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Full Loan Request: Birmingham - First House - Offices

Main Site:	1 Sutton Street, Birmingham, B1 1PE
Date:	4/2/2019
Asset Description:	A two-storey office building which has been converted to provide 24 individual office suites.



Deal Summary

Loan Type	Commercial Mortgage	Borrower Profile	Property Investment SPV
SIPP Classification	SIPP Eligible	Loan Purpose	Capital Raise

Property Summary

Market Value	£810,000	Property Income	£85,200
Vacant Possession Value	£925,000	Market Rental Value	£65,500
Tenure	Long-leasehold (94 years of 125 remaining)	Asset Class	Office
EPC Rating (min. E)	E		

Loan Summary

Total Loan Required	£457,500	Loan to Value (LTV)	56.48%
Rate of Interest	7.05%	Interest Cover	2.64x
Loan Term	24 months	Interest Expense (p.a.)	£32,254

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
B	Medium	51-65%	£52,500	8.21%	7.389%	2.64x
A	Low	0-50%	£405,000	6.90%	6.21%	3.05x

Borrower Details

Name	First House Associates Limited
Registration	UK Registered 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; <ul style="list-style-type: none"> - 50% by Anthony Copeland - 14.5% by Duljit Sandhu - 10% by Bhupinder Sandhu - 10% by Sandeep Sandhu - 5.5% by Sharanjit Sandhu - 2.5% by Avtar Sandhu - and the remaining 7.5% by Greencyc Limited.

Applicants Details

Names	Avtar Sandhu and Anthony Copeland
Ages	64 and 58 respectively.
Experience	<p>The Applicants are both experienced property investors and developers, and in Avtar Sandhu's case, is a long-standing client of Proplend. Mr Sandhu's main business interest is a successful business recycling mobile phones.</p> <p>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.</p> <p>Mr Sandhu is married with 3 children and 3 grandchildren. He lives in a wealthy part of Hampton in Arden near Solihull.</p> <p>This applicant has repaid 5 loan facilities with Proplend, and currently has 2 facilities outstanding - please see the Security section below, under Personal Guarantees for more information.</p> <p>Co-Director, Tony Copeland is also a professional property investor and developer, with a large portfolio of commercial and mixed use property in the West Midlands area.</p>
Credit History	<p>AS - Clear.</p> <p>AC - Clear.</p>

Loan Details

Loan Purpose	Capital Raise
Gross Loan Amount	£457,500
LTV	56.48%
ICR	2.64x
Serviceability	£85,200 rental income is being received per annum, with interest payments due of £32,254 p.a.
Interest reserve	<p>Proplend will retain £16,127 (6 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.

Strategy During Loan Term

We are asked to provide a net 53% LTV loan facility, in order to raise capital on this unencumbered property for other property investment.

The Borrower purchased the property for £250k 4 years ago, and have spent £100k since on internal refurbishment.

Both Directors have a considerable amount of funds tied up in the investment and they wish to look for other property in the area which is seeing significant demand at the moment.

The plan with this property is to seek planning permission for residential redevelopment whereupon they will sell to a developer. The expected site value, with PP, will be around £2 million.

Property Details

The premises comprise early 1960's/1970's concrete frame brick built two storey office building under a flat roof and benefitting from UPVC double glazed windows throughout.

The premises comprise of an older style two storey office building which has been converted to provide 24 individual office suites together with a reception and boardroom on the ground floor, DDA compliant WC and kitchen also on the ground floor. On the first floor two sets of refurbished male and female WC facilities.



Location Report

The premises are situated in a prominent location on the fringe of Birmingham city centre with frontage both on Sutton Street and Irving Street.

This is a mixed use area comprising both commercial and more recently predominantly residential accommodation with the vast majority of the residential accommodation being modern purpose built apartments.

The property is situated a short distance from Bath Row, the B4127, which is a reasonably prominent road leading into Birmingham city centre.

The property is located on the corner of Sutton Street and Irving Street on the south western edge of Birmingham City Centre. The A38 dual carriageway is located 0.3 miles away, leading to the M6 motorway network, providing access to the M5, M42 and M1 motorways.

The property is located in Park Central Regeneration quarter of Birmingham. The area has been the subject of a number of major redevelopments in recent years, seeing a rise of mainly residential flats and houses. The property lies within a mixed commercial and residential area. Immediately opposite the property is the Holloway Head School Playing Field, with the property surrounded by vacant light industrial properties to its rear, leading to Holloway Head which has a number of sites proposed for significant mixed use development.



Tenant Details

Tenant	Crest Nicholson	Activity	Construction
Lease Type	Rolling Licence To Occupy	Lease Start Date	August 2016
Months to Lease Break	12	Months to Lease End	12
Contracted Rent (£ p.a.)	£85,200	Occupation Level (%)	94%

Lease arrangement There are currently 16 Licences To Occupy, and a number of these licences have expired. We are advised by the borrower that these companies remain in occupation under rolling annual licences. It is possible that some of the licences may have become periodic tenancies under which the occupier may have gained security of tenure. Given that the property has been valued as a serviced office centre, the valuer does not consider that this adversely affects the Market Value.

We have been provided with a copy of licences granted to MA Lawyers which are in a standard form. This licence is for a period of two years with rent payable monthly in advance. The rent includes electricity and water. There is one months rent deposit provided. There is no service charge stated and we therefore assume the rent is inclusive of all building services (including the receptionist), heating, insurance etc. The agreement is silent on alienation and alterations. The occupiers are liable for business rates.

The Borrower advises that the above costs are approximately £30k p.a. Based on net rents therefore of £55,200, the ICR is 1.71x.

Tenant strength Mixed.

Security

Main Site	First Legal Charge	Debenture	Debenture Required
Share Charge	Share Charge Not Required	Property Insurance	PSL Interest to be Noted on Completion

Personal Guarantee Joint and Several Guarantee from the Directors and Shareholders of First House Associates Limited for the

sum of £91,500.

Director Avtar Sandhu, in addition to the above, has previously provided Personal Guarantees for two other outstanding loans with Proplend - Birmingham HMO and Sparkhill Offices limited to the sums of £250k, and £165k respectively.

Exit Strategy

As above, the strategy is to sell with Planning Permission but, in any event, refinance should be relatively straightforward at approximately 55% LTV.

Covenants

LTV Covenant 65% **ICR Covenant** 2x

Fees

Arrangement Fee 2% **Broker Fee** 1%

Valuation

A valuation of the property was carried out by GJS Dillon Limited on 12/12/2018, a copy of which can be seen in the supporting documents. The valuation concludes the following:

Market Value: £810,000
Vacant Possession Value: £925,000
Open Market Rental Value: £65,500

This valuation report has also been audited by VAS Panel.

Report on Title

A Report on Title will be supplied by Paris Smith 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.

The applicants collectively have vast experience with ventures of this nature, obtaining change of use, and in Avtar Sandhu's case, has demonstrated this on numerous occasions to Proplend, with the successful redemption of past loan facilities in accordance with his business plan.

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.

The ICR is 2.64x based on gross rents, 1.71x on net, with 22 of the 23 offices currently occupied.

Should a disproportionately significant number of tenants vacate, the applicants have the means and integrity to ensure that monthly interest payments will continue to be met.

Medium

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 applicants are well known to the local planning officials, and are aware that change of use to residential in this particular location, will be looked upon sympathetically.

Medium

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

The gross LTV is 56.48%, meaning prices would need to fall by more than the 2008 crash, before a negative equity situation.

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 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

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