

HORIZON CAPITAL | INTERNATIONAL

HORIZON CAPITAL OFFSHORE PROPERTY INVESTMENT REVIEW 2022

“Diversifying your wealth”

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EXECUTIVE SUMMARY

LOCATION

- Our clients have indicated a desire to secure an offshore property investment to either live in and/or rent out for offshore income
- After a review of UK property markets, Bath and the greater Somerset region was identified as a highly desirable investment location
- The Bath property market remains accessible to South African investors and offers the opportunity to enter the affluent sector of the UK property market at a substantial discount to London prices
- A Bath residence provides investors with the opportunity to spend time in the UK's most beautifully preserved city, founded in Roman times

TIMING

- At present there is a gap in prices between London and Bath, which is the largest in recorded history. It has been caused by the London price surge over the 2010 - 2015 period. This has created an opportunity for London investors to realise profits and invest in the south. Although London prices have dropped since Brexit, Bath prices continued to increase over this period
- Investments in Bath remain stable with positive capital growth despite the volatility in London
- UK financing is currently being offered at low interest rates, which provides an opportunity to take advantage of fixing a long-term loan at a favourable rate
- Lower priced residential properties are only on the market for a few days, as demand increases and shortages in stock begin to develop. This period should continue with influx of Londoners fleeing high prices in the capital and the emerging Airbnb trend offering investors attractive returns
- The 2 universities, University of Bath and Bath Spa University, have recently increased their intake by a combined 10 000 students bringing in more professional staff to the tenant base
- The calculation of Transfer Duty (termed SDLT in the UK) has switched to a sliding scale which should encourage prices to move freely.
- With rental yields between 4% - 5.5% and fixed borrowing interest rates at around 2.5% - 3.5%, there is a positive yield gap

ANCILLARY BENEFITS

- There is a large tenant base and properties are let very quickly
- Investment in offshore property offers diversification from the ever-changing African continent
- Bath prices have historically shown stable growth even during the global recession
- Bath boasts excellent transport links to London with the current journey time via the high-speed train currently being approximately 84 minutes
- Horizon Capital International has a team of experienced professionals based in Bath to manage investments, with payments and reporting done from our Cape Town office
- Offshore rental income provides an opportunity to hedge against Rand volatility

BATH, SOMERSET

Nominated as one of the top cities to live in the UK in January 2022, the city of Bath is situated in the South West of England. It is a Georgian City set within the beautiful Somerset countryside.

Regarded as one of the most beautiful cities in England, Bath is most famous for its Roman Spa. It is also known for being the home of the renowned author, Jane Austen. With a strong sporting culture, Bath attracts some of the best athletes in the world. This is due to the Bath University's centre of sporting excellence and the world famous Bath Rugby club.



Named a World Heritage Site the unique city is famous for its hot springs, Roman period baths, Medieval heritage and stately Georgian architecture. Set in the rolling countryside of Somerset, Bath offers a diverse range of attractions for over 4 million visitors each year.

One of Bath's major landmarks is the Royal Crescent. It is a magnificent semi-elliptical crescent of houses designed by John Wood. This was the first of Bath's eight crescents, and its shape remains unique. You can visit one of the houses which has been redecorated to resemble what it would have been like at the end of the 18th century. The city is also best known for its baths built by the Romans around 2000 years ago. The Roman Baths are a major attraction for tourists each year. The baths are fuelled by England's only mineral hot springs.

With two world class universities accommodating approximately 35,000 students annually, as well as a thriving tourism industry, Bath offers a stable macro-economic background in which to invest. The University of Bath and Bath Spa University offer a wide array of courses across various different faculties. The two universities have also recently increased their combined student intake by 10,000 students which has resulted in more lecturers, professors and associated staff renting in Bath. At the time of announcement of this expansion, the University of Bath and Bath Spa University noted the need for an additional 2,700 and 2,300 off-campus rooms respectively. In addition to this, The University of Bath, which ranked 10th in the UK University Rankings in 2022, has revealed their intention to gradually expand their intake of postgraduate students which will further boost demand for rental properties in the area. Should you wish to have the option to educate your children or grandchildren overseas, an investment in Bath property could prove to be a very wise decision.

Bath is known for its distinctive Georgian, Roman and Victorian architecture. Being a designated World Heritage Site, the majority of Bath's properties will retain their beautiful architecture and design for generations to come. There are however some rare opportunities to purchase new properties, alongside the more traditional and just as sought-after historic buildings.

