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# Full Loan Request: Hampstead - Desilu Hampstead - Hotel

<b>Main Site:</b>	18-20 Frognal, London, NW3 6AG
<b>Date:</b>	09/11/2018
<b>Asset Description:</b>	The Subject Property comprises two period houses that have been joined together and are currently in use as the Langorf Hotel.



## Deal Summary

<b>Loan Type</b>	Commercial Real Estate Loan	<b>Borrower Profile</b>	Commercial Property Investment
<b>SIPP Classification</b>	SIPP eligible	<b>Loan Purpose</b>	Refinance

## Property Summary

<b>Market Value</b>	£6,500,000	<b>Property Income</b>	£400,000
<b>Vacant Possession Value</b>	£6,500,000	<b>Market Rental Value</b>	£400,000
<b>Tenure</b>	Freehold	<b>Asset Class</b>	Budget Hotel
<b>EPC Rating (min. E)</b>	TBC		

## Loan Summary

<b>Total Loan Required</b>	£4,350,000	<b>Loan to Value (LTV)</b>	66.92%
<b>Blended Interest Rate</b>	7.00%	<b>Interest Cover</b>	1.31x
<b>Loan Term</b>	36 months	<b>Interest Expense (p.a.)</b>	£304,500

Tranche	Risk	LTV	Loan Amount	Interest Rate	Interest Cover
C	High	66-75%	£125,000	10.25%	1.31x
B	Medium	51-65%	£975,000	8.25%	1.37x
A	Low	0-50%	£3,250,000	6.5%	1.89x

## Borrower Details

<b>Name</b>	Desilu Hampstead Limited
<b>Registration</b>	UK Registered Limited Company
<b>Main Business Activity</b>	Commercial Property Investment and Development
<b>Ownership Structure</b>	<b>Desilu Hampstead Ltd</b> Directors - Christos Joseph Shareholders - Desilu Group Limited (100%) <b>Desilu Group Ltd</b> Directors - Christos Joseph and Maria Joseph Shareholders - Christopher Josife (50%), Christos Joseph (16.7%), Joseph Josife (16.7%) and Georgios Konstantinou (16.7%)

## Applicant Details

<b>Name</b>	Christos Joseph
<b>Age</b>	42
<b>Experience</b>	Significant commercial property holdings in the UK and Cyprus, focused on the Hotel and B&B markets
<b>Credit History</b>	All Directors and Shareholders of the Borrowing Entity and ultimate beneficial owners have been checked and cleared.
<b>Net Worth</b>	UK family net worth captured under our guarantee is £9.6m
<b>Additional Information</b>	<p>The Desilu Group was originally established by the Costas &amp; Chris Joseph brothers originally from Cyprus, who began trading in the 1960s in the garment trade.</p> <p>While the Desilu Group has grown and developed, it remains a strong, family based business. The portfolio now consists of 15 prime location properties across London and Cyprus. These holdings include the luxury four star Palm Beach hotel in Cyprus; The Langorf, a town house Hotel in Hampstead; diverse pubs-restaurants, commercial use properties and residential hostels.</p> <p><a href="http://www.desilugroup.com/">http://www.desilugroup.com/</a></p>

## Loan Details

<b>Loan Contracts</b>	Due to the size of the loan, Proplend have made the decision to increase the minimum loan size in each tranche to £2,000 instead of the standard £1,000.
<b>Loan Purpose</b>	We are asked to provide a net £4.1m commercial mortgage to replace development finance following the borrowers decision to delay the development of the hotel into high end residential flats.
<b>Gross Loan Amount</b>	£4,350,000
<b>LTV</b>	66.92%
<b>ICR</b>	1.31x
<b>Interest reserve</b>	Proplend will retain £76,125 (3 months interest) from the gross loan amount which will be held on account. The balance of the Interest Reserve will be applied to the repayment of principal at the end of the loan term.
<b>Early Repayment</b>	2% year 1, 1% year 2

## Existing Facility

<b>Lender</b>	United Trust Bank (UTB) and Contour (Mezzanine)	<b>Value</b>	£6,437,000
<b>Status</b>	Active - up to date		
<b>Existing Facility Description</b>	The Applicant originally intended to convert the hotel to residential units and obtained finance from United Trust Bank (UTB) and Contour (Mezzanine) to a total of £6.4m.  The Applicant drew down the loan but have since decided not to continue the development in view of the unstable property market for high end apartments.  The Applicant will provide the remaining £2m required to clear the outstanding balance.		

