

Funding money going on the winners

Richard Green reports

We asked Senior Valuer and SDGCI marketing committee executive Richard Green to give members his up to date insights on the project funding climate. Here's what he said.

Like any good punter, it seems that project financiers like to back winners so this is what the starting odds are all about if you're to be in the race for serious backing in a Gold Coast development.

Expect financiers to -

- Look at your form;
- Can you go the distance;
- How are local conditions;
- Are you good value;
- Will they make money by investing in your project?

In other words, the developer's job is now more than ever to 'risk manage' their project before asking for a financial backing. They are competing for limited funds and have to 'tick all the boxes' to get a deal.

About 75% debt cover via pre-commitment being either leases or presales is a pre-requisite more likely to produce a win/win.

Financiers are not looking at skyscrapers - only townhouses, low rise or sub-divisions as they seek more demand-led certainty. Majority of product moving is not sold to locals but to be classed as a presale the purchaser must be a resident of Australia.

It appears that the majority of deals being funded in the current market will be within the \$5,000,000 to \$10,000,000 bracket. They want to lend money but spread it across multiple projects so as to diversify via regions.

Maximum of two-year cycle on capital from drawing up the loan to paying it down. The capital must flow back into the debt with the project being self-liquidating.

The relative experience of the sponsor is essential. Banks are no longer willing to let inexperienced developers into the market. They will need to have asset backing.

The project has to be moving. Financiers are simply not interested in partially constructed or constructed projects. They want to know construction will start within six months and finish within two years and then that another project will be ready to replace it.