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Full Loan Request: Hackney Offices Refinance

Date:	2/6/2023
Main Site:	42 Hoxton Square, London, N1 6PB
Property Description:	2,234 sq ft of ground and lower ground floor office space forming part of a mixed-use terrace building.
Loan Summary:	We are asked to provide a 61% LTV Gross loan facility in order to refinance the existing Hackney Offices loan.



HIGHLIGHTS

Loan Type	Commercial Term Loan	SIPP Eligible	No
Property Value	£1,450,000	Passing Income	£98,000
Gross Loan	£884,500	Loan to Value (LTV)	61%
Blended Interest Rate	7.38%	Loan Term	36 months

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
B	Medium	51-65%	£159,500	9.06%	8.15%	1.50x
A	Low	0-50%	£725,000	7.01%	6.31%	1.93x

PROPERTY

Market Value	£1,450,000	Passing Income	£98,000
Vacant Possession Value	£1,450,000	Estimated Rental Value	£75,000
Tenure	Long-leasehold (982 years unexpired)	Asset Class	Office
EPC Rating (min. E)	D	Planning Use	E

Property Details

The Subject Property comprises the leasehold interest in two office suites, situated on the ground and lower ground floors of a five/six storey middle of terrace building.

The upper parts comprise of three self-contained flats which are sold on separate long leasehold interest and do not form part of our security.

The building is judged to have been constructed circa 1900s. Each floor has self-contained access to the front of the building.

The main walls of the subject property are assumed to be of solid brickwork construction, with rendered elevations, beneath an assumed flat roof. There no views of the roofs owing to the height and configuration of the building.

Floors throughout the building are of a mixture of solid concrete and suspended timber construction.

Natural lighting and ventilation is provided by timber framed plate glass shop frontages, double glazed timber framed windows to the ground floor rear and a single glazed timber framed lean to roof to the rear of the lower ground floor.



Location Report

The Subject Property is located along the southern side off Hoxton Square, close to its junction with Hoxton Street, within Shoreditch (London Borough of Hackney); a typical high density inner London district situated just north of the City of London and approximately three miles east of the West End/Oxford Street.

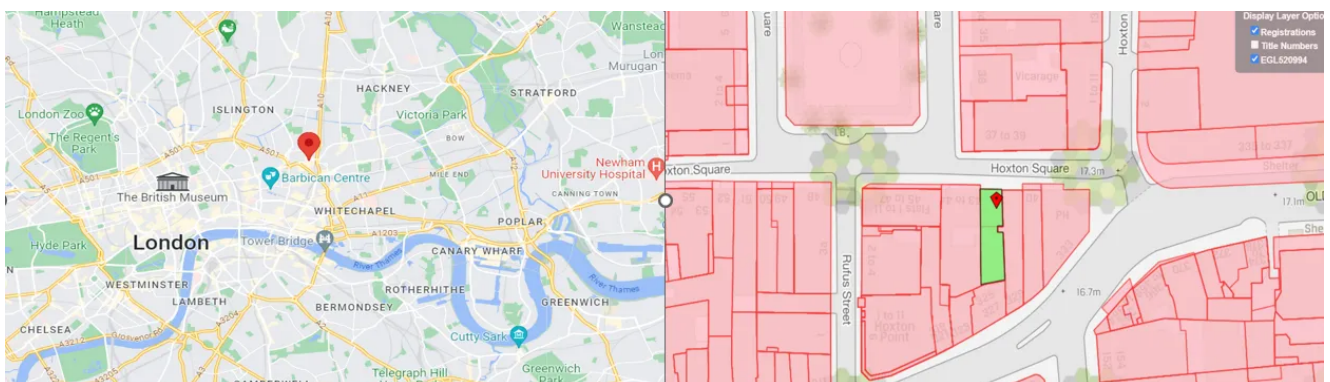
The area is home to a diverse range of media and creative businesses and also benefits from reasonably good demand from both the rental and vacant possession sectors due to being situated on the fringe of the “Square Mile” (Financial district of Central London) and within close proximity to the Central London employment markets and good infrastructure links.

The immediate vicinity comprises office and retail occupiers, together with bars/restaurants and medium to high density private residential accommodation. Comprehensive retailing and leisure facilities including local and national multiples can be found nearby along Shoreditch High Street (A10) and within London’s West End.

Away from the commercial areas, the surrounding locality represents a “medium to high value” residential district, comprising properties of varying style and character, many of which have been the subject of flat conversion schemes targeted at the middle level income groups.

Key road communication links include City Road (A501), which to the west provides links to the West End/Oxford Street/A40. Shoreditch Road (A10) to the north provides links to north London suburbs. The nearby A13 to the east provides links to Canary Warf/Docklands.

Hoxton and Shoreditch High Street London Overground Stations are both located nearby. Numerous bus routes serve the surrounding area.



Tenant Commentary

Currently, the sole tenant is Space Station London Limited. The 15-year lease commenced in March 2017 with a rental of £98,000 per annum.

Space Station London Limited is the Borrower's associated business and was founded in 1997. They operate as a specialist estate agency - both residential and commercial; in the UK and also internationally. The Company has a credit rating of A with CreditSafe.

