

APPENDIX I

BLUESTORM LTD.

Embassy Court Holiday Letting Licence Scheme

December 2013

Proposal

This document is to lay-out the proposal by the board of directors for a Licence Scheme to deal with the issue of holiday lettings at Embassy Court. The introduction of the scheme is to be put to a shareholder vote at the company's Annual General Meeting (AGM) at 10am on 14th December 2013, Mercure Hotel, Brighton.

In response to this document shareholders are invited to put questions or views to the board AHEAD of the AGM, by the 10th December 2013. A Frequently Asked Questions (FAQ) document will then be produced and distributed to all shareholders before the AGM. There will also be an opportunity for clarification of any concerns at the AGM itself but we ask that people put detailed questions in writing by the deadline so that the answers can be formulated properly and in detail.

Background

Holiday Letting developed within the block as result of the uplift of the building following the highly successful refurbishment of the building in 2004/5, the standard of the building was lifted to the point that it was possible to rent flats on a very short-term basis to holiday makers to Brighton's seafront. Holiday Lets are a growing aspect of the letting market, visitors paying a premium for holiday destinations. It can be a highly profitable revenue generator for landlords.

The directors were made aware of the circumstances following some complaints against holiday visitors (see detail below) and have spent the best part of a year researching and investigating the correct way to proceed.

Current Situation

Over a period of four (or so) years the number of flats letting on this basis has grown to five. Initially they had gone relatively un-noticed but for a few circumstances of misbehaviour and noise disturbance by some of the visitors, requiring the interaction of our Security company. The directors then had a responsibility to fully investigate the circumstances of these type of lets and the impact on the building.

The types of complaint have included:

- Repeated noise complaints (partially due to laminate flooring being an inadequate noise insulator) also in communal areas
- Drug use/dealing

- Smokers congregating on front steps
- Sporadic water leaks
- Abuse of residents

It should be noted that, largely, the landlords of these flats have moved swiftly and thoroughly to mitigate the behaviour that has led to the complaints.

The Legal Situation Regarding the Lease

The lease clearly requires the holder to covenant to:

“Not to use or occupy the flat other than as a private residence for the sole occupation of the tenant and his family and servants or any permitted sub tenant and his family and servants and in particular not to use the flat for any part thereof for the purposes of any business defined by S23(2) of the Landlord and Tenant Act 1954..”

Our solicitors advise that the circumstances of Holiday Letting we are seeing are in breach of this covenant.

Considerations

Whilst, where appropriate, defending the terms of the lease is a priority for the directors, the board are aware that the lease itself is not contemporary and all circumstances where there appears to be a breach need to be considered to see if (i) the lease is enforceable against the breach and (ii) if it is fair to do so.

Following investigation it became apparent that there were several circumstances of successful Holiday Letting that had not experienced any sort of complaint and it also became apparent that this form of letting was becoming more popular in the rental market at large.

Embassy Court is made up of roughly an equal number of owner-occupiers and landlords alike and both types of leaseholder should be considered.

Solutions

Careful consideration demonstrates that there appears to be only two forms of action (apart from allowing the situation to continue unabated):

I. Enforcing the Lease

We can insist that those leaseholders in breach immediately desist. Ultimately a breach is enforceable by law. If they refuse to stop their breach activities we could go to court to forfeit the lease (i.e. remove the lease from them entirely)

II. Licensing Scheme

We put in place a scheme which allows those who manage their holiday lets properly to continue to do so but controls the terms of those lettings and the number that occur in the block.

Proposal

After due consideration the directors have decided that they believe that the provision of a LICENCE SCHEME best balances the permanent and developing requirements of the block.

There is a permanent and primary requirement to protect the leaseholders' rights to quiet enjoyment of their lease and we believe that the deposit aspect of the Licence will be a serious enough penalty to make sure that Holiday Let landlords only rent to responsible individuals.

The board's support of the Licence proposal indicates recognition of the changing rental market towards shorter-term lets whilst controlling it to a maximum number within our building. It allows those who have always responsibly let their flats to continue to do so but penalises those who are irresponsible about their Holiday Letting.

