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Full Loan Request: Hockley And Newtown - Sutton Carter 4 - Mixed Use Portfolio

Main Site:	Carnegie Centre, Hunters Road, Birmingham, B19 1DU
Date:	25/2/2019
Asset Description:	Three separate properties comprising five flats, a mixed office and residential property, and former offices converted into a 62 bedroom HMO.



Deal Summary

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

Property Summary

Market Value	£4,430,000	Property Income	£304,800
Vacant Possession Value	£3,730,000	Market Rental Value	£314,800
Tenure	Freehold	Asset Class	Mixed Use (Residential)
EPC Rating (min. E)	D		

Loan Summary

Total Loan Required	£2,215,000	Loan to Value (LTV)	50%
Rate of Interest	8.25%	Interest Cover	1.67x
Loan Term	24 months	Interest Expense (p.a.)	£182,738

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
A	Low	0-50%	£2,215,000	8.25%	7.425%	1.67x

Borrower Details

Name	Sutton Carter Investments Limited. Please note that this is the same Borrower as the Handsworth Mixed Use, Edgbaston Residential, 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 unencumbered 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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>In addition, the Borrower owns a further three unencumbered properties worth approximately £345k.</p>
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	<p>Portfolio refinance. We are asked to provide a gross loan facility of 53% LTV overall, in order to refinance the portfolio from current lender, Bank of Cyprus, recently taken over by Cynergy Bank.</p> <p>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.</p>
Gross Loan Amount	£2,215,000
LTV	50%
ICR	1.67x
Serviceability	Monthly rental income is being received of £25,600, with monthly interest payments due of £15,228.
Interest reserve	Proplend will retain £91,369 (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
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Existing Facility

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

Strategy During Loan Term

The Former Aston Library was bought in 2016 for £765k, the Carnegie Institute was bought in 2016 for £765k, and 88 Hamstead Road was bought in May 2018 for £245k.

The three properties are to remain long-term investments for the applicants, who are in their thirties, and income increased periodically through further rent reviews, and in accordance with the current lease terms.

Property Details

Former Aston Library - the property comprises a substantial 3-storey former Council Chambers, later used as a Public Library and subsequently converted to a boarding school. The property has been partially converted to residential accommodation.

Carnegie Institute - the property comprises a three storey building constructed in approximately 1880, originally as the Carnegie Infant Welfare Institute until recently used as offices. The property has been converted into a 62 bedroom House in Multiple Occupation (HMO).

88 Hamstead Road - the property comprises a building of 19th Century origin, with a later extension to the rear, which has been converted to five flats.



Location Report

Former Aston Library

The property is located on the borders of the suburbs of Newtown, Aston and Witton, which are approximately one mile to the north of Birmingham City Centre. The area benefits from good road and rail links and all major urban amenities are available within the suburbs.

Carnegie Institute

The subject property is located in the Lozells ward of Birmingham located outside of the Middleway located approximately 2 km (1.25 miles) northwest of Birmingham city centre. More specifically the subject property is located in the Lozells suburb with surrounding areas including Hockley, Jewellery Quarter, Winson Green, Hansworth and New Town.

The property is located on Hunters Road, close to the junction with Nursery Road and the Hockley Circus roundabout. Hockley Circus roundabout is at the junction of the A41 Soho Hill and the A4540 New John Street West. There are regular bus services on Hunters Road and Soho Hill nearby providing access to Birmingham city centre and surrounding suburbs.

