

PROPERTY DEVELOPMENT

S Y S T E M

www.PropertyDevelopmentSystem.com.au

Development Finance

- What are banks looking for?
- Commercial Finance
- Stages
- Types of Loans
- Finance Checklist
- Loan Document: Example

What are banks looking for?

Project Report:

- Your Project Charter
 - Stake Holders
 - Details - Borrowing Entity
- Build Contract
- Risk Management Plan
- Demand & Supply
- Demand & Supply Analysis
- Market Research
- Financial Feasibility
- Market Comparables
- Permits
 - Town planning
 - Building Permit
- All Drawings and Documentations
- Schedule of Leases
- Pre-Sales Contracts & Deposit Receipts
- Valuation Report
- Developers Profile
- Developers Financial data
- Supporting Documents
 - Property Information, Like Title Details etc.
 - Land Purchase Contract
 - QS reports
 - Construction Contract
 - Project Management Contract
 - Project Schedule / Timeline
 - Marketing Plan

What are banks looking for?

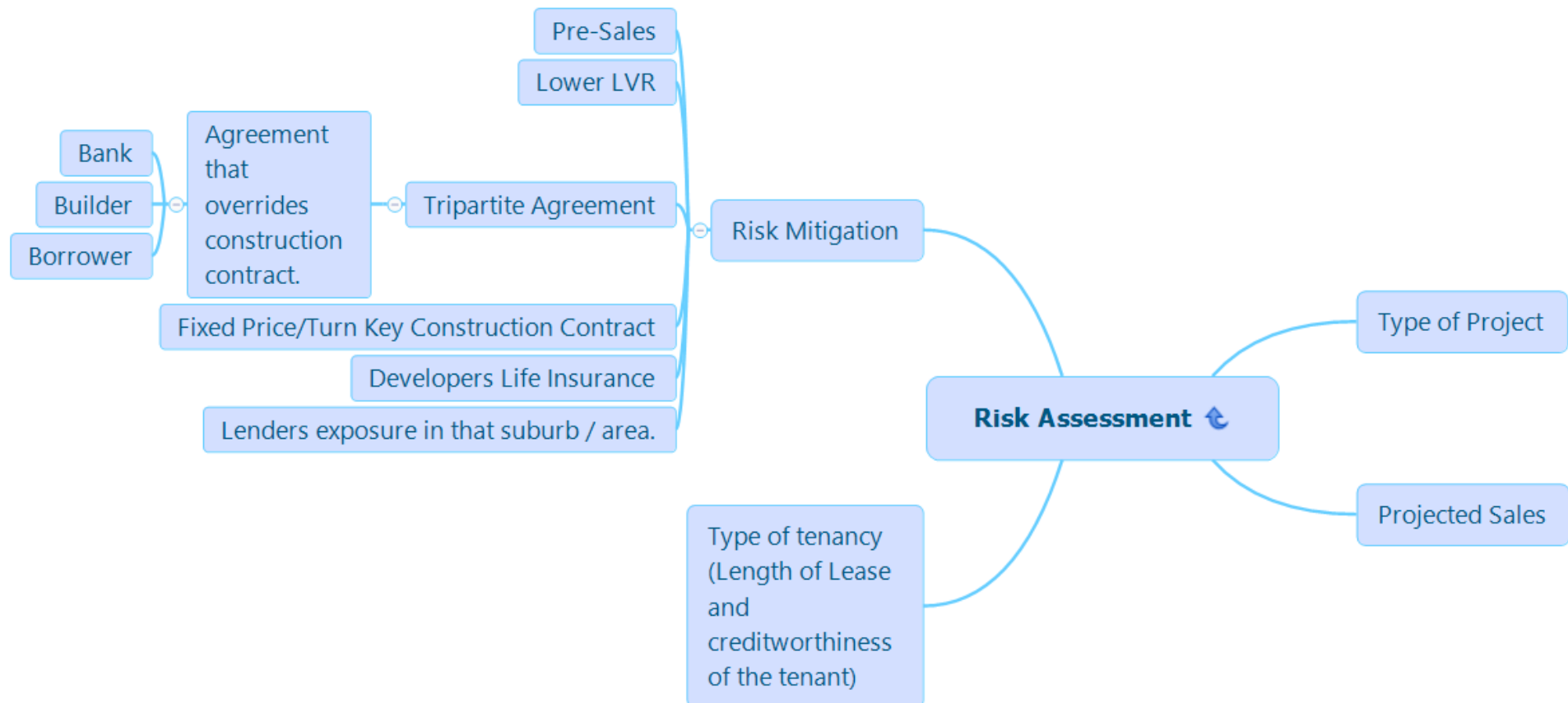
How does a lender evaluate a development loan?

Credit History of the Borrower

Assessment - proposed development

Risk Assessment

How does a lender evaluate a development loan?



How does a lender evaluate a development loan?

Banks like to see a
Development margin on cost
of at least 15% for smaller
projects and a minimum of
20% for larger projects.

