Property Development Finance

Property Development Finance, from the Ground Up

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Meeting a client on site and seeing what they are planning to build is always exciting.

Having understood what finance the project needs, it's my job to source the right funder. Matching a client to a Lender is as essential as matching a project to a Lender, as they will be working closely together for the next 12-18 months and possibly on to future developments.

Helping them deliver the project with the right funding is what gives me real satisfaction.

Nic Rotton

Commercial Finance Consultant

Whether you're a first-time developer or a seasoned development company, securing the right finance to fund your project is often the starting point.

Property Development Finance is generally used to fund out of the ground builds, conversion to or refurbishment of residential property. By using finance, you can scale up the size of the project and allow for contingencies.

If you are looking to complete a short-term refurbishment project with light, non-structural works, then a refurbishment bridging loan may be more suitable.

What experience do you need?

We have lenders on our panel that will look to fund projects from experienced developers and also those looking to develop for the first time. Lenders will want to understand what experience you have and this can be evidenced by the projects that you have completed previously.

If you are a first time developer, any lack of experience can be supported by having a strong professional team (including contractor) around you and a strong exit strategy in place which will either be refinance onto longer term finance or sale.

Can you fund part way through the build?

There are now products available that will allow you to complete a development project part way through the build. This is often referred to as 'finish and exit' as the product does just that!

It may be that you have run out of funds from the existing facility and so there are insufficient funds to complete the project or you may have been relying on sales that have taken longer than anticipated and require the funds to move to the next stage.

Repaying Property Development Finance

It's important to plan for the repayment of your property development finance loan before you even approach lenders to fund the project. This is for your benefit as much as the lender's, as you will need to ensure that you can complete and repay within the agreed timescale. Your 'exit strategy' will depend on your plans for the project once complete and may include:-

- Sale of the property to raise the funds to repay the loan.
- Refinancing the property onto a longer term loan to retain it for investment purposes.

Development Exit Finance

Property Development Exit finance, also known as a 'marketing bridge' is often used by clients who are approaching the completion of a project and need time to sell. It's not always possible or can be costly to extend your development finance and a short-term-loan, at a lower cost, may be the solution.

How much can you borrow?

Our panel of property development lenders tend to start with a minimum loan size of £250,000 and there really isn't a maximum limit on how much can be borrowed.

If you are looking for less than £250,000 a bridging refurbishment loan may be more appropriate.

Lenders initially look at two key elements when considering the loan amount; these are the Gross Development Value (GDV) and the total costs (including land, build and finance costs). The loan amount is calculated from 65% of GDV or 80% of total costs, whichever is lower.

The cost will very much depend on your experience, the size of the project and the overall costs. Most lenders
will expect your contribution to be accounted for first, through the purchase of the land (or land you already own) and their loan will then cover the remaining balance on the purchase and up to 100% of the costs (often achievable if you already own the land), however how the finance is structured will vary from lender to lender.

How long can you borrow for?

Property development finance loans are designed as a short-term facility to fund the building of a development project. Most development finance is offered up to a maximum of 24 months, but it can be longer if the scheme size and nature demand it. Be realistic when considering the length of time it will take and make sure that you factor in any potential for overruns and time to sell.

Preparing to Apply

It's always good to be prepared and applying for development finance is no different.

Purchasing Land

If you're purchasing land, it's important to ensure that you carry out the necessary due diligence and that it has the correct planning permission in place for your planned build. Finance is available to purchase the land before planning is obtained, if necessary.

Cost Breakdown

Lenders will expect you to provide a detailed breakdown of costs. These should include the cost of purchase, professional fees (legal, planning, architect and QS and building control etc.), build costs and a contingency to cover cost overruns.

Local Knowledge

If, as part of your own due diligence, you have approached local agents for their opinion on value and demand for sale, it's always helpful to include this in your plans, as local knowledge always helps.

Asset and Liability

Prepare an Asset and Liability statement and financial accounts (if available). This will help the lender understand your financial position.

Preparing to Apply

Prepare a CV

If you have completed Development projects previously, it's helpful to prepare a CV to accompany your portfolio. It should include details of any planning obtained, a breakdown of the costs, any professional services used and managed and evidence of the finished project. If this is your first development, a CV from your contractor and other professional services will be essential.

