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Full Loan Request: Walsall Commercial Mixed Use Refinance

Date:	19/10/2023
Main Site:	Bridge House, 47-55 Bridge Street, Walsall, WS1 1JQ
Property Description:	A five-storey partially let freehold leisure, court and office investment with development potential, providing a total Net Internal Area of 75,660 sq ft.
Loan Summary:	We are asked to provide a 68% LTV gross loan facility, in order to refinance our existing Walsall Commercial Mixed Use loan.



HIGHLIGHTS

Loan Type	Commercial Term Loan	SIPP Eligible	Yes
Property Value	£2,400,000	Passing Income	£188,892
Gross Loan	£1,632,000	Loan to Value (LTV)	68%
Blended Interest Rate	8.95%	Loan Term	24 months

Tranche	Risk	LTV	Loan Amount	Gross Interest	Net Interest	Interest Cover
C	High	66-75%	£72,000	11.45%	10.31%	1.29x
B	Medium	51-65%	£360,000	10.45%	9.41%	1.37x
A	Low	0-50%	£1,200,000	8.35%	7.52%	1.89x

PROPERTY

Market Value	£2,400,000	Passing Income	£188,892
Vacant Possession Value	£2,350,000	Estimated Rental Value	£359,784
Tenure	Freehold	Asset Class	Mixed Use (Commercial)
EPC Rating (min. E)	B-E (F for unit 8 - currently vacant).	Planning Use	E

Property Details

The Subject Property comprises a mixed-use retail and office building built in the early 1900s of traditional masonry construction with brick elevations featuring decorative stonework, surmounted by flat and pitched tiled roofs.

The building was formerly occupied by the Co-Operative until the 1980s. The accommodation is arranged over basement, ground and three upper floors. The Property provides a total Net Internal Area of 75,660 sq ft.

The Property is arranged on basement, ground and three upper floors to provide five ground floor units, three of which are sold off on long leases.

At ground floor level are five retail units and two communal entrance lobbies off Bridge Street, which provide access via staircases and passenger lifts to the office suites on the upper floors.

The upper parts comprise Walsall County and Family Court together with a number of office suites which are accessed via two large entrance lobbies on Bridge Street.

Each of these entrance lobbies is self-contained and leads to the communal stairway, passenger lift and corridors to serve each suite.

The office suites are positioned around communal corridors, off which are shared kitchenettes and WC facilities.

The basement is largely vacant but has previously been used for storage.

The specification generally comprises solid and suspended ceilings, a combination of fluorescent strip and recessed box panel lighting, plastered and painted walls, carpet floor covering, wall-mounted electric heaters, single glazed timber framed windows (secondary glazing in part), double glazed uPVC framed windows, two passenger lifts, one goods lift and CCTV.

Externally, there is a tarmac surfaced car park and loading area to the rear providing approximately 38 secure parking spaces and is accessed through a gated entrance. There is also a canopy covered dock level loading bay stretching the rear elevation of the building.

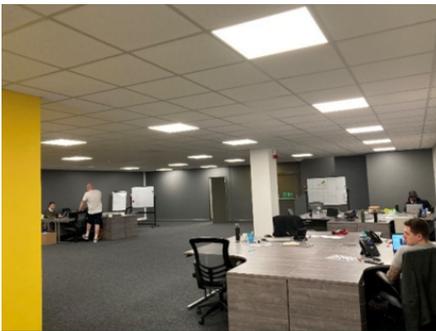
The property may lend itself to a variety of alternative uses and redevelopment, refurbishment or conversion to residential, subject to obtaining all necessary consents.



Rear Car Park



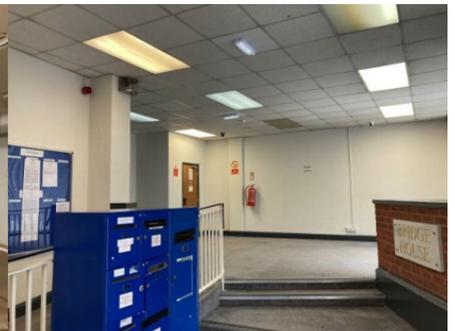
Rear Elevation



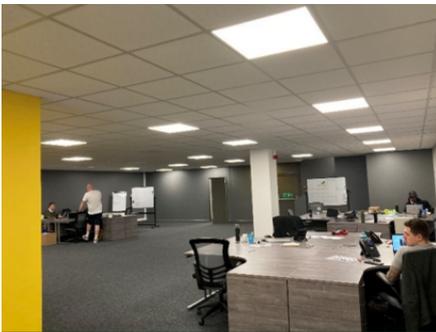
Unit 2



Basement Storage



Ground Floor - Courts Reception



Unit 2



Basement Storage



Ground Floor - Courts Reception

Location Report

Walsall is a large market town and is the administrative centre of the wider Metropolitan Borough of Walsall in the West Midlands.

