

Notes to the Financial Statements (continued)

Year ended 31 March 2016

14. VALUATION OF INVESTMENT PROPERTY

	Deemed cost £000	Revaluation on deemed cost £000	Valuation £000
Freehold stores			
At 31 March 2015	542,466	423,074	965,540
Transfer from investment property under construction	20,854	(1,417)	19,437
Movement in year	3,593	61,710	65,303
At 31 March 2016	566,913	483,367	1,050,280
Leasehold stores			
At 31 March 2015	14,702	26,868	41,570
Movement in year	75	285	360
At 31 March 2016	14,777	27,153	41,930
Total of open stores			
At 31 March 2015	557,168	449,942	1,007,110
Transfer from investment property under construction	20,854	(1,417)	19,437
Movement in year	3,668	61,995	65,663
At 31 March 2016	581,690	510,520	1,092,210
Investment property under construction			
At 31 March 2015	21,809	(6,128)	15,681
Transfer to investment property	(20,854)	1,417	(19,437)
Movement in year	41,695	(3,994)	37,701
At 31 March 2016	42,650	(8,705)	33,945
Valuation of all investment property			
At 31 March 2015	578,977	443,814	1,022,791
Movement in year	45,363	58,001	103,364
At 31 March 2016	624,340	501,815	1,126,155

The Group has classified the fair value investment property and the investment property under construction within Level 3 of the fair value hierarchy. There has been no transfer to or from Level 3 in the year.

The wholly owned freehold and leasehold investment properties have been valued at 31 March 2016 by external valuers, Cushman & Wakefield LLP ("C&W"). The valuation has been carried out in accordance with the RICS Valuation – Professional Standards, published by The Royal Institution of Chartered Surveyors ("the Red Book"). The valuation of each of the investment properties and the investment properties under construction has been prepared on the basis of either Fair Value or Fair Value as a fully equipped operational entity, having regard to trading potential, as appropriate.

The valuation has been provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the Red Book, C&W have confirmed that:

- > One of the members of the RICS who has been a signatory to the valuations provided to the Group for the same purposes as this valuation, has done so since September 2004. This is the first occasion on which the other member has been a signatory;
- > C&W have been carrying out this annual valuation for the same purposes as this valuation on behalf of the Group since September 2004;
- > C&W do not provide other significant professional or agency services to the Group;
- > In relation to the preceding financial year of C&W, the proportion of the total fees payable by the Group to the total fee income of the firm is less than 5%; and
- > The fee payable to C&W is a fixed amount per store, and is not contingent on the appraised value.

Market uncertainty

C&W's valuation report comments on valuation uncertainty resulting from low liquidity in the market for self storage property. C&W note that in the UK since Q1 2013 there have only been six transactions involving multiple assets and 13 single asset transactions. C&W state that due to the lack of comparable market information in the self storage sector, there is greater uncertainty attached to their opinion of value than would be anticipated during more active market conditions.

Brexit Risk

The UK is set to hold a referendum on 23 June on whether or not to remain a member of the European Union.

C&W's valuation report comments on reduced transaction volumes in the real estate markets in the run up to the referendum date and, should the vote be for the UK to exit, then they expect there to be continued uncertainty in the real estate markets as the UK renegotiates its relationships with the EU and other nations.

14. VALUATION OF INVESTMENT PROPERTY (continued)

Portfolio Premium

C&W's valuation report further confirms that the properties have been valued individually but that if the portfolio was to be sold as a single lot or in selected groups of properties, the total value could differ significantly. C&W state that in current market conditions they are of the view that there could be a material portfolio premium.

Valuation methodology

C&W have adopted different approaches for the valuation of the leasehold and freehold assets as follows:

Freehold and long leasehold

The valuation is based on a discounted cash flow of the net operating income over a ten year period and notional sale of the asset at the end of the tenth year.

Assumptions

- A. Net operating income is based on projected revenue received less projected operating costs together with a central administration charge of 6% of the estimated annual revenue subject to a cap and a collar. The initial net operating income is calculated by estimating the net operating income in the first 12 months following the valuation date.
- B. The net operating income in future years is calculated assuming either straight-line absorption from day one actual occupancy or variable absorption over years one to four of the cash flow period, to an estimated stabilised/mature occupancy level. In the valuation the assumed stabilised occupancy level for the 71 trading stores (both freeholds and leaseholds) open at 31 March 2016 averages 81.9% (31 March 2015: 81.1%). The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth. The average time assumed for the 71 stores to trade at their maturity levels is 20 months (31 March 2015: 24 months).
- C. The capitalisation rates applied to existing and future net cash flow have been estimated by reference to underlying yields for industrial and retail warehouse property, yields for other trading property types such as student housing and hotels, bank base rates, ten year money rates, inflation and the available evidence of transactions in the sector. The valuation included in the accounts assumes rental growth in future periods. If an assumption of no rental growth is applied to the external valuation, the net initial yield pre-administration expenses for the 71 stores is 6.5% (31 March 2015: 6.4%) rising to a stabilised net yield pre-administration expenses of 7.2% (31 March 2015: 7.4%).
- D. The future net cash flow projections (including revenue growth and cost inflation) have been discounted at a rate that reflects the risk associated with each asset. The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 9.9% (31 March 2015: 10.4%).
- E. Purchaser's costs in the range of 6.1% to circa 6.8% (see below) have been assumed initially, reflecting the new progressive SLDT rates brought into force in March 2016 and sale plus purchaser's costs totalling circa 7.1% to 7.8% are assumed on the notional sales in the tenth year in relation to the freehold stores.