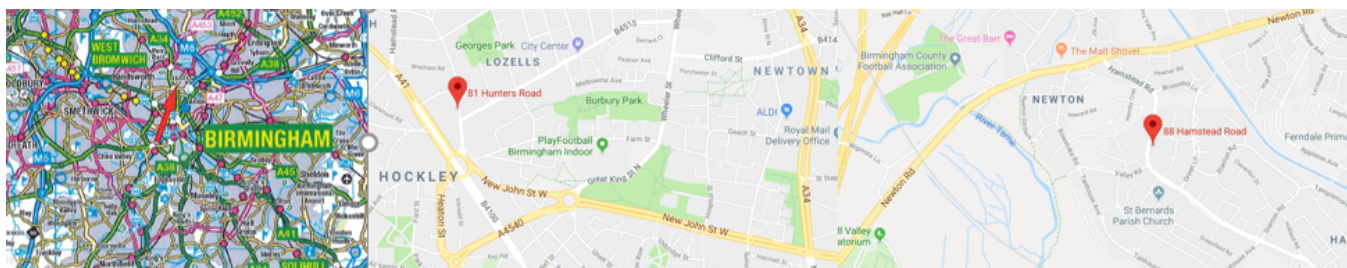
The property is approximately 1.5 miles west of Dartmouth Circus which provides a connection with the A38M Aston Expressway which, in turn, provides a route to Aston, Perry Barr and junction 6 of the M6 motorway. Surrounding occupiers are primarily nature including offices, shops, factories and warehouses. The property is also close to residential suburbs.

88 Hamstead Road

The property is located in Hamstead Road, in an area of Birmingham that falls between Gib Heath and Lozells, on the northeast side of Birmingham.

The property is located on the east side of Hamstead Road, just after its junction with the A41 (Holyhead Road). The A41 is a major route from the ringroad (A4540) out of the city to the northwest, to Bromsgrove.

The area is primarily a residential one, with Georges Park and King Edward VI Handsworth school being nearby. Hamstead Road offers a mix of different styles of residential property, with Victorian and Georgian terraces interspersed with more modern flat developments. The majority of the properties in the immediate locality have been converted to flats and there is a church next door to the subject property.



Tenant Details

Tenant	Prospect Housing (Carnegie Inst)	Activity	Social Housing Provider
Lease Type	FRI	Lease Start Date	1/11/2017
Months to Lease Break	120	Months to Lease End	120
Contracted Rent (£ p.a.)	£200,000 (rising to £220k in Nov 19)	Occupation Level (%)	100

Former Aston Library

The tenant is Second City Housing, another local social housing provider. Second City Housing provides supported accommodation for 18-65 year olds.

A 10-year lease commencing 27/9/2018 with a break on 23/4/2023, at a rental of £67,600 p.a.

88 Hamstead Road

Let on 5 separate AST agreements at a current rental of £37,200 p.a.

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 £430,000.
	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 challenger bank on more competitive terms.

Covenants

LTV Covenant	50%	ICR Covenant	1.25x
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Fees

Arrangement Fee	2%	Broker Fee	1.5%
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Valuation

A valuation of the property was carried out by Aitchison Raffety and John Truslove on 12/2/2019, a copy of which can be seen in the supporting documents. The valuation concludes the following:

Market Value: £4,430,000
Vacant Possession Value: £3,730,000
Open Market Rental Value: £314,800

This is broken down as follows;

Former Aston Library -
Market Value: £1,250,000
Vacant Possession Value: £1,000,000
Open Market Rental Value: £77,600

Carnegie Institute -
Market Value: £2,750,000
Vacant Possession Value: £2,300,000
Open Market Rental Value: £200,000

88 Hamstead Road -
Market Value: £430,000
Vacant Possession Value: £430,000
Open Market Value: £37,200

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.	<p>The Borrower has other assets with a diverse overall spread of asset class and type of tenant.</p> <p>Any void or financial difficulty with any tenant here can be covered by other income enjoyed by the Borrower, who has a portfolio ICR in excess of 1.76x</p> <p>The rent will rise by a further £20k p.a. in November 2019, in accordance with the current lease terms at the Carnegie Institute.</p>	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 rents are due to increase further during the course of this loan, meaning the ICR will improve from the current 1.67x to 1.78x, which should	Medium

further enhance the prospect of a straightforward refinance.

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.

Medium

The loan to Vacant Possession Value is 59%.

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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