) = £1.925m ~ a £400,000+ difference.

Conclusions of IMA CTS vs Traditional Agency

Day one earnings increase of circa 5% pa which compounds over five years to provide an additional 17-21% (on average based on IMA's track record).

This increase in per annum net earnings provides our landlords with increased freehold capitalised values.

We believe the fiscal benefits underpin the other benefits such as no void risk, guaranteed income and the insurance backing the lease.

8.1.2 Rent to Rent vs IMA Corporate Tenancy

The conclusion of the Rent to Rent model (if sublet to a local authority) is that it is limited by the fact that local authorities will pay only local housing allowance rates – which restrict capitalising exit values on high enough yields – even though the gross to net loss is low for a landlord.

If sublet privately, then it is true that capitalised rates will be able to be achieved on rents at or close to full market value, but the overall covenant is limited by the fact the Rent to Rent company will provide either a corporate guarantee or personal guarantee from its' directors – neither of which will necessarily be considered low risk for exit purposes.

Valuers with the sector have advised IMA that they could justifiably allow a 25-50bps negative shift from industry norms if the value of the covenant was considered weak.

8.1.3 PRS vs IMA Corporate Tenancy Solution

The PRS model is limited to the degree of operational risk that the institution wishes to bear.

While it is true that PRS funds calculate this risk in (in the form of buying in at a 21% discount (average of 5 year plan) the ultimate limiting factor is that their sub-tenants will not be underwritten by an insurer.

This is where IMA's CTS is superior in comparison.

8.2 Other Conclusions

The IP IMA brings by providing a proven and existing platform for rent guarantee, property, block and estate management are:

- A-rated (or better) insurer backing the rent for the duration of the lease

- The CTS lease can be used to sell the retail block at auction as a fully managed armchair investment or the corporate PRS portfolio can be taking to IPO stage by IMA
- Yield uplift confirmed by industry specialist PRS valuers, for retail and corporate landlords
- Construction handover and defect liability expertise to deal with relationship between subtenants and developer/builder and ensure smooth block management
- Service charge accounts and asset saleability to ensure streamlined LPE1 enquiries at the point of sale
- Fair wear and tear cover for duration of the lease

The overall effect of this IP is that investors can see their AROIC increase significantly.

In addition to the above conclusions and the summary of benefits between IMA's CTS and a traditional agency model, IMA's knowledge of construction and construction related issues such as contracts, notices, defect periods and structural warranty issues make IMA a valuable partner for any landlord who is taking a handover from a contractor or developer.

In order to continue the IMA CTS product development phase, we are developing technical solutions to efficiently operate the property and block management side of the business.

This would allow streamlined communications with tenants and occupiers and would allow IMA's to reduce operation costs – savings which will be passed onto our landlords.

This technological solution is still in the beta phase of development.

We believe that the full solution will provide our clients with more efficiency in terms of lowering operational costs and increasing tenancy renewals – leading to lower void rates.

All metrics as discussed in this paper lead to the key aim of increasing AROIC.

Ultimately, IMA's aims of providing an insurance backed, long-term income-generating asset capable of driving up net asset values by significantly increasing the success rate for letting a landlord's asset, in a shorter time and with a superior quality covenant than any other lettings model explored in this paper make us the only partner with such add –value solutions.

For any one of our stakeholders, the increase in net asset value and annualised return on investment capital is a fiscal demonstration of our superior offering to the market.

As an additional reminder, Section 4.1 details these increases in net asset value.

9. Who We Are

Ishil Mehta – Group Managing Director, CEO

Background

- Ishil is the founder and managing director of the IMA Group of Companies. He has built and guided IMA to a sizeable company with strong foundations and a track record during the last 10 years
- Prior to IMA, Ishil was involved in equities, then real estate wealth management at Killik and Co
- He started his career at Citi in pan-European equities

Role at IMA

- Management - structures and directs the overall strategy for the Group including policies, growth, exits and stakeholder management
- Origination & Structuring - sourcing target sites and creating appropriate bespoke structures to accommodate all landlords and fit sites into the overall Group business model
- Acumen - attention to detail and entrepreneurial drive, which grows the Group from an earnings and a profitability perspective

Meer Shah - Head of Research & Acquisitions, COO

Background

- IMA associate consultant prior to joining Group
- IMA staff for over 5 years, rising from Analyst to Head of Department
- Prior career experience includes Administration and Compliance at an IFA; and as a trained and widely published journalist, including a Merit from London School of Journalism

