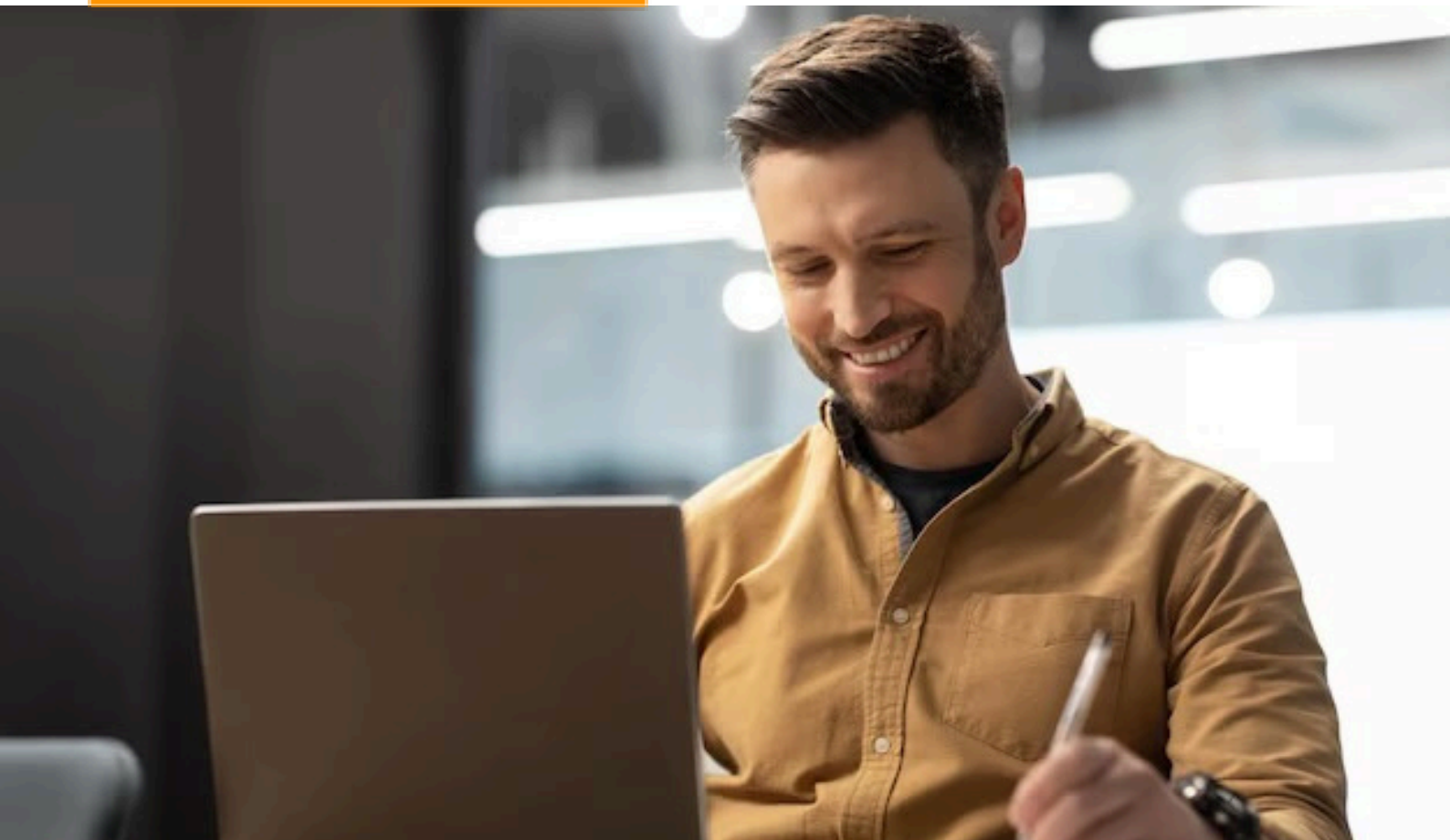




ZERO PRESALES FINANCE

GOOD OR BAD OPTION FOR YOUR PROJECT?



