**GHL (Whitby) Ltd increase of development facility by c£4.5m**

GHL (Whitby) Limited

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| Deal synopsis | * **Overview:** On 19th Apr’24, CRMC was presented with request from GHL (Whitby) Limited,(“Borrower’), SPV of Galliard Holdings Ltd & C J O'Shea Group Ltd (50:50 JV) for a £20.4m TL facility for the phase 1 (of 3-phases) development incl. construction of 21 Holiday lodges & refurbishment of the existing hotel (FH, 4-Star, 73-bed) on site to a 77-bed luxury 5-star hotel <[Link](#CRMCpaper)> * **Site:** Located on a coastal Raithwaite estate spanning across 83.5 acres (Purchased for c£13.7m in Apr-23) in Whitby, North Yorkshire (YO21 3ST). * **Total Development across 3 Phases:** Phase 1: Refurbishment & extension of existing Raithwaite hotel, construction of 21 luxury Holiday home Units and other infrastructure works. Phase 2 & 3: Development of 158 units incl. a mix of 1 to 3 bed - Lodges, Apartments and Cottages along with other infrastructure related works. Overall, during 3-phases, the existing Hotel to be refurbished & extended, besides development of 179 holiday let units. * **Facility Split**: £10.86m for dev. of 21 lodges & £9.56m for hotel refurb. (£9.56m to flip into trading post refurb.). * **CRMC View:** Deal got approved as presented, however committee requested following information:  1. Detailed hotel trading model and rerun Case 3 – Details provided below <[Link](#Financials)>   (b) RWA for refurb of hotel –100%.  (c) Details on exact cost incurred and to be incurred – Details provided below <[Link](#SourcesANDuses)>  (d) Finalise the structure for hotel between development flipping to trading, total tenor etc. **DFD Comment: agreed with borrower that will just PC Certificate received and verified by PMS.**  (e) Detailed analysis of financials of both the sponsors. – **DFD Comment: CP to completion and is to be provided by borrower.** |
| Addendum Request | * **Current Request**: The borrower has received the final updated cost for phase I post CRMC which is an increase of £4.5m and has approached ON with the below changes:  |  |  |  |  | | --- | --- | --- | --- | | **Particular (£m)** | **Presented at CRMC** | **Current Proposal** | **Reason** | | **Development cost for Phase I** | **£19.9m** | **£24.4m** | The updated costs have been provided post confirmation/discussion with subcontractors. The cost schedule provided at the time of CRMC was from end of Dec’23 estimates ([More details>>)](#_Explanation_on_increase) | | **Term Loan** | **£20.3** | **£24.8** | **To fund the increased cost of £4.5m.** | | **GDV:** 21 Lodges | £10.2m | £10.3m | No major increase | | **GDV:** Hotel | £15.9m | £18.7m | Current Value (£18.7m) is the stabilised value v/s the turnkey value (£15.9m) presented at CRMC |  * Costs for Phase 2 & 3 have declined by £1.2m to £37.6m (vs. £38.8m in CRMC case). Overall, costs for the entire scheme increased by £3.3m <[Link](#SummaryCOSTS)>. * Borrower has provided the detailed financial model for hotel (incl. detailed KPIs for F&B and SPA) vs. a high level (1-year) projections provided during CRMC Case. Addendum is presented to details below:  1. Updated metrics reflecting updated valuation and costs <[Link](#CREDITMETRICS)> 2. Updated Sources and Uses <[Link](#SourcesANDuses)> 3. Analysis of revised hotel projections & variance with underwriting case & revised case 3 <[Link](#HotelTRADING)>.  * **Equity infused till date**: Since CRMC, the borrower infused another £294k, with >£292k related to hotel build costs, taking total equity infused till date to £1.58m. |
| Summary  Credit Metrics | | Key data & metrics | Case 1 | Case 2 | Case 3 | Case 4 | | --- | --- | --- | --- | --- | |  | Underwriting case | Revised proposal | On downside sensitivity | ON stress case | | **Total GDV** | **£39.5m** | **£43.5m** | **£32.0m** | **£14.9m** | | **Total Built Cost (Phase 1)** | **£13.5m** | **£16.5m** | **£16.6m** | **£17.9m** | | **Total Dev. Costs (Phase I)** | **£19.9m** | **£24.4m** | **£25.2m** | **£26.6m** | | *Est. Dev. profit [% of GDV]* | *10.5%* | *2.6%* | *NM* | *NM* | | **ON Facility** | **£20.4m** | **£24.8m** | **£24.8m** | **£28.8m** | | LtGDV (ON Debt) | **█ 51.7%** | **█ 56.9%** | █ **77.4%** | **NM** | | LTC (ON Debt) | **█ 57.6%** | **█ 61.4%** | **█ 60.2%** | **█ 65.7%** |  * For the detailed analysis and explanation refer [Link>>](#CREDITMETRICS) |

