FINANCING PROPERTY DEVELOPMENT PROJECTS

26th July 2018

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REAL ESTATE FINANCING

- Definition:-

  1) Land loan – for land banking but typically to obtain Development Order within a prescribed time frame.

  2) Bridging loan (BL) – purpose of financing the infrastructure, earthworks, construction and other related cost (statutory contribution) of a property development project, i.e residential, commercial, industrial or combination thereof.

- Typical Risk Acceptance Criteria:-

  1) Developer’s track record and financial standing.

  2) Project’s viability – location, types of units being developed, target market, sales price, general macroeconomic outlook, etc.

Common Facility Structuring Issues / Consideration

1) Sell then Build Approach.

2) Build then Sell Approach.

3) Build for Investment.

4) Obtaining Relevant Approval(s): Land Conversion, site & layout plan, building plan, APDL, etc.

5) Margin of Financing: Land only, bridging loan only, overall land and bridging.

6) Tenure of Facility: Typically should not exceed expected completion date of project.

7) Security: Typically Legal Mortgage against the land that is being financed and developed at acceptable LTV, Facility Agreement, Specific Debenture, Joint and Several Guarantee or Corporate Guarantee, Sponsor Letter of Undertaking, etc.

Common Facility Structuring Issues / Consideration

8) Drawdown Conditions: Pre-sales for BL, percentage drawdown against architect certificate, other relevant condition precedents on case to case, etc.

9) Repayment: via redemption at percentage of selling price / unit, or fixed repayment schedule, whichever is earlier.

10) Covenants: HDA covenants, Project Account, 3% of GDC to be maintained (cash / BG), Quarterly progress report: sales achieved, works completed, Minimum price list, etc.

11) Post Disbursement: To track progress against projection; i.e sales, launch date of future phases, redemption and site visits, etc.

THANK YOU