## Strategy During Loan Term

Allow Smart Group to manage the asset throughout the life of the 5 year management agreement. Continue refining plans to turn the Hotel into high end residential units in line with the current planning consent.

The Applicant has planning approved for a change of use from hotel (Class C1) to residential (Class C3) to provide 13 flats (4 x 1 bed, 7 x 2 bed, 2 x 3 bed), the erection of single storey first floor rear extension, rear dormer roof extension, side dormer roof extension, and alterations and additions to doors and fenestration on side and rear elevations.

## Property Details

The Applicants have owned the Subject Property since the 1970s.

The Subject Property comprises a pair of substantial houses constructed in late Victorian times in the 1890s. The houses have been joined together by way of an infill extension, and are currently in use as a 30-room hotel (the Langorf Hotel).

The Subject Property is laid out over lower ground-3rd floors, the top (3rd) floor contained within the attic. It is of traditional construction, with brown and red brick façades and a pitched, slate-tiled roof. The windows are predominantly single-glazed, wood-framed sashes. The building is entered at 18 Frognal, reached via steps up to the front door at raised ground floor level. There is secondary access via the former front door to 20 Frognal, and at lower ground floor level via the front garden/ front lightwell.

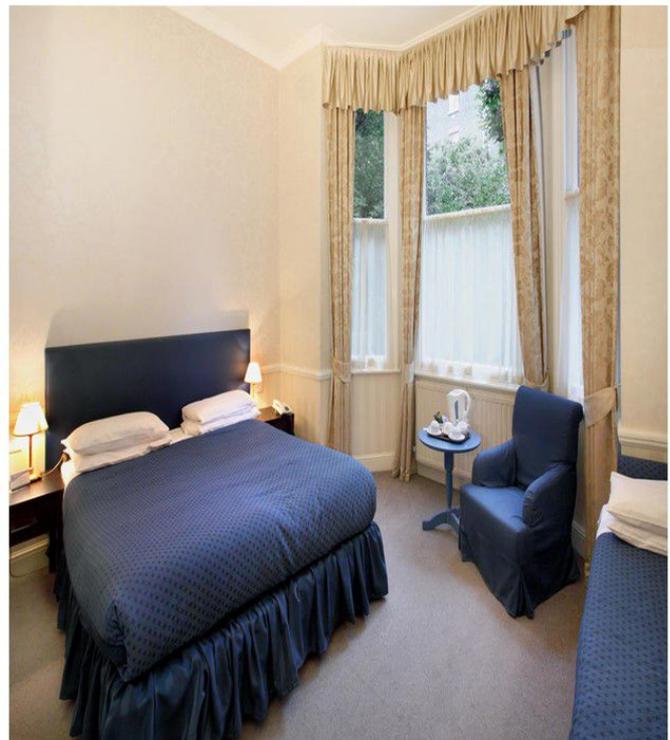
Currently the Subject Property provides a reception, dining room and kitchen, 30 letting rooms (all en-suite), storerooms and plantrooms. There are two stairwells, and one lift serving all floors. To the rear of the Property there is a garden that slopes steeply upwards towards the rear of the plot, reached via a side passage alongside 18 Frognal. There is no private parking provision.

The Subject Property is in reasonable condition, but is in tired order internally and externally.

Planning Permission was granted on 20 June 2017 (Camden ref. PP/2014/5454/P) to change the use of the Subject Property to residential (Class C3) and refurbish / rearrange the accommodation to provide 13x self-contained flats. The building will benefit from a lift, and a communal rear garden, however the development will be car-free.

CIL/Section 106 - the affordable housing contribution has been fully paid to the order of £394,850 (of £420,823), the Highways Contribution and Pedestrian Cycling & Environmental Contribution are outstanding.

For further details of the development plans, please see the Strutt & Parker valuation (2018).



## Location Report

### Overview

The Subject Property is located in Hampstead in north London, within the London Borough of Camden. Hampstead is an affluent residential location, popular with a range of domestic and international buyers for owner occupation and investment, and is considered a prime region of north London.

