Credit Report

The information contained in this credit report has been provided by the applicant, who has read this report and declared it complete, accurate and correct. Sourced Capital has used reasonable care to ensure the information provided is authentic and that it has been replicated clearly and accurately in this credit report. Sourced Capital has assessed the loan against its published risk appetite and credit acceptance criteria, but it has not audited the information and, consequently, provides no warranty, recommendation or advice in relation to this loan application.

Investors should always seek their own advice before investing and are reminded that their capital is at risk, with P2P investors not benefitting from FSCS protection.

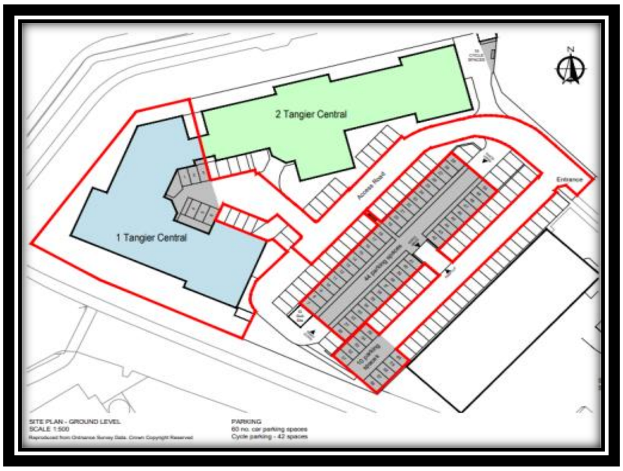
Project Overview

On this project, the borrower requests funding to assist with the cost of purchasing the commercial property known as 1 Tangier Central, Castle Street, Taunton. The initial drawdown against the proposed Sourced Capital loan will be used to support the purchase, at which point full title to the property will be held by the borrowing company. Currently vacant, the property is being acquired with the benefit of implementable planning permission for conversion to provide 55 x self-contained apartments, comprising of 42 x 1-bedroom & 13 x 2-bedroom.

Construction of the full site will be split into two distinct phases, with the initial phase consisting of the development of Floors 1,2 & 3, with a total of 39 apartments. Following satisfactory completion of Phase One, the developer will move onto the second phase and develop the remaining 16 units on the ground floor. The proceeds of this loan will be used to assist the borrower with the costs to acquire the site and complete Phase One. This will generate sufficient sales income to fully repay the loan.

Loan Details

TANGIER CENTRAL TAUNTON LIMITED – 1 Tangier Central, Castle Street, Taunton			
Total P2P Loan	£5,055,000	Day 1 Draw	£2,940,000
Gross Development Value (GDV)	£7,450,000	Day 1 Value	£3,230,000
Loan to GDV (LTGDV)	67.8%	Day 1 Loan to Value (LTV)	91%
Term	18 Months	Build Period	12 Months



Security

Type	Detail	Valuation	Prior charge
1st Legal Charge	Land & Property known as 1 Tangier Central, Castle Street, Taunton	£7,450,000 (GDV) NB this GDV represents Phase 1 only.	N/A
1st-Ranking Debenture	TANGIER CENTRAL TAUNTON LIMITED	No Value Attached	N/A
Personal Guarantee	£1,000,000 from Stephen Moss	No Value Attached	N/A
Collateral Warranties	From the Architect, Structural Engineer and Main Contractor	No Value Attached	N/A

Risk Rating, Fees and Charges

Interest		Fees	
Borrower Rate	12%	Borrower Arrangement Fee	2%
Margin	0% - 2%	Payable to broker	0%
Rate to investor *	10%-12% (see details later in this report)	Exit Fee	3%
Interest Payments	All interest paid upon repayment		
Capital Payments	Lump sum repayment		

Risk	
All new loans are subject to analysis by Sourced Capital using a credit risk model. The derived loan categorisation is determined by assessment of different characteristics of the loan. These relate predominantly to the borrower's experience and credit standing, the nature and quality of the project to be funded, the robustness of the exit strategy and the level of loan security. The risk categorisation is intended only to provide a means of comparison between different loans based upon constant data inputs. The loan categorisation does not and is not intended to provide any assurances as to which loans may or may not experience repayment issues.	
Risk Category (lower/medium/higher)	Medium

