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Full Loan Request: Jewellery Quarter - Sutton Carter 3 - Office Portfolio

Main Site:	Units 6, 7, 9 & 10 Sovereign Court, Graham Street, Birmingham, B1 3JR
Date:	25/2/2019
Asset Description:	Eleven office units across three different sites in the Jewellery Quarter area of Birmingham.



Deal Summary

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

Property Summary

Market Value	£2,840,000	Property Income	£249,910
Vacant Possession Value	£2,620,000	Market Rental Value	£237,700
Tenure	Freehold	Asset Class	Office
EPC Rating (min. E)	B, D & E		

Loan Summary

Total Loan Required	£1,750,000	Loan to Value (LTV)	61.62%
Rate of Interest	7.32%	Interest Cover	1.95x
Loan Term	24 months	Interest Expense (p.a.)	£128,100

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
B	Medium	51-65%	£330,000	8.27%	7.443%	1.95x
A	Low	0-50%	£1,420,000	7.10%	6.39%	2.48x

Borrower Details

Name	Sutton Carter Investments Limited. Please note that this is the same Borrower as the Edgbaston Residential, Handsworth Mixed Use, Hockley And Newtown Mixed Use 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	<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	£1,750,000
LTV	61.62%
ICR	1.95x
Serviceability	Monthly rental income is being received of £20,825.83, with monthly interest payments due of £10,675.

Interest reserve Proplend will retain £64,050 (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	11/3/2019
Value	£5,100,000	Status	Up to Date

Strategy During Loan Term

113-117 Barr Street was bought in 2016 for £275k, and 156 Hockley Hill was bought in 2012 for £425k.

Unit 6 Sovereign Court was bought in July 2017 for £280k, Unit 10 in June 2017 for £475k, and Units 7 & 9 were bought together in March 2018 for £660k.

All of these 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.

Sutton Carter themselves occupy one of the office suites in Unit 6 Sovereign Court.

Property Details

Units 6, 7, 9, & 10 Sovereign Court - the subject property comprises four multi storey office conversions in Sovereign Court, a 1980s development comprising 10 office spaces in an attractive courtyard setting.

156 Hockley Hill - the subject property comprises a former office and industrial building which has been converted to create self-contained office and storage suites.

113-117 Barr Street - The subject property comprises a 1900s built mid-terrace office property which is planned over a part two and part four-storey building together with basement and courtyard. The property comprises individual office rooms of varying sizes along with supporting kitchen, staff and WC facilities.



Location Report

Units 6, 7, 9, & 10 Sovereign Court -

The subject property is located off Graham Street in the city centre of Birmingham. The property is located within the Jewellery Quarter suburb of Birmingham which is approximately one km (0.6 miles) northwest of Birmingham city centre and within the middle ring road of Birmingham formed by the A4540 Icknield Street/Ladywood Middleway.

Specifically the property is located on the north side of Graham Street, which connects to Newhall Street, approximately 100 m to the east and Frederick Street, approximately 100 m to the west. St Paul's Square is located approximately 200 m to the east, whilst the junction between Frederick Street and Warstone Lane is located approximately 300 m to the northwest.

156 Hockley Hill -

The subject property is located on Hockley Hill on the outskirts of the city centre of Birmingham. The subject property is located in the Hockley suburb of Birmingham which is approximately one mile northwest of Birmingham city centre. The property fronts the B4100 Hockley Hill, which turns into the B4100 Great Hampton Street and provides a main route into Birmingham city centre.

Hockley Hill also turns into the A41 Soho Hill to the northwest which provides a main arterial route out of Birmingham city centre and connects to junction 1 of the M5 motorway, approximately five km (three miles) to the northwest. The A4540 New John Street West/Icknield Street is also located approximately 400 m northeast accessed via Well Street. Specifically, the property is located on the northeast side of the B4100 Hockley Hill, which is a dual carriageway with access to the property only possible in a south-westerly direction heading into Birmingham.

