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Full Loan Request: Smethwick Retail 1

Date:	13/9/2022
Main Site:	1) 567/569 Bearwood Road, Smethwick, B66 4BH 2) 577 Bearwood Road, Smethwick, B66 4BH
Property Description:	<p>The two Subject Properties are self-contained retail premises, which form part of the purpose-built Smethwick shopping centre, considered to have been constructed c1955.</p> <p>567/569 Bearwood Road is occupied by Poundland Ltd, and 577 Bearwood Road is occupied by Card Factory.</p>
Loan Summary:	<p>We are asked to provide a 65% LTV gross loan facility in order to assist with the purchase of the two Subject Properties.</p> <p>Please note that we are also providing the same Borrower with a second loan - please see Smethwick Retail 2.</p>



HIGHLIGHTS

Loan Type	Commercial Term Loan	SIPP Eligible	Yes
Property Value	£810,000	Passing Income	£68,500
Gross Loan	£526,500	Loan to Value (LTV)	65%
Blended Interest Rate	6.45%	Loan Term	36 months

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
B	Medium	51-65%	£121,500	7.95%	7.16%	2.02x
A	Low	0-50%	£405,000	6%	5.40%	2.82x

PROPERTY

Market Value	£810,000	Passing Income	£68,500
Vacant Possession Value	£830,000	Estimated Rental Value	£128,500
Purchase Price	£980,000	Purchase Type	Option
Tenure	Freehold	Asset Class	Retail
EPC Rating (min. E)	Both C	Planning Use	E

Property Details

The two Subject Properties are self-contained retail premises, which form part of the purpose built Smethwick shopping centre, considered to have been constructed in about 1955.

567/569 Bearwood Road is occupied by Poundland Ltd, and 577 Bearwood Road is occupied by Card Factory.

The properties are of conventional construction. The buildings are two storey and have external cavity walls, with a brickwork finish.

The ground floors are of solid construction, and first floors are suspended concrete construction.

The accommodation comprises;

567/569 Bearwood Rd:

Ground floor: Retail premises

First floor: Landing/stores; storeroom; kitchen/staff room; office; ladies' WC and gents' WC.

The Net Internal Area (NIA) extends to 5,756 sq ft.

577 Bearwood Rd:

Ground floor: Retail premises

First floor: Landing; storage; ladies' WC and gents' WC.

The NIA extends to 1,502 sq ft.

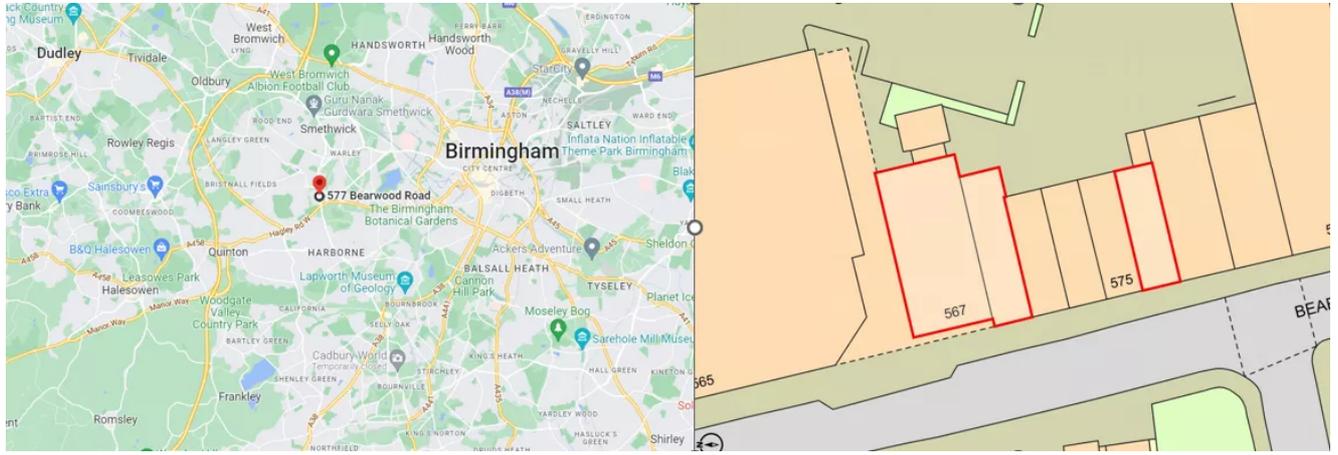


Location Report

567/569 and 577 Bearwood Road are both retail premises in a prominent location in the town centre of Smethwick, which is in the north western suburbs of Birmingham, approximately three miles from the city centre.

