



Development after disruption: what now for property developers?

Following an unsettling year, how can developers deliver successful projects moving forward?

A developing landscape

When developers and builders made their plans for 2020, nobody could have predicted the disruption headed our way.

Entering the year, many had ambitious plans – and the government signalled it would invest heavily in development. The Chancellor’s Spring Budget, for example, promised significant investment for UK house building, including a fund of £1.1 billion for 70,000 new homes in high demand areas.

Then, the previously unimaginable happened. As the country went into lockdown, businesses of every shape and size were disrupted, and the development industry was no different.

Now, with 2020 behind us, a return to full normality is still a good way off – what does the future hold for property development? In a climate of such uncertainty, is it still worthwhile starting a project? How will developers need to adapt? And for those pressing ahead, what finance is available?

Contents

A year of disruption: the current landscape	4
Development finance at present	6
Securing terms for success	8
Case studies	9
Get in touch	10

A year of disruption: the current landscape

In a clear sign of the government's eagerness to continue building activity, builders in England were some of the first encouraged to return to work in person after the initial Covid-19 lockdowns. Although many sites initially closed in March, the government was keen to stress that work could continue. And by May, Boris Johnson was actively encouraging workers to return to sites.

However, that's not to say that disruption was minimised. Supply chains were impacted, and the ability to source materials for construction was slowed down significantly. The industry also faced serious practical issues following the introduction of social distancing guidelines, and there have naturally been fewer workers on site – meaning less progress and fewer completions.

Many stalled their plans in order to take a wait-and-see approach – and developers with schemes underway also faced challenges around financing. During the early months of the pandemic, the Articus Finance team saw lenders withdrawing from the market, meaning some developers urgently needed to refinance part way through a scheme. And of course, general uncertainty and low confidence made many cautious about continuing.

Combined with tier systems, changing guidelines, additional lockdowns and even Brexit, this has led to months of stop-start progress for developers. Government figures released in December show that the rapid rebound in construction activity experienced during the summer stalled as winter drew in. Monthly construction output dropped to -41% in April, before climbing to +22% in June and +17% in July. But by October, this had reduced to just +1%.



Is development still worthwhile?

Despite all the disruption to construction – and whatever happens with the economy over the next few years – the fact remains that the UK needs and has a huge appetite for significant development, both for homes and commercial buildings. Especially since there is now a more pressing need for certain types of property, like larger homes with additional space for home-working.

Others are thinking about the fact that offices and other public places need to be redeveloped into something more appropriate for a Covid-secure world. This requires a shift away from open-plan offices and shared working spaces. And there are even considerations around the material used in developments, with high demand for easy to clean surfaces that hold less bacteria, like copper fittings.

Ultimately, there is plenty that needs doing and thus huge opportunity, but developers have a great many considerations to bear in mind and will need to tread carefully to ensure their own success. So, seeking out the right support from relevant professionals across every area will be fundamental. As ever, this includes securing the right development finance to fund and complete a project.

'There is plenty of demand for new or redeveloped property, especially larger homes that can facilitate the new trend towards home working. So, despite the huge disruption we saw in 2020, the signs are positive moving forward – especially with the promise of mass vaccination on the horizon.'

Oliver Hines Lloyd, Founding Director

Development finance at present

The world of property finance has undergone a number of shocks in the last year. Lockdown and stamp duty changes caused huge backlogs in the residential market, while the commercial finance market took a significant hit, with many lenders withdrawing altogether.

The development finance market, fortunately, has not been quite so drastically impacted – with high demand and the government’s clear commitment to the industry providing some confidence. Accordingly, there are a number of finance options available for developers.



What types of development finance can Articus arrange for you?

Senior debt

We can arrange a first charge loan for your development project. Senior debt can typically finance up to 65% of the gross development value (GDV) or 90% of project costs, depending on your experience and the nature of your project. However, with some lenders restricting their offering at the present moment, using a broker like Articus is the best way to access higher levels of lending.

Stretched senior debt

For experienced developers who need a finance product that extends a higher loan to cost (LTC) or loan to value (LTV) than standard senior debt, we can source stretched senior debt – usually up to 75% of the GDV or 90% of total project costs.

Mezzanine finance

Given the current economic climate, flexibility and the freedom to maintain liquidity has never been so important. Mezzanine finance can help to facilitate this. A form of second charge finance, this can be used to fill the gap between the finance provided by a primary development lender, and the deposit you have available.

