What happens when you reach the end of a development finance term?

Education

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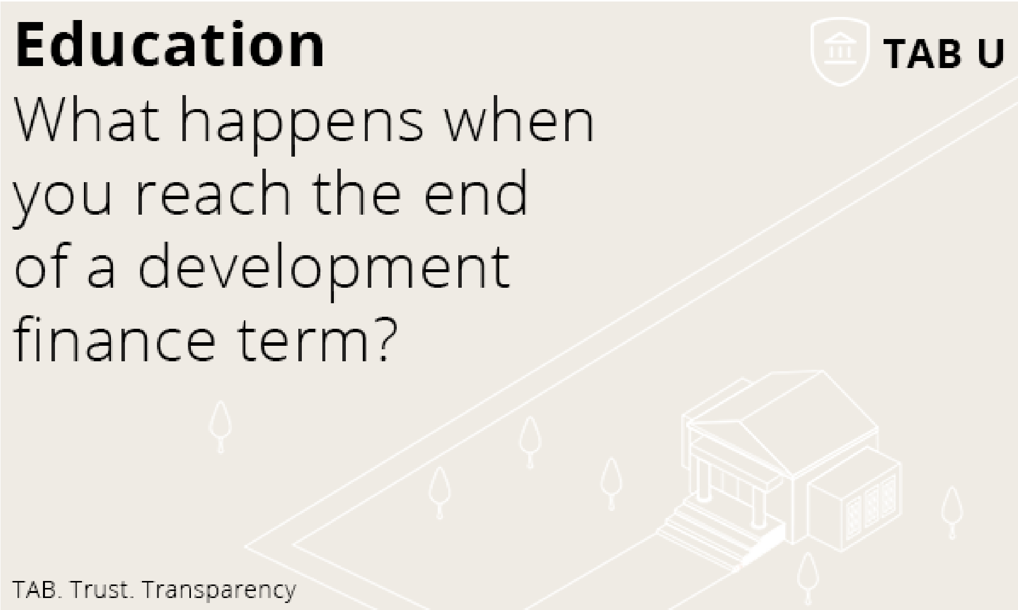

You needed capital. You secured development finance. The project is complete. Now what? Whether you built from scratch, converted, or refurbed, the finance you accepted to complete your development is going to need to be repaid.

When you applied for property development finance you will have been lent (typically) between 50% and 65% of the gross development value of your project. Interest will have been added, normally on a monthly basis (or deducted from each drawdown), and at the end of the predetermined term time you will be expected to pay back the capital and any interest and fees accrued. In general, the repayment can be a daunting prospect, especially for loans that enter the millions. This is why, at

TAB, we do our due diligence and offer flexibility to borrowers.

Now the time has come to pay back your development finance loan. Below, we outline the common ways in which people raise capital to end their finance term.

Sell the developed property or properties

One of the most common ways to pay back the development loan is to sell the property – or properties – which you used the capital to complete. Whether you completed a new build, renovated a block of flats, or converted a commercial space into residential property, you can sell the project. If your lender knows this is the route you will choose, they will cater for this period into the length of the loan term. Once the sale is complete, you can use the funds to settle your outstanding repayment.

Sell another asset

If selling the property you have developed isn't something you wish to do (perhaps you want to receive rental income on it) then another option is to part with another asset. Many developers in this situation will opt to sell another property they have in their portfolio where the value would cover the repayment. As above, once the sale is complete the capital can clear the outstanding development finance.

Alternatively, you could sell any other assets you have to cover the loan repayment. This could be a single asset, or a culmination of the sale of a number of assets. It doesn't matter what the asset is – or how many – as long as the capital can be raised to cover the development finance repayment.

Produce the funds from elsewhere

If you don't want to sell the project property and don't have any financial assets to sell before applying for development finance this will inevitably be something you will have to consider and your lender will want to see an exit plan. With loan terms of up to 24 months, situations can change. Some developers have used cash gifts, equity from other parties, investment gains, and inheritance payments to clear the loan. Whatever your route is, you will be expected to lay out a clear plan of exit when applying. The lender will do their due diligence and determine whether this is a viable route. It should be noted that any property used as security is at risk of repossession if you do not keep up with your payments or cannot repay the loan at the end of the term.

Long term refinancing

If you are a developer who plans to keep the finished development, whether for personal use or to rent out, long term refinancing could be an option. This will need to be something to consider before a development finance application as it can be advantageous to see you have a clear cut exit route planned.

Alternatively, you could refinance using a developer exit product. The interest rate is typically lower than your development loan and can release additional capital, meaning you will be able to clear your current outstanding loan and still have money in the pot until the property is sold, or refinanced onto longer term debt.

Repaying your development finance loan

When your term ends you will be charged interest on the outstanding monies you owe. Therefore, it's in your best interest to limit delays and ensure your loan is settled as quickly as possible. Typically, selling the project or refinancing are the routes most commonly chosen.

Lenders will want to see an exit strategy when you apply for development finance. Therefore, it is vital as a developer to explore the different exit paths in depth before going ahead with a new project and securing the capital.

Whatever the size or scope of your plans, our expert team is here to help with your requirements. T alk to one of the team today via email: enquiries@tabhq.com or phone: 0208 057 9070.

This article is for information only and does not constitute advice or a personal recommendation. TAB loans are unregulated. Any property used as security is at risk of repossession if you do not keep up with your payments.

You can see an example of a development finance loan here:

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