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Full Loan Request: Wolverhampton Office Block

Date:	23/6/2022
Main Site:	Waterloo Court, 31 Waterloo Road, Wolverhampton, WV1 4DJ
Property Description:	The Subject Property comprises a purpose built office building, built in the 1960s, with a Net Internal Area of 41,637 sq ft, and with associated parking.
Loan Summary:	We are asked to provide a 70% LTV gross loan facility in order to refinance the bridging loan used to purchase the Subject Property.



HIGHLIGHTS

Loan Type	Commercial Term Loan	SIPP Eligible	Yes
Property Value	£3,450,000	Passing Income	£289,780
Gross Loan	£2,415,000	Loan to Value (LTV)	70%
Blended Interest Rate	6.35%	Loan Term	24 months

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
C	High	66-75%	£172,500	8.90%	8.01%	1.89x
B	Medium	51-65%	£517,500	7.00%	6.30%	2.10x
A	Low	0-50%	£1,725,000	5.90%	5.31%	2.85x

PROPERTY

Market Value	£3,450,000	Passing Income	£289,780
Vacant Possession Value	£3,080,000	Estimated Rental Value	£384,863
Tenure	Freehold	Asset Class	Office
EPC Rating (min. E)	D	Planning Use	E

Property Details

The Subject Property comprises a purpose-built office building built in the 1960s of concrete framed construction with concrete and brick elevations surmounted by flat roofs.

The office accommodation is arranged over three wings; the north wing provides five storeys, the south wing provides four storeys, and the west wing provides sixth storeys including an unused residential flat. The Property provides a total Net Internal Area of 41,637 sq ft. There is also a basement car park.

The office specification generally comprises open plan and cellular suites, suspended ceilings incorporating recessed box panel lighting, plastered and painted walls, carpet floor covering, wall-mounted perimeter heaters (in part), perimeter trunking (in part), ceiling mounted air conditioning (in part), single glazed metal framed windows with secondary glazing (in part) and two lifts serving each floor except the sixth floor which is accessed via the stairwell.

The ground floor provides a reception area and lift lobby with alternate male and female WC facilities on each floor.

At basement level, there is a tarmacadam surfaced car park providing approximately 75 designated parking spaces and is accessed through a security barrier from Clarence Road to the rear of the Property.



Location Report

Wolverhampton is a city in the West Midlands lying approximately 12 miles northwest of Birmingham, 29 miles south of Stoke-on-Trent and 62 miles south of Manchester. At the time of the 2011 Census, the population of Wolverhampton was 210,319 (ONS, 2011).

The city is well-connected to the national road and motorway network, with junction 2 of the M54 being situated approximately 3.5 miles north of the city centre and junction 10 of the M6 accessible circa 4.75 miles to the east.

The former connects the city with Shropshire and North Wales to the west, whilst the latter allows for convenient access to Birmingham to the south and Manchester to the north.

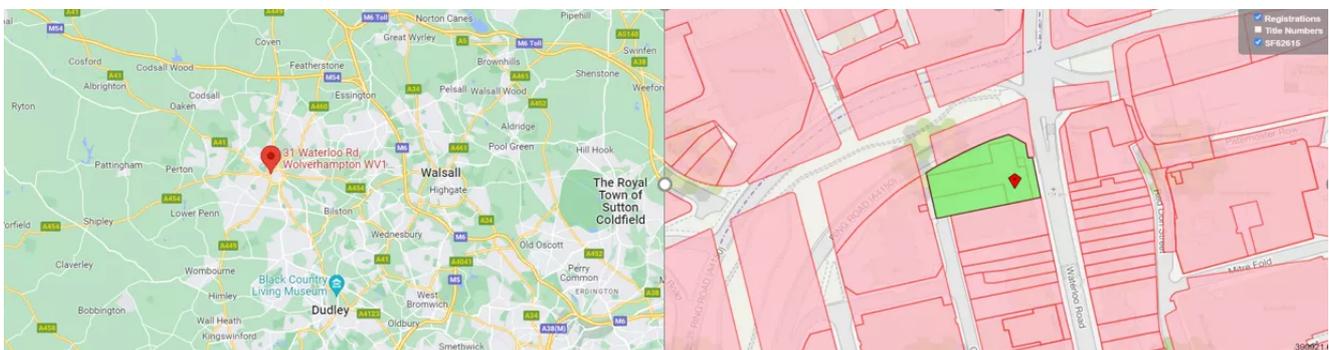
Wolverhampton railway station is situated on the eastern edge of the city centre and provides regular direct services to Birmingham New Street, Manchester Piccadilly and London Euston.

A number of local bus services are offered from Wolverhampton Bus Station, which is situated adjacent to the train station and was developed in 2011. The Midland Metro tram system links the city to Birmingham and West Bromwich.

