

F L R: Derbyshire - Pearwalk - Business Centre

Main Site:	Furness Vale Industrial Estate, Station Road, Furness Vale, High Peak, SK23 7SW
Date:	15/08/2018
Asset Description:	A 7.98 acre business centre site, comprising 14 buildings providing 84,947 sq ft of warehouse and office accommodation.



Deal Summary

Loan Type	Commercial Real Estate Loan	Borrower Profile	Commercial property investment
SIPP Classification	Non SIPP eligible	Loan Purpose	Refinance

Property Summary

Market Value	£2,950,000	Property Income	£289,112
Vacant Possession Value	£2,000,000	Market Rental Value	£300,000
Tenure	Freehold	Asset Class	Business Park
EPC Rating (min. E)	D		

Loan Summary

Total Loan Required	£1,955,000	Loan to Value (LTV)	66.27%
Blended Interest Rate	6.75%	Interest Cover	2.19x
Loan Term	24 months	Interest Expense (p.a.)	£131,962.50

Tranche	Risk	LTV	Loan Amount	Interest Rate	Interest Cover
C	High	66-75%	£37,500	8.72%	2.19x
B	Medium	51-65%	£442,500	7.75%	2.25x
A	Low	0-50%	£1,475,000	6.40%	3.06x

Borrower Details

Name	Pearwalk Properties Limited
Registration	UK Registered Limited Company
Main Business Activity	The proposed Borrower is a special purpose property holding Company, registered in the UK. It has no assets other than the Subject Properties.
Ownership Structure	The company was formed in 1994 by Eric Pickup. Upon his retirement, the ownership was transferred to his three children, who each own an equal share - Simon Pickup, Joanne Reynolds, and Mark Pickup. We have full KYC on all three but only Simon is to provide a Guarantee, as was the case with HSBC. This was a prerequisite at a very early stage, and his ALIE is sufficient to cover the required £195,500.

Applicant Details

Name	Simon Pickup
Age	52
Experience	Simon is an engineer by trade, and is predominantly active in the 50-year old family business, Pearwalk Engineering, which specialises in design and manufacture of expansion joint technology - http://www.pearwalkengineering.com/ and boast some blue chip clients, including Shell and Hitachi. Alongside this, he is also along with his brother and sister, working to redevelop the estate (the sole asset), and gain planning permission to build 158 apartments in 5 blocks in the unused West area of the site.
Credit History	<p>Clear, other than an IVA that was registered in 2012, which was all paid and completed last November. The paper work is being finalised this month - Simon's account left the practise, without filing all relevant paper work.</p> <p>In 2012, Simon had a swap in place from HSBC (see below), and as a result, could not raise sufficient finance to pay for his divorce.</p>
Net Worth	£441,900

Loan Details

Loan Purpose	We are asked to provide a net loan of £1.86m to refinance their current fixed rate loan with HSBC. They have had a 5-year complaint successfully upheld against HSBC, with regards mis-selling a swap rate. Now that this has been finalised, they are looking to refinance away from HSBC as soon as practically possible.
Gross Loan Amount	£1,955,000
LTV	66.27%
ICR	2.19x
Serviceability	<p>£289,112 rental income is being received. Annualised interest payments equate to £131,963.</p> <p>A letting has been agreed for Pyro Gen Limited to take occupation of Units 9, 9B and 9C from October 2018 on a 10 year lease at an initial rent understood to be £26,995 p.a. with current occupier Nomow Ltd vacating prior to the lease term commencing.</p> <p>As such, from October 2018 the annual rent receivable will be enhanced to an equivalent amount equating to £308,882 per annum. ICR will then be 2.34x.</p>
Interest reserve	<p>Proplend will retain £32,991 (3 months interest) from the gross loan amount which will be held on account.</p> <p>The balance of the Interest Reserve will be applied to the repayment of principal at the end of the loan term.</p>
Early Repayment	2% first 12 months, no fee thereafter.

