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Full Loan Request: Handsworth - Sutton Carter 2 - Mixed Use

Main Site:	146-148 Rookery Road, Handsworth, Birmingham, B21 9NN
Date:	25/2/2019
Asset Description:	The property comprises two original retail units that have been combined to create one large shop, together with residential accommodation at ground, first and second floors.



Deal Summary

Loan Type	Commercial Mortgage	Borrower Profile	Property investors
SIPP Classification	SIPP Ineligible	Loan Purpose	Portfolio refinance

Property Summary

Market Value	£440,000	Property Income	£30,800
Vacant Possession Value	£400,000	Market Rental Value	£36,500
Tenure	Freehold	Asset Class	Mixed Use (Residential)

Loan Summary

Total Loan Required	£220,000	Loan to Value (LTV)	50%
Rate of Interest	8.25%	Interest Cover	1.70x
Loan Term	24 months	Interest Expense (p.a.)	£18,150

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
A	Low	0-50%	£220,000	8.25%	7.425%	1.70x

Borrower Details

Name	Sutton Carter Investments Limited. Please note that this is the same Borrower as the Edgbaston Residential, Hockley And Newtown Mixed Use Portfolio, Jewellery Quarter Office Portfolio, and the West Midlands Industrial Portfolio loans.
Registration	UK Registered Limited Company
Main Business Activity	A commercial property investment company with other assets, not charged.
Ownership Structure	The Company is owned equally by Mr. Zahid Ashraf, his brother Shahid Ashraf, and Shahid's wife, Violeta Ashraf.

Applicant Details

Name	Zahid Ashraf
Age	34
Experience	The Ashraf Brothers started business together in 2001 when they opened an equipment hire shop in East London called Sam's Hire. In 2008, they moved into van hire and set up KB Van Hire with 6 vans. By 2012, this business had expanded to 200 vehicles. An unforeseen increase in their insurance costs made the business no longer viable. They therefore decided to close the hire business and concentrated on their property portfolio in Birmingham. They began by sourcing properties for other local developers and investors, and once they were able to secure funding for themselves, undertook their own property investment. With the support of Bank of Cyprus over the past 5 years, they have expanded their Portfolio to 21 properties of which 18 have debt and are offered to Proplend as security. Whereas the majority of the Company's assets are commercial, two of their most valuable properties are HMO's which are let to Housing Associations. Such is the dearth of social accommodation in the Birmingham, the sector remains extremely strong for Landlords. They have also over time built a database of tenants suitable for occupying their properties in the event of any voids. They have a very proactive relationship with all of their tenants. The current OMV for the properties we are refinancing, are £10.565m. The original purchase prices for the same properties were £6.27m in all. In addition, the Borrower owns a further three unencumbered properties worth approximately £345k.
Credit History	All three Directors' Credit Reports are clear and all three have passed Lexis Nexis checks.
Net Worth	£780k, comprised of equity of personally owned unencumbered investment property, in addition to the portfolio equity of over £5m.

Loan Details

Loan Purpose	Portfolio refinance. We are asked to provide a gross loan facility of 53% LTV overall, in order to refinance the current lender, Bank of Cyprus, recently taken over by Cynergy Bank. We have split the loan into five separate loans, partly in order to accommodate the Borrower's three different exit strategies, and also in order to ensure that a portion will be eligible for SIPP investors.
Gross Loan Amount	£220,000
LTV	50 %
ICR	1.70x
Serviceability	Monthly income is being received of £2,566-66, with monthly interest payments due of £1,512.50.
Interest reserve	Proplend will retain £9,075 (6 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 12 months

Existing Facility

Lender	Bank of Cyprus	Expiry	11/3/2018
Value	£5,100,000	Status	Up to Date

Strategy During Loan Term

The property was bought in October 2018 for £380,000.

The property is to remain a long-term investment for the applicants, who are in their thirties, and rental income for both the retail and also the residential accommodation to be periodically increased over time through further rent reviews.

Property Details

The property comprises two original retail units that have been combined to create one large shop, together with separate residential accommodation at ground, first and second floors, to a different tenant.

The shop has a total Net Internal Area of 1061 sq ft, with the residential accommodation providing a Gross Internal Area of 1999 sq ft. The property sits behind a small forecourt and there is a fenced and gated garden to the rear.



Location Report

The property is located on Rookery Road, which forms part of the suburb of Handsworth, an inner-city area, just outside Birmingham City Centre.

All major urban amenities are available within Handsworth or close by in Birmingham City Centre. In addition, it is well located with good transport links, both by road and rail.



Tenant Details

Retail Tenant	Mr Waqar Ali	Activity	Costcutters convenience store
Lease Type	Gross lease	Lease Start Date	1/2/2019
Months to Lease Break	252	Months to Lease End	252
Contracted Rent (£ p.a.)	£18,800	Occupation Level (%)	100%
Tenant strength	Unknown (Sole Trader)		
Residential Lease	The residential accommodation is let separately to Second City Housing Ltd, on a 3-year lease, commencing 1st February 2019, at a rental of £12,000-00 p.a. with a break clause on 1 January 2020.		

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 Sutton Carter Investments Limited for the sum of £100,000. Please note that the total Personal Guarantee liability between all five loans is £1.15m.		

Exit Strategy

The split of the loan aligns with the Borrower's discussions with the respective Banks - this loan is expected to be refinanced by a High Street lender.

Covenants

LTV Covenant	65%	ICR Covenant	1.50x
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Fees

Arrangement Fee 2%

Broker Fee 1.5%

Valuation

A valuation of the property was carried out by John Truslove on 5/2/2019, a copy of which can be seen in the supporting documents. The valuation concludes the following:

Market Value: £440,000

Vacant Possession Value: £400,000

Open Market Rental Value: £36,500

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.

At 50% LTV gross, the Borrower should easily be able to refinance to a high street lender or challenger bank, within the term of this loan.

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 Borrower has other assets with a diverse overall spread of asset class and type of tenant.

Any void or financial difficulty with either tenant here can be covered by other income enjoyed by the Borrower, who has a portfolio ICR in excess of 1.76x.

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.

As above, the LTV is 50% gross, and rental income on the ground floor is due to increase by £3200 p.a. in February 2020, meaning ICR will improve from the current 1.70x to 1.87x, which should further enhance the prospect of a straightforward refinance.

Medium

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

The Property would have to fall in value by a greater margin than that which prices fell in the 2008/9 financial crisis, before lenders would be affected.

The loan to Vacant Possession Value is 55%.

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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