Valuations

Project Report is a good starting point for the valuer.

Your claims will be scrutinized

IMPORTANT: Refer to Valuations

In terms of the block of land that you are
purchasing.

Any other asset that you may have to cross
collateralize.

Quality of security

How does a lender evaluate a development loan?

GRV or the end value of your developed product

It helps if the GRV of your end product is at median value

Fire Sale Scenario

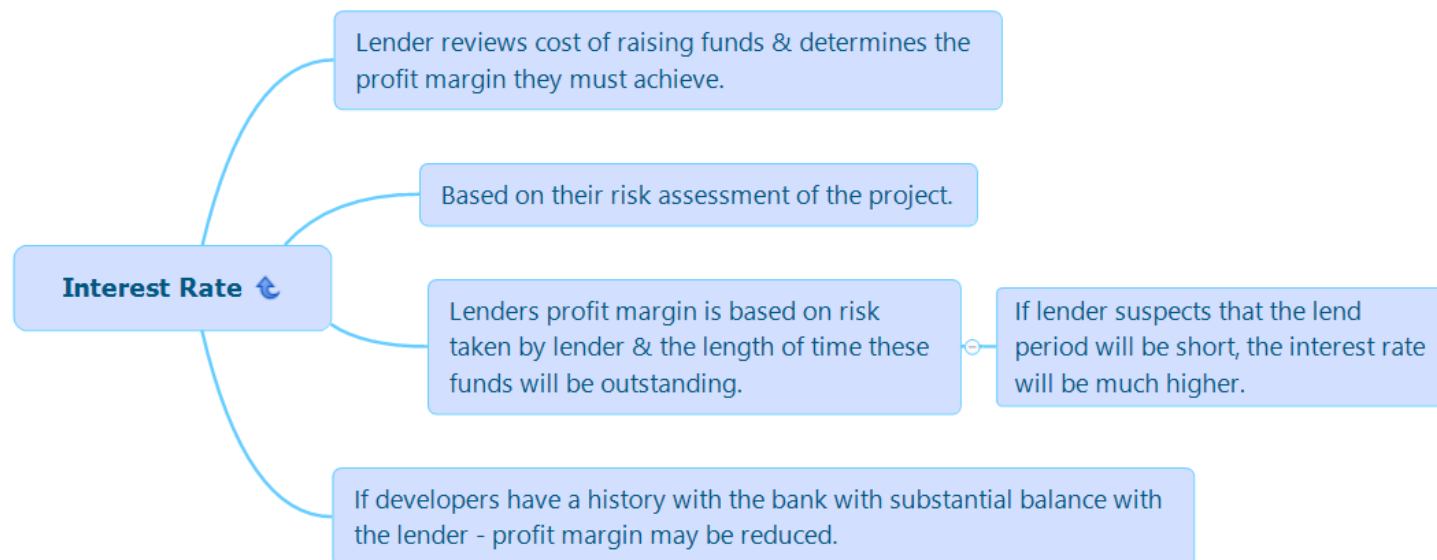
What can they get if they had to sell your project, tomorrow?

Area / Suburb of your development

Banks mitigate their risk by funding development in area with a history of strong capital growth & a balanced demand & supply ratio.

How does a lender evaluate a development loan?

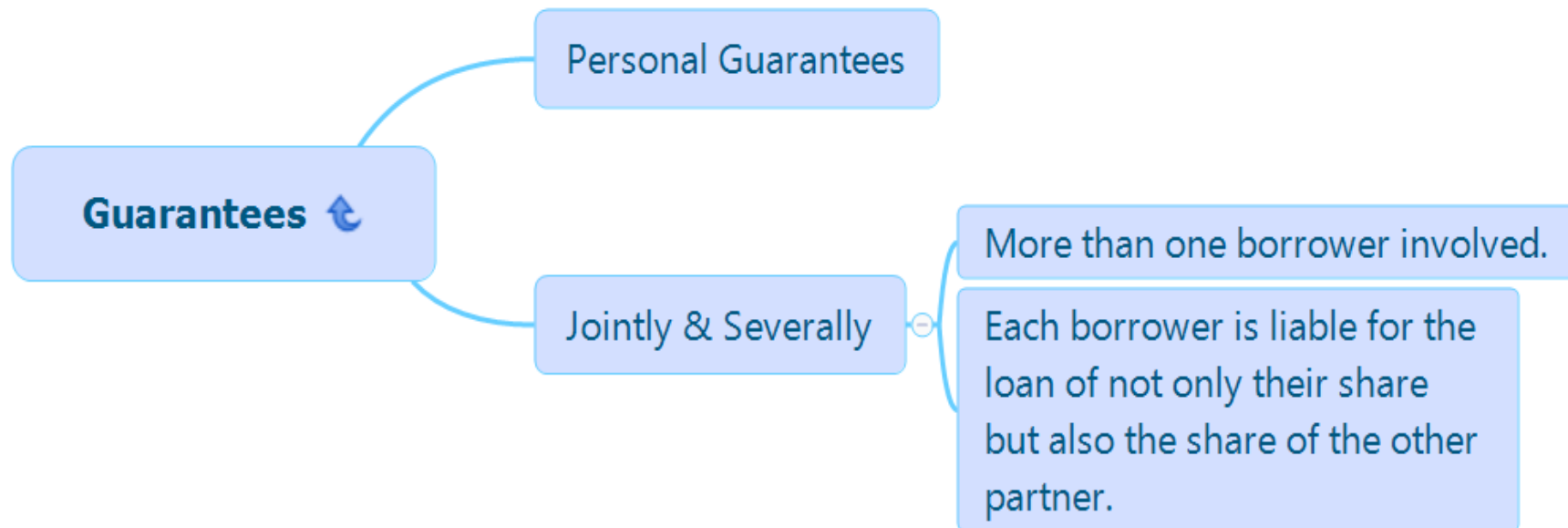
Financial Strength of the Developer Developers Track Record Interest Rate