Bearwood Road is the prominent retail street. The M5 and M6 motorways are conveniently located, being approximately three miles from the Properties.

The Properties have no specific outside amenity space or parking included within the curtilage, but there is a public car park at the rear of the shopping centre, which is conveniently located, with access through Bearwood Road, adjacent to 567/569 Bearwood Road.



Tenant Commentary

Poundland is a British variety store chain founded in 1990, selling most items at the single price of £1, including clearance items and proprietary brands.

Card Factory is a retailer of greeting cards and gifts in the United Kingdom founded in Wakefield. The first store opened in 1997, and by 2020 the company had over 1,000 stores. The company also operates two retail websites and has mobile apps for both iPhone and Android. It is listed on the London Stock Exchange.

Tenant Details

Tenant	Poundland Ltd	Business Activity	Retail discount store
Lease Type	FRI	Lease Start	22/8/2012
Months to Lease Break	n/a	Lease Expiry	22/8/2022
Passing Rent	£100,000 p.a. (holding over - we have taken the lower figure currently offered of £40k above)	Occupancy Level	79%

Tenant Details

Tenant	Sports Swift Ltd t/a Card Factory	Business Activity	Retail discount store
Lease Type	FRI	Lease Start	30/8/2017
Months to Lease Break	n/a	Lease Expiry	7/11/2022
Passing Rent	£28,500 p.a.	Occupancy Level	21%

Valuation Commentary

A valuation of the property was carried out by McCartneys LLP on 28th June 2022, a copy of which can be seen in the supporting documents. The valuation concludes the following:

- the properties are situated in a prominent high street location
- both have national tenants in occupation
- the existing use as Retail is considered to be the most beneficial, in order to maximise capital and rental values
- the ongoing lease negotiations with Poundland will directly affect the value of 567/569 Bearwood Road
- saleability - five months
- lettablility: 567/569, six months and 577, three months
- the Subject Properties provide suitable security.

Valuation Numbers

Market Value	£810,000	Vacant Possession Value	£830,000
Passing Rent	£68,500	Estimated Rental Value	£128,500
Rent psf	567/569 - £17.37 577 - £18.97	Re Instatement Value	£1,120,000

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	£526,500	Loan Purpose	Purchase
Loan Term	36 months		
Loan to Value (LTV)	65%	LTV Covenant	70%
Interest Cover Ratio (ICR)	2.02x	ICR Covenant	1.25x
Rate of Interest	6.45%	Interest Expense (p.a.)	£33,959

Serviceability	Rental income of £68,500 p.a. with interest payments due of £33,959 p.a.
Interest Reserve	Proplend will retain £42,449.07, the equivalent of 15 Repayments. Of which £25,469.44 will be returned to the Borrower upon receipt of a new signed (by all parties) lease for 569 Bearwood Road, provided this is to Proplend's satisfaction, and that all monthly interest payments due have been serviced in the interim.

Fees			
Arrangement Fee	2%	Broker Fee	1%
Early Repayment	2% year 1, 1% year 2, no fee thereafter.	Exit Fee	1% - only incurred if the loan is not fully redeemed within the agreed 36-month loan term.

Business Plan During Loan Term

The Subject Properties are being purchased as a long-term investment.

The first priority will be to drive the lease negotiations, as Poundland are currently holding over, and the Card Factory lease as above, expires in November.

Both businesses are long-established and successful in these locations, and the Borrower is confident that they will both renew.

Poundland have confirmed their intention in writing, to renew on a 10-year lease with a likely 5-year break clause. However, they are currently paying rent of £100k p.a. but have only thus far offered £40k p.a. to the vendor.

Our Borrower will obviously take over these lease renewal negotiations upon completion.

Exit Strategy

Once both leases have been renewed, the Borrower will seek to refinance on to a longer-term commercial mortgage product.

Security

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

Personal Guarantee	Joint and Several Guarantee from the Directors and Shareholders of ASR Premier Properties Ltd for the sum of £131,625. Please note that the same Guarantors will also be providing Joint and Several Personal Guarantees for the Smethwick Retail 2 loan, limited to the sum of £247,000.
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BORROWER

Name	ASR Premier Properties Ltd
Registration	UK Registered Limited Company
Main Business Activity	The proposed Borrower is a currently dormant UK-domiciled commercial property investment company, but as above and below is about to acquire other assets.
Ownership Structure	The three Directors are brothers and each own an equal third of the Company.

