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ELR: Birmingham - Churchgate - Hotel Refinance/Cap Raise

Main Site:	Park Hotel, 131 & 133 Aldridge Road, Perry Barr, Birmingham B42 2ET
Date:	7/12/2018
Asset Description:	Refinance of existing loan plus capital raise to purchase next door property.



Deal Summary			
Loan Type	Commercial Mortgage	Borrower Profile	Property investment SPV
SIPP Classification	SIPP Ineligible	Loan Purpose	Refinance and Purchase

Property Summary			
Market Value	£1,692,000	Property Income	£145,776
Vacant Possession Value	£1,392,000	Market Rental Value	£150,800
Purchase Price	£292,000 (for 133 Aldridge Road)	Purchase Type	Option
Tenure	Freehold	Asset Class	HMO
EPC Rating (min. E)	C		

Loan Summary			
Total Loan Required	£1,269,000	Loan to Value (LTV)	75%
Rate of Interest	8.00%	Interest Cover	1.44x
Loan Term	12 months	Interest Expense (p.a.)	£101,520

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
C	High	66-75%	£ 169,200	12.63 %	11.367 %	1.44 x
B	Medium	51-65%	£ 253,800	8.25 %	7.425 %	1.82 x
A	Low	0-50%	£ 846,000	7.00 %	6.30 %	2.46 x

Borrower Details

Name	Churchgate Property Services Limited
Registration	Limited Company
Main Business Activity	The proposed Borrower is a special purpose Limited Company, registered in the UK. It has no assets other than the Subject Properties.
Ownership Structure	The Company is owned 100% by Mr. Avtar Sandhu.

Applicant Details

Name	Avtar Sandhu
Age	64
Experience	The Borrower is an experienced property investor and developer, and is a long-standing client of Proplend. Mr Sandhu's main business interest is a successful business recycling mobile phones. In addition to his main business interest, he has developed various residential schemes including 19 apartments in Sutton Coldfield. He also owns and lets various other residential investments in the Birmingham area. Mr Sandhu is married with 3 children and 3 grandchildren. He lives in a wealthy part of Hampton in Arden near Solihull. The Borrower has repaid 4 loan facilities with Proplend, and currently has 1 facilities, outstanding which is being refinanced with this loan now.
Credit History	Clear. Creditsafe score of 620 - Band 10 (out of a possible 10).
Net Worth	An updated assets and liabilities statement has been provided showing NW of £5.85m - all in property £4.6m of which is under ownership of related SPVs.

Loan Details

Loan Purpose	Refinance and Purchase. We are asked to refinance the existing Churchgate loan (£600k), and raise capital to assist with the purchase of 133 Aldridge Road (£300k), next door to the Park Hotel, and a further £100k to refurbish number 133, and the remainder towards the purchase of an office block in Moseley, Birmingham.
Gross Loan Amount	£ 1,269,000
LTV	75 %
ICR	1.44 x
Serviceability	Net rental income of £145,776 p.a. is being received, with interest payments of £101,520 p.a. The contracted rent with Weir Lettings is £180,000 p.a. gross (£145,776 net). In addition, further irregular income is earned from rooms not used by, or held under the lease agreement with Weir.
Interest reserve	Proplend will retain £25,380 (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.
Early Repayment	2% first 3 months, no fee thereafter.

Existing Facility

Lender	Proplend	Expiry	21/3/2019
Value	£600,000	Status	Up to Date
Rate	8.00%		

Existing Facility Description	In good order, and all payments made in a timely manner.
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Strategy During Loan Term

1. Refurbish number 133 Aldridge Road.
2. Secure HMO licence which Council has already advised should be forthcoming following works.
3. Fill with overflow from 131 Aldridge Road.
4. Get both properties revalued against uplifted income.

Property Details

131) The subject property is the former Park Hotel, located on the busy Aldridge Road. The property is a period built, three storey detached building which has been extended and altered over time. Since purchasing the property in late 2017, the Borrower has spent circa £150,000 on improving what was a tired and run down property. Although originally known as the Park Hotel, the property was run as an HMO with a licence for 16 persons. Since purchasing the property and following the improvements which included making all rooms en-suite, the Borrower has extended the HMO licence from 16 bedrooms / persons to 28 bedrooms / 49 persons. The value has increased accordingly from £830k in August 2017, to £1.4m now.

In total there are 26 rooms; four have been amalgamated to form two larger family rooms. All the bedrooms have en-suite facilities, with the tenants sharing a large communal kitchen and lounge area on the ground floor with additional external covered seating area. In addition to the HMO accommodation on the ground floor are a reception area and office leading to the former, currently unused catering kitchen with stores and a double en-suite room for the on-site manager.

To the front of the property is off road parking accessed off Aldridge Road and behind a dwarf wall providing 12 parking spaces. To the rear are garden areas with a further timber built smoking shelter. The property is run as social housing providing emergency family housing.

133) The subject property comprises a period five bedroom detached home which offers a driveway, good sized rear garden, garage, two reception rooms and many period features. The accommodation is arranged over four floors due to the sloping nature of the site, with lower ground floor store and garage. Main family accommodation is at ground floor level with two reception rooms and a good sized kitchen / breakfast room. The first and second floors provide five good sized bedrooms with bathroom, en-suite and separate WC.