Despite a bleak economic outlook, the UK housing market has shown a noteworthy recovery subsequent to the lifting of the national lockdown. According to TwentyCi, in the four weeks to 27 September 2020, the number of sales of properties worth over £1 million were 125% higher than the year prior. This is mainly attributable to record low mortgage rates and the Stamp Duty holiday driving robust demand in the residential sector. It remains to be seen what effect the latest lockdown will have on the market.

Outside the capital, prime residential property values have increased by an average of 1.7% in Q3 but remained flat in London. Buyers' changing priorities continue to underpin demand, but there is sustained prudence around values in the light of rising unemployment and uncertain wider economic recovery. Prime rental values have decreased by 1.3% in London during the same period, where supply far outstrips the muted demand from corporate tenants and international students. In comparison, rental values remain resilient in Bath with an influx of renters moving away from the capital to the outskirts as the significance of commuting lessens with the implementation of "work-from-home" strategies. Rather, the growing importance of high environmental quality has drawn activity to the South West country regions which offer ample recreational/garden spaces, less pollution and noise, and a more affordable lifestyle compared to city living.

Bath's resilient performance is fuelled by a number of factors, among them: the influx of Londoners fleeing the high housing prices, the growing demand for student housing in the area, and the emerging Airbnb trend offering investors attractive returns. In particular, apartments ranging from £200k to £400k continue to outperform the more expensive investment options as investors are seeking to secure smaller, high quality apartments in prime locations within the elegant landscape of Bath. Given the shortage of sites for new development in Bath, property remains in high demand.



DIVERSIFICATION BENEFITS

A well-diversified portfolio includes some offshore exposure across regions, sectors and economies.

Horizon Capital's offshore service offering allows South African investors the opportunity to purchase residential property in the UK in a simple and transparent manner. Through directly owning an apartment in the UK, investors benefit from geographic risk diversification while earning a rental return and capital growth in Pounds. This direct offshore investment is a Rand hedge, thereby reducing investors' vulnerability to local currency and political risk. Given the depreciation of the Pound against the Dollar since Brexit, we feel that once Brexit is settled there is a likely gain as the Pound recoups this depreciation.



FORMS OF OWNERSHIP

A common form of land procurement in England is referred to as leasehold. This is an ownership of a temporary right to hold land; a tenant holds the rights to the real property for the duration of the lease while the landlord retains ownership of the land. A leasehold estate is typically considered personal property and ownership of the property will revert to the landlord on expiration of the lease. Leaseholders have to get permission from the freeholder to make alterations to the property and will often have to pay a small annual fee to a managing agent. Until the end of the lease period the leaseholder has the right to remain in occupation as an assured tenant paying an agreed rent to the owner.

As leases are a legal estate, leasehold estates can be bought and sold on the open market. A leasehold thus differs from a freehold in that the ownership of a property is purchased outright and thereafter can be held for an indeterminate length of time.

Each client's circumstances are different and unique, and an appropriate solution should be sought in each case taking into account the client's current tax attributes, current UK tax, intentions for the future, and the long-term use of the property. Horizon Capital will work together with our client and appropriate tax advisors in the UK to come up with the optimum structure.

EXCHANGE CONTROL

South African residents are entitled to an annual single discretionary allowance of R1 million in addition to an investment allowance revised to R10 million per calendar year. A Tax Clearance Certificate (in respect of the foreign investments) must be obtained from SARS in this respect.

BANK FINANCING

As part of the service offering, Horizon Capital will co-ordinate the bank funding and will negotiate the best possible terms on behalf of its clients. The primary option in terms of securing finance for purchasing property includes a standard mortgage bond from one of the banks. An alternative option exists in that clients are able to advance an investment loan against the security of a portion of the client's offshore investment portfolio. Depending on the specifics of the transaction, minimum loan amounts range from £200,000 - £250,000, loan-to-value ratios range from 50% - 65% and indicative rates range from 2.5% on share portfolios and 2.9% to 3.5% on mortgages - each transaction will be assessed on a case-by-case basis.

INVESTMENT OPTIONS

Horizon Capital International will work with our team in Bath to secure the perfect investment property for our clients. There are several options available ranging from more traditional Georgian apartments to apartments in new planned developments offering investors security, parking and little maintenance.