- Simple quiz to see if its right for your project
- Worked example of presales vs no presales
- 3x case studies where no presales finance led to the best outcome



OVERVIEW

Off the plan presales are an achievable and good option for some projects, however this is not the case for all projects. Can you get finance without presales? Often, yes. Should you get finance without presales? The answer here will vary on a project by project basis.

Development Finance Partners is a strategic and financial advisory business that has written over \$3 Billion in loans for Australian and International property developers. We have delivered finance without presales to many property developers ranging from large to boutique projects. Generally, we can tell a property developer from a single phone call and whether no-presales finance is a good option for their project or not. We want to give property developers the information we have to help them come to their decision with regard to no-presales finance sooner and to understand exactly how it works.

Therefore, in this document, we outline:

- ✓ SIMPLE QUIZ TO SEE IF IT'S RIGHT FOR YOUR PROJECT
- ✓ WORKED EXAMPLE OF PRESALES VS NO-PRESALES
- ✓ 3X CASE STUDIES WHERE NO-PRESALES FINANCE LED TO THE BEST OUTCOME



QUIZ: IS NO-PRESALES FINANCE RIGHT FOR YOUR PROJECT?

At a high level no-presales finance may be right for you if you are a Property Developer who wishes to grow your business in a rising market and your target market is predominately local owner occupiers.

When DFP is advising clients on the best financing products to use for each project, we use this checklist to assess whether or not no-presales finance is the best way to go.

QUIZ INSTRUCTIONS:

Respond **YES** or **NO** to each of these statements as it relates to your project.

HOW MANY YES' DID YOU GET?...

- IF 11 OR MORE YES', CONSIDER INVESTIGATING NO-PRESALES FINANCE.
- IF 15 OR MORE YES', DEFINITELY LOOK INTO NO-PRESALES FINANCE.

QUIZ

	YES	NO
• The completed stock should appeal to a broad market of local purchasers downsizers, first home buyers and investors.	<input type="checkbox"/>	<input type="checkbox"/>
• Rising market conditions.	<input type="checkbox"/>	<input type="checkbox"/>
• Demand for new stock is outpacing current and likely future supply;	<input type="checkbox"/>	<input type="checkbox"/>
• Projects where profit margin is above 20% return on total development costs.	<input type="checkbox"/>	<input type="checkbox"/>
• Small to medium sized projects that do have the scale to attract the best local project marketing firms.	<input type="checkbox"/>	<input type="checkbox"/>
• Stock should be priced at a level that has been already been proven in the local market.	<input type="checkbox"/>	<input type="checkbox"/>
• Stock that would achieve a minimum of a 1% premium for the completed product.	<input type="checkbox"/>	<input type="checkbox"/>
• Stock with attractive design elements, completed with a high level of finish and above average amenity compared to the local market.	<input type="checkbox"/>	<input type="checkbox"/>
• Project with a high walkability score re amenity, transport and employment.	<input type="checkbox"/>	<input type="checkbox"/>

QUIZ: IS NO-PRESALES FINANCE RIGHT FOR YOUR PROJECT?



- You wish to grow your business quickly.
- You wish to start your business quickly.
- You have the ability to build a pipeline of similar projects.
- You already have a pipeline of similar projects.
- You wish to bring your project to market as quickly as possible whilst the conditions are most favourable.
- Builder has a strong track record of completing similar projects to a high standard of finish.
- You wish to leverage your equity and recycle your equity and profit as soon as possible to grow your business faster by reducing the marketing sales.
- You wish to reduce the amount of cash equity required to fund upfront marketing, display suite and presales commissions.
- You wish to commit to the builder sooner rather than later to avoid the risk of rising construction costs impacting upon your profitability.
- You wish to hold more than 40% of the completed stock on completion.
- Your target market are local owner occupiers who are unlikely to purchase off the plan.

TOTAL YES **TOTAL NO**



MORE THAN 11 YES'?

No presales finance might be the right solution for your project. [Get in touch with us today.](#)

Get in touch for an introduction to our financial advisory and property advisory services.



WORKED EXAMPLE OF PRESALES VS NO PRESALES

WORKED EXAMPLE OF A REAL PROJECT, LOOKING AT BOTH OPTIONS

a. Bank-only finance (presales)

b. No-presales finance

Below is a recent and completed no-presales transaction arranged by DFP. We compare it using traditional bank financing requiring presales to the same value as the approved level of debt i.e. 100% debt cover.