How does a lender evaluate a development loan?

Establishment Fees & Charges	<p>In addition to Interest Rates</p> <p>Usually between 1-3% of the total loan amount</p> <p>Another way for the lender to make a profit and reduce it's risk.</p>
Construction Loan Period	<p>usually based on construction contract period + extra time to achieve settlements/occupancies.</p>
Terms and Conditions	<p>Extra Equity</p> <p>Extra Collateral</p>
Guarantees	<p>Personal Guarantees</p> <p>Jointly & Severally</p>

How does a lender evaluate a development loan?

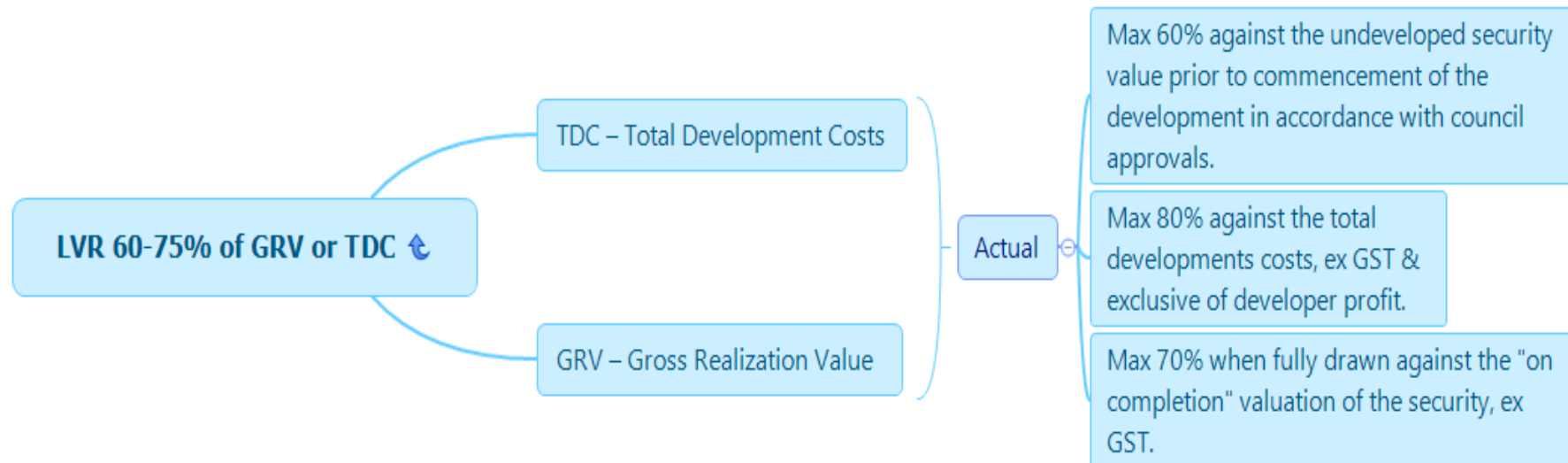


Commercial Finance

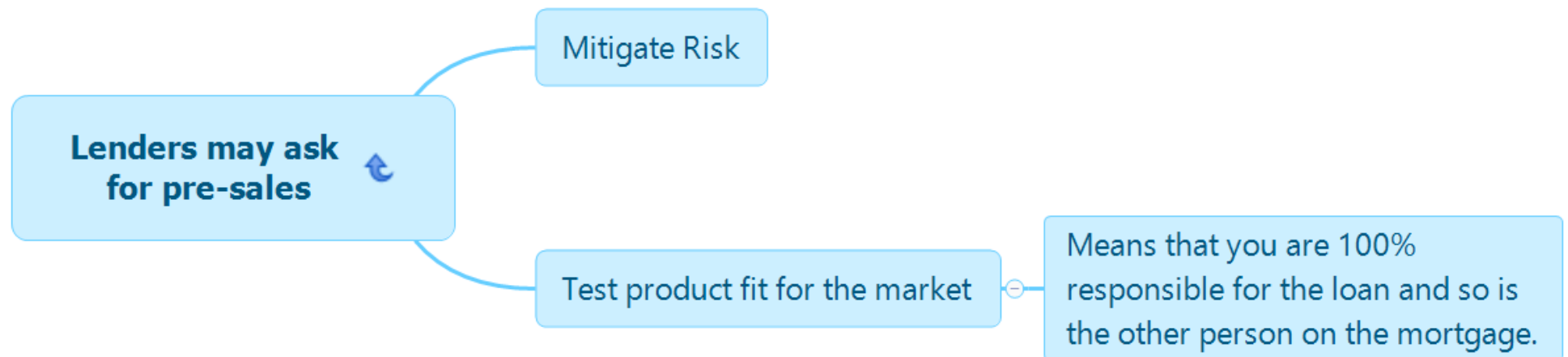
Commercial Finance

- > 2 Townhouses
- LVR 60-75% of GRV or TDC
- Interest is usually capitalized
- Facility is joint and severally guaranteed
- Lenders may ask for pre-sales