Funding Stages

Most development finance is funded in stages (or draw downs) where funds are released along an agreed timeline throughout the build. You will need to think about the stages in advance and when you will need funds to be released to move to the next stage. This will then be agreed with the lender to help the build run smoothly and ensure that you have the funds available when you need them. The lender will release funds in arrears on receipt of their monitoring surveyor's report.

Planning your Exit

Always have a good understanding of how you will exit the development finance once the project is complete. If you intend to keep the property, we can help obtain an indication of the funding available and if you intend to sell, evidence of your research on demand for sale will give some initial reassurance.

Understanding the Development Process

We have years of experience in helping our clients apply to finance their property development projects and we will guide you through the process. This will always start with a conversation with one of our consultants

01 02 03 04

1. Initial Enquiry

Understanding you and your plans. We will ask you to provide as much information about your project, estimated costs and business plan as possible before approaching lenders.

2. Research

Research the market and provide indicative terms.

3. Site Visit

Our lenders like to meet you on site to assess the project's viability and this is where your relationship with the lender begins.

4. Formal loan offer

A formal loan offer will be issued, once the lender's credit team has reviewed all information. This will include the terms on which they are prepared to offer, subject to valuation.

Continued

5. Valuation

Valuation of the land and planned project. This will include a valuation of the existing site, the expected Gross Development value (GDV) and commentary on the exit strategy once complete.

7. Legal Process

Once the offer is signed, you will need to appoint a Solicitor to represent you and the Lender will have separate representation. It is important that you choose a Solicitor with experience in dealing with the lending process.

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6. Surveyor

The Monitoring Surveyor Assessment will be a detailed assessment of the build costs and set out an agreed draw-down timeline.

8. Loan Completion

The first payment is paid on completion, followed by further draw downs at agreed stages throughout the build.

9. Loan Repayment

Fees

This is a guide to the fees you can expect to have to pay with Development Finance.

Arrangement Fee

Also referred to as a facility fee is charged by the lender for arranging the loan and is typically between 1.5-3% of the loan amount.

Valuation Fee

The lender will instruct an initial valuation on the Development. This will be a detailed report to ensure that the initial value of the security on day one and the GDV of the completed project are in line with your appraisal.

Monitoring Survey

The lender will instruct a Monitoring Surveyor (MS) to provide an initial report to provide an assessment of the estimated costs of work and that any risks to the lender and the project are considered. The lender will also instruct the MS to visit the project before any release of funds to ensure that the build is progressing as planned and to the agreed standard. This will be at your cost.

Draw Down Fee

This is not charged by all lenders, but some will charge a fee as funds are due to be released. This covers the administrative costs of releasing the funds.

Exit Fee

The exit fee is charged when repaying the loan, but it is not charged by all lenders. Those that do charge a fee will typically charge 1-2% of either the loan amount or the Gross Development Value (GDV). This can make a big difference to the overall cost.

Interest

In most cases, interest is only charged on the funds released and is 'rolled up' (added to the amount that you owe) which means that you do not have to make payments each month. The amount you borrow increases as the funds are released and so does the amount of interest you pay.

Legal Fee

You are obliged to cover all legal costs associated with the loan, including those for the lender themselves. The cost of this varies from lender to lender.

Professional Fee

It's important to factor in the cost of using the services of professionals throughout the course of your project. This might include Architects, Quantity Surveyors, Contractors etc. Most lenders will allow you to add these fees to your costs when calculating your loan.

Example

A client has purchased a site for £320,000 and has achieved planning for 5 detached properties

The build would cost £900,000 and it is expected to sell for £1,625,000. The client is an experienced developer with a strong track record in delivering similar schemes.

They plan to sell the finished houses on the open market.

The client requested we source finance to support 100% of the build costs

Lenders will fund up to 65% of GDV and 80% of total project costs whichever is the lower.

Purchase Price	£320,000
Build Costs	£900,000
GDV (Gross Development Value)	£1,625,000

In this instance

Day 1 Value	£320,000
Build Costs	£900,000
Projected Interest	£60,000
Projected Professional Fees	£17,500
Total Project Costs	£1,297,500
80% Of Total Project Cost	£1,038,000
65% of GDV	£1,056,250

We were able to secure the client a facility of £977,500 to fund 100% of all the build costs along with interest and fees.

As the numbers allowed it, the client was offered a £60,000 day one loan towards the purchase costs. On this occasion they chose not to take advantage of this.