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|  | **Approved Case (Apr-24)** | | | | **Variance** | | | | **New Proposal** | | | |
|  | **Property development facility (Phase 1)** | | | **Trading Loan (Hotel)** | **Property development facility (Phase 1)** | | | **Trading Loan (Hotel)** | **Property development facility (Phase 1)** | | **Trading Loan (Hotel)** | |
| End Use | Hotel Refurb. & extension | Dev. of 21 lodges and infra costs for phase 1 | **Total** | **Hotel refurb. loan to flip into trading** | Hotel Refurb. & extension | Dev. of 21 lodges and infra costs for phase 1 | **Total** | **Hotel refurb. loan to flip into trading** | Hotel Refurb. & extension | Dev. of 21 lodges and infra costs for phase 1 | **Total** | **Hotel refurb. loan to flip into trading** |
| Gross facility | £9,561,781 | £10,866,753 | **£20,428,534** | **£9,561,781** | £1,674,014 | £2,674,474 | **£4,348,488** | **£1,674,014** | £11,235,795 | £13,541,227 | **£24,777,022** | **£11,235,795** |
| Net facility | £8,706,473 | £9,894,713 | **£18,601,187** | -- | £1,524,272 | £2,435,242 | **£3,959,513** | **--** | £10,230,745 | £12,329,955 | **£22,560,700** | -- |
| Term | **Phase 1:** 18 months | | | 36 Months | -- | | | -- | **Phase 1:** 18 months | | 36 Months | |
| Pricing | 5.00% + BoE BR | | | 4.50% + BoE BR | -- | | | -- | 5.00% + BoE BR | | 4.50% + BoE BR | |
| Int. payment | Roll up | | | Cash Paid | -- | | | -- | Roll up | | Cash Paid | |
| Fees | **Arrangement -** 1.00% on Phase 1 funds (£204,285)  **Exit –** 0.75% on Phase 1 funds (£153,214) | | | | -- | | | | **Arrangement -** 1.00% on Phase 1 funds (£247,770)  **Exit –** 0.75% on Phase 1 funds (£185,828) | | | |
| Amortization | Bullet repayment at maturity | | | Nil | -- | | | -- | Bullet repayment | | Nil | |
| CG | 20% Day 1 covering capital/interest/cost overruns stepping down to 10% upon 2/3rd of Phase 1 lodges sales completing | | | | -- | | | | 20% Day 1 covering capital/interest/cost overruns stepping down to 10% upon 2/3rd of Phase 1 lodges sales completing | | | |
| Agg. Exp. | £34,496,281 | | | | -- | | | | £36,670,525 | | | |
| ON selldown | No | | | | -- | | | | No | | | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Returns (Development): 21 Lodges | | | | | | | | | | | | | |
| Gross yield | | 10.92% | | | | | | RWA\* | | | | | 150% |
| PD (Old Moody’s model /ONrA) \* | | 1.37% / 0.31% | | LGD (Old Moody’s model /ONrA) \* | | | 38.27% / 45.47% | Proposed internal risk rating (existing /ON internal test grid) | | | | | 3 / 2 |
| Returns (Refurb/Extension): Hotel | | | | | | | | | | | | | |
| Gross yield | | 10.92% | | | | | | RWA\* | | | | | 100% |
| PD (Old Moody’s model /ONrA) \* | | 0.20% / 0.40% | | LGD (Old Moody’s model /ONrA) \* | | | 15.0% / 15.0% | Proposed internal risk rating (existing /ON internal test grid) | | | | | 1 / 1 |
| Returns (Trading): Hotel | | | | | | | | | | | | | |
| Gross yield | | | 10.0% | | | | | | RWA\*\* | | | | 100% |
| PD (Old Moody’s model /ONrA) \* | | | 0.71% | | LGD (Old Moody’s model /ONrA) \* | | 15.0% | | Proposed internal risk rating (existing /ON internal test grid) | | | | 1 |
| Deal team | | | | | | | | | | | Date: 28-May-2024 | | |
| DFD | Damien Hughes | | | | Credit analyst | Siddartha Jain | | | | QC/team lead | | Mukesh Modi | |
| Disclosure:The abovementioned individuals certify that they do not have any existing or potential conflict of interest with the Client or any related parties.;  \*As per standard policy / calculations/ RWA 150% as per article 128. \*As per standard policy / calculations/ RWA 100% as per article 124. | | | | | | | | | | | | | |

# Section 1: Credit Metrics for Phase I Facility & RV of Phase 2&3

* Below table details on the revised credit metrics basis the updated GDV and development cost. Notably, there has been no change in the Case 3 and Case 4 valuation (of Hotel and lodges) from the CRMC case, however costs in Case 3 & 4 have been stressed basis the case 2 (revised proposal) costs. (For Detailed GDV, refer <[Link](#GDV)>