Sponsor

Name	Waqar Rahim, Zeeshan Rahim, and Salman Rahim.
Age	39, 37 & 36 respectively

Sponsor

Relevant Experience

The Sponsors are three brothers, who have operated as business partners since 2006, and own/operate multiple, profitable businesses together, as well as properties.

Their businesses include furniture (wholesale and retail), car sales and home interiors/soft furnishings. The clients have owned commercial properties for many years (let to their own businesses).

They retain almost all profit inside their various businesses, and take only minimal personal incomes themselves and lead relatively frugal lifestyles (all living in the same house in Warwickshire).

Related businesses;

ASR Interiors Ltd

Credit Safe rating = B

Accounts to year end 28/2/2021 show T/O increased from £1,754,121 (as at 28/2/2020), to £2,253,350, GP increased from £247, 273 to £393,738, and NPBT increased from £141,086 to £242,423.

Shawn Ltd

Credit Safe rating = B

Accounts to year end 31/12/2020 show a slight increase in T/O from £767,231 to £825,837, GP down slightly from £355,512 to £321,109, and NPBT increased from £101,980 to £152,930.

Shawn Dream Cars Ltd

Credit Safe rating = B

Accounts to year end 30/9/2020 show T/O up from £2,360,896 to £2,949,768, GP down from £229,978 to £134,830, and NPBT increased slightly from £91,804 to £95,947.

The brothers also each have their own small property investment portfolio.

Credit History

All three have strong personal credit ratings - all Credit Safe Band 9, and all Lexis Nexis checks Passed.

Term Loan Risk Rating	
Risk Category	Rating
Financial Ratios	MEDIUM
Asset Class Outlook	MEDIUM
Property Risk	MEDIUM
Tenants Leases	MEDIUM
Borrower Sponsor	MEDIUM
Risk Rating [3.5 to 10.02]	6.72
Risk Level	MEDIUM LOW

Lender Risks	Mitigant	Risk Level
The Borrower is not able to successfully execute their business plan.	<p>Once the lease renewals have been finalised, even if Poundland only renew at their current low offer of £40k per annum, a straight refinance should be readily available.</p> <p>If Poundland renew at a higher level than that currently offered, the refinance will be that much easier.</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 above ICR (2.02x) calculations are based on rental income of £68.5k, comprised of £40k (Poundland), and £28.5k (Card Factory).</p> <p>The true ICR however is currently 3.78x as Poundland are holding over at a rental of £100k, so the current passing rent is in fact £128.5k. Bank statements are held on file evidencing this.</p> <p>The reason we have taken the figure of £40k is that at the time of writing, this is all that Poundland are currently prepared to pay.</p> <p>It is highly likely that the final figure will be north of £40k, but equally highly unlikely to be close to the current rental of £100k.</p> <p>We are holding a 15-month Interest Reserve. The first 9 months interest payments will be taken from this, and the Borrower will service from month 10 onwards, leaving 6-months interest in the Reserve until maturity.</p>	<p>Low</p>

Lender Risks	Mitigant	Risk Level
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>As above, provided the tenants renew, a loan to refinance this loan is not unrealistic.</p> <p>We have copy correspondence on file from Poundland's solicitors, confirming their intention to renew.</p> <p>Once the leases are renewed, provided the Borrower performs as expected, we may also wish to offer a subsequent loan.</p>	Medium

Lender Risks	Mitigant	Risk Level
<p>The Property falls in value due to either macroeconomic or property specific reasons</p>	<p>With each Property, we are lending against the lower of purchase price or market value.</p> <p>567/569 - the purchase price is £700k, and valuation £530k.</p> <p>577 - the purchase price is £280k, and valuation £300k.</p> <p>For the purposes of this loan therefore, we have taken the £530k and £280k figures, to reach our figure above of £810k.</p> <p>The value of 567/569 Bearwood Road is expected to rise once the Poundland lease has been renewed, post-completion.</p> <p>We know from discussions with the valuer, that if Poundland renew at a rental of £50k p.a. the value of that Property alone will increase from £530k to c£665k.</p> <p>As an alternative guide, although this is highly unlikely, we also know that if Poundland were to renew at the level that they are currently paying - £100k p.a. - the valuation of 567/569 would increase to £900k.</p>	<p>Low</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 65% 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:

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