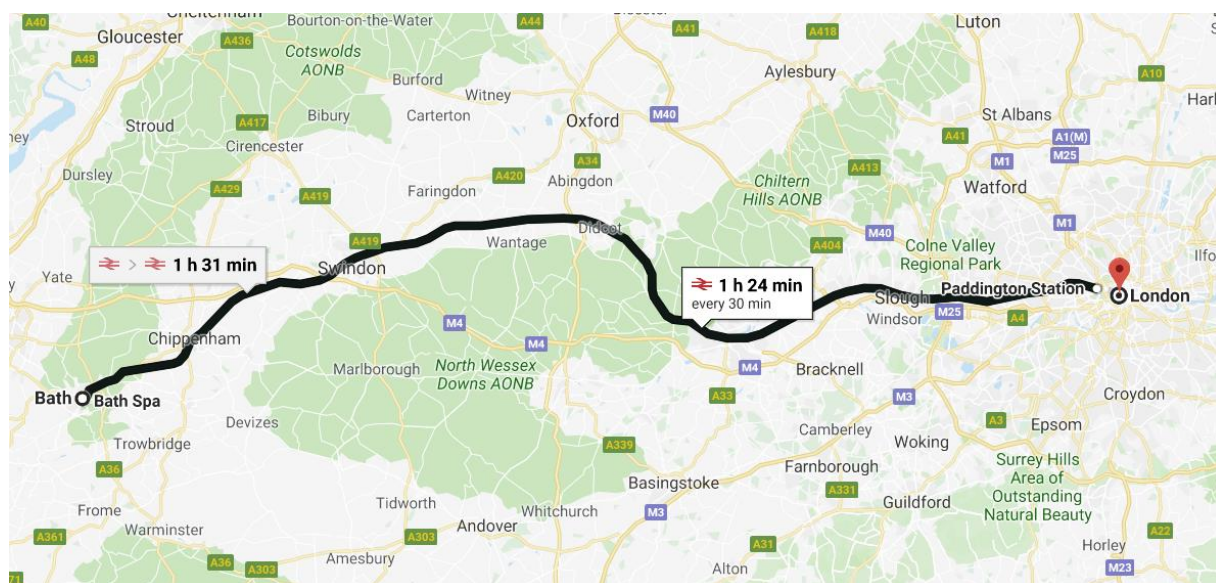
For good and well positioned apartments, investors can expect to pay in the region of £200,000 – £300,000 for a one-bedroom apartment and £300,000 upwards for two-bedroom apartments. Indications from Horizon Capital International's research into the Bath property market show yields of between 4% - 5.5%.

Given that one can borrow in the UK at between 2.9% - 3.5%, this offers a unique opportunity in that there is currently a positive yield gap.

Horizon Capital International charges an upfront fee of 5% of the value of the property acquisition. Ongoing monthly management fees are charged at a rate of 10% of the gross monthly rental. We have an arrangement with Bath letting agents at 0.5% of the first month's rental for new leases.

LOCATION ANALYSIS

The city of Bath is situated 185 kilometres west of London in Somerset and has an excellent public transport infrastructure. The City currently offers easy accessibility to London via the First Great Western rail which departs every 30 minutes. The Bristol International Airport is a 30-minute commute, making Bath internationally accessible. Bath is also a short drive north of the picturesque Cotswolds area. Currently, the journey time from Bath to Paddington Station, London is 84 minutes. The train offers a full Wi-Fi service and generally runs on time, failing which it offers a refund structure up to the full price of the ticket.



1. ESTABLISH CLIENT REQUIREMENTS

The most important item to establish from the outset is each client's personal investment strategy. The aim of this strategy is to outline the client's preferred investment time horizon, their risk profile, desired returns and ideal expenditure or portfolio size.

If required, Horizon Capital International then arranges to set up a new company or trust as the investment entity, with ownership by an individual or trust, or many individuals or trusts. After registration, we will open the necessary bank accounts in the name of the entity, or individual, depending on investment structure.

2. PROPERTY SELECTION & DUE DILIGENCE

Once the client requirements have been established, Horizon Capital International will then search for and select suitable properties that meet each client's investment requirements. Our team of highly qualified property professionals continuously:

- Monitor advertisements in newspapers, property magazines, etc.;
- Follow up on potential prospects, and obtain detailed property information upfront, including pricing, lease and tenant details, property expenses, etc.;
- Inspect potential properties and re-evaluate their suitability; and
- Prepare customised cash flow projections for interested clients.

3. DEAL EXECUTION & PROPERTY TRANSFER

Once the right property has been matched with the right client, Horizon Capital International undertakes the following:

A. Managing the Purchase Process

Once a client agrees to purchase a property, we:

- Prepare a resolution/authority to purchase to be signed by the client, allowing us to submit an offer and sign the contracts and all such other documents on the client's behalf;
- Negotiate the sale terms on behalf of the client; and
- Source and pay the client's deposit if required.