CASE STUDY 1

Client: Pitard Group

Project Address: 285 Neerim Road Carnegie VIC

Development Yield: 47 Apartments, 1 Retail Shop and Cafe

Loan Amount Settled: \$19,100,000

Presales Required: Zero

CLIENT PRIORITIES:

1. Commence construction as soon as possible without having to obtain any presales.
2. Sell down during construction by providing local market purchasers with confidence.
3. Avoid expensive sale costs and delays associated with obtaining presales.
4. Get access to circa \$11.3m in equity and profit six (6) months earlier in invest in other projects.

TABLE 1.0 - COMPARISON OF BANK (WITH PRESALES) VS (NON-BANK WITH NO PRESALES)

METRIC	BANK WITH PRESALES	NON-BANK WITH NO PRE-SALES	DIFFERENCE
Project Margin	22.70%	19.80%	2.93%
Net Profit	\$ 5,698,487	\$ 5,154,578	\$ 552,909
Equity Required	\$ 6,828,566	\$ 6,152,380	\$ 676,186
Rate of Return on Cash	96%	126%	-30%
Equity Required	24	18	6
Total Project Time (Months)	60%	65%	-5%
LVR	120%	120%	0
Return on Equity Total Return of Cash after Repaying Debt	1,25,27,053	1,12,97,958	12,29,095

FINANCE	BANK	NON-BANK	DIFFERENCE
Interest	2.50%	7.00%	4.50%
Line	2.00%	2.00%	0.00%
Establishment	1%	1.50%	0.50%
DFP	0.75%	0.75%	0.75%

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CASE STUDY 1 CONTINUED...

DFP SETTLES A \$19,100,000 LOAN WITH NO PRESALES REQUIRED FOR THE PITARD GROUP @ LVR OF 62.3%

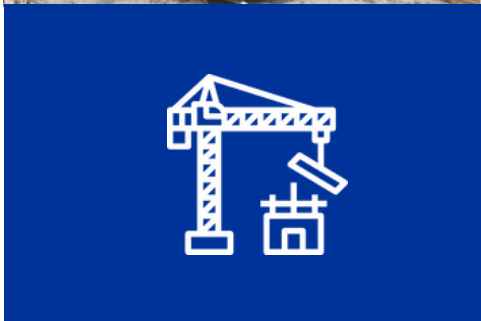
Project consists of five-storey mixed-use building comprising 47 residential dwellings, a retail space and cafe premises in Carnegie Victoria. DFP had previously assisted the client with funding to acquire the site and undertake the development approval process.

THE KEY ISSUES FACED FOR THIS PROPOSAL:

- Ongoing COVID-19 restrictions in Victoria generally, and impacts on work conditions etc. on building sites more specifically;
- A conservative lending environment;
- Difficulties in predicting trends in property values;
- The client had a complex corporate structure and a sizable debt load on a pipeline of Melbourne based projects;
- The client required a facility with no presales;
- The client is an owner builder;
- Initial construction works had begun.
- DFP managed the ongoing client/underwriter relationship and assisted in the carriage of valuation, quantity surveyor reporting and loan documentation.

OUTCOME:

- DFP secured an approval and settlement of a 19.1m zero presales facility with one of its preferred non-bank lenders.
- Client avoided costly land holding costs, project delays, expensive sales and marketing costs associated with selling off the plan.
- The client will access \$11.3m in equity and profit to reinvest in other projects in their pipeline at least 6 months earlier than waiting to get presales.



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CASE STUDY 2

\$13.73M CONSTRUCTION FINANCE CHELTENHAM, VIC



Development Finance Partners (DFP) was engaged to provide a construction funding facility for a mix of 1, 2 & 3- bedroom apartments in a 4 level, 34 apartment building to be constructed in Cheltenham Victoria. DFP had previously assisted the client with funding to acquire the site and undertake the development approval process.