The nearest airport to Wolverhampton is Birmingham Airport, which is situated approximately 19 miles to the southeast and provides flights to over 150 international destinations.

The Subject Property is situated on the corner of Waterloo Road and St Andrews Ring Road (A4150), and can also be accessed off Clarence Road to the rear.

The Property is well located in the city centre, close to the Molineux Stadium, University of Wolverhampton and Mander Centre, whilst Wolverhampton train station is only a 13-minute walk away.



Tenant Commentary

Of the Property's 22 units, 15 are currently let to 9 different tenants, though provide a WAULT of only 1.2 years.

The current gross rents provide an ICR of 1.89x and although the bulk of this income is on short leases, the valuer notes that Wolverhampton has performed relatively well amid the coronavirus crisis, albeit that Wolverhampton itself is not necessarily an established office location.

Tenant Details

Passing Rent	£289,780 p.a.	Occupancy Level	68%
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Lease arrangement The majority of tenancy agreements are short-term occupational leases, not uncommon for this type of asset. The two tenants that have longer leases are able to break their leases at any time, with 6 months notice.

Tenant strength The Secretary of State for Communities and Local Government forms part of the UK Government and accordingly provides a strong covenant, whilst Leonard Cheshire Disability and Capital Professional Ltd also provide good covenant strength.

These three tenants account for 76% of the total current passing income.

The residual tenants provide individual weak covenant strength and limited income security.

Demise	Tenant	Start	Expiry	Break	Rent	Rent £psf	Rent Review Provisions
Ground North Wing	Reed Specialist Recruitment Limited	28/04/2017	27/04/2022	-	£10,474	£8.01	None
Ground Part West Wing Suite B	The Secretary of State for Communities and Local Government	01/04/2020	31/03/2025	01/04/2022 6 months' notice (Not actioned)	£7,328	£6.99	None
Ground Part West Wing Rooms 1	Nobel Gill (Holding Over)	16/06/2017	15/06/2019	-	£1,400	£7.91	None
Ground Floor Rooms 2 & 3	Vacant						
Ground Part West Wing Rooms 4	Vacant						
Ground Part West Wing Rooms 5 & 6	Reed Specialist Recruitment Limited	28/04/2017	27/04/2022	-	£3,100	£6.08	None
Ground Part West Wing Rooms 7, 8, 9	I Need Staff Today	31/01/2022	30/01/2024	-	£3,500	£7.07	None
Ground Part West Wing Room 10	Vacant						
Ground South Wing	The Secretary of State for Communities and Local Government	01/04/2020	31/03/2025	01/04/2022 6 months' notice (Not actioned)	£16,772	£8.61	None
First Floor North Wing	Protocol Teachers (Holding Over)	01/07/2014	31/08/2020	-	£13,442	£9.18	None
First Floor West Wing	Vacant						
First Floor	GAP Personnel	25/12/2014	24/12/2019	-	£16,974	£8.81	None

Demise	Tenant	Start	Expiry	Break	Rent	Rent £psf	Rent Review Provisions
South Wing	Holdings Limited (Holding Over)						
Second Floor North Wing	Capital Professional Ltd T.A Ascot Lloyd (Holding Over)	06/02/2020	05/02/2021	-	£11,576	£7.96	None
Second Floor South Wing and 3 car parking spaces	City Fibre Ltd	18/09/2020	17/09/2025	18.09.2023 6 months' notice	£18,962	£9.65	None
Second & Third Floor West Wing & 23 Car Parking Spaces	Capital Professional Ltd T.A Ascot Lloyd	02/09/2019	01/09/2029	02/09/2024 6 months' notice	£81,000	£9.11	02/09/2024
Third Floor North Wing	Vacant						
Third Floor South Wing	Vacant						
Fourth Floor North Wing	Leonard Cheshire	09/10/2016	26/07/2022	09/10/2021 (Not actioned)	£13,000	£8.81	None
Fourth Floor West Wing	The Leonard Cheshire Foundation	27/07/2007	26/07/2022	-	£45,576	£10.21	None
Fifth Floor West Wing	The Leonard Cheshire Foundation	27/07/2007	26/07/2022	-	£45,576	£10.30	None
Executive Suite Sixth Floor	Vacant						
2 Car Park Spaces	Protocol Teachers (Holding Over)	01/07/2014	30/06/2020	-	£1,100	£550 per space	None
Total					£289,780	per annum	

Valuation Commentary

A valuation of the property was carried out by BNP Paribas Real Estate on 5 April 2022, a copy of which can be seen in the supporting documents.

The valuation concludes the following, having adopted the market approach by capitalising the present and future rental income streams adopting rents and yields derived by comparing the Property with similar assets for which rental and investment information is available (often referred to as the income or investment approach).