The Subject Property is in the western part of Hampstead, close to Finchley Road. This part of Hampstead is primarily residential, and is characterised by substantial 19th century red brick housing, much of which has been converted into flats.

There is a range of shops and services close by on Finchley Road, including a Waitrose supermarket 0.3 miles (0.5 kilometres) from the Property. There are upmarket shops, restaurants and cafés in Hampstead village centre 0.5 miles (0.8 kilometres) to the north. Good transport links provide easy access to central London 4 miles (6.4 kilometres) to the south. The Property is within approximately 1 mile (1.6 kilometres) of Hampstead Heath.

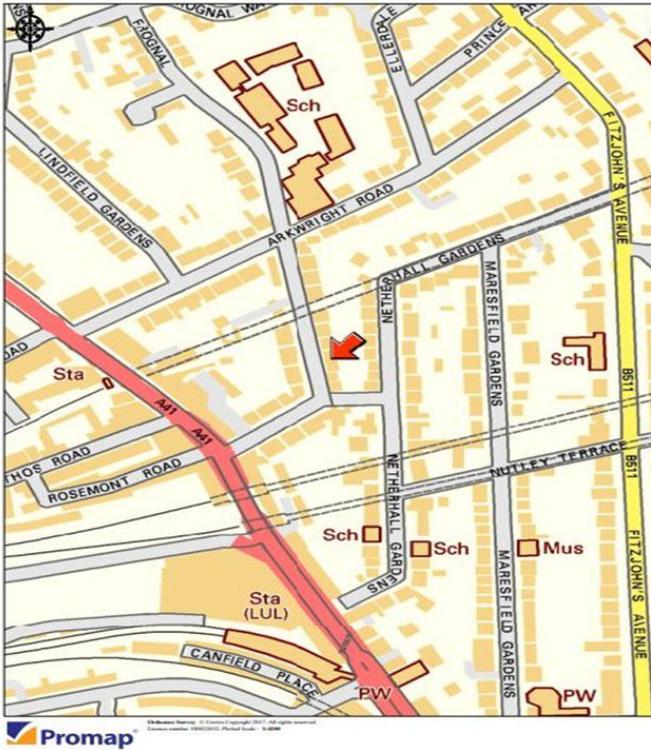
The nearest station is Finchley Road & Frognal, 0.2 miles (300 metres) from the Property, served by the London Overground line. The nearest London Underground station is Finchley Road, 0.3 miles (0.5 kilometres) from the Property, served by the Jubilee and Metropolitan lines.

## Market Commentary

The market in Hampstead and other prime London locations has been relatively subdued since 2015, in contrast to more buoyant conditions seen in 2013-2014. This has partly been a result of taxation changes targeting the upper levels of the market, investors and international buyers, including increased SDLT on properties over £973,500 since December 2014, the scrapping of favourable tax rules for non-domiciled UK residents in 2015, and 3% higher SDLT on purchases of additional residential properties since 1 April 2016. International and domestic political uncertainty has also played its part.

Hampstead estate agents have commented that the market has been affected by taxation changes and political uncertainty, and transaction levels have fallen during 2015-Q1 2018. There is reasonable ongoing demand for flats sub-£2 million, however buyers are price sensitive and properties must be correctly priced in order to sell.

Nevertheless, the valuer and estate agents anticipate reasonably good demand for the Subject Property, and the consented development, provided that the units are completed to a high standard of specification and finish, and appropriately priced.



H.M. LAND REGISTRY		TITLE NUMBER	
ORDNANCE SURVEY PLAN REFERENCE	COUNTY SHEET	NATIONAL GRID	SECTION
Scale: 1/1250	GREATER LONDON	TQ 2685	AA
		© Crown copyright 1984.	