| Key data & metrics | Case 1 | Case 2 | Case 3 | Case 4 |
| --- | --- | --- | --- | --- |
|  | Underwriting case | Revised proposal | On downside sensitivity | ON stress case |
| Basis | Borrower's Estimates during underwriting | Borrower's Revised Estimates | Latest market comps, KF report, borrower data. | Standard ON stress case assumptions |
| **Total GDV (Split as below)** | **£39.5m** | **£43.5m** | **£32.0m** | **£14.9m** |
| 1. **GDV: Raithwaite Hall Hotel (78-Bed)** | **£15.9m** | **£18.7m** | **£14.0m^** | **£7.8m** |
| -EBITDAR/Margin | £1.4m / 17.3% | ^^ | £1.3m / 17.3% | £0.7m / 9.6% |
| -Implied Multiple/Yield | 11.5x / 8.7% | 10.9x / 9.2% | 10.9x / 9.2% |
| - Per key value | £204k | £243k | £180k | £100k |
| 1. **GDV: 21 Holiday Units (Phase 1)** | **£10.2m** | **£10.3m** | **£8.7m^** | **£7.1m** |
| -Price/unit  *1 Bed Lodges*  *2 Bed Lodges*  *3 Bed Lodges*  *2 Bed Coastal Villas*  *3 Bed Coastal Villas* | *£2.33m*  *£3.66m*  *£1.98m*  *£0.75m*  *£1.50m* | *£2.35m*  *£3.75m*  *£2.09m*  *£0.7m*  *£1.39m* | *£2.26m*  *£2.68m*  *£1.72m*  *£0.66m*  *£1.39m* | *£1.85m*  *£2.20m*  *£1.41m*  *£0.54m*  *£1.15m* |
| 1. **RV of Phase 2 & 3** | **£13.3m** | **£14.5m** | **£9.3m\*\*** | **NM** |
| **Total Built Cost (Phase 1)** | **£13.5m** | **£16.5m** | **£16.6m** | **£17.9m** |
| -Hotel: Build costs PSF/per Key | £147/£92k | £176/£110k\* | £177/£111k | £190/£119k |
| -Lodge: Built cost PSF | £394 | £494 | £498 | £535 |
| **Total Dev. Costs (Phase I)** | **£19.9m** | **£24.4m** | **£25.2m** | **£26.6m** |
| Est. Developer profit [% of GDV] | 10.5% | 2.6%# | NM | NM |
| **ON Facility** | **£20.4m** | **£24.8m** | **£24.8m** | **£28.8m** |
| LtGDV (ON Debt) | **█ 51.7%** | **█ 56.9%** | █ **77.4%** | **NM** |
| LTC (ON Debt) | **█ 57.6%** | **█ 61.4%** | **█ 60.2%** | **█ 65.7%** |

**^** Same as CRMC Case; No changes in the assumption and numbers

^^ Borrower has not provided us the calculation for the c£18.7m valuation, same to be CP to ON lend. Need to understand the multiple and FMT number assumed.

**\***In the light of extensive refurbishment, undertaken by the borrower, the subject hotel to be upscaled to a luxury class hotel and refurb cost of c£110k/key seems reasonable compared to c£150k/key construction cost of upscale class hotel, as per KF estimates.

**\*\*** There is an increase of £0.9m from CRMC case due to borrower expectation of decline in development costs in Phase 2 & 3 (per latest Case).

# There is low developers profit in phase I (as most of the infra cost is front loaded in Phase I), but the borrower to make the profit of 10% in phase II & III

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# **Section 2: Source and Uses**

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| --- | --- | --- | --- | --- | --- |
| **Source & USES (£)** | | | | | |
| **USES** | | | | | |
|  | **Incurred till date** | **To be incurred** | **Approved (Apr-24)** | **Change** | **Proposed (May-24)** |
| Property Purchase | 12,679,549 | -- | **12,679,549** | -- | **12,679,549** |
| Acquisition Cost | 1,067,041 | -- | **1,067,041** | -- | **1,067,041** |
| Build costs | 399,716 | 13,124,214 | **13,523,930** | 2,997,243 | **16,521,173** |
| Contingency\*\* | -- | 502,997 | **502,997** | (302,997) | **200,000** |
| Professional Fees | 302,806 | 325,941 | **628,747** | 159,062 | **787,809** |
| Preliminaries & Infra costs | 439,245 | 3,078,260 | **3,517,505** | 193,989 | **3,711,495** |
| Other Costs | 436,128 | 1,275,606 | **1,711,734** | 1,481,901 | **3,193,635** |
| ON Interest | -- | 1,623,062 | **1,623,062** | 345,491 | **1,968,552** |
| ON Arrangement Fee | -- | 204,285 | **204,285** | 43,485 | **247,770** |
| **Total Uses** | **15,324,485** | **20,134,365** | **35,458,850** | **4,918,173** | **40,377,023** |
| **SOURCES** | | | | | |
|  | **Incurred till date** | **To be incurred** | **Approved (Apr-24)** | **Change** | **Proposed (May-24)** |
| ON Development Loan | -- | 18,307,018 | **18,307,018** | 4,253,681 | **22,560,700** |
| ON Finance (Interest + Arr. Fee) | -- | 1,827,347 | **1,827,347** | 388,975 | **2,216,322** |
| **Total ON Loan** | **--** | **20,134,365** | **20,134,365** | **4,642,657** | **24,777,022** |
| **Equity** | **15,324,485** | **--** | **15,324,485** | **275,516** | **15,600,001** |
| **Total Sources** | **15,324,485** | **20,134,365** | **35,458,850** | **4,918,173** | **40,377,023** |

\*\* Contingency is low in base case as contractor is the counterparty with 50% of build being refurb; Borrower has already significantly derisked the site now given earthworks/infra/groundworks being mostly done/carried out

# **Section 3: Hotel trading Projections**

* **Variance in Projections:** Borrower has changed the projections with variationsin the numbers provided at CRMC v/s current projections. Notably, during CRMC Case, we were provided with high-level forecasts for 1-year (post-refurbishment) which we stretched till Y3 (with KPIs for only Hotel). In the latest case, we have been provided with detailed KPIs for Hotel, F&B and Spa along with projection for 5-years. Furnish below is the table reflecting variance in Latest Model vs CRMC case.