B. Raising Funding

To raise funding at levels agreed to with the client, we do the following:

- Obtain up-to-date balance sheets and documents from the client;
- Draft and forward a comprehensive loan proposal to several banks with which we have good relationships, attaching the client's financials, documents, and property details;
- Negotiate a final loan facility with the selected bank; and
- Sign the loan agreements and related documentation.

C. Pre-Transfer

Prior to transfer, we:

- Carry out a due diligence investigation of the property (which is sometimes a suspensive condition in the sale agreement) to ensure that we are satisfied with the property and lease details as represented by the seller (if applicable);
- Instruct a surveyor to inspect and measure the premises and ensure that the registered plans accurately reflect the property being purchased, and arrange for any discrepancies to be amended by the seller or for the purchase price to be reduced;
- Arrange an inspection by a structural engineer if necessary;
- Check and sign all transfer and bond documents;
- Arrange for the clients to sign bank suretyships after checking the documentation;
- Ensure clients make all necessary contributions to the purchase costs; and

- In the case of new developments, we ensure the developer's commitments are completed in terms of the sale agreement. We select the finishes for new units and then monitor the installation of these finishes (particularly ensuring top-quality finishes for kitchens and bathrooms). We then check the accounts, ensuring all the work has been satisfactorily completed and charged for in accordance with the sale agreement. We also handle any snags that appear after completion.

D. On Transfer (referred to as completion)

At the stage that transfer is due to take place, we:

- Scrutinise the solicitors' accounts and make the necessary payments;
- Ensure interest payments on deposits held by the solicitors are made to the client; and
- Take handover of all keys, information and documentation required to manage the property.

E. Leasing

If the property or a portion thereof, is vacant and in need of tenancing, we will make the necessary arrangements to:

- Market information for your property and circulate to prospective tenants including quality photographs and floor plans;
- Advertise your property in the Bath Chronicle as well as on local property rental websites such as Rightmove and PrimeLocation;
- Accompany interested parties around the property;
- Assess the financial standing of potential tenants by doing credit checks and obtaining references;
- Interview the potential tenants and negotiate the terms of the tenancy, this will be managed by the Bath Office, supported by the Cape Town Office;
- Prepare and sign Tenancy Agreements;
- Draw up an inventory and schedule of condition and take photographs of its condition, this will be managed by the Bath Office;
- Register the property with the appropriate companies for electricity, gas, water and council tax in the tenant's name;
- Collect one month's rent in advance together with a deposit in respect of dilapidations and non-performance of the tenant's obligations;
- Register deposits with the Deposit Protection Service or other schemes as required;
- Meet tenants at the property to carry out check-in and agree meter readings;
- Ensure the letting commission is paid, whether to ourselves or to a third-party broker;
- Conduct quarterly inspections of the property by a member of the Bath Office;
- Contract with appropriately qualified and insured tradesmen to effect necessary repairs to a maximum cost agreed with you in advance, anything exceeding this amount will be approved by the client except in cases of emergency; and
- All items in (1) – (3) are included in the upfront fee, excluding letting commission.

4. PROACTIVE ASSET MANAGEMENT

The following asset management services are included in our Management Fee. We:

- Compile and maintain the rent roll and other pertinent information for each portfolio;
- Ensure the rent is paid regularly and on time as per the Tenancy Agreement, send out monthly rental invoices and manage the rent collection process;
- Follow up on unpaid rent on the first day of the month, charge interest on any long outstanding amounts and send out letters of demand when necessary;
- Communicate with the tenants and handle any queries, complaints and maintenance issues that they may have on a daily basis;
- Co-ordinate the tenant's occupation and vacation of the premises with a member of the Bath Office;
- Inspect the property within one month of the tenants moving in to ensure all is well and a report will be compiled if necessary;
- Arrange for the annual Gas Safety Check and portable appliance tests where applicable;
- Carry out maintenance and refurbishments of the properties when required;
- Check inventory and resolve disputes after vacation before deposits are refunded
- Anticipate expiry of leases and communicate with tenants regarding renewing their leases;

- Oversee independent brokers and manage the re-letting process;
- Attend any meetings for each property, taking note of the issues that arise;
- Pay operating expenses, such as rates and levies;
- Manage the bank accounts of the investment entity or individual if required, and when necessary transfer surplus cash to the cash management account to maximise interest income;
- Manage the cash flow of the portfolio, raising cash when necessary;
- Will arrange that cash surplus payouts take place at designated regular intervals, if applicable;
- Manage the debt profile of the investment entity, fixing interest rates on loans at appropriate times in consultation with the client, and restructuring existing loan facilities when necessary;
- Manage the accounting and tax returns;
- Prepare management accounts for the portfolio every six months to keep the client up to date with their property portfolio's performance; and
- Manage the annual audit process should the client wish:
 - Provide an audit pack for the independent auditor
 - Provide annual accounts and lead schedules with all accounts balanced
 - Provide a reconciliation of rental income to leases
 - Provide required extracts of all leases
 - Answer all queries



HORIZON CAPITAL INTERNATIONAL – BATH TEAM

SUSAN GRANGER

Susan Granger obtained a Business Science degree in the UK and has lived in Bath in excess of 16 years. During this period, she has set up a number of businesses and currently owns and runs a student housing management business in Bath.