Project Details

Proposal

- The borrower is raising a total of £5,055,000 which will be used to assist with the purchase and development of a site comprising a vacant commercial building, previously used as office space, which benefits from implementable planning permission for conversion.
- The property to be purchased (known as 1 Tangier Central, Castle Street, Taunton) is a substantial four-storey building, recently stripped back and presented in shell and core condition.
- The subject property benefits from implementable planning permission to convert the existing building into 55 x self-contained residential units, with the plans designed to retain the existing architectural features of the property. Further details regarding the site, apartment types and the valuations will all be provided later in this Credit Report.
- This development project does not require any sub-structural works, with the approved conversion to apartments being completed within the existing footprint of the building.
- The total conversion of 55 units will be carried out in two distinct phases, with focus for this loan being entirely on Phase 1. The initial phase will be the purchase of the site and the development of Floors 1, 2 & 3 representing a total of 39 apartments.
- The borrower's intention and repayment strategy is to undertake the conversion and then sell the apartments on the open market. This will generate sufficient cash from sales proceeds to satisfactorily repay the loan in full.

- A loan term of 18-months is proposed, allowing a prudent timeline to accommodate the scheduled build period of 12 months (with some contingency), followed by the remainder of the loan term for the borrower to complete in order to repay the Sourced Capital loan.
- This Credit Report includes a full financial appraisal in a later section. For ease of reference, however, and to assist readers of this report to gain an early understanding of the proposal, a brief summary is also provided here:
    - The Day 1 Valuation of 1 Tangier Central has been independently professionally advised as £3,230,000. The Day 1 release to support the purchase is £2,940,000, with an amount of £2,115,000 allocated to complete the proposed conversion (including construction costs, professional fees, utilities and a contingency).
- Whilst the loan amount is £5,055,000, only £2,940,000 will be released on Day 1 to assist the purchase. The remainder of loan proceeds will be withheld by Sourced Capital and released in tranches to the borrower's contractors as the scheme progresses. The release of these withheld funds will only be made against receipt of acceptable interim reports from an Independent Monitoring Surveyor, confirming that the amounts are appropriate against the progress made and the remaining costs to complete the scheme.
- The loan terms are summarised below.

Loan amount	£5,055,000
Forecasted GDV	£7,450,000
Loan interest rate for lenders*	10% per annum
Bonus interest paid to lenders	2% per annum on investments over £20,000
Borrower Interest Rate	12% per annum
Loan term	18 months
Repayment of interest	End of the term / upon repayment of the loan
Loan security	First Legal Charge over the land and properties built thereon. Other security to include a PG, debenture and collateral warranties
Loan exit	Repayment from sales proceeds
Planning status	Full Consent Held
RICS independent valuation completed	Yes – see comments later in this report

Borrower

Borrower	TANGIER CENTRAL TAUNTON LIMITED (TCTL)
Company Number	13616901

- TANGIER CENTRAL TAUNTON LIMITED (TCTL) is a new company, specifically established for the purposes of this venture. The company was first incorporated 13th September 2021.
- The due diligence process will ensure that there is no security registered by TCTL in favour of any other lenders and also that no other borrowing liabilities are outstanding. The borrower will be confirmed to be a clean special purpose vehicle (SPV).

- At the time of writing this report, it was noted that TCTL has the SIC Code 70229 (Management consultancy activities other than financial management). This is not considered by Sourced Capital to be appropriate for the intended trading activity. The borrower will be required to register a more appropriate SIC Code before the loan draws down.
- Ownership of the borrowing company (TCTL) is as detailed below:
    - The 100% shareholder is Jark-8 Ltd.
    - Jark-8 Ltd is 100% owned by SOURCED GROUP LIMITED, which in turn is 100% owned by Stephen Moss (SM), the sole director of Jark-8 Ltd.
    - As can be seen from the above information, SM is the key principal and ultimate beneficial owner.
- SM is a vastly experienced property professional, bringing directly relevant sector knowledge and experience. SM has been personally developing property and investing in property for over 20 years, with a demonstrable record of success over a large number of projects.
- The development being the subject of this loan proposal is considered to be in keeping with the size and scope of previous projects successfully completed by SM.
- Sourced Capital has first-hand experience of providing and managing loans for prior developments where SM has been the key principal relating to the developer/borrower. SM has demonstrably evidenced a satisfactory track record of performance and repayment on those previous loans.
- Lenders should be aware that SM is also a director of Sourced Capital. As such, it has been hugely important to undertake the credit approval process with an "Ethical Screen" established to avoid any potential conflict of interest. Consequently, aside from his involvement as a borrower, SM can have no direct involvement or influence on the credit approval process within Sourced Capital for this transaction. This ethical screen will continue throughout the life of the loan, with SM not being allowed any involvement or influence in Sourced Capital's internal decisions regarding the ongoing credit management of this loan.
- TCTL (as the borrower) and SM (as the beneficial owner) have both produced a clean credit reference search and have fully satisfied the regulatory requirements of Know Your Customer (KYC), Anti Money Laundering (AML) and Know Your Business (KYB).
- The demonstrable track record of the key principal brings a wealth of relevant experience and sector knowledge that is deemed beneficial with regards to the borrower's ability to deliver this scheme successfully.
- The borrower will be using the services of Sourced Construction (SC) to deliver the project to completion and procurement will be by way of a Design and Build (D&B) Contract between the borrower and SC.
- A key advantage of the D&B procurement route for TCTL is that this methodology enables a single contractual appointment to provide all appropriate professional support the borrower will need both prior to and also during the construction phase. This will include all technical assistance needed pre-development in relation to architects, structural engineers, legislation and all environmental considerations.
- SC will work with the borrower to agree the design and specification before finalising the price to deliver the scheme to completion. This provides the borrower with a strong element of cost certainty. Further comment will be made on the build process later in this report
- On behalf of lenders, Sourced Capital will appoint an Independent Monitoring Surveyor (MS) to prepare an Initial Report which will provide a complete overview of the project including commentary on the costings, appointments, procurement documentation, as well as compliance with planning and agreed building regulations. Any issues of concern will be raised and addressed before the loan progresses to legal completion to support the purchase.