|  |  |  |  |
| --- | --- | --- | --- |
| **FYE: Mar, Amt in £000s** | **CRMC Stage** | **Current Projections** | **Variance (%)** |
|  | **Only 1 yr Projections (A)** | **FY27 (B)** | **B v/s A** |
| *Room* | *4,982* | *5,343* | *7.2%* |
| *F&B* | *2,508* | *7,786* | *210%* |
| *SPA* | *473* | *1,459* | *208%* |
| **Total Revenue** | **7,982** | **14,693** | **84.1%** |
| **EBITDA (post FF&E)** | **1,382** | **2,270** | **64.2%** |
| *Margin (%)* | *17.3%* | *15.4%* | *(1.9%)* |

* **Reason for Variance**: :

1. **Room Revenue:** During CRMC, case with 78 rooms for hotel (post-refurbishment) was presented however, in the latest forecasts, the number has been revised down to 72 rooms in FY25 and 77 rooms in FY26 and onwards.

* For FY27, the variance between room revenue stood at +7%.

1. **F&B :** Borrower has provided the detailed split of restaurants and cover. Hotel’s GM has executed similar F&B led hotel business plan at previously managed asset- Gara Rock

* Borrower has provided the split of covers between Food and beverages separately. There will be a main restaurant & bar which will serve bf, lunch, and dinner, along with it there will be a wellness café and restaurant, lounge bar& restaurant and a new keep bar and restaurant. Borrower has provided the spend/transaction separately for bf, lunch& dinner. The summary of total Cover and avg. spend/transaction as below:

|  |  |
| --- | --- |
| **Food KPIs** | **Details** |
| Total Covers | 192 |
| Average Turns | 0.76 |
| Average Spend per Transaction | £29.4 |
| **Beverages KPIs** | **Details** |
| Total Covers | 259 |
| Average Turns | 0.70 |
| Average Spend per Transaction | £10.8 |

