PROPERTY UNDERWRITING

Providing Liquidity to Property Transactions

This document is intended to provide information on the underwriting capabilities of C2 Capital. All information contained within is confidential, and is intended for the recipient of this document only.

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Underwriting - The Third Way

Typically, when a Seller wishes to dispose of a property asset they assess two options:

Option 01

Sell the asset as quickly as possible, often at a reduced price; or

01

Option 02

Sell the asset utilising a long and thorough marketing campaign (followed by a number of rounds of bidding) to achieve the best possible result.

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Option 01 is normally selected when the Seller values speed and certainty in the timing of sales proceeds over and above securing the maximum price. However, with this comes additional risk of embarrassment (along with associated accountability issues) where a purchaser subsequently 'turns' a property shortly after exchange for a higher price. In addition, this sales method often indicated distress, thereby significantly weakening the Seller's negotiating position.

More commonly sellers opt for Option 02, which whilst offering less certainty on the timing and ultimate pricing of an asset disposal, does allow the Seller to enter into a more balanced negotiating position. However, in a volatile or buyers' market the Seller remains at risk of sudden market movements, renegotiated pricing and abortive transaction costs.

Option 03 – Underwriting

Underwriting offers a third way to vendors of real estate. Through underwriting they can effectively 'lock-in' to a certain price upon a fixed future date, whilst still participating in any improvement in pricing which can be achieved through a more thorough or targeted marketing campaign.

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Underwriting enables sellers to retain all the benefits of Option 1, whilst enjoying a percentage of the upside offered by Option 2 (typically 50%). It is a simple scenario which many sellers are pleased to be offered, but which is rarely utilised in commercial property. C2 Capital currently operates the only FSA regulated fund specialising in this form of disposal in the UK.

So how does it work?

With an underwriting transaction, the Underwriter enters into a confidential and binding agreement to acquire an asset or portfolio of assets at a minimum price on an agreed date.

During the intervening period, both parties interests are aligned and they work together to maximise the value of the asset(s) through a strategic disposal process. Assets can be offered by private treaty or auction, and any additional costs of sale incurred over and above a typical market sale will be shared between the parties (i.e. any fees payable on the overage). If an individual asset can be sold for a price in excess of its apportioned Underwriting Price within the timescales agreed then any overage/upside is shared between the Seller and the Underwriter. If a buyer cannot be found at a higher price the Underwriter will acquire the property at the Underwritten Price.

The Process

The process is typically as follows:

i) The Underwriter enters into the Underwriting Contract with the Seller to buy the asset(s) upon a specific date in the future (say, 3 months away). The contract is explicit on the following two variables:

   i. **Price** - As negotiated between the parties;

   ii. **Overage** - The Parties agree on the split of any overage earned above the Underwritten Price. Typically this is 50/50.

   Upon signing the Underwriting Contract the Underwriter will pay 10% of the Underwritten Price as a deposit and provide proof of funds.

ii) The asset(s) is/are taken to the market, either by private treaty or auction (or both). Both parties (and elected agents) interests are aligned, and they work together to maximise the sales proceeds.

iii) At the appropriate time, offers will be accepted if received at or above the underwritten price. Where this is the case and upon completion, any overage will be shared between the parties (net of deductible costs) in the pre-agreed percentages. The Underwriter will then be refunded their original deposit.

iv) Where offers are not received in excess of the Underwritten Price, the Underwriter will acquire the property(ies) at the Underwritten Price.

   The Underwriting is enforced by either the fall of the gavel in the event of an auction, or by put and call options upon the agreed long-stop date with a private treaty disposal. The underwriting remains in place until completion thereby giving the Seller 100% certainty that sales proceeds will be received.