Tenant Details

Tenant	Space Station Limited	Business Activity	Estate Agency
Lease Type	FRI	Lease Start	25/3/2017
Months to Lease Break	None	Lease Expiry	25/3/2032
Passing Rent	£98,000 p.a.	Occupancy Level	100%

Valuation Commentary

A valuation of the property was carried out by Bellevue Mortlakes Chartered Surveyors on 20 April 2023, a copy of which can be seen in the supporting documents. The valuation concludes the following:

- internally, the Property has been refurbished to a good standard throughout
- assuming competitive pricing, the Property would be expected to sell within 9 months
- the Property would be popular with a range of owner occupiers and investors
- assuming competitive pricing, the Property would be expected to let within 12 months
- the Property is considered good for secured lending purposes.

Valuation Numbers

Market Value	£1,450,000	Vacant Possession Value	£1,450,000
Passing Rent	£98,000	Estimated Rental Value	£75,000
Rent psf	£43.87	Re Instatement Value	£635,000

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	£884,500	Loan Purpose	Refinance
Loan Term	36 months		
Loan to Value (LTV)	61%	LTV Covenant	65%
Interest Cover Ratio (ICR)	1.50x	ICR Covenant	1.25x
Rate of Interest	7.38%	Interest Expense (p.a.)	£65,276

Serviceability Rental income of £98,000 per annum is being received, with interest payments due of £65,276 p.a.

Interest Reserve Proplend will retain £32,638 (6 months interest) from the gross loan amount which will be held on account.

Fees

Arrangement Fee	2%	Broker Fee	N/A
Early Repayment	N/A	Exit Fee	1% - only incurred if the loan is not fully redeemed within the agreed 36-month loan term.

Existing Facility			
Lender	Proplend	Expiry	12/4/2023
Amount Outstanding	£855,500	Status	Up to Date, but Past Maturity
Rate	6.96%		

Business Plan During Loan Term
<p>The Subject Property is fully let as above to the Borrower's associated business.</p> <p>Whilst the overall blended rate increase is incremental, it does reflect the risk assessment parameters in that it's a robust asset which has demonstrated that the Borrower has been communicative and has performed throughout the term of the existing loan, and serviced all monthly interest obligations in a timely manner, however, has had protracted discussions recently with a new tenant, who will occupy the premises at a rental of £100k p.a.</p> <p>The new tenant Dagmar Design Ltd, who are an established London home furniture store, will also have an option agreement to buy the Property at a later date. The exact purchase price for the option is still being negotiated, but it will clearly be in excess of the current Market Value.</p>

Exit Strategy
<p>The Borrower will seek to refinance onto a longer term commercial mortgage, once the new lease to the new tenant is in place and the new rent showing as having passed successfully.</p> <p>As an alternative, the Borrower will consider selling the Property if an appropriate offer is made.</p>

Security			
Charge	First Legal Charge	Debenture	Debenture Not Required

Property Insurance	PSL Interest to be Noted on Completion
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BORROWER

Name	Russell and Dawn Chopp
Registration	Personal Capacity
Main Business Activity	The Borrowers are professional property developers and investors, borrowing in their personal capacity.

Sponsor

Name	Russell and Dawn Chopp
Age	Both are 55 years of age.
Relevant Experience	<p>Russell has had a career in property for over thirty years both in London and also California selling multi-million-dollar estates in Beverly Hills.</p> <p>He began his career in 1986 with development agency Alan Selby & Partners, specialising in residential regeneration mixed use development.</p> <p>He moved to California in 1991. Upon getting his real estate license, he became one of the top producers at Prudential Jon Douglas in Bel Air. In 1998 upon returning to London, he and his partner Dawn set up Space Station Shoreditch and pioneered the loft market. Russell has acquired on behalf of clients and himself multiple sites - both residential and commercial buildings.</p> <p>They have developed and traded residentially led development sites in locations such as Stratford, Shoreditch, Hackney and Bermondsey, and have been involved in the acquisition and sale of over 1000 residential units.</p> <p>Their personal net worth is £2.213m jointly.</p>
Credit History	Strong - CreditSafe risk band 10, and 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	LOW
Risk Rating [3.5 to 10.02]	6.56
Risk Level	MEDIUM LOW

Lender Risks	Mitigant	Risk Level
The Borrower is not able to successfully execute their business plan.	<p>This should prove an attractive proposition to a new lender approaching maturity on the assumption that the prospective tenant, who would seem to provide a good covenant, occupies the Property as expected.</p> <p>The Borrower has extensive real estate experience, and is borrowing at a reasonable LTV/LTVPV, against a Property situated in a prominent location in London.</p>	Medium
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>The Borrowers are proud of their strong Credit history, including throughout the Covid lockdown periods, and will continue to ensure that this is preserved.</p> <p>Comfort may be further gained by our holding of a six month Interest Reserve.</p>	Medium

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 proposed refinance appears to be a realistic exit strategy, provided the tenant takes occupation as expected, other things being equal, prior to maturity.</p> <p>Alternatively, the valuer notes that there should be good demand for the Subject Property, should the Borrower ultimately decide to sell.</p>	<p>Medium</p>
<p>The Property falls in value due to either macroeconomic or property specific reasons</p>	<p>The Property may dip in value at any point throughout the loan term, not least due to wider economic factors, however the Borrower has maintained a sensible LTV, and the gross loan advance equates to:</p> <ul style="list-style-type: none"> • 61% of the OMV figure • 61% of the VPV figure • 68% of the 90-day value. <p>Additionally, the use could readily be changed to Residential, if required, subject to planning.</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 61% 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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