1. SPA: For SPA borrower has kept a capping of 30 clients/ day and assumed avg. revenue/shift of c£115.

## **Financial Summary**

| ***FYE: Mar, Amt in £000s*** | **Borrower Case** | | | | | | | | | | | **ON Downside Sensitivity** | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Actuals** | | | | **Budget** | **Forecast** | | | | | | **Forecast** | | | |
| **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** | **FY2025**  **(9 months)** | **FY2026** | **FY2027** |  | | **FY2025**  **(9 Months)** | | **FY2026** | **FY2027** |
| **Hotel KPIs** |  |  |  |  |  |  |  |  |  | |  | |  |  |
| *No. of rooms* | *73* | *73* | *73* | *73* | *73* | *72* | *77* | *77* | *72* | | *77* | *77* |
| *Occupancy %* | *72%* | *51%* | *81%* | *62%* | *66%* | *67%* | *70%* | *70%* | *60%* | | *65%* | *70%* |
| *ADR £* | *£150* | *£167* | *£161* | *£158* | *£163* | *£226* | *£248* | *£268* | *£223* | | *£227* | *£232* |
| *RevPar £* | *£108* | *£85* | *£130* | *£98* | *£108* | *£152* | *£172* | *£186* | *£133* | | *£147* | *£162* |
| **F&B KPIs** |  |  |  |  |  |  |  |  |  | |  |  |
| **Food KPIs** | | | | | | | | | |  | |  | | | |
| *Total Covers* |  | | | | | *192* | *192* | *192* |  | | *192* | | *192* | *192* |
| *Average Turns* | *0.76* | *1.43* | *2.04* | *0.53* | | *1.00* | *1.43* |
| *Average Spend per Transaction* | *£29.4* | *£31.4* | *£35.5* | *£22.0* | | *£22.4* | *£22.9* |
| ***Beverages KPIs*** | | | | | | | | | |  | |  | | | |
| *Total Covers* |  | | | | | *259* | *259* | *259* |  | | *259* | | *259* | *259* |
| *Average Turns* | *0.70* | *1.54* | *2.47* | *0.49* | | *1.07* | *1.73* |
| *Average Spend per Transaction* | *£10.8* | *£11.0* | *£11.6* | *£8.7* | | *£8.8* | *£9.3* |
| **SPA KPIs** |  |  |  |  |  |  |  |  |  | |  |  |
| *Maximum Daily Clients (Capped at 30)* |  | | | | | *17* | *25* | *30* | *10* | | *15* | *25* |
| *Average Revenue Per Service* | *£115.4* | *£115.4* | *£115.4* | *£80.0* | | *£81.6* | *£83.2* |
| **Segmental Revenue** |  |  |  |  |  |  |  |  |  | |  |  |
| *Room Revenue* | *2,880* | *1,279* | *2,689* | *2,578* | *2,833* | *3,076* | *4,955* | *5,343* | *3,491* | | *4,130* | *4,540* |
| *F&B* | *1,791* | *622* | *1,612* | *1,430* | *1,594* | *2,291* | *4,737* | *7,786* | *1,226* | | *2,464* | *3,811* |
| *Spa* | *338* | *17* | *153* | *253* | *300* | *685* | *1,226* | *1,459* | *301* | | *453* | *756* |
| *Other* | *284* | *732* | *208* | *185* | *42* | *70* | *103* | *105* | *58* | | *66* | *65* |
| **Revenue** | **5,294** | **2,650** | **4,662** | **4,446** | **4,768** | **6,122** | **11,022** | **14,693** | **5,076** | | **7,112** | **9,172** |
| *Revenue Growth (Yoy)* | *NA* | *(49.9%)* | *75.9%* | *(4.6%)* | *7.2%* | *NA* | *80.0%* | *33.3%* | *NA* | | *40.1%* | *29.0%* |
| Departmental Expenses | 3,239 | 1,846 | 2,941 | 3,171 | 3,136 | 3,543 | 6,295 | 8,840 | 2,938 | | 4,062 | 5,519 |
| **Gross Operating Income (GOI)** | **2,055** | **804** | **1,721** | **1,276** | **1,632** | **2,579** | **4,727** | **5,853** | **2,139** | | **3,050** | **3,654** |
| *GOI Margin %* | *38.8%* | *30.3%* | *36.9%* | *28.7%* | *34.2%* | *42.1%* | *42.9%* | *39.8%* | *42.1%* | | *42.9%* | *39.8%* |
| *Staff/Labour Costs* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | | *--* | *--* |
| *Other Undistributed expenses* | *1,316* | *936* | *1,378* | *1,465* | *1,314* | *1,557* | *2,351* | *2,652* | *1,291* | | *1,517* | *1,656* |
| *Other Fixed Costs* | *192* | *61* | *17* | *149* | *263* | *203* | *289* | *310* | *203* | | *289* | *310* |
| **Total Overheads** | **1,508** | **997** | **1,394** | **1,614** | **1,577** | **1,760** | **2,641** | **2,962** | **1,494** | | **1,807** | **1,966** |
| **Net Operating Profit (NOI)** | **547** | **(193)** | **327** | **(339)** | **55** | **820** | **2,086** | **2,890** | **645** | | **1,243** | **1,688** |
| *Net Operating Profit (NOI) Margin* | *10.3%* | *(7.3%)* | *7.0%* | *(7.6%)* | *1.1%* | *13.4%* | *18.9%* | *19.7%* | *12.7%* | | *17.5%* | *18.4%* |
| Management Fee/HO Costs | *--* | *--* | *--* | *--* | *105* | *135* | *180* | *180* | *112* | | *116* | *122* |
| **EBITDA before FF&E** | **547** | **(193)** | **327** | **(339)** | **(50)** | **685** | **1,906** | **2,710** | **533** | | **1,127** | **1,566** |
| *EBITDA before FF&E Margin* | *10.3%* | *(7.3%)* | *7.0%* | *(7.6%)* | *(1.1%)* | *11.2%* | *17.3%* | *18.4%* | *10.5%* | | *15.8%* | *17.1%* |
| FF&E Reserve | 159 | 79 | 140 | 133 | 143 | 184 | 331 | 441 | 152 | | 213 | 275 |
| **EBITDA after FF&E** | **388** | **(273)** | **187** | **(472)** | **(193)** | **501** | **1,575** | **2,270** | **381** | | **914** | **1,291** |
| *EBITDA after FF&E Margin* | *7.3%* | *(10.3%)* | *4.0%* | *(10.6%)* | *(4.1%)* | *8.2%* | *14.3%* | *15.4%* | *7.5%* | | *12.8%* | *14.1%* |
| **CFADS [80% of EBITDA before FF&E]** |  | | | | | **548** | **1,525** | **2,168** | **426** | | **902** | **1,253** |
| **Total ON Debt** | **11,236** | **11,236** | **11,236** | **11,236** | | **11,236** | **11,236** |
| **Credit Metrics (ON Debt)** |  |  |  |  | |  |  |
| ICR (EBITDA/Interest Service) | 0.6x**\*** | 1.7x | 2.7x | 0.5x | | 1.0x | 1.5x |
| Gross Leverage (Debt/EBITDA) | 16.8x | 7.1x | 5.0x | 29.5x | | 12.3x | 8.7x |

**\***Herein, the borrower would need to infuse equity as the Cashflows would not be able to service the interest for the period. Also note, that the guarantee in place and the likelihood of unutilised rolled interest being available to part service interest in the event that they do draw funds over the next say 5 months.

**Assumptions for ON Downside Case 3**

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| **Particulars** | **ON Downside Case (Case 3) Assumptions** |
| **Room Revenue** | Occupancy (%) & ADR (£)– No change in assumptions from CRMC case. |
| **Food & Beverage** | **Food**  **Average Spend per Transaction (£)**  **FY25 –** We looked at Past ON deals (outside London), such as L’escargot Sur Mer Ltd. (Avg. Spend (Forecasted Stabilised year) - £28.9), and Mowgli Street Food (Avg. Spend (2022) - £22), as both fall under mid-premium service offering akin to borrower. For our Case 3 purposes, we prudently kept FY25 equivalent to Mowgli avg. spend figure i.e. £22.  As no historical KPI’s are provided to us by the borrower, we can’t benchmark the forecasted KPI by the client.  **FY26 & FY27 –** Assumed a modest 2% nominal growth for the respective years.  **Beverage**  **Average Spend per Transaction (£)**  **FY25 to FY27 (Stabilised):** Assumed a Gradual ramp-up vs. (Case 1)**,** as no historical KPI’s are provided to us by the borrower. We have looked at past ON deal for bar’s & Pub and spend/cover is higher in past ON deals.  **Average Table Turns – Food and Beverage**  **FY25 to FY27 –** We have assumed a gradual ramp-up vs. borrower case, as the historical data/KPI is not provided to benchmark the forecasts. As per the past ON deals the avg. table turns are between 2-3 times for the stabilised year. |
| **Spa** | **Average Revenue Per Service (£)**  **FY25 –** We have referred to a Past ON deal (Malvern Spa - presented in Jun-23), wherein Malvern achieved a avg. revenue per service of £80 for Spa services. Please note, we do not have much information/comps in the Spa business, therefore, we have based our case only basis Malvern Spa.  **FY26 & FY27 –** Assumed a modest 2% nominal growth |
| **Costs (excl. Fixed costs)** | Assumed as a % of revenue basis borrower case. |
| **FF&E Reserve** | Borrower projections didn’t account for the FF&E reserve; however, we have assumed FF&E reserve at 3% of revenue and deducted the same from the borrower case as well. |
| **Management Fee** | Assumed as a %tage of revenue, in line with borrower assumption |