- The same MS will be appointed to work for Sourced Capital throughout the scheme to oversee the project and provide interim reports before any of the retained funds are released from the loan.

Site Details and Property Details

- The development site to be purchased is a vacant property known as 1 Tangier Central, Castle Street, Taunton (No.1).
- The property of freehold tenure comprises a substantial four-story commercial building previously utilised as offices. It is being purchased with the benefit of vacant possession and planning permission, granted for a conversion into 55 self-contained residential apartments (42 x 1-bedroom & 13 x 2-bedroom units).
- Lenders will note from all supporting documentation that the wider location also has a second, three-story commercial building, with separate access, known as 2 Tangier Central, Castle Street, Taunton. Whilst these two properties presently show as being on a single land title, at the point of purchase by the borrower, the two properties will be held on two distinctly different separate freehold titles. The ability to get good title and good security over No.1 will form part of the legal due diligence process to be undertaken by the independent solicitors acting for Sourced Capital. This due diligence will be completed prior to the loan progressing to drawdown.
- For the purposes of absolute clarity, this loan proposal relates only to the vacant property known as 1 Tangier Central (No.1).
- Whilst the valuation report (made available for viewing) does reference both numbers 1 and 2 Tangier Central separately within the same report, this loan relates only to No.1 and all security values mentioned in this Credit Report relate only to No.1.
- Although the internal accommodation will be fully reconfigured under the proposed conversion scheme, all works will be undertaken within the existing property footprint. Importantly, there is no need for any sub-structure construction and the implementable plans utilise as much of the existing building as possible.
- No required sub-structure work, combined with the fact that there are no elevational changes of any note, massively assists in removing much of the cost uncertainty that might ordinarily be associated with a scheme of this size. Prior evidenced knowledge regarding the structural integrity of the building and the lack of and deleterious materials all help to provide further cost certainty regarding the conversion project.
- Within the last 5 years, the building has been comprehensively stripped back and is presented in shell and core condition. Steelwork, structural floors, services and the roof are all exposed, ready for works to begin.
- The valuer comments that “the design of the building with steel frame allows for open plan layouts and equivalently should allow for a relatively easy conversion to residential use with the installation of block or timber partition walls”.
- The property’s main structure is of a steel frame construction with elevations clad in brick. The roofs are pitched and hipped in design and are of a timber truss construction, insulated and clad in concrete roof tiles. Windows and doors are of aluminium frame double glazed construction. Intermediate floors are of a concrete construction.
- Currently, the sizeable building provides a gross internal area (GIA) of 3,314.57 sq.m. (35,678 sq.ft.).
- The required planning permission to undergo this conversion has been granted, with full details of the planning consent available by viewing the local authorities planning portal Planning

application search (somersetwestandtaunton.gov.uk) using the references **38/21/0283/CO** and **38/21/0511/NMA**.

