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Full Loan Request: St Leonards-On-Sea HMO Refinance

Date:	15/2/2023
Main Site:	5-6 The Green, St Leonards-On-Sea, TN38 0SY
Property Description:	The Subject Property is a substantial detached 3-storey building dating from the early 20th century currently operating and occupied as an 11-bed HMO.
Loan Summary:	We are asked to provide a 64% LTV gross loan facility in order to refinance our existing St Leonards-On-Sea HMO loan, and to raise capital of c£40k.



HIGHLIGHTS

Loan Type	Commercial Term Loan	SIPP Eligible	No
Property Value	£1,250,000	Passing Income	£180,000
Gross Loan	£800,000	Loan to Value (LTV)	64%
Blended Interest Rate	9.03%	Loan Term	14 months

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
B	Medium	51-65%	£175,000	10.53%	9.48%	2.49x
A	Low	0-50%	£625,000	8.61%	7.75%	3.34x

PROPERTY

Market Value	£1,250,000	Passing Income	£180,000
Vacant Possession Value	£850,000	Estimated Rental Value	£142,000
Tenure	Freehold	Asset Class	HMO
EPC Rating (min. E)	E	Planning Use	Sui Generis

Property Details

The Subject Property is a substantial detached 3-storey building dating from the early 20th century.

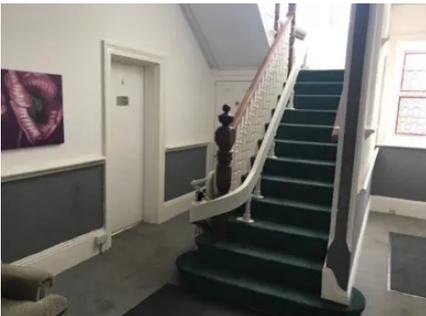
The Property is currently occupied as a House of Multiple Occupation (HMO) and features 11 bedrooms, two communal lounges, two communal kitchens, 3 bathrooms/wet rooms with a dining room and two separate WC's on a plot of around 0.327 acres, with off-street parking to the front and a garden to the rear.

The Property was previously occupied as a care home and features a stair lift with a communal staircase to the upper floors as well as a secondary staircase.

The Property was presented in satisfactory condition and occupied at the time of the valuation inspection.

The existing property benefits from a gross internal floor area of around 4,198 sq ft.

The Borrower has submitted a planning application for the demolition of the existing outbuilding and proposed extension with associated parking and landscaping, and change of use from HMO (Sui Generis) to 11 flats (C3). We have been advised that the application goes to planning committee in March.



Location Report

The Property is situated close to the centre of the town of St Leonards-on-Sea on the East Sussex coast and situated around 1 mile inland from the sea front.

St Leonards is a town and seaside resort in the Borough of Hastings and lies to the west of central Hastings.

The immediate locality is primarily residential in nature and features a number of substantial detached properties where many have been converted to care homes, apartments or HMO's.

St Leonards-on-Sea is situated around 1½ miles west of the centre of Hastings, 3½ miles east of Bexhill-on-Sea and 14 miles from Eastbourne on the south coast, approximately 60 miles south of London.



Tenant Commentary

The tenant is associated property management company, Key Property Solutions Guaranteed Ltd.

A new FRI lease is being executed, at a rental of £180,000 p.a. ending 31 December 2029, with a break on 25 February 2026.

Key Property Solutions Guaranteed Ltd have an informal arrangement with no lease in place, as emergency housing for Hastings District Council, Rother District Council.

No notice period is required but despite the risk that better and cheaper alternative accommodation could be sourced and the arrangement with the current provider could cease very quickly, they have a good trading track record in the last two years, and enjoy good relationships with their local authority partners.

We are advised that the Property benefits from 100% occupancy.

Valuation Commentary

A valuation of the property was carried out by Strutt and Parker/BNP Paribas on tbc, a copy of which can be seen in the supporting documents. The valuation concludes the following:

- the Property was presented in satisfactory condition and occupied at the time of inspection
- the Property is constructed using traditional materials and techniques typical of properties of the period (early 20th century), and features elevations of brick under a pitched slate roof, with mainly timber framed sash windows
- very good rental income, good trading performance, and good relationship with clients
- a planning application has been submitted for the conversion and extension of the existing Property, to provide 11 apartments
- various media articles have been written about the future desirability of the St Leonards and Hastings area, due to its affordability, and potential high speed rail links to London
- the estimated sales period is 3-6 months
- the estimated letting period is 1 month
- the Property represents suitable security for mortgage purposes, up to the valuation amount.