## **DFD Recommendation**

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| **DFD Recommendation** |
| * O’Shea/Galliard have now provided us with their finalised development budget as well as their trading forecasts. At the revised debt level ON are still at a sensible leverage attachment (Case 3 LTC – 60.2%). * We have discussed the revised figures with O’Shea at length over the past few weeks and would highlight the explanation provided at the bottom of this addendum (see [More details>>)](#_Explanation_on_increase). For the avoidance of doubt the appraisal we were previously running off was c.3 months old when presenting the paper and was largely draft, rather than there being significant cost overruns etc on the site. Having spoken with O’Shea’s Head of Development they have confirmed that all major packages have now been finalised and costs for Phases 1,2&3 are largely locked in. We will have a 20% capital, cost overrun and interest shortfall guarantee in place day 1 and retain 10% gtee even once 2 thirds of the phase 1 units have had sales completed which should leverage ON down to sub 50% LTV. * Whilst Case 3 LTGDV is higher than we would like at 77.3%, Credit Analytics have acknowledged comparables have been tough to find for what is quite a unique offering in the North East. Given the borrower has had 8+ reservations now for the 21x lodges at £600psf and RBV is landing over the course of the next week and expect to verify the borrower case assumptions (which brings LTGDV into the late 50% range) then the bank should be comfortable supporting the revised debt amount (especially with the capital guarantee mentioned above). * Similarly, stabilised gross leverage on the hotel element of the scheme at 5x seems sensible for this asset. As discussed in the room during CRMC, the trading projections themselves have had heavy input from external F&B consultants, valuers and the General Manager/Assistant General Manager who were previously at Gara Rock. Both O’Shea and Galliard are aware that they are not hoteliers and to that effect have actively sought out to bring in the right management team for the asset, with the ex Gara Rock team being key given this hotel being identified by the borrower’s advisors as a primary comp for a F&B heavy operation. * The upside in this phased scheme naturally materialises in phases 2&3 will ensure Galliard/O’Shea are well incentivised to inject any follow-on capital if required – over and above the £15.6m they will have injected upon completion of this financing. Once the hotel is trading and sales have completed on the Phase 1 lodges, OakNorth’s exit will be de-risked as the borrower will have completed the most complex part of the build, will have proven demand and will have a long list of other lenders that would be able to take us out at much cheaper financing. * Note we have ensure that all surplus income from the hotel is ringfenced within thew hotel and can only go towards either improving operations at the hotel or deleveraging OakNorth, as such even though this is an interest only trading facility conversations to date with the borrower is that they will look to deleverage us as soon as possible in order to avoid interest unnecessary costs. * The site’s location is very well placed for its varied offering (Luxury Hotel/Michelin Chef F&B/Spa/Country Manor/Coastal) and will pull on a wide range of revenue streams from a large pool of potential guests/visitors in the North East’s prime holiday destination. * No doubts around deliverability on site given the counterparty’s track record in deals OakNorth has funded as well as wider market. |