Susan will assist in a consulting capacity where required.

LLOYD KATZ

Lloyd holds a UK Business Science degree and has lived in Bath for 13 years. He is in the IT industry in Bath and understands its growing needs and staff accommodation requirements. He does monthly voluntary work for the British Metropolitan police and advises on areas to avoid and those that are good buys.

SARAH-JANE KATZ

Sarah-Jane Katz graduated from the University of Cape Town with a Bachelor of Social Sciences Honours degree before managing a portfolio of residential apartments in Cape Town. In 2007 she immigrated to Bath, England where she has lived since.

During her thirteen years in Bath, Sarah-Jane has gained an intricate knowledge of the Bath property market and is responsible for identifying acquisition opportunities, and the day-to-day management of clients' residential property investments. She also has a keen interest in interior design and space planning.

JOHN WITTER

John Witter is the CEO of the Horizon Capital Group. He has 40 years' experience in various aspects of property and has assembled a large portfolio of residential properties for his own account.

John graduated with a BCom Degree from the University of Cape Town on a Barclays Scholarship, which he received after completing the Institute of Bankers CAIB (SA), being the youngest person to complete the CAIB in the shortest time. He went on to complete a Postgraduate Diploma in Accounting at the University of Cape Town, after that he completed his articles at Deloitte in Cape Town. John has also completed a postgraduate course in Finance, Economics and Politics at Jesus College, Oxford University in the United Kingdom. John has gained over 40 years of experience in Cape Town, London, Johannesburg and Pretoria, specializing in Corporate Finance, Investment, Private Banking and Commercial and Residential Property, culminating in his previous position as Managing Director of Investec's Northern Region for seven years. He also served as a director on the Investec main board. John started Horizon Capital in 2004 and is currently its CEO.

John approves all property recommendations before they are referred to clients.

HORIZON CAPITAL INTERNATIONAL – CAPE TOWN TEAM

Our team consists of top professionals with various, complementary sets of skills, expertise, and experience.

HIGHLIGHTS



BATH ATTRACTIONS

THE ROMAN BATHS

The Roman Baths are at the heart of this World Heritage city and date back approximately 2000 years. The Baths are a well-preserved Roman site for public bathing. This major tourist attraction, together with the Grand Pump Room, receives more than one million visitors a year.

There are four main features including the Sacred Spring, the Roman Temple, the Roman Bath House and the Museum, holding finds from Roman Bath.

THE ROYAL CRESCENT

The Royal Crescent is a row of 30 terraced houses laid out in a sweeping crescent in the city of Bath. This is considered one of the greatest examples of Georgian architecture to be found in the UK. Although some changes have been made to the various interiors over the years, the Georgian stone façade remains much as it was when it was first built.

The Royal Crescent now includes a hotel and a Georgian house museum, while some of the houses have been converted into flats and offices. It is a popular location for the makers of films and television programmes, and a major tourist attraction in its own right.



THE BATH ABBEY

The Abbey is an Anglican parish church founded in the 7th century, Bath Abbey was reorganised in the 10th century and rebuilt in the 12th and 16th centuries. It is one of the largest examples of Perpendicular Gothic architecture in the West Country.

The church can accommodate 1,200 people and remains an active place of worship, with hundreds of congregation members and over 420,000 visitors each year. It is used for religious services, secular civic ceremonies, concerts and lectures. The choir performs in the abbey and elsewhere. There is a heritage museum in the vaults.

BATH FESTIVALS

Bath hosts a variety of festivals including the annual Jane Austen Festival. The first of its kind was organised by the Jane Austen Centre in 2004 and since then attendance has increased exponentially. The festival is a fun filled weekend with attendees all in costume with drummers, dancers, military and naval men. All ages, male and female have the most wonderful time in the fantastic summer weather.

Bath has also hosted an annual Literacy Festival for the past 20 years. It has become an important date in the national literary calendar, playing host to an array of journalists, novelists, poets, politicians, actors, comedians, writers and biographers.

CONTACT DETAILS

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