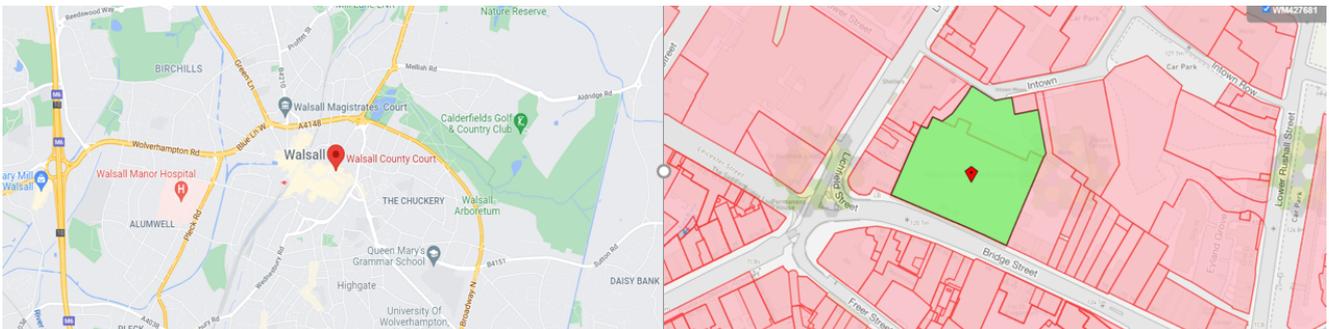
Walsall is located approximately 6 miles east of Wolverhampton, 8 miles north west of Birmingham, 10 miles north east of Lichfield and 16 miles south east of Stafford. Walsall has a population of 67,594 (2011 census).

Walsall town centre is situated directly to the east of Junctions 9 and 10 of the M6 motorway therefore offering excellent motorway connectivity to the wider Midlands region. The M5 motorway is also situated only 2 miles to the south of the town.

Walsall train station benefits from four direct rail services per hour to Birmingham New Street with a travel time of approximately 22 minutes.

The Property is well located in the town centre, close to the Saddlers Shopping Centre and the A4148 ring road. Whilst Walsall train station is only a 7-minute walk.

The surrounding area is predominantly commercial and nearby occupiers include a range of regional and local operators including The Refugee and Migrant Centre (Walsall Branch), Allsopp and Associates Dental Practice, Connells Estate Agents, JD Wetherspoon and various independent takeaways.



Tenant Commentary

Units 3, 4, & 5 on the 1st floor, unit 9 on the 2nd floor, and 19 of the 38 car parking spaces, are let to The Secretary of State for Housing Communities and Local Government on behalf of The Crown (Walsall Court and Family Court). They are currently paying rent of £171,892 p.a. however the current lease expires on 24 December 2023.

Documentary evidence has been provided of ongoing negotiations, including a formal written Tenant's Request For A New Business Tenancy/Section 26 notice, received via solicitors.

A new 5-year lease has been agreed to commence 25/12/2023, with a tenant break on the third anniversary (provided 6 months notice has been served), at a rental of £171,892 per annum, paid quarterly in advance.

A 2-month rent free period has been agreed spread over the first year, and the passing rent to be maintained.

Unit 2 is let to Extra Recruitment Ltd - please see <https://www.extrarecruitment.co.uk/> - on a 5-year IRI lease commencing July 2022, with a tenant break in August 2025, at a rental of £17,000 p.a. Their latest balance sheet shows a modest net worth of £79.9k.

Unit 3 is let to MV Leisure (UK) Ltd, who have been holding over. It was let to them on an 8-year lease from April 2015 to April 2023. They have continued to pay **some** of their rent of £25,000 (annualised), but the Borrower advises that this is sporadic, and this rent has been excluded from our serviceability calculations above (their latest balance sheet shows a negative net worth of £11k).

The remainder of the accommodation is vacant as of the valuation date.

Valuation Commentary

A valuation of the property was carried out by BNP Paribas on 17 August 2023, a copy of which can be seen in the supporting documents. The valuation concludes the following:

- the Property is well located in the town centre
- the building appears to be in a condition commensurate to its age, design and use
- the office suites can readily be sub-divided either individually or on a floor-by-floor basis
- there is medium to long-term residential development potential (subject to planning)
- a marketing period of 3-6 months would be required to realise the reported market value
- a period of 12 months would be likely required to attract incoming tenants
- the Property is expected to appeal to local and regional occupiers
- the valuer had not been provided with the Report on Title, but will have been prior to drawdown, to confirm whether or not it effects the opinion of Market Value
- the Property represents suitable security for mortgage purposes
- should a new lease with the Secretary of State be executed at a rental of £151,750 per annum, with a tenant break option in December 2027, their opinion of Market Value will increase to £2,575,000.