Existing Facility

Lender	HSBC	Expiry	n/a
Value	£1,860,000	Status	Up to Date
Existing Facility Description	The borrower had a formal complaint over an interest rate swap on-going for 5 years. They have just received settlement and now keen to refinance away from HSBC,		

Strategy During Loan Term

The borrower is in the process of securing residential planning consent for at least part of the Subject Site and pre-application discussions are ongoing with the local authority. The Subject Site has been identified by the local authority as a "Strategic Development Site" under Policy DS12 of the Local Plan. The policy states, with direct reference to Furness Vale Business Park, that:

"Land amounting to 3.1 hectares is allocated for business, tourism and leisure uses and residential development of up to 26 dwellings. Development will be subject to compliance with adopted local plan policies".

The revised Local Plan therefore specifically identifies the Furness Vale Business Park for further development.

The strategy throughout the 24 month loan will be to secure planning permission for the development of the estate to include residential in line with the Local Plan.

A pre-app discussed with the council in January 2017 for 158 apartments. Following these discussions the borrower will be submitting a mixed-development scheme of 80-90 houses and apartments. They completed the plan at the end of July 2018, and expect to have submitted a full application by September 2018.

Property Details

On the site of a former cotton mill, there are 14 buildings let as office and warehouse space. The borrower's associated company, Pearwalk Engineering, occupies 37% of the floor space and pays 30% of the rent roll.

The property comprises a former calico dyeing works with buildings in excess of 100 years old, which was acquired by the Pickups in 1985.

Since then, the property has been operated as a multi-tenanted estate with a number of the buildings having been converted for office use and a continual programme of maintenance and improvement carried out, as and when units fall vacant.

The whole extends to approximately 84,947 sq ft (7891 sq m) of lettable space on a site of 7.98 acres (3.23 hectares).

The buildings occupy a split level site and are generally two storeys in height, although part is arranged over three and four storeys.

The units are occupied by way of leases drawn up on internal repairing terms and are subject to a service charge covering insurance, external repairs, and common areas.

There are currently 20 individual tenants within the complex paying a total rental of £289,112, although 3 of these pay a combined £198,777. One of these three is Pearwalk Engineering, who pay £65,795.

The business park is 90% occupied.

With regards demand, the valuer comments generally that whilst retail rentals are expected to decline, industrial primary and secondary rents are expected to grow.



Location Report

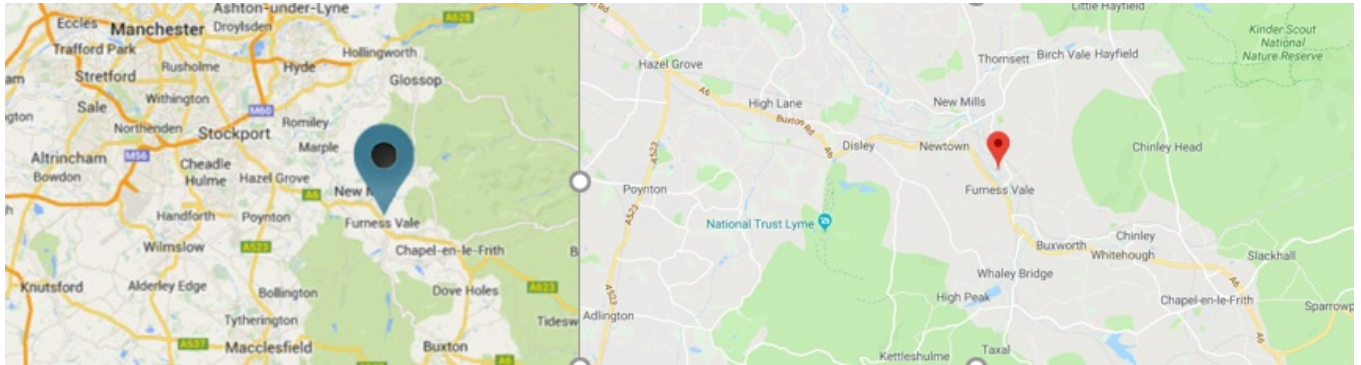
Furness Vale is a linear village either side of the A6, within a rural area in the Goyt Valley.