Role at IMA

- Research Analysis – viability and sustainability of a site/project, including considerations such as: unitary mix based on local housing policy and market demand; historic and current trends; future area development, including infrastructure and capital growth; competitor analysis
- Sales and Lettings Marketing Strategy – pricing; marketing strategy; buyer and tenant qualification; offer negotiation
- Management – directs the property management, , block and estate management and operational policies

Adam Binns, ACA - Group CFO

Background

- In excess of 30 years' experience of financial control and finance team management, currently responsible for day-to-day management of IMA accounts
- Prior career experience includes 17 years at a FTSE 250 Property company, where roles included Head of Investment Management, Divisional Director (Finance) and Controller (Finance and Projects)
- Prior career experience includes Financial Controller roles at large corporations

Role at IMA

- Group Accounting
- Financial Reporting
- Accounts Payable & Receivable Management
- Policy & Procedure Management
- Corporate Exit Management

External Advisory Panel

1. Craig Langley, Director of PRS, Savills, London

Valuation Advisory

2. Gunnar Larsson, Associate Director of PRS, Colliers International, London

Capital Markets Advisory

3. Senior Advisor to Public Real Estate Funds, London

Corporate Finance Expertise

4. MD at Tier-1 Investment Bank, Head of Commodities, EMEA

Assessment of CTS vs Other Asset Classes

5. Keith Lassman, Partner, Head of Capital Markets, Howard Kennedy LLP

Regulatory and Legal Advisory

6. Debashish Dasgupta, CSO, Amicorp

Fund Ratings and Strategy

10. Investment Approach

IMA seeks to create capital appreciation by securing privately negotiated influential positions in highly liquid, residential assets located within London and the South East of England.

IMA sub-leases assets, which are characterised as modern, liquid, in-demand lettings stock, leveraged using infrastructure, commercial and leisure assets.

We define 'liquid' as those private dwellings having average rents of between approximately £1,250 and £1,750 per calendar month.

IMA is focused on providing higher average net earnings for landlords whilst laying the foundations to facilitate an exit at a later stage.

As such, we work closely with management and investment committees to provide direction and strategy and we work at a micro-level in areas in finance, business development, strategy and corporate governance.

We leverage IMA's proprietary data, enabling identification of key sites deemed strong enough to sustain higher than average net yields and which would provide a solid net asset value for exit purposes.

IMA's unique position of having our standard operating procedures approved by A-rated insurers or better means we can provide secure, stable fixed income for our landlords – where others simply cannot.

IMA's investment strategy is based upon experience drawn from:

(i) Management's prior track record;

(ii) The inefficiencies inherent within the traditional lettings 'self-managed' model and adopting improved, more efficient standard operating procedures;

(iii) An experienced management team, the combined expertise of whom spans operations, real estate finance, restructuring, capital markets and growth-orientated strategy;

(iv) A large investor group who have unsold assets and who require short and longer term capital extraction strategies;

(v) IMA's optimal and disciplined investment process with specific focus on risk mitigation, capital maximisation and gearing strategies for ultimate exit;

And (vi) the skills and experience of our network of professionals, partners and advisors.

Ultimately, whilst our proprietary data is crucial to stock selection, our operational superiority is critical to capital extraction; required to achieve our short and long term aims.

11. Track Record

Site	Annual Rent Difference	GDV Difference	5 Year Compounded Net Gains
HA5	12.37%	28.42%	25.75%
EN4	9.41%	25.04%	22.43%
HA7	9.29%	24.90%	22.30%
RG1	7.93%	23.35%	20.78%
HP2	6.73%	21.98%	19.44%

IMA CTS live Track Record (Top 5 Sites), showing IMA CTS vs self-managed/traditional agency:

- Rent Difference = IMA CTS Offer vs Net Landlord Rent via the self-managed route
- GDV Difference = capitalisation at 3.5% on IMA CTS Offer (Average of Y1-5) vs 4.00% on self-managed rent
- Compound Gains = sum of Rent and GDV upside vs self-managed/traditional agency

11.1 Key Performance Indicators

Average renewal rate (days):	Seven (7)
Rental Growth (%):	3% per annum
Investment Yield (%):	4.11%

12. Contact

Address

IMA Industries Limited
28 Sarum Complex
Salisbury Road
Uxbridge Industrial Estate
Uxbridge Middlesex
UB8 2RZ

Phone

+44 (0) 20 3371 1460

Group email

info@imaindustries.com

Website

www.imaindustries.com

Meer Shah

Head of Research & Acquisitions

meershah@imaindustries.com