Valuation Numbers

Market Value	£2,400,000	Vacant Possession Value	£2,350,000
Passing Rent	£188,892	Estimated Rental Value	£359,784
Rent psf	£6.56	Re Instatement Value	£17,900,000

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	£1,632,000	Loan Purpose	Refinance
Loan Term	24 months		
Loan to Value (LTV)	68%	LTV Covenant	70%
Interest Cover Ratio (ICR)	1.29x	ICR Covenant	1.00x
Rate of Interest	8.95%	Interest Expense (p.a.)	£146,064

Serviceability	Rental income of £213,893 per annum is being received, with interest payments due of £146,064 p.a.
Interest Reserve	Proplend will retain £48,688 (4 months interest) from the gross loan amount which will be held on account.

Fees			
Arrangement Fee	2%	Broker Fee	N/A
Early Repayment	2% first 6 months, 1% months 7-12, no fee thereafter.	Exit Fee	1% - only incurred if the loan is not fully redeemed within the agreed 24-month loan term.

Existing Facility			
Lender	Proplend	Expiry	20/10/2023
Amount Outstanding	£1,606,500	Status	Active - Good Standing
Rate	7.09%	Existing Facility Description	2-Year Term Loan

Business Plan During Loan Term

The Borrower has refurbished the Property since acquisition, in particular the courthouse, in order to ensure their lease is renewed - windows, redecoration, elevators, new carpetting, and has also provided a secure car park for the court staff, with electric fobs.

Local agents will be used to let as many of the vacant units as possible, whilst the Borrower puts in for planning to convert the second and third floors to a scheme of 55 one-bedroomed and two-bedroomed apartments.

Exit Strategy

Plan A will be to refinance away to a development finance provider, if and when the planning approval is in place.

If this proves to be unrealistic within the timeframe, the Borrower will refinance away approaching maturity on to a longer term commercial mortgage with a lender at more competitive terms, and ideally with little or no Early Redemption fees.

Security			
Charge	First Legal Charge	Debenture	Debenture Required

Property Insurance	PSL Interest to be Noted on Completion
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Personal Guarantee	<p>Individual Guarantee from an Individual Director of Charles Jordan (Bridge St) Ltd for the sum of £326,400.</p> <p>Please note that this applicant has also provided us with the following Director's Personal Guarantees;</p> <ul style="list-style-type: none"> • Wolverhampton Office Block, £1,200,000 • Welshpool Offices, £513,000.
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BORROWER	
Name	Charles Jordan (Bridge St) Ltd
Registration	UK Registered Limited Company
Main Business Activity	<p>The proposed Borrower is a special purpose Limited Company, registered in the UK.</p> <p>It has no assets other than the Subject Property.</p>
Ownership Structure	The borrowing entity is 100% owned by Mr Avtar Sandhu.

Sponsor	
Name	Avtar Sandhu
Age	68
Relevant Experience	<p>The Sponsor 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>The Sponsor has successfully redeemed ten loans with Proplend in full, and currently has two loan facilities outstanding, as below (please also see the Security section below, under Personal Guarantees for more information).</p>
Credit History	Strong - CreditSafe risk band 10, and Lexis Nexis checks Passed.
Additional Information	<p>This applicant as above is a long-standing Proplend Borrower, and is party to the following two outstanding loans (both Active - Good Standing);</p> <ul style="list-style-type: none"> • Wolverhampton Office Block, £2,415,000 • Welshpool Offices, £513,000. <p>...and was also behind the following loans, all fully redeemed;</p> <ul style="list-style-type: none"> - Birmingham Mixed Use, Birmingham HMO, Birmingham HMO 2, Birmingham Hotel, Birmingham Industrial, Birmingham Office Block, Burton-upon-Trent Offices, Burton-upon-Trent Offices, and Sparkhill Offices.

Term Loan Risk Rating	
Risk Category	Rating
Financial Ratios	HIGH
Asset Class Outlook	MEDIUM
Property Risk	MEDIUM
Tenants Leases	MEDIUM
Borrower Sponsor	LOW
Risk Rating [3.5 to 10.02]	7.07
Risk Level	MEDIUM

Lender Risks	Mitigant	Risk Level
<p>The Borrower is not able to successfully execute their business plan.</p>	<p>This loan is to an existing and experienced Borrower with a good Proplend track record to date.</p> <p>He also enjoys good relationships with other lenders including challenger banks.</p> <p>The Property is in a good location and has strong potential.</p> <p>The Borrower has successfully executed his business plan elsewhere in his portfolio consistently over recent years.</p>	<p>Medium</p>

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 Borrower has marginally increased the rents since the completion of the first loan, despite a difficult economic backdrop.</p> <p>The current ICR is within our parameters at 1.29x and from a solid tenant as things stand, provided the court continue to remain.</p> <p>The anchor tenant are part of the UK Government and provide undoubted covenant strength.</p> <p>There is vacant space to allow for lease up which will improve rental income and capital value over time, if let.</p> <p>Comfort may be further gained by our holding of a four 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, 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, including development finance providers, and this should prove a realistic refinance exercise approaching maturity.</p>	<p>Medium</p>

Lender Risks	Mitigant	Risk Level
<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, however the Borrower has a good 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 LtLPV is currently 71% - the VPV is expected to increase, and the LtVPV reduce, once the planning consent has been obtained.</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 68% 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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