



How big is your development?

Which draw down approach is best for you?

Mitigating risk and protecting margins are key considerations when undertaking a property development project, however it's the decisions made before a spade hits the ground that can impact the profitability the most.

Working with the right lender can help you analyse the ways to structure draw downs on a loan and determine which method fits best for your project and situation.

Smaller Developments

Developers entering the market will often start off with smaller transactions such as infill housing on quarter-acre sites, small cluster townhouse units on vacant sites or by removing or relocating the existing improvements.

These smaller transactions are often funded with the support of equity in the family home as additional security. In these cases, many lenders will look at progress payments based on projects milestones. The payments are determined by loan to valuation ratios (or LVRs) which determines the value of the development as the project progresses.

Typically used milestones are:

- Foundations and floor
- Pre-lining and roof
- Fully enclosed and lined
- Complete with code compliance issued
- The value at each milestone is often established with the assistance of a registered valuer.

Medium to Large Developments

As residential or commercial projects grow in scale, many lenders will prefer utilising a cost to complete strategy.

In these cases, full project costs are established prior to approval of the finance facility and verified by an independent quantity surveyor approved by the lender.

Though this does add additional upfront cost to the project, it then proceeds on an invoice basis where trades bill at the end of the month.

This approach can reduce risk for lenders however there is the risk of costs creeping up or the quantity surveyor estimating too conservatively. Emphasis on accuracy and good planning is advised.

Choose the right lender

Ultimately, choosing the right lender can show you the best approach for your projects and can help ensure you get the right outcome when work is finalised.

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