- The approval decision for 55 units was granted 26/08/2021, with the subsequent non-material amendment (NMA) to provide more 2-bed units instead of 1-beds agreed 5/1/2022. All planning documents are available for perusal from the detailed web link.
- In addition to the local authority's website, detailed information regarding the proposed scheme is also provided within the independent valuation report instructed by Sourced and prepared by Adelaide Jones. This will be made available for viewing by interested lenders.
- As mentioned earlier in this Credit Report, the ground floor conversion does not form part of Phase 1. As such, where the planning permission is for 55 units, the 16 apartments (12 x one-bedroom and 4 x two-bedroom apartments) at Ground Floor level will not be developed until Phase 2. The remaining 39 self-contained apartments will, however, all be delivered to completion using the proceeds from this loan.
- The 39 units are provided as follows. To the first floor there will be 17 apartments (4 x two-bedroom and 13 x one-bedroom apartments). To the second floor will be another 17 apartments (5 x two-bedroom and 12 x one-bedroom and apartments). Finally, to the third floor will be a further 5 x one-bedroom apartments. This Credit report focuses solely on Phase 1, which represents the development of the thirty-nine units over floors 1, 2 & 3.
- Externally, the property benefits from an allocation of 60 parking spaces, meaning that every apartment will benefit from at least 1 available parking space including spaces specifically for use by patrons with mobility issues. A full site plan can be found within the valuation as well as the front of this credit report, indicating the location of the parking spaces. This parking already exists, so there is no associated construction costs needed.
- The apartments have been designed to fully comply with the regulations set out in the National Space Standards. The proposed floor plans can be found within the valuation report.
- The apartments are all fully self-contained, so will be presented to market with newly installed fitted kitchens and bathrooms with all expected amenities and services. The borrower advises that the properties will be presented to an appropriately high standard to ensure demand,
- The subject property is located within the town of Taunton, bordered by the River Tone on the north, west and south sides, providing excellent views for the vast majority of proposed apartments.
- The property is just a short distance away from Taunton town centre, providing easy access to a full range of shops, services and amenities. These include parks, bars, leisure facilities, restaurants, bus and railway stations all within walking distance.
- The location provides residents with excellent wider connectivity, whether that be via road or rail. Taunton has direct access to the M5 motorway as well as the A38 and A368 expressways, providing entry to the national road network. By rail, Taunton provides access to the regional and national rail network including direct connectivity to London.
- The benefits of the Taunton location help explain and underpin the reason why Taunton saw the highest percentage rise in house prices of anywhere across the entire country, according to Halifax's 2021 statistics.
- In summary, the project is well located and should prove popular. The property brings many structural and design benefits regarding its suitability and readiness for conversion. Furthermore, the proposed scheme of 1-bed and 2-bed units is considered appropriate for the location and target market.

- As indicated earlier in this Credit Report, the borrower will be delivering this development via contracted procurement and will have a Design and Build contract in place with Sourced Construction (SC), who will be acting as main contractor.
- Mindful of the similarity in name, Lenders should be aware that SC is a completely different legal entity to Sourced Capital. Sourced Capital is a trading name of Peer Funding Limited. There is no direct trading relationship between SC and Sourced Capital.
- Under the Design and Build contract, SC is responsible for the design, planning, organisation, control and construction of the works to the borrower’s (aka employer’s) requirements.
- By appointing SC, the borrower will have access to the appropriate management team and skill set to undertake the required works. In addition to having wide-reaching industry contacts to provide a robust Design Team, SC’s “in-house” team includes a pre-contract team, Quantity Surveyors and Site Managers.
- The costings for the conversion project referenced within this Credit Report are those provided to the borrower by SC. In turn, those costings were prepared by a QS. These costs are detailed and broken down into the key areas of Preliminaries; Enabling Works; Superstructure; Internal Finishes; Fixtures, Fittings and Equipment; MEP Services; Lift Services; External Works; Utilities and Professional Services. These figures are, however, only indicative at this stage, as Building Regulations will require approval before costs can be finalised.
- The valuer has made comment upon the initial costings and further detail will be made directly regarding the valuer’s commentary in the following section of this Credit Report.
- Ordinarily, as Main Contractor, SC would tender the requirements across their known contacts in the sector, before then procuring different contractors who are specialists in their trades to undertake those specifically detailed work packages. SC would then manage the schedule of works to ensure the work is undertaken in the correct and orderly manner.
- In this instance, however, Sourced Capital have clarified that SC will be looking to appoint a sub-contractor capable of undertaking the full conversion – as opposed to separately tendering and packaging all the different trades required. Given this intention, Sourced Capital have included the additional condition of sanction that we need to approve the proposed sub-contractor and already have SC’s prior agreement to this condition.
- Sight and satisfaction with all the construction documents, to include the final contracts, is also a pre-commencement condition. This will enable Sourced Capital to ensure that the costings, timelines and responsibilities are fully in line with expectations and are as detailed in this credit report. This condition will be satisfied before the loan progresses to drawdown and any lenders’ funds are committed to the project.
- The borrower had initially produced documentation showing a total build cost and build schedule for the entirety of the 55 unit development, pricing it at £2,736,336, which equates to c.£77 per sq.ft.
- In turn, the QS advised that these costs can be divided pro rata to reflect the likely costs to deliver Phase 1 of the scheme, equating to a figure of £1,940,310 (including contingencies).
- The loan structure proposed allocates £2,031,000 for the build costs, which upwardly adjusts the above-mentioned QS’ figure to reflect the expected reality that certain costs cannot be subjected to the simplified pro-rata calculation (e.g., some preliminaries and fees).
- As mentioned elsewhere in this Credit Report, the sub-contractor’s construction costs are subject to finalisation and will be confirmed before being included within the finalised Design and Build contract. Similarly, the finalised costs will be reviewed by the independent Monitoring