The directors are continually assessing the requirements of our iconic 20th Century building, with leases that are 40 years old, to maintain the best for the community that owns and lives at the block.

Core Terms and Conditions of the Licence

The directors propose the following:

1. That a maximum of 5 annual Licences for Holiday Lets are allowed within the block.
2. That all leaseholders are invited to apply for those licences.
3. There is a fee of £750 payable for each annual licence plus any legal fees (this is to meet the increased administrative costs)
4. That each licensee puts down a DEPOSIT of £1,000 per bedroom ★
5. That the licensee commits to the following terms and conditions (this list is not necessarily complete and will be adapted as per the legal requirements of such a document:
 - a. The flat shall be marketed as NON SINGLE-SEX, SMALL PARTY lets or such marketing that deliberately avoids lets to groups who are less likely to be responsible to the terms of the let. ★★
 - b. The interior of the flat shall contain CLEAR AND OBVIOUS notices regarding noise disturbance, including notices on televisions and music equipment for quiet after 10pm
 - c. The flooring shall be of a type and quality that limits footfall noise disturbance
 - d. No instances of drug use or dealing in or around the site will be tolerated
 - e. No instances of damage to communal areas will be tolerated
 - f. No smoking on or about the front steps of the building
 - g. The licensee will provide an on-call emergency security service for circumstances of noise or damage disturbance
 - h. Any complaints made against holiday visitors (and corroborated by a security call-out) will result in the following:
 - i. First complaint - loss of 10% of security deposit

- ii. Second complaint – loss of 50% of security deposit
 - iii. Third complaint – loss of entire deposit and licence
6. The directors reserve the right to:
- a. NOT automatically renew a licence at the end of a year and to withdraw a licence from circulation if it is lost by the process of the complaints procedure.
 - b. (In matters of dispute) have the final decision

It should be noted that any leaseholder allowing Holiday Lets in their flat WITHOUT a licence will be in breach of the lease and will be subject to legal action, culminating in forfeiture of their lease.

The above is also subject to any requirements by other authorities.

Questions or Comments

We invite shareholders to ask any questions they have about the scheme, our approach to the consideration of the situation or any other aspect of this proposal. Some of the questions may require legal advice from our solicitor and so we must insist that **QUESTIONS OR COMMENTS** are put to us in writing (by post to Bluestorm Limited, Basement Office, Embassy Court, Kings Road, Brighton, East Sussex, BN1 2PX or email to embassycourtpa@hotmail.co.uk) by the 10th December 2013. Following which we'll issue a FAQ document so that all shareholders can consider the views of the others.

Following a presentation of the proposal at the AGM there will be a short period for clarification on any points but **NO NEW QUESTIONS** will be allowed to be introduced on this matter.

If you wish to **SPEAK** at the AGM please give us notice in writing by the 10th December. If there are several members who wish to make the same point we will ask you to work collectively and that you nominate one person to speak on behalf of the group.

Vote

At the AGM the directors will ask the shareholders to vote YES if they support the proposal (i.e. want the Licence Scheme to be put into action) or NO if they want the board to simply enforce the existing terms of the lease.

Action

The outcome of the vote will be actioned by the board immediately or (in the case of the Licence Scheme) with due notice.

Circulated to Bluestorm shareholders 29 November 2013

★ Amendment following re-consideration by the Bluestorm board (24.06.16):

Core Terms and Conditions of the Licence: 4

For the first issue of licenses, each licensee to put down a DEPOSIT of £1,000 only (irrespective of the number of bedrooms in their property).

★★ Amendment following re-consideration by the Bluestorm board (24.06.16):

Core Terms and Conditions of the Licence: 5.a

The term 'non single-sex' would not be a condition as it was deemed to be discriminatory.

APPENDIX II

BLUESTORM LTD.

Embassy Court Holiday Letting Licence Scheme - Frequently Asked Questions

December 2013

What is a holiday let?

There are several definitions. Holiday Lets are very short term lets aimed at holiday makers. They are advertised as such and might be anything from a single night to a month. A Holiday Let is not an Assured Shorthold Tenancy (AST). The law tends to assume a let is an AST unless the lessor and lessee agree that it isn't. HMRC defines a holiday let as a let of 31 days or less with the same person(s) not in residence for a consecutive 31 days.

