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Full Loan Request: Birmingham HMO - Refi/Cap Raise

Main Site:	Park Hotel, 131 & 133 Aldridge Road, Perry Barr, Birmingham, B42 2ET
Date:	24/7/2019
Asset Description:	131 - The property comprises a substantial three storey former hotel which is now used as a HMO with a licence for 28 beds / 49 people, used for emergency housing. 133 - The subject property is a three storey detached house which the Borrower has recently converted into an HMO property.



Deal Summary

Loan Type	Commercial Mortgage	Borrower Profile	Property investment SPV
SIPP Classification	Ineligible	Loan Purpose	Refinance and Capital Raise

Property Summary

Market Value	£4,250,000	Property Income	£396,000
Vacant Possession Value	£2,045,000	Market Rental Value	£229,200
Tenure	Freehold	Asset Class	HMO
EPC Rating (min. E)	131 - C, 133 - E.	Planning Use	HMO

Loan Summary

Total Loan Required	£2,337,500	Loan to Value (LTV)	55%
Rate of Interest	7.30%	Interest Cover	2.32x
Loan Term	18 months	Interest Expense (p.a.)	£170,638

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
B	Medium	51-65%	£212,500	8.30%	7.47%	2.32x
A	Low	0-50%	£2,125,000	7.20%	6.48%	2.59x

Borrower Details

Name	Churchgate Property Services Limited
Registration	Limited Company
Main Business Activity	<p>The proposed Borrower is a special purpose Limited Company, registered in the UK. It has no assets other than the Subject Properties.</p> <p>However, this should be read in conjunction with the notes on our website regarding the Bloomsbury Residential loan, as this is also being provided to Churchgate Property Services Limited.</p>
Ownership Structure	The Company is owned 100% by Mr. Avtar Sandhu.

Applicant Details

Name	Avtar Sandhu
Age	64
Experience	<p>The Borrower is an experienced property investor and developer, and is a long-standing client of Proplend. Mr Sandhu runs 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>The Borrower has repaid 4 loan facilities with Proplend in full, and currently has 3 facilities outstanding, one of which is being refinanced with this loan now. Please see under Personal Guarantee in the Security section below, for more information.</p> <p>The 3 outstanding loans are as follows; - Birmingham Offices, £457,500 - Sparkhill Offices, £825,000 (due to be redeemed in the next week or two), - Birmingham HMO, £1,269,000 - being redeemed via the net proceeds of this loan.</p> <p>The aforementioned Bloomsbury Residential loan to be provided, is £1.75m.</p>
Credit History	Strong, Creditsafe band 10 out of 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	<p>Refinance and Capital Raise.</p> <p>We are asked to provide a 55% LTV gross loan facility, £2.242m net, in order to refinance the current Birmingham HMO loan, £1.244m, and the remainder being put towards the purchase of the target investment property, as per the Bloomsbury Residential loan.</p> <p>The gross loan facility is 55% LTV of the Market Value based on the current leases which run till 2022. The current rental income is well above market value, although in line with the current use as emergency accommodation. The borrower has a good relationship with the tenant and has recently renewed the lease on 131.</p> <p>Based off more conventional AST lettings, the gross loan is less than 70% LTV.</p> <p>But it should be noted that the gross loan is over 100% of the true vacant possession value, as provided in the valuation report.</p>
Gross Loan Amount	£2,337,500

LTV	55%
ICR	2.32x
Serviceability	Interest payments due are £170,638 p.a. with gross rental income being received of £396,000 p.a.
Interest reserve	Proplend will retain £42,659 (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 6 months, no fee thereafter.

Existing Facility

Lender	Proplend	Expiry	21/12/2019
Value	£1,269,000	Status	Up-to-date
Existing Facility Description	In good order, and all payments made in a timely manner.		

Strategy During Loan Term

The property is to be retained as a long-term investment. During the 18-month term, the borrower will continue to maximise income streams from the subject properties.

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.

Some of the 28 rooms are en-suite. 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, the ground floor accommodates a manager's office, reception, communal lounge and kitchen, stores, bedrooms and shared facilities. The first and second floors accommodate letting rooms and toilet facilities.

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 is a former office building and has been converted to a HMO.

The 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. The property provides 10 bedrooms that are all en-suite and a communal area located in the basement providing a lounge and kitchen.

The conversion will have been to a high standard having carpet covered floors, painted plastered walls and ceilings. Circa £100k has been spent on the refurbishment.

Externally there is a small driveway for parking and a private rear garden.

The first tenant moved in last week and it is already at full capacity.



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.

Motorway links are accessible via Junction 7 of the M6 motorway at Great Barr, approximately 2 miles north. Perry Barr Station is located less than a mile south of the subject property and there are bus routes in the vicinity.

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.

The property is located in Perry Barr, an inner-city area 4 miles north of Birmingham City Centre. The property is approximately 5.5 miles south west of Sutton Coldfield, 6 miles south east of Walsall and 6 miles east of West Bromwich.



Tenant Details

Tenant	Weir Lettings Limited	Activity	Residents Property Management
Lease Type	Landlord responsible for repairs	Lease Start Date	131 - Feb 2019 133 - July 2019
Months to Lease Break	36	Months to Lease End	36
Contracted Rent (£ p.a.)	£396,000	Occupation Level (%)	100

As above, the leases are not FRI, and the Borrower has supplied a breakdown of regular operational expenditure, which equates to £71,364 p.a. for no. 131, and £24,120 p.a. for no. 133.

The net rents can therefore be assumed to be £300,516 p.a. still providing ICR of 1.76x.

Tenant strength Reasonable local covenant. We have undertaken a Creditsafe search, and the Company has a score of 96 out of 100, putting it in the lowest risk band.

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 Individual Guarantee from an Individual Director of Churchgate Property Services Limited for the sum of

£467,500.

Please note that the Guarantor has other Personal Guarantees outstanding as follows;

- Birmingham Offices loan, £91,500
- Sparkhill Offices loan, £165,000 (due to be redeemed within the next week or two)

We are also as above, about to provide the Bloomsbury Residential loan, for which a £350k PG will be taken.

Exit Strategy

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

Covenants

LTV Covenant	65%	ICR Covenant	2x
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Fees

Arrangement Fee	1.5%	Broker Fee	0.75%
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Valuation

A valuation of the property was carried out by Bruton Knowles on 23/7/2019, a copy of which can be seen in the supporting documents. The valuation concludes the following:

Market Value (as is): £4,250,000
Market Value (if let on ASTs): £3,350,000
Vacant Possession Value: £2,045,000
Open Market Rental Value: £229,200

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.

There is a continuing strong demand for social housing in the Birmingham Area, and the property is consistently producing increasing income. Refinancing at more competitive terms to another lender seems a realistic prospect.

Low-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 property is achieving higher than the Open Market Rental value, but even just the OMR figure is 1.34x the interest payments.

Low

The financial covenant of the tenant's associated trading company is also considered strong and therefore default on the lettings is considered unlikely.

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 two years.

Medium

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

There is a high risk in this economic environment that the property may fall in value in the next 18 months, however, at 55% LTV, in an area where demand for HMOs is believed strong, the property would have to nearly halve in value, before lenders in Tranche B would become affected.

High

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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