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Mark is a marketeer and a founding shareholder in resort developments in Crete, Cyprus and Mexico.

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Yannis is Director of Insight & Innovation at The Futures Company, leading their work on consumer culture.

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Margaret specialises in the important and growing market of property provision for the 55+ and "care" sectors.

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RCI is the largest shared ownership network in the world and a leading marketer of vacation rental properties.

The Panel



Leadership and vision: A developer masterclass on how to raise funds

WORDS | Stephen Drechsler

Grab the money

After discussing the pitfalls awaiting the unwary developer seeking international finance in last month's OPP, Stephen Drechsler of Panorama International now turns his attention from the negative to the positive. How should you go about finding a much more reliable finance partner and getting it all to go right?

Last month we explored the current state of the world's real estate development finance sector from a "Be Careful" perspective. I wrote about the different types of illegitimate programmes being sold in the market and what to watch out for. We also took a look at some tips for sorting out the "good guys" from the "bad guys".

This month we are addressing the opposite side of the finance coin. Are there legitimate lenders out there providing funding for sound, financially viable projects?

And what is it reasonable to expect from a lender ... and what is an unreasonable request from

the lender's viewpoint? What are a typical lender requirements? As a company actively involved in helping to arrange financing for developers on a daily basis, Panorama International is in constant contact with these sources of financing. We are continually on the lookout for new entrants into the real estate development financing arena, or for those re-entering the market after a lull in activity.

The vetting of new sources, especially if not well-known, can be a time-consuming process but is essential before recommending them to a client. As most developers already know, the past three or four

years have seen many traditional lenders withdraw to the sidelines. Financial uncertainty and concerns generated by the global financial crisis, oversupply of product and many other factors that increase the perceived financial risk have all

"Buyers are returning cautiously to the market and financing options are improving"

contributed to the reduction in the number of financing options available to developers. And just to compound the problems for developers, the



The struggle | to get funding from lenders can be made easier if developers demonstrate experience and market knowledge

availability of mortgage financing for the purchase of completed units has also dried up in recent times. This caused the market to shrink even further as dependency on all-cash purchasers became evident.

So what is a developer to do? Fortunately, as market pricing in many areas seems to have stabilised, buyers are returning cautiously to the market and financing options are gradually improving.

Traditional banks, in some markets and on a limited basis, are showing renewed interest.

Multi-lateral banks, still very conservative, are beginning to look at solid, well-backed deals.

What kinds of transactions are lenders interested in these days?

Given the local and regional variations that exist, even in today's "globalised" world, the following examples may not hold true in all areas, of course. But solid lending fundamentals and prudent risk mitigation measures will always underlie prudent lending decision-making.

Is it still a very tough environment? Yes, but understandably so. There is no such thing as 100% financing. There is equity funding available but usually the developer has to have a strong financial interest himself in the project.

Money to purchase land for development without developer-equity is typically not available. And you won't get hold of money to fund the costs of land planning, feasibility studies, or obtaining entitlements either. However, having said that, if quality land suitable for development is owned in areas of high demand, it is possible to attract financing for all of your pre-finance requirements, including the costs associated with land planning, architecture, economic and financial feasibility and business planning.

Also, despite being difficult to obtain, infrastructure financing is also available if the financial structure is sound, developer equity is strong and pre-sales are adequate. A solid project by an experienced development team underpinned by a reliable market study, with strong sponsor equity and good pre-sales, will have a good



Moneymaking | Lenders will want to see how you, as the developer, are going to make a profit and guarantee your repayments

chance at attracting financing.

Typically, the following are indispensable elements to attracting development capital. Most of the deals that I have been involved in recently all contained the following:

- An experienced development team. A strong, experienced developer is essential in today's climate. If the developer has insufficient depth or experience in the type of project being undertaken, it is imperative that the

“Developers need to think like lenders, understanding the key issues from a lender’s perspective”

necessary experience and expertise be added to the team;

- Strong equity on the part of the project sponsor. Sometimes quasi-equity, in the form of pre-sales for example, can be included as part of the transaction structure;

- Pre-sales. For condominiums or villas, pre-sales requirements can vary but 50% is not unusual. This requirement would also apply to condo-hotel, and can vary depending upon other factors including the equity component and the perceived strength of the local market. A strong marketing

team that is well-managed and supported by a robust promotional programme adds to lender confidence;

- Market study. A solid market study confirming demand for the product while defining the competitive advantages the project has over the competition is a must;
- Economic studies. The financial projections must show a clear ability to repay any financing on the agreed upon terms;
- A healthy profit to the investor.

Lenders like to see developers make a profit. Equally importantly, developers need to think like lenders. They need to understand the key issues from the lender's perspective and be prepared to address these in a supportable, convincing manner.

Keeping the following concepts in mind will enhance the chances of success of obtaining the desired loan:

- Understand the lender's point of view. Lenders want to be assured of being repaid;
- Make sure the source of repayment is solid. That is how loans get repaid, and will strongly figure in your chances of approval;
- Develop the project in phases so that financing requirements are in "bite-size" portions, not the whole thing;

- Demonstrate your experience. The better you can show you know what you are doing and that you have accomplished similar projects in the past successfully, the better the chances of obtaining the desired loan;
- Build a strong and irrefutable team. Go first class as it does not cost any more to do so;
- Maintain good relationships with potential lenders. The better they know you personally, the more likely your lending request will be received and considered;
- Use branding and similar tools if justified to help gain lender acceptance;
- Know the market. Your lender will, and the more you can prove you do the better chance your loan request will have of being accepted.

Success at obtaining funding for real estate projects is never assured but by making sure the right ingredients are included in your submission, your chances of success are going to be enhanced. **opp**

Stephen Drechsler

Stephen Drechsler is the Executive Vice President, Panorama International, Inc and works closely with his colleague and OPP International Executive Panel member Bill Clover on overseas property development, funding, marketing and sales.