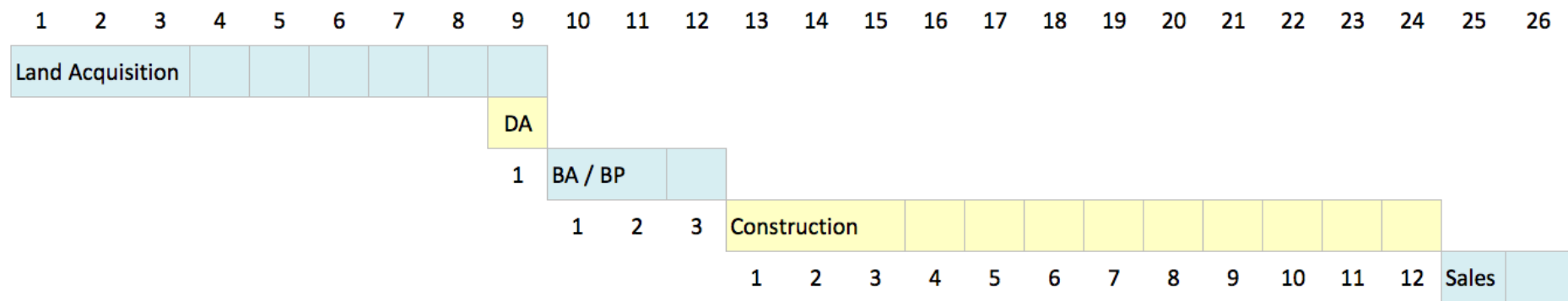
Commercial Finance



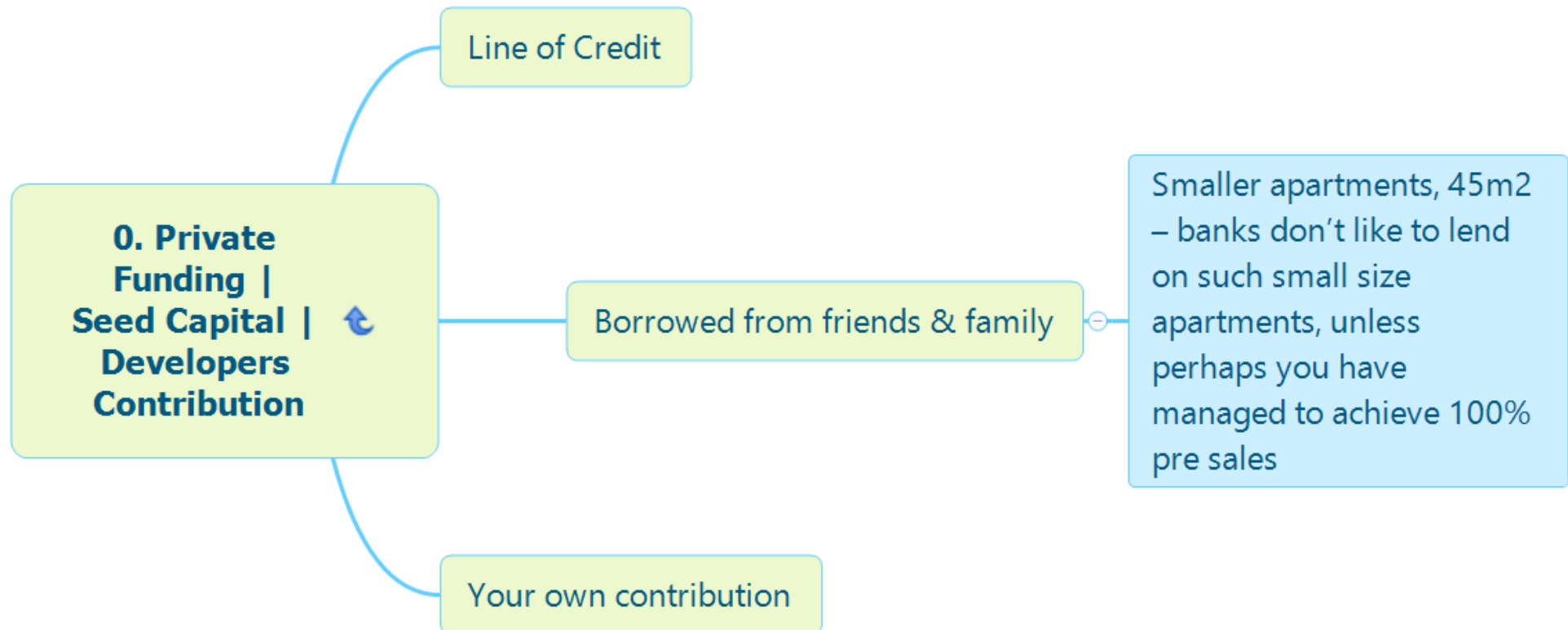
Commercial Finance



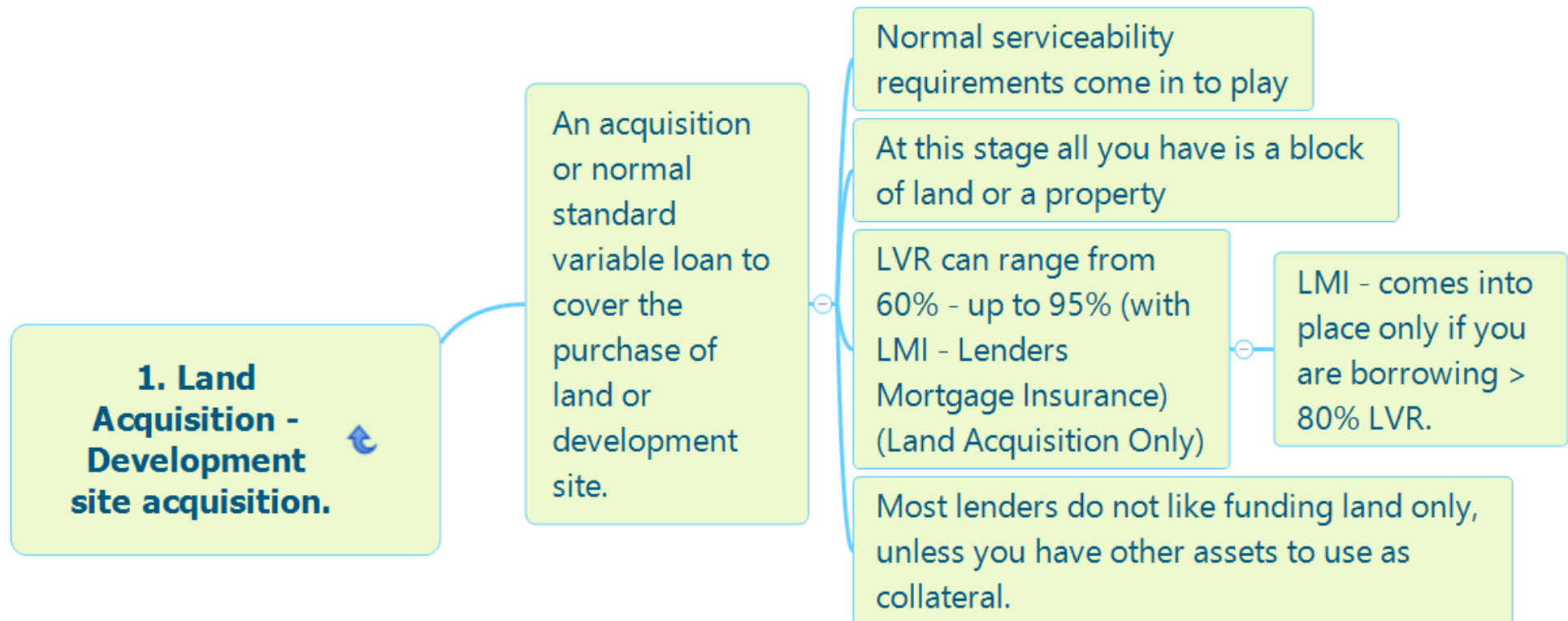
Stages



Stages



Stages



Stages



Stages

3. Develop & Hold

If you hold your developed properties for long term, you will have to refinance the loan.

Types of Loans

- Bridging Loans
- Mezzanine Finance
- Non-Recourse Loan / Debt

Types of Loans

Bridging Loans	Used to quickly move on a deal.	Typically refinanced after a short term with another lender.
		Comes at a higher interest rate
		Often used to obtain planning permits
		Comes from specialized lender willing to take the extra risk.