Valuation Numbers			
Market Value	£1,250,000	Vacant Possession Value	£850,000
Passing Rent	£180,000	Estimated Rental Value	£142,000
Rent psf	£42.87	Re Instatement Value	£800,000

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	£800,000	Loan Purpose	Refinance and Capital Raise
Loan Term	14 months		
Loan to Value (LTV)	64%	LTV Covenant	70%
Interest Cover Ratio (ICR)	2.49x	ICR Covenant	1.70x
Rate of Interest	9.03%	Interest Expense (p.a.)	£72,240

Serviceability	Rental income of £180,000 per annum will be received, with interest payments due of £72,240 p.a.
Interest Reserve	Proplend will retain £36,120 (6 months interest) from the gross loan amount which will be held on account.

Fees			
Arrangement Fee	2%	Broker Fee	0%
Early Repayment	N/A	Exit Fee	1% - only incurred if the loan is not fully redeemed within the agreed 14-month loan term.

Existing Facility			
Lender	Proplend	Expiry	July 2022
Amount Outstanding	£712,500	Status	Past Maturity
Rate	8.75%	Existing Facility Description	Three-year Term Loan

Business Plan During Loan Term

Our existing St Leonard's-on-Sea HMO loan is past maturity - the previous sole Director of the borrowing entity sadly passed away last year and the Property is now being managed by her family, who are the owners of the tenant.

Since our original valuation report was provided in 2019, the correct planning use of Sui Generis is now in place.

The Sponsor has evidenced their commitment to the property by considerably de-gearing the loan, by making a capital reduction of £225k.

During the term of our loan, with the view of possibly adding further value, the £40k surplus being raised will be largely reinvested in the property and also utilised to obtain planning approval for the residential scheme (or similar) - the Borrower's architect has been in detailed discussions around the application and further amendments to the planning already been made in line with planning officers guidance. A portion of the capital being raised will also be used to recoup the professional fees.

The Planning Application is expected to be heard in March. Once planning consent is in place, the Property will be marketed for sale.

Exit Strategy

We will be redeemed upon receipt of the net sale proceeds.

The Borrower is currently in discussion with a local developer who has shown interest at a figure in excess of the above Market Value figure.

As a Plan B, a refinance will be sought until the Property is sold.

Security

Charge	First Legal Charge	Debenture	Debenture Required
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Property Insurance	PSL Interest to be Noted on Completion		
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Personal Guarantee	Joint and Several Guarantee from the Directors and Shareholders of Clavis Group Limited for the sum of £200,000.
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BORROWER

Name	Clavis Group Limited
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Registration	UK Registered Limited Company
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Main Business Activity	The proposed Borrower is a special purpose Limited Company, registered in the UK. It currently has no assets other than the Subject Properties.
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Ownership Structure	The Company is 100% owned by Mrs Karen Tyas.
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Sponsor	
Name	Karen Tyas
Age	66
Relevant Experience	<p>The Borrower is effectively a family business, originally established as a local sales and lettings business.</p> <p>They have had over 30 properties under their management, and diversified into social housing.</p> <p>The team at KSL are experienced property professionals. They rent properties from landlords, effectively making them the tenant by way of a management agreement.</p> <p>They have a Maintenance Team, and a team of cleaners, that can provide a one-off deep clean, a regular cleaning contract or an after-works clean up. They cater for both commercial and residential cleaning.</p>
Credit History	Clear.

Lender Risks	Mitigant	Risk Level
<p>The Borrower is not able to successfully execute their business plan.</p>	<p>If the Borrower is unable to successfully obtain the proposed planning approval, they will refinance away, and will have to consider selling the Subject Property without.</p> <p>As above, we are at 64% of the current value.</p>	<p>Medium</p>
<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>Whilst the Borrower is a SPV with a sole Director and Shareholder, the rest of the family are also involved in the running of the business.</p> <p>The Borrower and the tenant are associated, and clearly have a vested interest in ensuring our interest payments are met.</p> <p>There is significant demand from the local authority, and we are advised that demand far exceeds supply of this type of housing locally.</p> <p>Further comfort may be taken in our holding of a 6-month Interest Reserve.</p>	<p>Medium</p>
<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, there are two other potential exit routes if they are unable to obtain planning consent and sell the Property in a timely manner.</p>	<p>Medium</p>

Lender Risks	Mitigant	Risk Level
The Property falls in value due to either macroeconomic or property specific reasons	<p>With lingering uncertainty in the current economic environment, there is every chance that the Property may fall in value at any given point in the short term.</p> <p>However, our gross loan advance is £50k less than the valuer's 180-day Vacant Possession Value.</p>	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 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 64% 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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