United Trust Bank is funding Kingston Meadows, Peter James Homes' development at East Leake

Interesting lending times

Chris Windle takes the temperature of the development finance market, talking to specialist lenders and housebuilders. What are lenders looking for when it comes to securing finance for schemes, and what wider factors are influencing access to money?

It is an interesting time for the development finance sector to say the least. Uncertainty lingers around Brexit, the shadow of the credit crunch still hovers forebodingly in the background, there is a weakening market in the south east. And yet there is also a push to build more homes nationally and the strong fundamentals of the UK housing market. A clear picture it is not.

Lenders and housebuilders are enjoying - or not as the case may be - different experiences depending on the specifics of their situation. Yes, there appears to be money available, but is it enough and can all housebuilders access it easily? After all, according to a 2017 Federation of Master Builders survey, 45% of SME builders were involved in sites that stalled due to financial reasons.

John Waddicker, a director of Positive Commercial Finance, is one of the positive brigade. He says the market is buoyant. "In my 11 years as a finance broker specialising in development finance, there has never been such an availability of development finance, and the vast majority of that is from specialist and secondary lenders. The well-established lenders having to drop their rates and relax certain lending parameters is evidence of this."

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Go Develop funded a scheme of 18 new homes in Berkshire

Jumping in on a joint venture

As the high street banks continue their reticence to lend, more innovative lenders are taking their place alongside challenger banks. Including joint venture specialists such as Go Develop.

"It's common knowledge that since the banking crisis almost ten years ago, banks and traditional lenders have been tightening their belts," says chief operating officer Jason Tebb. "This funding gap has led to the emergence of peer to peer, crowdfunding and other alternative funding.

"However, we would argue there is an undersupply of full 100% funding and still a real lack of understanding within these alternative financial services of what housebuilders need. Many have never seen a recession or experienced the depth and breadth of housebuilding difficulty over the past 30 years," he continues. "At Go Develop we provide 100% full joint venture funding that covers land, build, stamp duty and project costs. That means that everything is funded without a penny in from the developer or housebuilder. It offers an innovative solution to the housebuilding funding problem."

This provides a reassuring level of financial certainty without the need for a hefty deposit no matter the political climate, Tebb explains, and ensures a development is seen through from its initial plans to completion. After all, Go Develop is only successful if the joint venture project is successful.

He adds: "We recognise the need for fast, flexible funding and transparency, so that developers can complete their current project and spread their capital over a wider project mix, increasing development capacity and accelerating business growth."

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Barrie Palmer of Moody Venture Capital is slightly more circumspect. "There appears to be an adequate supply of funding available and rates for lending remain competitive. We're still very active in the marketplace although it would seem the uncertainties around the economy may be having an impact on completion of property sales and the finalisation of development loans."

While Keith Forster, owner of Property Finance and Development, points to issues on the demand, rather than supply, side. "There are nowhere near enough developers. If you're a first time developer looking for funding you need to be aware that you can get funding up to 90% of costs. We have one client who we are funding on three sites at 80%. Yes, it might be a higher rate, but if a developer is putting in less they can use the rest of the money on another site."

two-speeds

The sector also seems to be operating at two-speeds, one for the national housebuilders where access to high street bank financing is relatively established and another for small to medium sized housebuilders (SMEs) who often still struggle to get hold of the money they need.

Oaknorth Bank's senior property finance director, Damien Hughes, describes the lending market as "not fit for purpose". He says: "Loans typically take months to complete which means the opportunity cost to the borrower is extremely high, processes are opaque and outdated and most lenders take a box-ticking, computer-says-no approach to lending rather than looking at the individual circumstances of the borrower and designing a bespoke package to best suit their needs. What's more is that market share is dominated by the five largest banks so there's very little incentive for improvement."

decision makers

He adds: "This is exactly why we launched and built the proposition we have – we typically complete deals in weeks rather than months, we give every borrower the chance to discuss their borrowing needs directly with the decision makers, and we focus on properly underwriting each business, with our lending directors taking the time to understand the business and design a bespoke structure for them."

> **"The lending market is not fit for purpose and is dominated by the five largest banks so there's very little incentive for improvement"**
> Damien Hughes, senior property finance director, Oaknorth Bank

As the market slows, matters are getting worse, says Hughes. "Large high-street lenders have been retrenching from the market, slowing down lending decisions even more than usual. Following 12 consecutive quarters of positive net lending, Q4 in 2017 moved into negative territory."

And the amount of equity housebuilders are expected to stump up is often debilitating, says Karl Pickering, director of Tern Developments. "They usually expect you to put in 40%. If we only had to put 20%

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