Jason Tebb, Group Chief Operating Officer of 100% funding partners, Go Develop, says that holistic funding can help SMEs exploit the current opportunity to negotiate on the purchase of new sites.

Holistic **funding**

Often, the most pressing challenges are inevitably those which aren't immediately obvious.

Many developers agree that the ongoing political uncertainty is creating a more testing environment. However, those who are able to source innovative and holistic funding are, in many cases, offsetting any potential risks as they are able to exploit the current opportunity to negotiate on the purchase of new sites.

> "the smaller players who adopt a more pragmatic approach are likely to be far better placed than the volume players to weather any short-term Brexit storm"

But it would appear that the current Brexit brouhaha mires a potentially more pressing obstacle for developers of all sizes; mortgage underwriting criteria for new build.

On the surface, there's barely been a better time for buyers to borrow. Lenders continue to offer products that are at, or around, historically low rates in a bid to secure new business, particularly as many enter the final quarter of their financial year. But look a little closer, and you'll see where the issues for new home builders may lie. With the rise of a disaggregated property market across the UK in recent years, we've also seen the emergence of a more nuanced underwriting strategy from some lenders.

For example, properties built using Modern Methods of Construction (MMC) are widely lauded as a 'silver bullet' to help the sector reach the Government's new build targets. Yet the very same techniques and materials are viewed with caution by many lenders. As a result, some request significantly higher deposits from borrowers, whilst others prefer not to lend on them at all. Which begs the question, how will developers sell these units if the majority of buyers may struggle to obtain a mortgage to purchase them?

Elsewhere around the UK, due to the high volumes of apartments which are either currently under construction or have just been launched, some lenders won't facilitate off-plan sales, whilst others will consider it, but only at low LTVs. Unless they are Help To Buy units of course, which is a completely different article, given the regionalised affordability caps coming into play as of 2021.

Buyer affordability

In all cases, the legislation implemented as a result of the Mortgage Market review has, over the past few years, resulted in stretched buyer affordability, particularly in conurbations which have seen significant increases in values. The opportunity for buyers to go back to their lender to raise a few extra thousand is, in most cases, a thing of the past. That's not to suggest a return to the more, shall we say, generous affordability models of yore. Responsible lending practices are a cornerstone of a stable property market.

What one might suggest, however, is that a profitable project isn't just about a considered planning and construction approach, together with a supportive funding partner. It's also about incorporating a detailed understanding of who you're building for, and how they are going to pay for it, in your exit strategy.

Until such times as the new build and lending communities are able to find a more cohesive dialogue at a macro level to bridge this gap, it falls to SME developers to ensure that they fully understand the nuances of mortgage underwriting criteria. But that's by no means a negative; the smaller players who adopt a more pragmatic approach are likely to be far better placed than the volume players to weather any short-term Brexit storm. And profit from the inevitable market recovery that will follow.

WANT TO KNOW MORE?

Jason Tebb is the Group Chief Operating Officer of 100% funding partners, Go Develop. For more information visit **www.go-develop.co.uk**