The property has become neglected and run down and is now in need of a full refurbishment programme. It is therefore the Borrower's plan to purchase the property (agreed purchase price of £292,000 having been marked at £310,000), renovate it in-keeping with 131 Aldridge Road, which is a substantial HMO premises owned by the Borrower and let to Weir Lettings Ltd, part of Weir Housing Ltd who provide emergency housing.

The Borrower has estimated a conversion cost of £100,000, although lawful use will require a planning change to C4 (HMO) as well as a HMO licence.

It is not a property designated "defective" under the provisions of the Housing Act 1985.



Location Report

The subject properties are located in the Perry Barr suburb of Birmingham located 4km (2.5miles) north of Birmingham city centre.

The properties front the A453 Aldridge Road which is a main road connecting to the A34 Walsall Road approximately 700m to the south and Sutton Coldfield approximately 6km (3.75 miles) to the northeast. The properties are located on the west side of Aldridge Road which is a tree lined dual carriageway in this particular section.

The former City North Campus of Birmingham City University is located 500m to the south with some residential property running along Aldridge Road and industrial units also located nearby including Holford Industrial Estate, Tamebridge Industrial Estate and Tameside Way Business Park. Also within a 1km radius is Perry Barr Greyhound Stadium and Alexander Stadium (athletics).

Reasonable public transport facilities exist in the locality with regular bus services running along Aldridge Road to outline neighbourhoods and towns. The nearest train station is Perry Barr station located 700m to the south. The properties therefore benefit from good transport networks.

The subject properties are therefore located in a mixed use location and within a suburb of Birmingham and would suit a variety of uses.



Tenant Details

Main Tenant	Weir Lettings Limited	Activity	Residents Property Management
Lease Type	Landlord responsible for repair	Lease Start Date	20/11/2017
Months to Lease Break	36	Months to Lease End	36
Contracted Rent (£ p.a.)	180,000-00 (gross).	Occupation Level (%)	90% (131, 133, vacant).

Lease arrangement	The original agreement between the Borrower and the tenant gave the tenant exclusive use of every room. However, because they only require the family rooms, they are comfortable that the Borrower lets out the single and double rooms to other tenants. Accordingly, a new 3-year agreement Agreement has been signed, dated 1 December 2018, stating that 12 rooms will be provided at a monthly fee of £15k pcm, £180k p.a. The other rooms are let on a more irregular basis - at the time of my visit, 2 of the 27 rooms were unoccupied, and this is believed to be representative of a longer term average. The Borrower advises that the gross rent received is £286k p.a. but this is difficult to verify. The rental income figure in the Property Summary at the top is the net rental figure after running costs have been deducted. The additional income being received over and above this figure only provides additional comfort. The figure will also increase in Q1/Q2 2019, when rental income starts being received for 133 Aldridge Road.
Tenant strength	Weak, local covenant.

Security

Main Site	First Legal Charges over 131 and 133 Aldridge Road.	Debenture	Debenture Required
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Share Charge	Share Charge Not Required	Property Insurance	PSL Interest to be Noted on Completion
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Personal Guarantee	Individual Guarantee from an Individual Director of Churchgate Property Services Limited for the sum of £250,000
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Exit Strategy

Refinance on to more competitive terms, following uplift in value and income.

Covenants

LTV Covenant	75%	ICR Covenant	1.25x
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Fees

Arrangement Fee	1 %	Broker Fee	1 %
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Valuation

A valuation of the property was carried out by Aitchison Raffety on 8/11/2018, a copy of which can be seen in the supporting documents. The valuation concludes the following:

Market Value: £1,692,000
 Vacant Possession Value: £1,392,000
 Open Market Rental Value: £150,800

Report on Title

A Report on Title will be supplied by Paris Smith LLP acting on behalf of Proplend Security Ltd, and it's 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.	Given the existing relationship that the Applicant has with the Housing Association he lets to, it is highly likely that he will be successful in re-letting the Subject Property. Should this not happen, then the lease to the Applicant's successful trading company will re-continue. In either case, refinance should be achievable.	Low
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.	The property is achieving higher than the Open Market Rental value, but even just the OMR figure is 1.49 x the interest payments. The financial covenant of the Applicant's trading company is also considered strong and therefore default on the lettings is considered unlikely.	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 proposed loan is to an existing Borrower who has a proven track record both in servicing the current loan and in achieving a significant uplift in income/value over the past eighteen months. The proposed gearing, even against the valuation before planning, is at the same level as before, of 75%.	Medium

Interest is to be serviced monthly and the facility includes the retention of an interest provision for three months.

Risk that the Property falls in value due to either macroeconomic or property specific reasons

There is a continuing strong demand for social housing in the Birmingham Area.

Medium

There is potential for a significant uplift in value of 133, once planned works are completed and an HMO licence obtained.

It is therefore felt that a deterioration in the property market generally is unlikely to affect the value of the Subject Property.

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 LLP
- 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 to 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 397 8290

PROPLEND DISCLAIMER - PLEASE NOTE:

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