Whaley Bridge lies approximately 1 mile to the south, with Manchester City Centre approximately 16 miles to the north-west with Buxton lying approximately 9 miles to the south. The Peak District National Park boundary is a short distance from the property, but the complex is outside of the National Park.

The business centre itself occupies a site to the southern side of the River Goyt and is approached by a private cobbled roadway, Calico Lane, leading from Station Road. The site is at three distinct levels with a general sloping down towards the river.

The site is of an irregular triangle shape sandwiched between the River Goyt to the north and the Peak Forest Canal to the south. It is accessed from Station Road which in turn links with Buxton Road (A6 trunk road), however between the A6 and the private roadway is a level crossing with Furness Vale Railway Station adjacent, providing rail links to Manchester.

The buildings are concentrated towards the eastern side of the site (frontage) adjoining the river and the area immediately to the west (rear) offering substantial car parking and circulation areas. In addition there is a wooded embanked area adjoining the canal.



Tenant Details

Tenant	Avanti Conveyors Ltd	Activity	Materials handling systems
Lease Type	IRI, plus external is covered by service charge	Lease Start Date	2000
Months to Lease Break	13	Months to Lease End	13

Tenant strength

Avanti Conveyors Ltd (32% of total rent) - Abbreviated balance sheet to y/e 30/9/16 show NW has increased from £388k (as at 30/9/15) to £515k. Business IQ - Below Average Risk. Adelphi score, 74 out of 100.

Cadtek Systems Ltd (14% of total rent) - accounts to y/e 31/3/17 show T/O of £8.4m, GP of £4.4m, NPBT £920k, and NW of £1.107m. Business IQ - Very Low Risk. Adelphi score, 100 out of 100.

Pearwalk Engineering Ltd (23% of total rent) - accounts to y/e 30/9/17 show T/O of £1.1m, GP of £323k, NPBT of £22.8k, and NW of £125k. Business IQ - Maximum Risk. Adelphi score, 11 out of 100. The Adelphi score and Business IQ, and also the valuer's comments are based on the September 2016 accounts, which were not strong. The accounts to Sept. 2017, summarised above, show an improved performance for the last full year's trading.

In addition to the current rentals, there are additional charges for building insurance, service charge and VAT. The service charge is calculated at 10% of the rent relevant to the unit and not the actual costs of providing the service.

A further charge is made in respect of the tenant's liability for their proportion of the insurance premium and a contribution towards water costs within Calico House.

The third party leases are let on short term leases or renewable annual leases, most expiring in 2018 or 2019. Under current market conditions we would not anticipate an increase in the rentals at the next review of these short term leases.

The valuer considers that the leases are appropriate given the location and specification of the property. The valuer goes on to highlight that a flexible approach to the letting of the accommodation is required on a property of this nature, particularly in relation to the length of leases granted. It is common for business units of this nature to be let on "easy-in, easy-out" short term agreements.

Security

Main Site	First Legal Charge	Debenture	Debenture Required
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Personal Guarantee	Individual Guarantee from a Director and Shareholder of Pearwalk Properties Limited for the sum of £195,500		
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Exit Strategy

They will either enter into a JV with a developer in which case we will be repaid by way of development finance, or split the title and sell the residential part and repay us from the sale proceeds.

Should the planning proposal not receive council consent, the borrower will continue to run the site as is, and refinance with a high street lender or challenger bank.

Covenants

LTV Covenant	75%	ICR Covenant	2x
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Fees

Arrangement Fee	2%	Broker Fee	1%
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Valuation

A valuation of the property was carried out by VAS Panel/Sanderson Weatherall LLP on 29/5/2018, a copy of which can be seen in the supporting documents. The valuation concludes the following:

Market Value: £2,950,000
Vacant Possession Value: £2,000,000
Open Market Rental Value: £300,000

Given the valuation was completed more than 3 months ago, Proplend requested that the valuer reaffirm that the May 18 valuation had not changed. Proplend hold confirmation from the valuer on file that the valuation report in May 2018 was unchanged as of 16/08/2018.