## Tenant Details

<b>Tenant</b>	Smart Hotels Limited	<b>Activity</b>	Short term accommodation provider - Hotels, Hostel and B&Bs
<b>Lease Type</b>	Hotel Management Agreement	<b>Lease Start Date</b>	Upon draw down
<b>Months to Lease Break</b>	60	<b>Months to Lease End</b>	60
<b>Lease Payments</b>	£400k p.a. (net after any/all management fees)		

<b>Lease arrangement</b>	<p>The tenant will enter into 5-year management agreement rather than a lease, with a 6 month break by either party.</p> <p>The Applicant preferred a management agreement rather than a formal lease to maintain the flexibility to move quickly should the market move in a direction which makes developing the Subject Property, in line with the planning, consent the preferred play.</p> <p>The responsibilities of the general upkeep falls with Smart Hotels Limited, with any major structural or non-cosmetic works to be completed by the landlord.</p>
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<b>Tenant Description</b>	<p>Smart Housing Group (SHG) was incorporated in December 2003; however, the company's origins date back to the founding of the Gordon Matthews property management consultants in 1980.</p> <p>In 1998, Christos Papaloizou and Lakis Michaelides established Smart Hotels Ltd to work with charitable organisations and public sector housing authorities. Thereafter, Gordon Matthews was to act exclusively as the procurement agency for Smart Hotels Ltd public sector operations.</p>
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Smart Hotels' public sector operations focused on sourcing accommodation and support service for a number of London's housing authorities. In order to meet these needs Smart Hotels acquires (purchasing or leasing as appropriate) a number of bed and breakfast hotels, hostels and other residential properties.

<b>Tenant strength</b>	Strong, local covenant operated by Directors with significant experience in the sector and several other similar assets in the area.  Credit History - Clear
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## Security

<b>Main Site</b>	First Legal Charge	<b>Debenture</b>	Debenture Required
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<b>Personal Guarantee</b>	Joint and Several Guarantee of the Directors and Shareholders of Desuli Hampstead Limited for the sum of £1,000,000
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## Exit Strategy

The Applicant will refinance with a mainstream lender / challenger bank, obtain development finance to complete the conversion to residential in line with the current planning consent or sell the property to a developer with the benefit of planning permission.

## Covenants

<b>LTV Covenant</b>	75%	<b>ICR Covenant</b>	1.25x
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<b>Planning Permission</b>	The Borrower is to re-apply for planning consent no less than 6 months prior to the expiration of the existing permission.
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## Fees

<b>Arrangement Fee</b>	2%	<b>Broker Fee</b>	2%
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## Valuation

A valuation of the property was carried out by Strutt & Parker on 30/05/2018, a copy of which can be seen in the supporting documents. Further to this, VAS Audit have also confirmed that the residual valuation figures can be relied upon. Given the length of time since the initial valuation was complete we have had the OMV reconfirmed by Strutt & Parker by way of side letter of reliance, 29.10.2018. The valuation, the audit, and the subsequent side letter of reliance concludes the following:

Market Value: £6,500,000  
Vacant Possession Value: £6,500,000  
Open Market Rental Value: £400,000

## Report on Title

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

Lender Risks	Mitigant	Risk Level
<b>Risk that the management of the Borrower is not able to execute their business plan.</b>	<p>The Applicants have significant experience in the management of the Subject Property, having owned it since the 1970s.</p> <p>Furthermore, the Applicants have substantial wider property investment and development experience, evidenced by having successfully gained planning permission for the desired residential development.</p>	<b>Low</b>
<b>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.</b>	<p>There is a 5 year, £400k p.a. Hotel Management Agreement in place with a strong, local hotel/B&amp;B manager, with income covering interest 1.41x.</p> <p>Should the hotel operator break the lease, or enter administration, the Applicant will step in to run the hotel, and continue to meet interest payments, as they have done since the 1970s.</p> <p>A 3 month interest reserve (£76,125) will also be held throughout the life of the loan.</p>	<b>Low</b>
<b>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.</b>	<p>The current metrics of the loan would allow for the facility to be refinanced with by a range of challenger banks and alternative lenders.</p> <p>The most likely exit here is through development finance, which has previously been secured by the Applicant for the consented development.</p>	<b>Low</b>
<b>Risk that the Property falls in value due to either macroeconomic or property specific reasons</b>	<p>The market for high-end (&gt;£1250 psqft), London based, residential accommodation is unstable at present. As a result, there is potential for the market to further cool, leading to an fall in the Subject Property's market value.</p> <p>However, the value of the Subject Property would have to fall by a further &gt;33% from the May 2018 valuation before the proposed facility is not covered by the assets worth.</p> <p>Proplend Security Limited maintains a panel of experienced valuers who must have adequate professional indemnity insurance to provide property valuations.</p>	<b>Medium</b>

## 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:

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