‘The market certainly experienced a wobble at the start of the Covid-19 pandemic, and we saw various lenders take a step back. In turn, this led to developers with part-built schemes needing to find new lenders. Fortunately, the market seems to be steadily returning, and we’re now seeing more enquiries from developers. Lenders are still lending – however, they’re typically showing more caution about both the projects and the people behind them. But with the right project, presented in the right way, to the right lender – there are certainly avenues to be explored.’

Antonio Michael, CEO

Who is development finance available for?

While there are now fewer lenders operating in the market – and those who are lending are more cautious – development finance is still available for a range of individuals managing projects of different scales.

New developers

Less experienced developers have faced serious challenges this year when it comes to securing development finance. However, it is still possible to source finance, providing you have an understanding of different lender's appetites – and are able to present the application in the right way. This is something our team can assist with, as we have strong relationships across the market.

Experienced and current developers

Whether you have a project underway or are looking to get your next scheme underway, the assistance of an expert mortgage broker can still be invaluable. It might be the case that your existing lender is no longer able to offer you desirable terms – or, you may need a quick result to capitalise on an opportunity. Whatever the case, our team can help you negotiate the right deal.

High value or unusual developments

When the economy is under stress, developers with high-value schemes – or even developers with complex or global profiles – can struggle to access the finance required. In this case, looking outside the mainstream lenders will be crucial. At Articus, we have access to exclusive private mezzanine funders – along with excellent relationships with family offices, who are keen to develop relationships with the developers behind high value projects worldwide. So, despite constriction in the mainstream development market, we can still find a solution if your case is complex.

Securing terms for success

Many different factors go into a successful development project – from paying the right price initially to hitting deadlines and having a strong project team in place. Securing the right development finance is another thing you must get right in order to maximise the potential profit and success of your project.

No matter the nature of your scheme – or your background and experience – access to the right lenders is therefore crucial. It's also imperative that your case is presented in the right way to the lender, as this can influence the ultimate decision. And this has never been truer than it is right now.

The Articus team can help with both of these issues. We speak to lenders day in, day out – and we have a clear knowledge of what different lenders are open to at any given time. We're also extremely well versed in presenting even the most complicated of cases to lenders with clarity, boosting the likelihood of an application being accepted.

Case studies

Foreign property developer without personal guarantee

Our client originated in the Middle East, with experience in property development outside of the UK. They were looking to develop a plot of land in Surrey which held planning permission for 8 houses, with a saleable value ranging from £400,000-£600,000. The total predicted Gross Development Value for the development was estimated at £4 million.

The challenge for us was to source a competitive mortgage lender who would be comfortable in lending to a foreign national who had no personal guarantee. Added complexity came with the fact that they were undertaking their first property development in the UK, with very little UK financial footprint.

We were able to negotiate with a private mortgage lender to provide a satisfactory outcome for the client. This culminated in the lender offering 100% of the development and professional fees. In total a £2.2 million mortgage was acquired against a predicted Gross Development Value of £4 million.

Bridging and development finance for £26 million GDV project

At Articus, we regularly work with experienced developers carrying out complex, high-value projects. Our client in this instance was a UK developer looking to convert an old office block into residential flats. The site was currently valued at £5 million, but after expected build costs of £10 million, the developer expected a fantastic GDV of £26 million.

However, there was a hurdle in the way. Our client needed to move quickly to secure the project – but the site did not currently have planning permission, meaning our client was unable to secure development finance.

To resolve this, we helped this developer source bridging finance to purchase the site, at 70% LTV. This meant our client was able to proceed with the purchase and with securing the relevant planning permissions. At this point, we were able to convert his bridging loan into an appropriate development product at 90% LTC. This was an excellent outcome for the client, ensuring they were able to take advantage of the fantastic opportunity presented by this project.



The market itself is undeniably challenging, and the additional complications of 2020 mean there have never been more barriers to success. But regardless of the difficulties – and no matter the nature of your project – working with a broker like Articus will give you the best chance of securing the finance you need to move forward.

Phone: 020 8088 5465
Email: info@articusfinance.co.uk

Address:
Articus Finance
Islington House
313-314 Upper Street
London
N1 2XQ

*Please note, we do not offer investment or tax advice.
While we can refer you to a trusted partner who can provide this,
we recommend you seek further professional advice as required.*