113-117 Barr Street -

The subject property is located on Barr Street in the city centre of Birmingham. The property is located in the Jewellery Quarter suburb of Birmingham located approximately one kilometre (0.6 miles) northwest of Birmingham city centre. The Jewellery Quarter is located between the A4540 Icknield Street which forms part of the Middle Ring Road and the A4400 Great Charles Street, Queensway which forms part of the city centre loop. Specifically the property is located on the north east side of Barr Street between the junctions of Well Street and Hockley Street.

Well Street provides direct access to the A4540 approximately 200 metres to the north and the B4100 Great Hampton Street approximately 100 metres to the south. The property is located outside of the Jewellery Quarters main retail/commercial core and outside of the Jewellery Quarter conservation area. It is in a more industrial location comprising predominantly industrial units of various types dating from 1900s.



Tenant Details

Tenant	Sehgal & Co Solicitors (Unit 7, Sovereign Court).	Activity	Solicitors
Lease Type	FRI	Lease Start Date	1/9/2018
Months to Lease Break	36	Months to Lease End	120
Contracted Rent (£ p.a.)	£30,000	Occupation Level (%)	100

Other Leases

Sovereign Court

Unit 6, GF Sham Uddin 02/01/2019 - 01/01/2022, £12,000

6FF, Sutton Carter, 1/11/2017 - 31/10/27, £12,000**

6SF, Gary Mee 01/09/2018 - 31/08/2022, £12,000

9, R Pope and S Eldred 01/09/2018 - 31/08/2028, £35,000

10, Oaks Consultancy 01/11/2018 - 31/09/2023, £51,290

113-117 Barr Street, Birmingham B19 3DE

Prospect Housing Ltd, £35k p.a. 1/10/16 - 30/9/2019. The tenant has agreed to three year lease extension therefore expiring 30 September 2022, at the same rent.

156 Hockley Hill

Ground Suite 1 – Office. Annix Care Limited, £7,800. New five year lease

Ground Unit 2 – Office. Morgan Reed 01/12/2016 - 30/11/2021, £6,600

Ground Unit 2, Rear – Storage. Auto Leathers Limited 01/03/2016 - 28/2/2019, £7,200 New five year lease.

First Suite 3 – Office. Zoogi Holdings Limited 01/04/2016 - 31/03/2021, £12,000

First Unit 4/6 – Office. D2D Media 01/07/2018 - 30/06/2028, £27,360

Second Suite 5 – Office. Lulian-Vlad Voinea 01/10/2018 - 30/09/2021, £7,200

Second Suite 5a – Office. Russell Security 01/05/2018 - 30/04/2021, £6,000

** Deducted from interest servicing calculations as being paid by the Borrower.

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 £320,000. 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.

Covenants

LTV Covenant	65%	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 properties was carried out by Aitchison Raffety on 12/2/2019, a copy of which can be seen in the supporting documents. The valuation concludes the following:

Combined Market Value: £2,840,000
Vacant Possession Value: £2,620,000
Open Market Rental Value: £237,700

This is broken down as follows;

6, 7, 9, & 10 Sovereign Court -
Market Value: £1,765,000
Vacant Possession Value: £1,710,000
Open Market Rental Value: £143,500

113-117 Barr Street:
Market Value: £325,000
Vacant Possession Value: £285,000
Open Market Rental Value: £25,000

156 Hockley Hill:
Market Value: £750,000
Vacant Possession Value: £625,000
Open Market Rental Value: £69,200

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.

Given the security on this part of the portfolio, at 62% LTV gross, the Borrower should 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.

Medium

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

The rent will rise by a further £2k p.a. at 7 Sovereign Court in September 2019, and then a further £3k in September 2020 in accordance with the current lease terms.

The rent will rise by a further £3,710 p.a. at 10 Sovereign Court in September 2020 as per the current lease.

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, at 62% gross LTV, and with the rents above that are due to increase further during the course of this loan, the ICR will improve further from the current 1.95x to 2.02.x, 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.

Medium

The loan to Vacant Possession Value is 66.79%.

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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