Types of Loans

Mezzanine Finance	Debt Capital that gives the lender the right to convert to an ownership or equity interest in the company if the loan is not paid back in time & in full.	Used by developers to secure additional financing for development projects, where there is a shortfall of equity required by the main or senior lender.
		More expensive - because it's secured by a 2nd mortgage. Since it's 2nd in line i.e. if something happens, 1st mortgage holder (senior lender) gets paid out first and then the second lender get's paid.

Types of Loans

Non-Recourse Loan / Debt	Secured by collateral, real property, but the borrower is not personally liable.	
	If borrower defaults, the lender can seize the property pledged as security - but the lenders recovery is limited to that property i.e. the lender cannot come after the borrower even if the collateral does not cover the full defaulted amount.	LVR is only 50-60% of Valuation.

Finance Checklist

PAYG	2 Current Pay slips no greater than 4 weeks old.
	Current group certificate
	Additional pay slips, if you do overtime on a regular basis.
Self-Employed	2 yrs tax returns and assessment notices
	2 yrs. business financials & tax returns
Rental Income	Recent statement from managing agent or copy of current lease or letter from real estate agent

Finance Checklist

ID Requirements - 100 points check	Driver's license 40 points
	Birth certificate or passport 70 points
	Rates Notice 35 points
	Credit Card 25 points
	Medicare Card 25 points
Savings/Assets	Current statement for all existing debts, including credit cards
	3 months bank statements showing savings and current balance (must have account name, account number on
	3 months statements showing ownership of shares or managed funds
	Term deposit certificate for any Term Deposit

Finance Checklist

LowDoc	Application
	Letter from Accountant
Construction	Copy of the Building Contract
	Copy of Plans, DA & BA
Additional Doc's	Signed Building Contract
	Stamped Council approved plans
	Building Insurance (Certificate of Currency)
	Builders Indemnity/Public Risk Insurance
	Valuation Report
	QS Report
ATO Portal Statement	

Valuations

- IMPORTANT
- Why getting a favorable Valuation is important?
- Types of Valuations
- How to get favorable Valuations?
- Understanding Valuation Methods
- What does the valuer look at?
- Web Resources

IMPORTANT

- Get written advice from your accountant on Margin Scheme before purchasing the site.
- Keep that advice handy, as you will need to send it to the valuer.

Why getting a favorable Valuation is important?

- If Valuation < Purchase Price / Contract Price = More Equity Injection from you.

LVR	80%
Contract Price	\$1,250,000
Equity Required 20%	\$312,500

Lenders will lend 80% of Valuation
Not Contract Price

Valuation	\$1,000,000
Equity Required on 80% LVR	\$200,000.00
Plus Shortfall	\$250,000.00
Total Equity Injection Required	\$450,000.0

Extra Equity Required	\$137,500.0
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- In most cases - Valuations are paid for by the developer.