## **Credit UK Recommendation**

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| **Credit UK Recommendation** |
| CRMC had approved this deal in April 2024, comfort was taken from credible sponsor profile, excellent location, reservations already in place for 7 cottages and good management team for the hotel. Sponsors have limited direct experience of operating a hotel.  The current request is to approve additional debt of £4.4m on account of cost increase post finalisation of construction contracts.   * The overall debt is broken between.  1. **Hotel tranche (RWA:100%, Debt: £11.24m, FMT: £18.7m (Yr3))**: Standalone: LTV: 60%, Leverage (Yr 3): Borrower case: 5x, ON Case 3: 8.7x. Trading loan is for 36 months, so effectively Stabilised yr 3 is also the exit leverage for ON.   **Leverage is high for a regional location in ON case 3 @8.7x.**   1. **Property Development Facility**: Revised Debt £13.54m, GDV for phase 1: £10.3m, The debt allocated to this facility is higher than the GDV for Phase 1, understand predominantly it is due to front loading of common infrastructure cost. **Effectively, this means even if Borrower can fully sell all the Phase 1 cottages, there will be residual debt of £3.24m, this will need to be refinanced either by way of rolling up to future phases/ repayment by sponsors.**  * Contingency built in the Borrower Case has reduced from 3.7% in Case 1 to 1.2% in Case 2 – effectively no room built in for any cost overruns. Mitigant here being contracts are now finalised and costs largely locked in. * Estimated developer profit in Phase 1 for developer including full stabilised valuation of hotel is limited to only 2.6%. We have been told that future phases will be profitable and hence, it makes sense to develop the full scheme. If contingency was not reduced, this phase had zero developer profit. * Trading model for hotel: * Borrower assumptions seems quite aggressive particularly on the F&B and spa segment side  |  |  |  | | --- | --- | --- | | **Particulars (in £mn)** | **2026** | **2027** | | Room revenue | 4.95 | 5.34 | | F&B | 4.7 | 7.7 | | **F&B as % of room revenue** | **95%** | **144%** | | Spa | 1.2 | 1.45 | | **Spa as % of room revenue** | **24%** | **27%** |   Spa assumption of 30 clients per day for a 77-room hotel seems high. F&B – there are 4 restaurants/lounge bars planned at the property. It can be classified as food led revenue hotel based on the projections like Signet brand hotels.   * The metrics for overall debt: [LTC @61.4%](https://encoded-592c9deb-987b-4562-aa3c-9fa3d37d83e9.uri/mailto%3aLTC%4061.4%2525), however, LTV is high in ON case 3 @77.4% , Borrower Model LTV 56.9%.   The prime difference between Borrower and ON assumptions are associated with   * Optimistic hotel trading projections by Borrower. FMT: Borrower case increased from £15.9m to £18.7m while ON case 3 retained at £14m. * GDV of Phase I – Borrower Case £10.3m/ ON Case 3 £8.7m * RV of Phase 2 and 3 – Borrower Case £14.5m/ ON Case 3 Increased from £8.4m to £9.3m * **Conclusion**   Credible developer, CG has been increased from 10% to 20% which provides additional support.  Hotel development facility is provided for 18 months; however, borrower expects the hotel to start trading earlier. This may mean that ON debt due to rolled up interest may reduce if utilised facility amount is cancelled on PC, impact could be around £500- £800k.  Considering that contingency is low, developer profit in Phase 1 is minimal, LTV high in Case 3 @77%, residual Resi debt for Phase 1 due to funding above Resi GDV Phase 1 value, I think overall debt for Phase 1 is on a higher side. RV of future phases does provide mitigant to some extent to front load debt on Phase 1.  Paper assumes hotel to PC in July 2024, which is realistically not feasible. I understand client is now stating they will achieve PC by end of this year. Development facility for hotel is retained at 18 months, flip to trading will happen on PC. I suggest that any saving on rolled up interest due to earlier flip shall go towards reducing the overall ON debt by cancelling the same.  Additional cost of £4.3m, if funded by equal split of £2.2m between debt and equity, it will be a more comfortable position. If overall debt is less by £2.2m @ £22.2m, hotel trading leverage in ON Case 3 is @7.2x or overfunding of resi units in phase 1 by £3.24m over GDV value, will be reduced to just £1m only, this can easily be rolled up to future phases/ repaid etc.  **Shradha Kejriwal**  **June 3, 2024** |

**APPENDIX 1 – GDV (Phase 1)**

| Key assumptions | Case 1 | Case 2 | Case 3 | Case 4 |
| --- | --- | --- | --- | --- |
| Underwriting case | New proposal | ON downside  Sensitivity | ON stress case |
| Build cost psf (21 Holiday Units) | £394 | £494 | £498 | £535 |
| Build cost psf/per key (Hotel) | £147/£92k | £176 /£110k | £177/£111k | £190/£119k |
| Contingency 1 | 3.7% | 1.2% | 5.0% | 5.0% |
| Professional Fee 1 | 4.6% | 4.8% | 5.0% | 5.0% |
| Est. Developer Profit | 10.5% | 2.6% | NA | NA |

Case 3, & 4 considered at 5% basis standard ON assumption.



## **APPENDIX 2 – GDV (Phase 2 & 3)**

| Key assumptions | Case 1 | Case 2 | Case 3 | Case 4 |
| --- | --- | --- | --- | --- |
| Underwriting case | New proposal | ON downside  Sensitivity | ON stress case |
| Build cost psf (Holiday Units) | £262 | £262 | £264 | £283 |
| Contingency | 4.0% | 2.8% | 5.0% | 5.0% |
| Professional Fee | 5.0% | 5.0% | 5.0% | 5.0% |
| Est. Developer Profit | 10.0% | 10.0% | 7.5% | NM |
| Loan Tenure (Proposed) | 40 months | 40 Months | 40 Months | 52 Months (assuming 12 months delay) |



## **Summary of Changes across Phase I, II,III**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particular (£m)** | **Presented at CRMC** | **Variance** | **Current Proposal** |
| **Phase I** |  |  |  |
| **GDV** | **26.2** | **2.8** | **29.0** |
| *Lodges* | *10.2* | *0.1* | *10.3* |
| *Hotel* | *15.9* | *2.8* | *18.7* |
| Built Cost | 13.5 | 3.0 | 16.5 |
| Development Cost | 19.9 | 4.5 | 24.4 |
| **Phase II & III** |  |  |  |
| **GDV Phase 2 & 3** | **66.4** | **0.0** | **66.4** |
| Built Case Phase 2 & 3 | 28.7 | 0.0 | 28.7 |
| Development cost Phase 2 & 3 | 38.8 | (1.2) | 37.6 |
| **Total Phase I,II,III** |  |  |  |
| GDV | **92.6** | **2.8** | **95.4** |
| Built Cost | 42.2 | 3.0 | 45.2 |
| Development Cost | 58.7 | 3.3 | 62 |