Surveyor MS) as a condition of sanction and the MS will need to confirm satisfaction with the figures and documentation.

- The borrower has approached three established and reputable contractors to tender for the conversion project. Currently, the borrower has not received all the final quotes, so has not yet elected their preferred suppliers.
- Sourced Capital can, however, take comfort from the fact that the quotes received at the time of writing do clearly indicate that the scheme can be delivered within the allocated build costs, with the quotes held being valued fully in keeping with the allocated allowance in the loan structure for the conversion costs.
- Sourced Capital will ensure that final quotes are fully acceptable and that the proposed contractor and documentation all are acceptable (including due diligence undertaken by our independent solicitors and MS)
- Readers will note that the loan structure accommodates total build costs of £2,115,000, whereas the above figure states £2,031,000. Please note that the difference is the amount of the Community Infrastructure Levy (£84,000) that will need paying in relation to this project during the term of the loan.
- Sourced Capital has been provided with a detailed schedule of works, outlining a projected build term of 12 months. This has been reflected within the proposed loan term, allowing for a prudent 6-month sales/marketing period thereafter. As with the costs, the timelines will be confirmed and contracted before the loan progresses to drawdown. Again, this will be duly contracted before the loan progresses to drawdown
- The valuer references the build costs within their report. The figures are as stated above in relation to the full 55-unit development.
- Whilst the valuer comments that the costings provided appear towards the low side of expectations, they reference the experience of SC and acknowledge that these costs can be delivered.
- For the protection of lenders' interests, an Independent Monitoring Surveyor (MS) will be instructed to act for Sourced Capital. The MS will provide a detailed overview in their Initial Report with regards to acceptability of the procurement methodology, the projected costings, timescales and all professional appointments. Sight and satisfaction with the MS' Initial Report is a pre-commencement condition of the credit approval.
- Going forwards, the MS will provide interim reports to confirm all is in order with the development, prior to any tranches of funding being released from the loan.
- In summary, the proposed procurement methodology is deemed to be acceptable to Sourced Capital, subject to sight of the Design & Build Contract and the MS confirming acceptability of the contracts, costings and appointments.

Valuation

- An independent professional valuation was instructed by Sourced Capital, with the correctly addressed report produced by Adelaide Jones. Whilst their report is dated 11/01/22, Sourced Capital has a covering letter dated 28/03/22 confirming the ability to use for ongoing reliance. A copy of the valuation report is available for viewing by lenders.
- Adelaide Jones provided their valuation for Secured Lending Purposes.
- As mentioned earlier in this Credit report, the valuation covers both 1 Tangier Central and 2 Tangier Central, although addresses each property separately within the report. Lenders are reminded that only the details relating to 1 Tangier Central are applicable to this loan.

- Within the afore-mentioned report, the Day 1 Valuation is advised as £3,230,000 (as shown on the front page of this Credit Report). The loan structure agreed with the borrower is for Sourced Capital to release just £2,940,000 to support the acquisition. The Loan to Value (LTV) will, therefore, equate to 91% on Day 1.
- The professionally advised Gross Development Value (GDV) after completion of the full development, including all 55 residential apartments, is £9,190,000. With regards to Phase 1, the GDV is £7,450,000.
- All valuation figures provided by Adelaide Jones have been prepared in accordance with normal practice, taking comparable evidence and current market conditions into account.
- The GDV figures are calculated by the valuer by using the approach based upon the comparable methodology, with the valuation report providing details of the property sales assessed to help determine the GDV.
- Having analysed the comparable sales, the valuer estimates the GDV of the properties will fall between £145,000 and £165,000 for the 1-bedroom apartment and between £175,000 and £200,000 for the 2-bedroom apartments, dependant on aspect.
- This valuation methodology provides four different values for the apartments being developed, dependent on their specification. A breakdown of these values is provided below:

Accommodation	GDV
1-Bedroom (River View)	£165,000
1-Bedroom (No River View)	£145,000
2-Bedroom (River View)	£200,000
2-Bedroom (No River View)	£180,000

- The Day 1 Valuation advised by the valuer is calculated by using the projected GDV and then calculating what would be deemed the remaining value after allowing for all potential costs of the development – including the developer's profit. This is the industry-wide accepted approach known as the residual value methodology.
- As this loan is to focus solely on Phase 1 (the construction of floors 1, 2 & 3), the GDV presented on the front page of this report has been derived by utilising the valuer's figures presented above and applying the relevant GDV's to the 39 properties that are related to this loan. A breakdown of this is presented below:

Accommodation	Units	GDV	Total
1-Bedroom (River View)	**22**	£165,000	£3,630,000
1-Bedroom (No River View)	**8**	£145,000	£1,160,000
2-Bedroom (River View)	**5**	£200,000	£1,000,000
2-Bedroom (No River View)	**4**	£180,000	£720,000
Total	**39**		**£6,510,000**

- The residual value of the ground floor has then been calculated again utilising the valuer's figures by taking the Day 1 value of the whole property at £3,230,000 and then deriving the residual value of the remaining 16 apartments, producing the value of £940,000.
- The GDV figure presented on the front page of this credit report has therefore been calculated by adding the GDV figures of floors 1,2 & 3 (£6,510,000), to the residual value of the ground floor (£940,000). By using this GDV of £7,450,000 alongside the total loan amount of £5,055,000, this produces the loan to gross development value (LTGDV) of 67.8%.
- The valuer has also provided the gross market rent of the completed units and a breakdown of these figures is presented below:

Accommodation	**Market Rent (p.a.)**	**GDV**	**Yield**
1-Bedroom (River View)	**£8,580**	£165,000	5.2%
1-Bedroom (No River View)	**£8,460**	£145,000	5.8%
2-Bedroom (River View)	**£10,980**	£200,000	5.5%
2-Bedroom (No River View)	**£10,800**	£180,000	6.0%

- Even though the advised exit strategy is to sell the units, the anticipated Market Rent is important information with regards to risk analysis. When determining if the proposal should be given credit sanction, the level of rental income helps assess how realistic the notion is that the completed apartments would be of interest to investors. Similarly, this level of rental income fully underpins the alternative exit route of refinancing the properties (in case of need) detailed elsewhere in this credit report.
- In assessing the marketability of the proposed development, the valuer comments that "*Off plan sales may be achievable and we consider a 6-month marketing period post practical completion to be reasonable.*"
- It should be remembered that full repayment of this loan could be achieved from the sale of just 31 of the 39 apartments that are directly relevant to this Phase 1.
- It is additionally comforting to consider the valuer's comments that the Taunton housing market *"is desirable*." Reference is made to Halifax's 2021 survey results showing that Taunton saw the highest percentage house price rise anywhere in the country. Whilst apartments did not match the 20% price growth seen by houses, they still demonstrated an annual growth in prices by half that figure.
- There are no anticipated issues with regards to flood risks, other environmental issues or deleterious materials impacting the site. A full review of these issues will form part of the legal due diligence process and specific searches and surveys will need to be provided as a condition of sanction relating to flood risk, asbestos, subsidence risks etc.
- Based upon the valuer's commentary for both costs and timelines, the proposed loan structure is deemed completely suitable.
- All the figures referenced in this credit report are consistent with those provided by the independent valuer.

Financial Appraisal

- A summary of the key financial metrics is provided in the table below.
- Lenders should be mindful that these figures represent only Phase 1 of the development for this site – specifically, comprising the construction/sale of floors 1,2 & 3.
- Whilst the numbers below demonstrate how Phase 1 is a fully viable project for loan funding, the borrower will significantly increase their overall profitability when they move onto Phase 2 and develop the remaining ground floor.
- The remaining development at that point will be owned unencumbered, providing the clear and obvious reason for margins to be significantly higher in phase 2.

