FIDÚCIA
COMMERCIAL SOLUTIONS

Fiducia Commercial Solutions' Monthly Newsletter For Introducers, Network ARs and Partners

DEVELOPMENT FINANCE

A shortage of residential property stock drives consistent demand

But in an age of repurposing and converting existing property, this can mean many things beyond a traditional site where open land is developed from the ground up.

The Development Finance available varies by the initial value of the property or land / costs and fees of the development work / projected value of the completed development / previous experience of development.

Types of development finance vary from refurbishment to new builds:

- **Light Refurbishment** - Cosmetic refurbishment with no structural changes
- **Heavy Refurbishment** - Contains cosmetic work, but usually renovation work including structural changes or changes to the footprint of the property
- **Ground Up Development** - Commonly starts from vacant land, can include demolition and rebuild projects

Required consent varies from ‘permitted development’ (eg. converting offices to residential flats), to full planning permission for extending existing property and ground up development.

We source property development funding – why not talk to us about your client's plans?

THIS MONTH:

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SHORT-TERM FINANCE AND THE 'COST OF WORKS'

Have Clients Allowed A Contingency For Time As Well As For Costs?

It's critical to get your 'Cost Of Works' right in short-term finance - an increasing trend with property investors and landlords is the purchase of property that requires refurbishment, or conversion from commercial to residential:

- Landlords add immediate capital value and maximise rental yields
- Property investors sell, releasing equity and profit into their next project

Short-term finance can be used to buy property and fund refurbishment or conversion – but the lender and surveyor will want the 'schedule of works' plus realistic 'cost of works' too.

The 'schedule of works' provides the lender and client a second valuation estimating the value of the property with completed refurbishment work (the 'GDV').

Lenders have to assess if the 'cost of works' are realistic for the planned work – now also trying to take into account the rising cost of materials, delays in sourcing them etc.

We are working with clients and lenders to put in place realistic schedules and costs of works – where necessary extending the term of the short-term funding as a contingency as well as having a cash contingency.

Why not partner with us to get the right funding for your client's project?

FIDUCIA'S COMMERCIAL VIEW

This Month:
Adam Butler – Senior Relationship Manager – Avamore Capital

Q: How does Avamore Capital see the development finance market evolving post pandemic?

Although it would be easy to look at the past 18 months negatively, in the bridging and development market it hasn't been all doom and gloom.

An example of this are the changes to the permitted development application for converting commercial space into residential, making the process much simpler. In fact, this is a fantastic opportunity for larger commercial spaces which have recently seen more of a dip in demand but in turn, suits the issue of the constant need for more housing in the UK.

Another area which we have seen real growth post-pandemic is the need for finance to help fund part-completed developments. Issues like the current developer overrunning on their existing loan due to delays in getting materials or even not being able to get enough staff onsite.

We are also seeing more developers looking to purchase part-built developments which due to COVID-19 and Brexit restrictions had to stall and therefore, the current owners are looking to get out. I strongly believe the part-complete development market is one that will be strong for the next few years at the very least.

Q: How is your proposition positioned to meet client requirements in this environment?

At Avamore we have always tried to be innovative with our products, constantly looking for areas in the market that are underserved and offering something to help. We have recently improved our ground up offering which is one of the most tangible around. This has allowed us to look at a wider range of loan sizes but remaining flexible on clients previous experience while still be able to offer a competitive rates and leverage.

We were also the pioneers in offering a product for these part-completed developments. Our award-winning **Finish & Exit** product allows us to step in from ground floor brickwork (pre or post wind & watertight) to fund 100% of remaining works and build costs.

Another recent feature we have created and probably one of the most unique offerings to come out to the post-pandemic market is our **Planning Flexibility** feature. With the serious delays we are seeing from planning offices around the country - coupled with some tight completion deadlines, we saw a real need to save clients time and money.

Traditionally, borrowers would have to utilise a bridge to purchase the property, apply for planning and then take out a refurbishment or conversion product to fund the build.

At Avamore we are now able to fund a purchase without planning, we can also fund with an enhanced planning application which is waiting for approval or even refinance a current loan but also providing the build costs which can then be drawn once the planning in place. In essence the deal is underwritten on the basis the planning will be in place meaning once planning comes through no additional work is needed and the build costs are automatically made available. This save the clients two sets of fees, two processes and provides them with the certainty at purchase that they will be able to fund the project they are looking to undertake.

For more information on how Avamore can help, please click here

COMMERCIAL MORTGAGES - TIME TO CONSIDER A FIXED RATE?

Is This The One Major Business Cost Clients Can Currently Control?

Far from any claim to have the crystal ball on when and how much interest rates will change, the question is whether the benefits of looking to fix the rate of your clients' commercial mortgages now likely outweigh the down sides for their business?

We have evolved into an economy of heated demand and shortness of supply – also called inflationary pressure. A near perfect storm of contributing factors are driving a seemingly endless upward pressure on costs:

- Demand outstripping supply of almost every raw material
- Delays in materials and manufactured goods in the supply chain globally
- Record freight costs, and restricted availability of freight, to get the same goods and materials to the UK
- Chronic shortage of HGV drivers within the UK to distribute at all stages of the supply chain
- Combination of factors has driven energy costs up, in the case of wholesale gas by 6 times
- Several sectors of the economy suffering chronic staff shortages and an inability to recruit

Cost pressures are feeding through to virtually every business in the economy – and these are not costs that UK companies have much if any control over at all. And that brings us back to the question – is it a good time to fix the rate of a commercial mortgage?

If clients feel that inflationary pressures are going to mean that the next move in rates will be up and not down, then fixing their mortgage at a currently available fixed rate would make sense.

If they are budgeting and forecasting for their business, then unfortunately with some costs you might be as accurate with a coin toss as a calculator; but with a major cost like the mortgage fixed for a 2 year or 5 year term you would be adding accuracy to your budgeting, and hedging against future interest rate rises that would immediately add to the call on cash flow to your business if you are on a variable rate mortgage.

We help clients source the best commercial mortgage solutions for their businesses from our whole of market panel of lenders – why not let us help your clients fix the cost of the roof over their company?

THE OPENWORK PARTNERSHIP AND THE FIDUCIA NETWORK

THE Openwork PARTNERSHIP

We value the long standing and close working relationship that we have with The Openwork Partnership, and all of our introducing partners in the network.
The Fiducia Network gives you the opportunity to work more broadly with commercial finance opportunities - by becoming a Fiducia Commercial Finance AR.
In addition to Commercial, Investment and Development property finance, The Fiducia Network allows you to source Business Loans, Asset Finance and Leasing, Invoice Finance, Trade and Supply Chain Finance and much more for your clients.