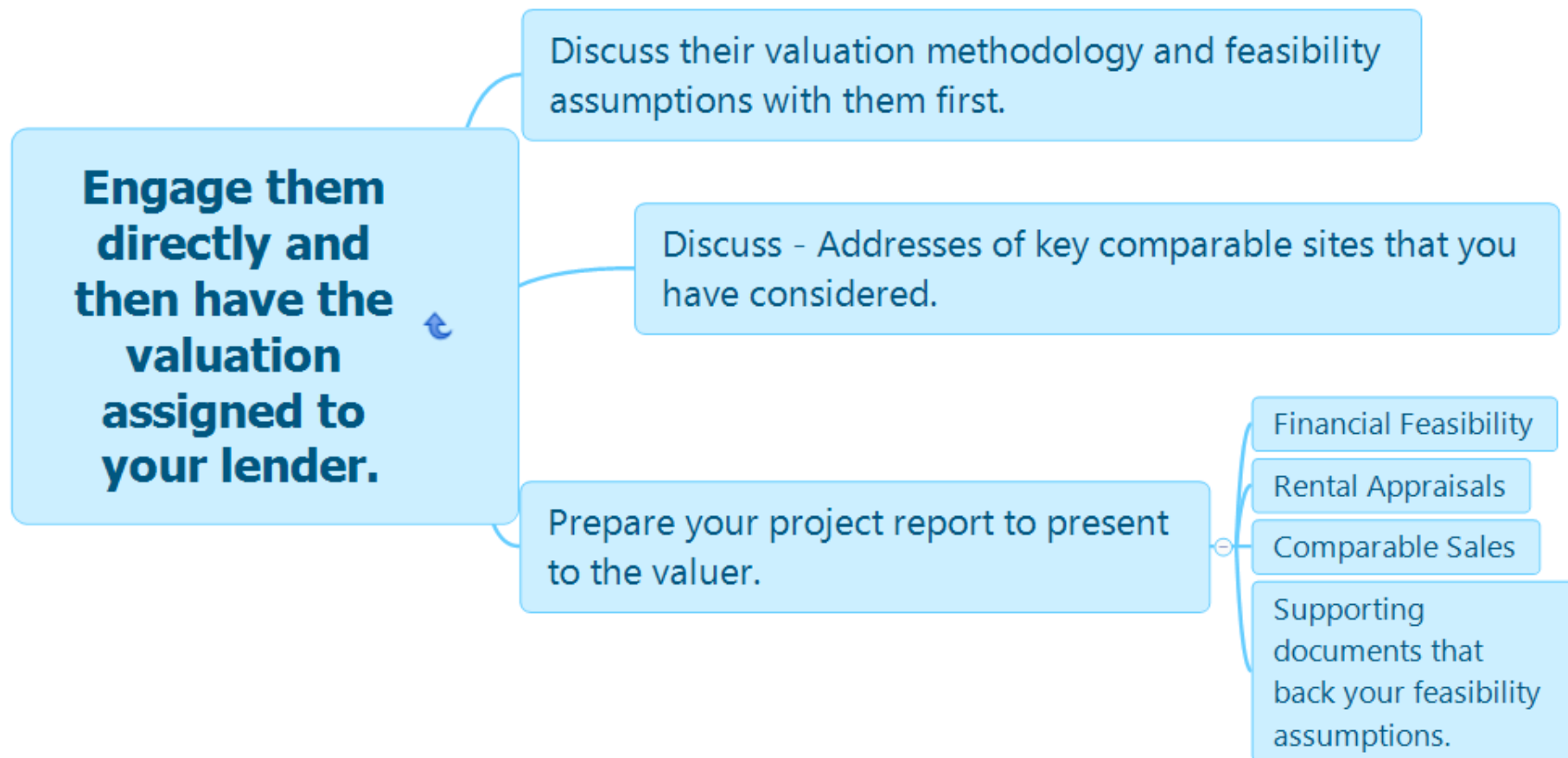
Types of Valuations

Retail	Acquisition of residential property / development site.
Commercial	Used to obtain development finance / construction loan.
	Takes into Account on completion value
	Project costs
	Arrive at Residual value of land.

How to get favorable Valuations?

- Get your own valuations
- Get a list of approved valuers on the lenders panel.
- Engage them directly and then have the valuation assigned to your lender.

How to get favorable Valuations?



How to get favorable Valuations?

Questions to assess your valuer

- Have they valued similar projects recently? Which ones? In the same area?
- How do they perceive the supply and demand in that area?
- What are their views on the market in general?
- Ask them about their perception of rental rates?
- What sort of feedback are they getting from lenders?
- Assess where the valuer is at in terms of the suburb of your project, similar projects and their general perception of the project.

Understanding Valuation Methods

Comparable Sales

- Used for Commercial, Industrial, investment Property

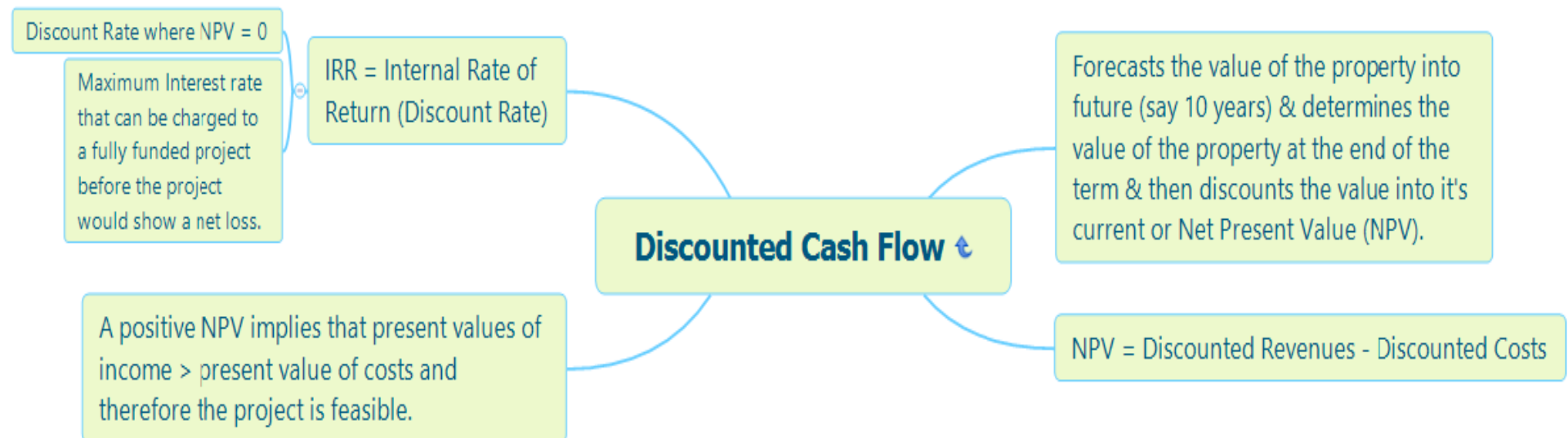
Income Capitalization

- Based on the income generated by the property.