	Financial Summary
Day 1 Market Value	£3,230,000
Loan for Purchase	£2,940,000
Loan for Development Works	£2,115,000
Total Facility	£5,055,000

Finance costs (Full interest and all fees)	£1,162,650		
Cost of Works (Includes contingency)	£2,115,000		
Acquisition Costs (Paid by borrower)	£170,000		
Total Project Costs	£6,217,650 (+ Acquisition Costs)		
Estimated Developer Profit	£1,232,350 (- Acquisition Costs)		
Forecasted Profit / GDV	16.54% (pre acquisition costs) 14.25% (post acquisition costs)	10% GDV Drop	20% GDV Drop
Forecasted GDV †	£7,450,000	£6,705,000	£5,960,000
LTGDV	67.85%	75.39%	84.8%
LTV at purchase*	91.02%	N/A	N/A

† The Gross Development Value (GDV) is based on the independent professional valuations using comparables from "On-Market" and "Sold" prices of similar properties.
*The LTV at Purchase is calculated using the Day 1 Valuation and the initial release from the loan.

- The advised LTGDV of 67.85% is calculated assuming all of the loan balance has been fully drawn. This includes full use of the contingency that has been included within the loan for prudence.
- Aside from the differential between Day 1 value and the Day 1 loan drawdown, it is also prudent to note the significant contribution of £170,000 in the form of the acquisition costs to be paid by the borrower.
- The full loan amount of £5,055,000 will be released in separate tranches by Sourced Capital.
- The first amount of £2,940,000 will be released to support the purchase of the property. These funds will only be released by the solicitors acting for Sourced Capital to legally complete the purchase when all legal due diligence has been satisfied. At this point, the borrower will have full ownership and the loan security will be confirmed as being correctly in place.
- The remaining £2,115,000 from the total loan proceeds will be released to support the development costs being incurred by the borrower.
- These funds will be drawn via a number of separate tranches, released upon receipt of satisfactory interim reports from the Independent Monitoring Surveyor (MS). Following each site visit, the MS will provide a report advising Sourced Capital as to the amount of funds to be released on each tranche (reflecting the work done to that point). Those interim reports from the MS will also advise if the standard of work is acceptable and compliant with regulations. In addition, the MS will comment on the projected time and costs remaining to complete the development.
- This proposed loan structure enables Sourced Capital to closely monitor the development as it progresses. In turn, we will regularly update lenders regarding the development of the scheme and whether it remains on course to be successfully delivered as expected within the agreed loan structure.
- Given the proposed security position and the deal dynamics, lenders can see from the above table that the LTGDV stays at c.75%, even allowing for a 10% reduction in the professionally advised GDV.

- For further comfort, should the GDV reduce in value by as much as 20% from the point of loan drawdown, there is still strong security cover with the LTGDV being below 85%, even when using these distressed assumptions.
- As previously mentioned in this Credit Report, there is a Community Infrastructure Levy (CIL) to pay. The amount relevant to this proposal is fully accommodated within the calculated development costs.

Exit

- Upon completion of the conversion, the primary exit strategy for repayment of the Sourced Capital loan will be via the sale of the newly constructed apartments.
- Readers of this Credit Report will already be aware that the loan structure provides all the required funding for the projected development costs (including a contingency and the CIL).
- The independent valuation instructed by Sourced Capital was obtained to determine the projected security values and is fully supportive of the proposed loan structure.
- The level of security cover provided by the LTGDV provides comfort for lenders. The estimated value of the property assets comprising the completed Phase 1 units would need to be more than £2,395,000 (32.14%) below the GDV advised by the professional valuations (provided specifically for loan security purposes) before any lender capital is at risk of loss.
- In assessing the exit strategy, it is a strength for lenders that the security for this loan is represented by 39 different completed units. This removes the risk of needing to sell a high value single unit – which would likely have a much more limited target buyer market. In addition to the completed units, lenders also benefit from a first charge over the undeveloped Ground Floor, with planning permission for a further 16 units.
- Using the valuations provided, the average unit price of the 39 apartments representing Phase 1 is £166,923. Using this average unit price, the sale of just 31 of the 39 apartments would be sufficient to fully repay the Sourced Capital loan amount.
- The LTV and the available rental yields both indicate that the option of a refinance is also fully viable. This provides both the lenders and the borrower the comfort of an alternative repayment/exit strategy, should that ever prove necessary.