## **APPENDIX 3**

## 3.1 Pricing/ RWA Details

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| Deal Level Pricing Output (Development Loan) |
| |  |  |  |  | | --- | --- | --- | --- | |  | **Average deal dynamics (UK)** | **Specific deal - target pricing** | **DFD proposed pricing** | | RWA % | 2,216,599,520 | 150% | 150% | | Facility amount (£) | 2,216,599,520 | 13,541,227 | 13,541,227 | | Proposed margin to charge (%) | 6.00% | 6.24% | 5.00% | | Arrangement fee (%) | 1.07% | 1.00% | 1.00% | | Exit fee (%) | 1.07% | 0.00% | 0.00% | | Term (months) | 35 | 18 | 18 | | Is the loan committed? | Yes | Yes | Yes | | Non-utilisation fee (%) - undrawn committed | 2.40% | 2.50% | 0.00% | | Non-utilisation fee (%) of margin | 40.0% | 40.0% | 0.0% | | Undrawn uncommitted fee (%) | 1.45% | 1.45% | 1.45% | | Spread incl. fees (%) | 6.73% | 6.90% | 5.67% | |

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| --- |
| Deal Level Pricing Output (Refurb/Extension): Hotel |
| |  |  |  |  | | --- | --- | --- | --- | |  | **Average deal dynamics (UK)** | **Specific deal - target pricing** | **DFD proposed pricing** | | RWA % | 4,099,209,136 | 100% | 100% | | Facility amount (£) | 4,099,209,136 | 11,235,795 | 11,235,795 | | Proposed margin to charge (%) | 5.25% | 4.80% | 5.00% | | Arrangement fee (%) | 0.94% | 1.00% | 1.00% | | Exit fee (%) | 0.94% | 0.00% | 0.00% | | Term (months) | 38 | 18 | 18 | | Is the loan committed? | Yes | Yes | Yes | | Non-utilisation fee (%) - undrawn committed | 2.10% | 1.92% | 0.00% | | Non-utilisation fee (%) of margin | 40.0% | 40.0% | 0.0% | | Undrawn uncommitted fee (%) | 1.45% | 1.45% | 1.45% | | Spread incl. fees (%) | 5.84% | 5.47% | 5.67% | |

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| --- |
| Deal Level Pricing Output (Trading Loan - Hotel) |
| |  |  |  |  | | --- | --- | --- | --- | |  | **Average deal dynamics (UK)** | **Specific deal - target pricing** | **DFD proposed pricing** | | RWA % | 4,099,209,136 | 100% | 100% | | Facility amount (£) | 4,099,209,136 | 11,235,795 | 11,235,795 | | Proposed margin to charge (%) | 5.25% | 5.39% | 4.50% | | Arrangement fee (%) | 0.94% | 0.00% | 0.00% | | Exit fee (%) | 0.94% | 0.75% | 0.75% | | Term (months) | 38 | 36 | 36 | | Is the loan committed? | Yes | Yes | Yes | | Non-utilisation fee (%) - undrawn committed | 2.10% | 2.16% | 0.00% | | Non-utilisation fee (%) of margin | 40.0% | 40.0% | 0.0% | | Undrawn uncommitted fee (%) | 1.45% | 1.45% | 1.45% | | Spread incl. fees (%) | 5.84% | 5.64% | 4.75% | |

|  |  |  |  |
| --- | --- | --- | --- |
| **Reference Documents** | | | |
| **Credit Paper (Apr-24)** | **Decision Notice (Apr-24)** | **CRMC Minutes (Apr-24)** | **Credit Reco (Apr-24)** |
|  |  |  |  |

## 3.2 Explanation on increase in cost from CRMC case

* All phase 1 costs have now been locked in with all major packages for the wider site fully costed and contracted. Several reasons for the difference to the CRMC case as follows:
* The last budget that ON used for the CRMC was c.6 months old. Costings weren’t in final form within the model used for the credit paper so evidently the latest model shared is not a like for like comparison, given contracts/orders were still to be executed previously.
* Externals work and completion costs for the hotel which were not covered sufficiently in the last model.
* As O’Shea have stripped back the hotel over the past several months there has been significant M&E works that have been unearthed and in a lot of cases need to be rectified from previous developer. This ensures that they can future proof the asset and avoid having to come back round to these works again in a few years’ time. For context some of the works here include reinforcing a large portion of the floor joists to avoid floors bowing otherwise with the new loads.
* As above the larger order contracts have now been placed rather than previous estimates within the previous budget. Namely the extensive kitchen orders for the various F&B offerings (key to hotel’s trading value) have now been finalised alongside larger orders for the spa offering. Delivery dates now set so that can be fitted prior to opening back end of August.
* There’s been significant earth and ground works necessary to block off the s104 requirements which is a costly process and includes sitewide drainage and service trench connections, landscaping and the replacement of drainage and pump station works.
* Linked to above point there have been significant ground investigation works carried out and P1 costs are inclusive of these works rather than in later stages.
* Roadworks needed to ensure access to wider parts of the site included in P1 costs.
* Then looking to the difference in costs between P1 vs P2/P3 lodge costs this is primarily due to the initial 21x P1 lodges being built on a traditional basis with the rest of P2/P3 lodges being done on a modular basis. P1 lodges are then siting on the steepest/most complex parts of the site, hence costs associated with getting these built to standard. There is then a further level intricacy as O’Shea have had to make do with the previous developer’s ground/infra works which in some cases have had to be redone.