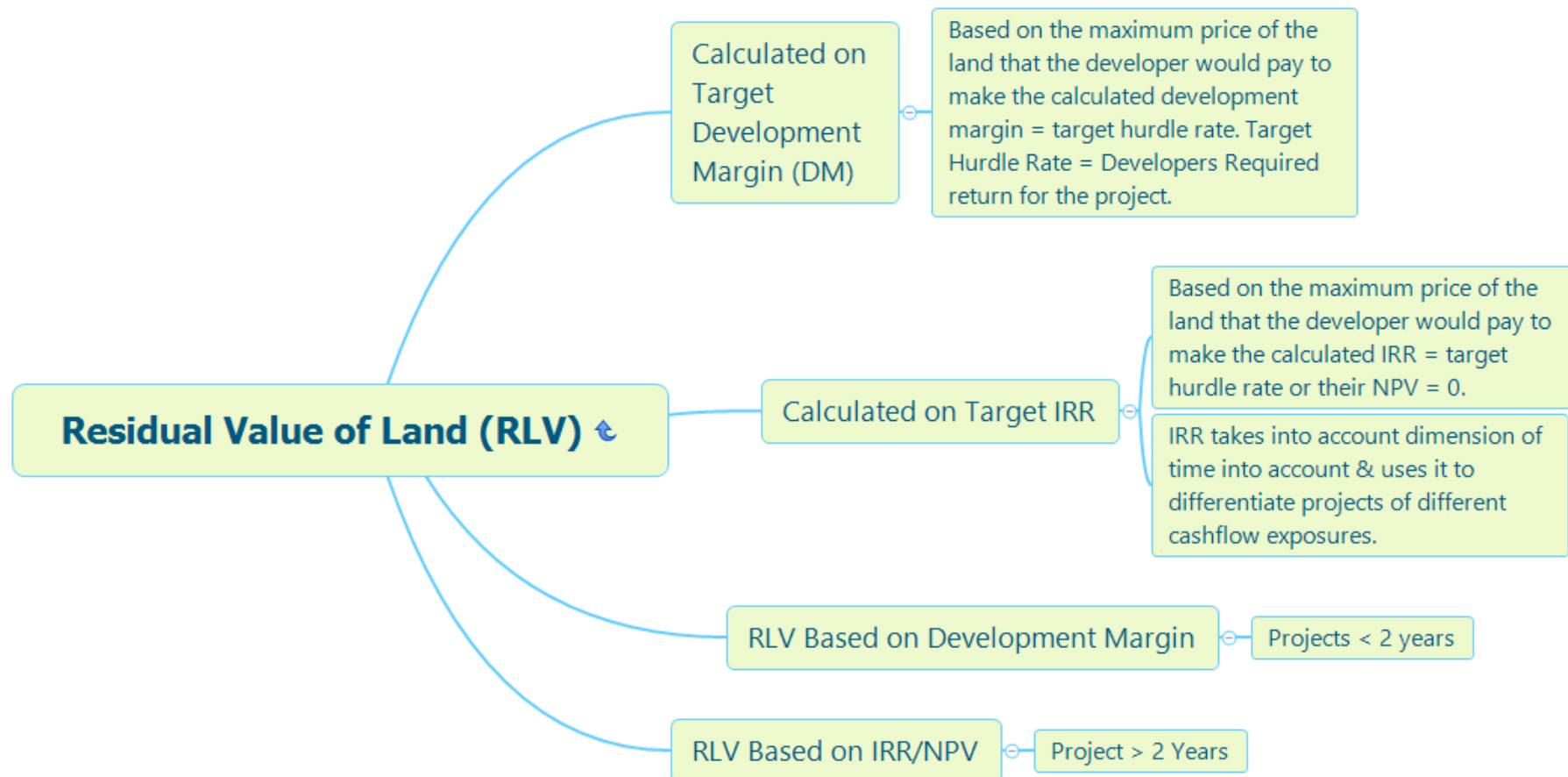
Depreciated Replacement Cost

- $(\text{Land Value} + \text{Improvement Costs (Renovation/Development Costs)}) - \text{Depreciation}$

Understanding Valuation Methods



Understanding Valuation Methods



What does the valuer look at?

To assess a property's value, a valuer will measure the property, record details on the number and type of rooms, along with fixtures, fittings and any improvements.

- Location
- Building structure and its condition
- Building/structural faults
- Standard of presentation and fit-out
- Access, for example: good vehicle access and a garage
- Planning restrictions and local council zoning

What does the valuer look at?

- The valuer combines these attributes together with recent comparable sales in the surrounding area and prevailing market conditions to produce a valuation report.
- Valuations should not be confused with appraisals carried out by real estate agents. A licensed valuer must base their opinion on hard evidence and take legal responsibility for any information they provide. Estate agents are acting for the vendor and are rewarded for getting the highest price for a property.

Web Resources

<http://www.onthehouse.com.au/>

Web Resources

<http://www.realestateinvestar.com.au/>

<http://www.myrp.com.au/>