Security

- The primary loan security is the unfettered first legal charge to be held over the property being purchased.
- All the figures detailed in this Credit Report are based upon the opinion provided by an independent valuer and a copy of the full valuation report is available for viewing by lenders.
- Against the advised Day 1 valuation of £3,230,000, the Loan to Value (LTV) is 91.02% with the initial tranche of £2,940,000 drawn.
- The full loan of £5,055,000 against the advised GDV of £7,450,000 represents a LTGDV of 67.85%.
- Full details of the property have been provided earlier in this credit report.
- A personal guarantee of £1,000,000 will be provided by the key principal (SM). For absolute clarity, there is no allocation of any value to the personal guarantee within the LTV calculation. This PG is being taken to formally connect the principal to the loan, to demonstrate their belief and commitment to the scheme proposed and attach their long-term personal attachment to any related company's liability.

- SM has provided details of his personal assets/liabilities. For confidentiality purposes, however, these will not be published on the platform as there is no reliance upon the PG when assessing the LTV.
- A 1st-ranking debenture will be held in relation to the borrower. As with the PG, no security value has been allocated to the debenture when calculating the LTV.
- To complete the security suite, Collateral Warranties from the Architect, Structural Engineer and main contractor will be taken.

Conditions and Covenants

Conditions Precedent

- Sight and satisfaction with a full independent valuation of the land and proposed scheme, confirming the figures shown in this Credit Report.
- Satisfaction with all KYC/KYB/AML processes, including confirmation regarding shareholding and directorships.
- Sight and satisfaction with the contract terms and all other construction documentation relating to the proposed contractors.
- Sight and satisfaction with an independent Monitoring Surveyor's Initial Report.
- Confirmation from our MS that a build time of 12 months is achievable.
- Independent MS to visit site monthly to value the works and report to us no less frequently than bi-monthly.
- Confirmation of implementable planning for the proposed conversion – matching the appraisal. This needs to confirm that all issues regarding phosphate level limitations are satisfied.
- Sight and satisfaction with structural and environmental reports.
- Satisfactory Report on Title or appropriate title indemnity insurance.
- Satisfaction that Energy Performance Certificates will be in place and will be at a rating level "E" or better.
- Confirmation that the residential units will benefit from a new build warranty.
- Representative of Sourced Capital to visit the Property or arrange a virtual visit as appropriate.
- All professional reports are to be addressed to Jark Security Trustee Limited (as Security Trustee).
- Completion of all loan and security documentation.
- Adequate insurance cover with Jark Security Trustee Limited named as First Loss Payee.
- The proposed contractors and procurement methodology to be acceptable to Sourced Capital.
- Sight and satisfaction that the borrower has an acceptable SIC Code registered at Companies House.

Covenants

- Max 70% loan to GDV.
- We do not fund VAT so the Borrower will need to cover VAT costs.
- The Borrower should ensure that sufficient working capital is available to meet the build costs between the stage drawdowns.

Risk Appraisal

Security Risk – As with all property security, there is a risk that fluctuating market valuations may result in the security cover not being adequate to cover the loan balance, should there ever be a need to rely on the security in case of default. In this instance, with the loan to values stated, there is significant scope for any reductions in security value before the loan capital amount ever becomes exposed. An independent valuation has been instructed by Sourced Capital to assess the security cover and independent solicitors will be utilised to undertake the required work for Sourced Capital to perfect the loan security. With this development being a conversion to 39 units, the security risk is mitigated by there being no high-value exposure on any single unit.

In summary the valuation report fully suggests that the legal charge should represent a strong security position for lenders against the completed development.

Development Risk – Any new-build development will present a risk to lenders that the construction works may not be completed to the required quality or may be subject to overrun on costs or timescales. The loan structure proposed provides a contingency for both cost and time with the security coverage calculated assuming the full amount (including contingency) being drawn. Conditions of sanction before the loan can progress to drawdown require that Sourced Capital be satisfied with the contracted procurement methodology and the costings. These requirements are to provide risk mitigation and give confidence in the abilities of the borrower to deliver the finished scheme. A key comfort for lenders in this loan is that there is no requirement for any sub-structure works, meaning that the usual uncertainty regarding this element of the build costs is not a concern. SM has a proven track record on previous developments providing added comfort. The Design and Build appointment contract provides lenders with additional comfort regarding cost certainty.

Exit Risk – The loan is being provided on the basis that the loan repayment will come via receipt of sales proceeds of the completed residential units. The obvious risk to lenders is that the borrower is unable to attain the sales prices expected. This risk is heavily mitigated by the strong security position and supportive independent commentary in the valuation report. An additional mitigant is the alternative exit route available via a refinance package, should that ever prove necessary. There is potential recourse to the key principals via their Personal Guarantee, should there ever be a recovery shortfall.