THE KEY ISSUES FACED FOR THIS PROPOSAL:

- Ongoing COVID-19 restrictions in Victoria generally, and impacts on work conditions, etc. on building sites more specifically
- A conservative lending environment
- The preferred Capital Partner had existing loan exposures with the client
- The client required a facility with no presales
- The client was an owner, albeit highly experienced, builder
- Initial construction works had begun

DFP'S ROLE:

- The client provided DFP with an overview of its funding requirements.
- DFP undertook due diligence on the project, the location, the marketability of the product and the clients' financial position.
- A funding structure and outline was thereafter agreed, the key terms and conditions of which were incorporated in DFP's formal Finance Proposal and Service Agreement.
- DFP was formally engaged by the clients under the Service Agreement.
- DFP held initial discussions with Capital Underwriters ahead of preparing and submitting a detailed Credit Paper with supporting documentation.
- DFP responded to requests for information during the Capital Partners due diligence and credit process.
- DFP negotiated a pathway for the Capital Partner to maintain its exposure limits with the client, by refinancing the site prior to expiry of the existing land bank facility (avoiding penalties and further charges), but delaying the initial construction drawdown until presales on other group projects had settled, which the client agreed to.
- The Capital Partner subsequently issued an indicative loan approval on terms acceptable to the client and in line with DFP's Finance Proposal and Service Agreement.
- DFP managed the ongoing client/underwriter relationship and assisted in the carriage of valuation, quantity surveyor reporting and loan documentation.

OUTCOMES:

- The capital partner approved a \$13.73m funding facility based on a 62.35% loan to value ratio (LVR) with no presales.
- 14-month facility.
- Site refinance and initial drawdown recently settled and construction well underway.
- The client is delighted with the results delivered by the DFP Team.

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CASE STUDY 3

\$4.5M RESIDENTIAL SUBDIVISION FUNDING

Development Finance Partners (DFP) was engaged by its client to source funding for the acquisition and development of an 11-lot residential subdivision site in North Kellyville NSW. In particular the client required a maximum geared loan on a no presale basis.

THE KEY ISSUES FACED FOR THIS PROPOSAL:

- The site comprised of two adjoining allotments contracted to two (2) separate vendors with different settlement dates
- A short time frame for settlement of one of the sites
- Clients major priority was to commence construction as quickly as possible and immediately following land settlement,
- Achieving presales for off the plan on residential subdivision is difficult as the local market purchasers do not want to commit to buying unregistered land lots that are yet to commence development.
- Client had several other similar projects in their pipeline that they wished to bring to market as quickly as possible to grow their business faster than using traditional Bank Finance.

DFP'S ROLE:

- Arrange a finance facility to quickly settle the remaining site and finance the development costs of the subdivision with no presales.
- DFP undertook due diligence on the project, the location, the marketability of the product and the client's financial position.

KEY OUTCOMES

- DFP arranged separate facilities based on a 60% loan to value ratio for the stand-alone land acquisition, which was subsequently refinanced into a 65%, \$4.5m development loan
- A no presale requirement which enabled the client to:
 - Commence the project once the 2nd lot had settled
 - Hold the build cost and secure the builder
 - Better align cash flow with other projects / activities, knowing that profit would come on line quicker
- Lock down the funding on known terms
- Allow prospective purchasers to inspect a commenced project



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WE ARE HERE TO ASSIST PROPERTY DEVELOPERS.

CONTACT US

If you are considering securing finance without presales, give Development Finance Partners a call for an obligation free chat about your project. In most cases we can help you quickly determine whether no presales finance could be a good choice for your project in one phone call.

DFP PROVIDES:

- Access to alternative (non-bank) forms of finance for property developers including:
 - Joint venture funding
 - Preferential equity/mezzanine finance
 - Land bank funding
 - Corporate loan notes
 - Bank funding
- Workouts - assisting property developers and funders with strategic advice and support as it relates to projects that are at risk of collapse or financial stress.
- Development Management - providing specialist support and project management to ensure efficient completion and a profitable outcome.
- DFP is challenging the traditional finance sector and in particular the top tier banks by providing:
 - Strategic advice to developers in how to achieve successful outcomes.
- Support beyond the financial issues - For example; Assisting with project management and facilitating access to capital outside of the traditional Banking sector

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