Report on Title

A report on Title will be supplied by Paris Smith LLP acting on behalf of Proplend Security Ltd, and its comments thereon can be viewed under documents.

Lender Risks	Mitigant	Risk Level
Risk that the management of the Borrower is not able to execute their business plan.	Pre-planning discussions are on-going and no correspondence has been provided so this is an unknown. The site has though been specifically classed as an Allocated Site for further development.	Medium
Risk that the Borrower stops making monthly interest payments to Lenders due to loss of lease income and or tenants whose leases had ended, had exercised a lease break or have gone into receivership.	42 of the 49 units are currently occupied and this has been the case for many years. Even if one of the main three tenants were to enter financial difficulty, the serviceability would still remain over 1.25x. It would take two of the three to default to affect serviceability.	Low
Risk that the Borrower is unable to repay the loan principal at the end of the loan term because they have not been able to sell or re-finance the property.	The value of the property is expected to be uplifted to c£6m once planning is granted. In the event planning is rejected, the Borrower should still be able to easily refinance with a high street lender.	Low
Risk that the Property falls in value due to either macroeconomic or property specific reasons	The valuer has confirmed the current value to be £2.95m. The property would need to fall in value by £955k before lenders in Tranche B would be affected. Further, he comments that average rental and capital values are generally predicted to grow in the commercial property market across all sectors over 2018-2022.	Medium

Conditions Precedent

The following actions have been completed prior to credit approval:

- Satisfactory AML/KYC checks in respect of the Borrowers / Directors / Shareholders
- Clear credit searches against the Directors / Shareholders
- Formal, independent valuation addressed to Proplend Security Limited by a RICS qualified valuer confirming market value of the property.
- Satisfactory completion of all stated security requirements / Report on Title.
- Adequate insurance cover with Proplend Security Limited named as First Loss Payee
- Proplend Ltd diligence to be satisfied that interest payments can be serviced
- Loan to value not to exceed 75% on draw down

Documents

The following documents are available to download via the Loan Request screen:

- A Draft Standard Loan Contract
- The Report On Title and Lettings Report produced by Paris Smith
- A copy of the Valuation Report

Next Steps

If you are interested in participating in this Loan Request and are already fully registered with Proplend then:

Log-in your Proplend Lenders Account, go to Loan Investments

If the Loan Investment is In Funding, pick the Tranche you wish to lend into and click Lend Now. You will be required to enter the loan amount twice and then Lend Now. You then have the option to Lend again into a different Tranche if you wish. A copy of the Loan contract signed by you will appear in the Waiting to Close screen in your Lender Dashboard. When all the Loan Tranches are 100% filled, the Borrower will be invited to sign the Loan Contracts and the final Security documentation will be completed by Proplend Security Limited before drawing down the loan. This may take up to 10 days from 100% funding and you will be kept informed.

If you have any questions, please call us on 0203 379 8290

PROPLEND DISCLAIMER - PLEASE NOTE:

The information provided in this Loan Request is provided solely by the applicant and not Proplend Ltd ("Proplend") or Proplend Security Limited ("PSL"). Neither Proplend nor PSL has verified or audited the information in the Loan Request or the Loan Request itself; and the publication of the Loan Request by the applicant on the Service Website does not constitute any approval, endorsement or representation by Proplend or PSL in relation to the Loan Request. Neither Proplend nor PSL provides any warranty, representation or undertaking as to the accuracy, timeliness or reliability of the information in the Loan Request or that the Loan Request or any Due Diligence Material accurately reflects the risks associated with the Loan Request; nor does Proplend or PSL make any recommendation or give any advice of any kind in relation to the Loan Request. Expected bad debt estimates are estimates for general guidance only and neither Proplend nor PSL warrant their accuracy or reliability. Lenders should seek their own independent legal, financial, tax or other advice before lending. Capital at risk.