- the Property is held freehold
- situated in Wolverhampton city centre however Wolverhampton is not an established office location
- offices are capable of subdivision, available as individual suites or on a wing or floor-by-floor basis
- the Property would benefit from modernisation / refurbishment in part however, the cost of extensive refurbishment is unlikely to be recuperated through rental income
- WAULT of 1.2 years
- the Property is highly reversionary with a vacancy rate of circa 24% of the total building area
- long term redevelopment potential (subject to planning)
- the Property is expected to appeal to local and regional occupiers
- the Property represents suitable security for mortgage purposes
- local comparables provided by the valuer note a similar rental per square foot, but with inferior specification to that of the Subject Property.
- the Property is clearly under rented, given the current vacancies (current market rent £383,863, with passing rent currently of £289,780)
- expected timescales for sale of presumably 9 months (6 months marketing, and three in legals)
- the Property will be of interest to local and regional property investment companies and developers
- expected timescales for lettings of 15 months (12 months marketing, and 3 months rent-free)
- the investment market would not deem the tenant line-up to be unusual for this asset class and location.

Valuation Numbers

Market Value	£3,450,000	Vacant Possession Value	£3,080,000
Passing Rent	£289,780	Estimated Rental Value	£384,863
Rent psf	£9.24	Re Instatement Value	£9,875,000

Report on Title

A Report on Title will be supplied by Paris Smith LLP acting on behalf of Proplend Security Ltd, and it's comments thereon can be viewed under documents.

LOAN

Gross Loan	£2,415,000	Loan Purpose	Refinance
Loan Term	24 months		
Loan to Value (LTV)	70%	LTV Covenant	75%
Interest Cover Ratio (ICR)	1.89x	ICR Covenant	1.25x
Rate of Interest	6.35%	Interest Expense (p.a.)	£153,352

Serviceability Rental income of £289,780 p.a. is being received, with interest payments due of £153,352 p.a.

Interest Reserve Proplend will retain £76,676 (6 months interest) from the gross loan amount which will be held on account.

Fees

Arrangement Fee	2%	Broker Fee	0%
Early Repayment	2% first 6 months, 1% months 7-12	Exit Fee	1% - only incurred if the loan is not fully redeemed within the agreed 24-month loan term.

Existing Facility			
Lender	Glenhawk	Expiry	1/9/2022
Amount Outstanding	£2,400,000	Status	Up-to-date

Business Plan During Loan Term
<p>The Borrower is in the throes of a refurbishment; cleaning the whole building, redecorating and recarpetting throughout, buying new furniture for the reception area, and by making the car park more secure, at an approximate cost of £55k, which is expected to take five or six months in all.</p> <p>Local lettings agent Bond Wolfe are appointed to fill the seven vacant units, while the Borrower attempts to renegotiate more favourable lease terms with the current tenants, which our Sponsor has a proven track record in so doing.</p> <p>In addition to the above, the Borrower will also provide bespoke refurbishment/fitouts to a prospective tenant's requirements, if the initial offering is not to the tenant's liking.</p> <p>The Borrower will also prioritise the lease renewals of the three main tenants. He also has two tenants moving in shortly from a neighbouring Property that an associated Company owns (not charged to us), that will produce an additional £86k p.a. rental income.</p> <p>As an alternative, and only should the occupancy fall below 50%, the Borrower may consider a planning application for a residential scheme.</p>

Exit Strategy
<p>The Borrower intends to refinance this loan approaching maturity with a challenger bank at more competitive terms.</p>

Exit Strategy			
Charge	First Legal Charge	Debenture	Debenture Required
Property Insurance	PSL Interest to be Noted on Completion		

Personal Guarantee

Individual Guarantee from an Individual Director of Charles Jordan (Waterloo) Ltd for the sum of £1,200,000.

Please be advised that the Sponsor has provided Personal Guarantees for other Active Proplend loans, as follows;

- Birmingham Offices Refinance, £94,000
- Edgbaston HMO, £100,000
- Handsworth HMO, £61,250
- Welshpool Offices, £550,000
- Walsall Commercial Mixed Use, £321,300.

BORROWER**Name**

Charles Jordan (Waterloo) Ltd

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 Property.

Ownership Structure

The borrowing entity is 100% owned by Mr Avtar Sandhu.

