

Client Briefing 7

Funding property development

Introduction

Property development is a specialist area. We would recommend that you call us to discuss any potential development opportunities with our specialist so that we can advise on the appropriate financing arrangements and therefore the details given below are restricted to the broad outlines only.

The funding options available generally fall into three categories:

- specialist property development funding products for developers;
- property development JVs for owner occupiers;
- normal property borrowings by way of commercial mortgage or bridging.

Specialist property development funding products

These are mortgages designed to fund developments. A normal lender's approach might be to advance:

- 60% of the site value; and
- 100% development costs on applications.

This lending is typically subject to an overall limit of 60% of the expected value of the completed development. A developer using this type of facility will therefore need to be able to raise 40% of the site purchase price from their own capital however it is possible to raise 100% funding from some lenders.

Lenders will be interested in understanding the planned sales process from the completed development, whether agents have been instructed and whether units are expected to sell off plan or on completion (as obviously the more units pre-sold, the lower the lender's risk).

Over and above this however local lenders can take a flexible approach to financing deals by way of partnerships so it is worth talking to our experts to see what deals can be negotiated.

Property development joint ventures

In some cases an owner occupier will hold a property which has development potential but does not have the capacity in house to develop the site themselves.

These situations can be resolved by entering in to a joint venture with a developer. A typical case might involve a business owning a large factory site which has potential for retail development. One way of realising this is to agree a deal with a developer that they or a company set up for the purpose (a special purpose vehicle or SPV) will purchase the site and grant the business a lease for say two years within which the developer seeks planning permission at the developer's cost. On gaining permission, the developer builds an alternative site for the business on a new site which is let to the business on a normal institutional 15 or 25 year lease while the developer then develops the site, with the original owner having a share in the development profit.

Bridging or commercial mortgage

Alternatively, funds can be raised for development by way of normal mortgages or commercial bridging loans against this or other properties (see Commercial property funding – client briefing 3 and Commercial property bridging – client briefing 4). As bridging can be against property value rather than purchase price in some cases it is possible to cover 100% of the purchase price by way of a bridge.

Please reply to

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Property Development Finance Information Checklist

Borrower

- Name
- Address
- Telephone / mobile
- Email
- Any adverse credit information (CCJs, mortgage arrears etc)

Site address

Planning status

Description of scheme (development to be conducted)

Outline financial position

- Cost of site
- Cost of development
- Expected value on completion
- Equity available
- Funding requirement

Agents instructed (if any)

Documents to be attached if available:

1	Copy of any valuations covering both current value and expected value once complete	
2	Copy of plans and planning permission	
3	Costings with a profile of the builder and the architect	
4	Cash flow forecast with details of assumptions	
5	CV and asset / liability statement of the principals	

For free initial advice on funding a development please fax the above form back to 0870 990 1586 or call 0870 420 8317