Short leasehold

The same methodology has been used as for freeholds, except that no sale of the assets in the tenth year is assumed but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's six short leasehold properties is 15.5 years (31 March 2015: 16.5 years unexpired).

Investment properties under construction

C&W have valued the stores in development adopting the same methodology as set out above but on the basis of the cash flow projection expected for the store at opening and after allowing for the outstanding costs to take each scheme from its current state to completion and full fit-out. C&W have allowed for holding costs and construction contingency, as appropriate. Three schemes do not yet have planning consent and C&W have reflected the planning risk in their valuation.

Immature stores: value uncertainty

C&W have assessed the value of each property individually. However, two of the Group's stores are relatively immature and have low initial cash flows. C&W have endeavoured to reflect the nature of the cash flow profile for these properties in their valuation, and the higher associated risks relating to the as yet unproven future cash flows, by adjustment to the capitalisation rates and discount rates adopted. However, immature low cash flow stores of this nature are rarely, if ever, traded individually in the market, unless as part of a distressed sale or similar situation. Although, there is more evidence of immature low cash flow stores being traded as part of a group or portfolio transaction.

Please note C&W's comments in relation to market uncertainty in the self storage sector due to the lack of comparable market transactions and information. The degree of uncertainty relating to the two immature stores is greater than in relation to the balance of the properties due to there being even less market evidence that might be available for more mature properties and portfolios.

C&W state that in practice, if an actual sale of the properties were to be contemplated then any immature low cash flow stores would normally be presented to the market for sale lotted or grouped with other more mature assets owned by the same entity, in order to alleviate the issue of negative or low short term cash flow. This approach would enhance the marketability of the group of assets and assist in achieving the best price available in the market by diluting the cash flow risk.

C&W have not adjusted their opinion of Fair Value to reflect such a grouping of the immature assets with other properties in the portfolio and all stores have been valued individually. However, they highlight the matter to alert the Group to the manner in which the properties might be grouped or lotted in order to maximise their attractiveness to the market place.

Notes to the Financial Statements (continued)

Year ended 31 March 2016

14. VALUATION OF INVESTMENT PROPERTY (continued)

Immature stores: value uncertainty (continued)

C&W consider this approach to be a valuation assumption but not a Special Assumption, the latter being an assumption that assumes facts that differ from the actual facts existing at the valuation date and which, if not adopted, could produce a material difference in value.

As noted above, C&W have not assumed that the entire portfolio of properties owned by the entity would be sold as a single lot and the value for the whole portfolio in the context of a sale as a single lot may differ significantly from the aggregate of the individual values for each property in the portfolio, reflecting the lotting assumption described above.

Valuation assumption for purchaser's costs

The Group's investment property assets have been valued for the purposes of the financial statements after deducting notional purchaser's cost of circa 6.1% to 6.8% of gross value, as if they were sold directly as property assets. The valuation is an asset valuation which is entirely linked to the operating performance of the business. The assets would have to be sold with the benefit of operational contracts, employment contracts and customer contracts, which would be very difficult to achieve except in a corporate structure.

This approach follows the logic of the valuation methodology in that the valuation is based on a capitalisation of the net operating income after allowing a deduction for operational cost and an allowance for central administration costs. Sale in a corporate structure would result in a reduction in the assumed Stamp Duty Land Tax but an increase in other transaction costs reflecting additional due diligence resulting in a reduced notional purchaser's cost of 2.75% of gross value. All the significant sized transactions that have been concluded in the UK in recent years were completed in a corporate structure. The Group therefore instructed C&W to carry out a Red Book valuation on the above basis, and this results in a higher property valuation at 31 March 2016 of £1,190.4 million (£64.2 million higher than the value recorded in the financial statements). The total valuations in the two Armadillo Partnerships performed by Jones Lang LaSalle are £2.1 million higher than the value recorded in the financial statements, of which the Group's share is £0.4 million. The sum of these is £64.6 million and translates to 40.8 pence per share. We have included this revised valuation in the adjusted diluted net asset calculation (see note 14).

15. SURPLUS LAND

	£000
At 31 March 2015	3,315
Additions	66
Release of impairment	2,300
Disposal	(5,381)
At 31 March 2016	300

A gain of £4,754,000 arose on the disposal of surplus land at one site during the year (including the release of a prior year impairment). During the prior year a gain of £1,318,000 arose on the disposal of surplus land at one site.

16. TRADE AND OTHER RECEIVABLES

	31 March 2016 £000	31 March 2015 £000
Current		
Trade receivables	3,050	3,062
Capital Goods Scheme receivable	2,866	184
Other receivables	241	371
Prepayments and accrued income	10,065	12,762
	16,222	16,379
Non-current		
Capital Goods Scheme receivable	6,561	9,039

Trade receivables are net of a bad debt provision of £11,000 (2015: £19,000). The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Financial Review contains commentary on the Capital Goods Scheme receivable.