Sponsor	
Name	Avtar Sandhu
Age	67
Relevant Experience	<p>The Applicant is an experienced property investor and developer, and is a long-standing client of Proplend.</p> <p>Mr Sandhu's main business interest, as well as property development and investment, is a successful business recycling mobile phones.</p> <p>In addition to his main business interest, he has developed various residential schemes, and owns and lets various other residential investments in the Birmingham area.</p> <p>This applicant has successfully redeemed ten loans with Proplend in full, and currently has five loan facilities outstanding, as below (please also see the Security section below, under Personal Guarantees for more information).</p>
Credit History	Strong
Additional Information	<p>Please note that this Sponsor as above is a long-standing Proplend Borrower, and is party to the following five outstanding loans (all Active - Good Standing);</p> <ul style="list-style-type: none"> • Birmingham Offices Refinance, £470,000 • Edgbaston HMO, £432,250 • Handsworth HMO, £245,000 • Welshpool Offices, £995,000 • Walsall Commercial Mixed Use, £1,606,500 <p>...and was also behind the following loans, all fully redeemed;</p> <ul style="list-style-type: none"> - Birmingham Mixed Use, £815,000 - Birmingham HMO, £1,269,000 - Birmingham HMO Refinance, £2,337,500 - Birmingham HMO 2, £2,250,000 - Birmingham Hotel, £600,000 - Birmingham Industrial, £250,000 - Birmingham Office Block, £725,000 - Burton-upon-Trent Offices, £825,000 - Burton-upon-Trent Offices Nov 17, £1,495,000 - Sparkhill Offices, £825,000.

Term Loan Risk Rating

Risk Category	Score	Rating
Financial Ratios	2.50	HIGH
Property	1.60	MODERATE
Tenants Leases	1.40	MODERATE
Borrower Sponsor	0.57	LOW
Asset Class Outlook	1.00	MODERATE
Risk Rating [3.5 to 10.02]	7.07	MODERATE

Lender Risks	Mitigant	Risk Level
The Borrower is not able to successfully execute their business plan.	<p>This loan is to an existing and experienced Borrower with a good Proplend track record to date.</p> <p>The Borrower has successfully executed a similar business plan elsewhere in his portfolio consistently over recent years, and evidenced his ability to manage assets similar to the Subject Property.</p>	Medium

Lender Risks	Mitigant	Risk Level
<p>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>	<p>The ICR is comfortable as things currently stand at 1.89x.</p> <p>There are 7 vacant units (out of 22) to allow for lease up which will improve rental income, serviceability, and capital value over time.</p> <p>When the two new tenants move in, the ICR will improve further to 2.45x, other things being equal.</p> <p>The Subject Property is currently 68% occupied, with a rental of £9.24 per square foot. The Borrower can 'afford' for this to dip to 60% occupation at £6.14 psf and still have sufficient rental income to cover the interest payments due.</p> <p>Comfort is further gained by the holding of a six month Interest Reserve.</p>	<p>Medium</p>

Lender Risks	Mitigant	Risk Level
<p>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.</p>	<p>As above, the Borrower has a good track record in achieving his Exit Strategy.</p> <p>The Borrower enjoys good relationships with other Lenders, as well as Proplend, and the proposed refinance exercise approaching maturity, particularly if other tenants have been found, improving the economics accordingly, is not unrealistic.</p> <p>We have good personal recourse, with a 50% PG being taken on this occasion.</p>	<p>Medium</p>
<p>The Property falls in value due to either macroeconomic or property specific reasons</p>	<p>The Property may well dip in value during the loan term, not least due to external economic factors, however the Borrower has a proven track record with this type of asset, increasing rental income over time, maintaining a reasonable LTV, and successfully refinancing away at more competitive terms.</p> <p>The gross loan facility is 70% of the market value, and 78.4% of the vacant possession value.</p> <p>The valuer also points to the longer term potential for residential development, subject to planning.</p>	<p>High</p>

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 the interest of Proplend Security Limited noted
- Proplend Ltd diligence to be satisfied that interest payments can be serviced
- Loan to value not to exceed 70% on draw down

Documents

The following documents are available to download via the Loan Request screen:

- A Draft Standard Loan Contract
- A copy of the Valuation Report

The Report On Title and Lettings Report produced by Paris Smith LLP will be made available as soon as it is received.

PROPLEND DISCLAIMER - PLEASE NOTE:

The information provided in this Loan Request is provided solely by the applicant and not Proplend Ltd ("Proplend") or Proplend Security Limited ("PSL"). Neither Proplend nor PSL has verified or audited the information in the Loan Request or the Loan Request itself; and the publication of the Loan Request by the applicant on the Platform does not constitute any approval, endorsement or representation by Proplend or PSL in relation to the Loan Request. Neither Proplend nor PSL provides any warranty, representation or undertaking as to the accuracy, timeliness or reliability of the information in the Loan Request or that the Loan Request or any Due Diligence Material accurately reflects the risks associated with the Loan Request; nor does Proplend or PSL make any recommendation or give any advice of any kind in relation to the Loan Request. Expected bad debt estimates are estimates for general guidance only and neither Proplend nor PSL warrant their accuracy or reliability. Lenders should seek their own independent legal, financial, tax or other advice before lending. Capital at risk.