Are Holiday Lets permissible under the terms of the lease?

There is a strong case to argue that holiday lets are not permitted. Some leases differ, and opinions have varied. But in most cases Holiday Lets are considered to contravene the Fourth Schedule article 24 which prevents using a flat to run a business and stipulates residential uses and permitted sub-tenants only. However, there is some ambiguity around the terms and case law so enforcing the terms of the lease may prove expensive and is not without risk in all cases.

What are the advantages to leaseholders who run Holiday Lets?

Some leaseholders have found running holiday lets to be a financially profitable means of letting their flats. Not all holiday lets are run at a net profit. Some leaseholders find this a useful means of offsetting costs when not using their flat themselves.

What are the advantages to other leaseholders?

There are few measurable advantages to other leaseholders but it has been argued that Holiday Lets, responsibly run, can benefit the public profile of the building and have attracted interest from potential purchasers, thereby potentially improving leaseholder value.

Some flats are only intermittently occupied by their owners. Holiday lets, with responsible clients, can go some way to avoiding a "Venice effect" where many properties are dark for long periods.

Why are Holiday Lets a problem?

Holiday Lets have a poor reputation in Embassy Court because some of them are associated with frequent late night parties, noise, disturbance, anti-social behaviour towards residents, damage to the building and in some cases crime. These have been frequent complaints.

Are all Holiday Lets a problem?

No, some leaseholders offering holiday lets have successfully, without a single complaint, and consistently taken steps to ensure that their clients behave very responsibly.

What are the potential benefits of the new Holiday Let process to leaseholders who do not run holiday lets?

The proposal encourages leaseholders who *do* run holiday lets to attract considerate and responsible clients and ensure that they behave without cause for complaint. The process provides penalties if they do not. The process also provides a means by which Bluestorm can control the numbers of leaseholders offering holiday lets. The process is aimed at reducing or eliminating the problems outlined above.

What are the potential benefits of this process to leaseholders who run holiday lets?

The process allows a limited number of leaseholders to run holiday lets without running the risk of being found in breach of their lease.

Does the new process benefit Bluestorm Ltd?

Yes and no. There is the potential for a modest income stream which might become more important as Bluestorm's main source of revenue (lease extensions) dries up. However the work in establishing and maintaining the scheme will add to an already busy workload on unpaid members of the company.

Can Bluestorm control the number of Holiday Lets using this process or might it set a precedent in which licenses cannot be unreasonably withheld?

Professional advice indicates that the number of licenses can be successfully limited.

Why is the deposit so high?

To help encourage and focus the Holiday Letters to manage and be responsible for each and every guest. To install all the means possible, from vetting the guests before they book, to control noise with signs when they turn up.

How will the deposit be kept?

Bluestorm will use an approved Deposit Protection Scheme

Does this proposal penalise people who have run holiday lets without incurring any complaints?

Arguably, if all holiday letters had taken steps to ensure that their clients behaved well, then this process would not be necessary. This process is intended to bring all holiday lets up to a high standard.

Why should the emergency service call out be paid by the holiday letters if they are already paid a set up fee?

Holiday lets have caused the majority of call outs and it is right for them to pay a greater contribution.

What if I want to rent out my flat for only two or three months of the year? Does this count as running a business? Why should I pay the same rate as people who rent out all year round?

Consider renting out as an AST as opposed to holiday let.

My holiday let has only one bedroom, why should I pay the same amount as those who have three bedrooms?

The process is designed to be simple and easy to administer.

Does a Holiday Let require planning permission as it constitutes a change of use?

This question has arisen as part of this process and would be properly investigated prior to any action being taken.

Do Holiday Lets affect the quality of life at Embassy Court regardless of whether they are a nuisance?

There are arguments on both sides of this question. One is that holiday lets erode a sense of community felt by many resident leaseholders and tenants. Another argument is that, in some (albeit not all) cases holiday lets bring people into the building in flats that would otherwise be unoccupied for long periods.

Circulated to Bluestorm shareholders 13 December 2013