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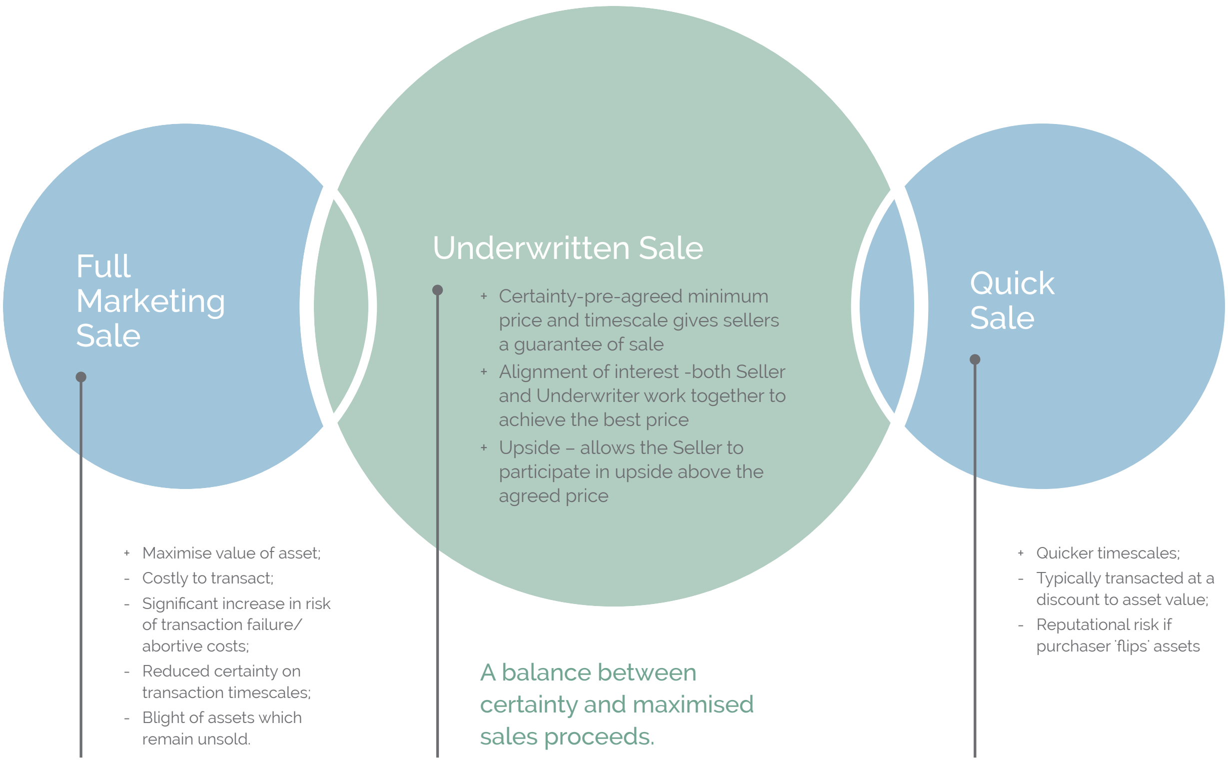
The Benefits

The benefits of an underwriting for the Seller can be summarised as follows:

1. **Certainty** – a pre-agreed minimum price and timescale gives Sellers a guarantee of sale in advance of going to market. It provides protection from future market movements, and certainty of cash receipts by a specified future date;
2. **Timing** – C2 can move quickly to put an underwriting contract in place, resulting in a swift transaction, but with additional potential upside.
3. **Alignment of Interest** – Both the Underwriter and the Seller wish to achieve the best possible disposal price, resulting in a constructive and beneficial collaboration between the parties;
4. **Recycling of Equity** – having signed an underwriting agreement, the Seller will have sufficient certainty to recommit the proceeds of the underwriting elsewhere. This allows for efficient recycling of equity, prior to the completion of the original sale;
5. **Upside** – an underwriting allows a Seller to participate in upside above the underwritten price. This is crucial when trying to show best value, and avoids potential embarrassment from purchasers who may subsequently turn disposals for a profit;
6. **No Fee** – C2 does not charge the vendor a fee when underwriting disposals. The only costs to the seller are in the event the asset is sold above the underwritten price.



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