Mark Jeffery
Commercial Director, Origen Group and co-chairman of the OPP Executive Panel

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

Charlie Acworth
Chief Operating Officer at Al Wa'ab City, Doha, Qatar

Charlie has more than 10 years senior experience of the Middle Eastern and African property development markets.

Eric Kuhne
Founder, Civic Arts

Award-winning architect, researcher and designer, Eric is a tireless advocate of well-planned and inspiring cities.

Miguel Ruano
Associate
The Hotel Solutions Partnership

Architect and planner, Miguel is a former project developer for Marriott Vacation Club International.

Yannis Kavounis
Director of Insight & Innovation
The Futures Company

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

Margaret Wylde
President and Chief Executive
ProMatura Group LLP

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

Charles Weston Baker
Director of International Residential and Resorts Department of Savills Plc

Charles is a research expert experienced in selling property in Europe, the Middle East and the Caribbean.

Claude Attala
Proprietor
NorthCourse Advisory Services, Group RCI

Head of leisure consultancy at Northcourse, Claude was previously with the Qatar Tourism Authority.

Nick Turner
Vice President & Head of New Business Development for RCI /The Registry Collection

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

The Panel

OPP OVERSEAS PROPERTY PROFESSIONAL

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

WORDS | Bill Clover and Stephen Drechsler

Avoid the pitfalls

OPP International Executive Panel member Bill Clover and his colleague, Panorama International vice president Stephen Drechsler take a critical look at how developers should approach getting the right sort of finance in place in the current economic climate. And what are the traps to avoid?

To state the obvious, real estate developments worldwide normally depend upon some type of financing … on some combination of developer equity and external capital.

We all know that it is often difficult for a developer to find money on acceptable terms under any circumstance, and the current economic environment we are living in only exacerbates this sense of frustration.

And while a developer may well be an expert in the world of property development and construction, he usually knows very little about the realities of and the requirements for obtaining finance. This is because developers do not work day-in, day-out in the finance market. Therefore, their ability to winnow the chaff from the grain is often not very good.

And - let's be honest about it - there is an inordinate amount of chaff out there these days.

Today's difficulty is sorting out the "good guys" from the "bad guys". This can be an extremely tricky problem to solve.

Background checks have to be conducted to determine where to concentrate time and effort, as the "bad guys" are a waste of time.

Scams are abound. Some are blatantly obvious, but many are not. Some use very attractive websites, put on appearances of legitimacy, and use all of the right terminology. And the appearance of sophistication and legitimacy by the use of slick graphics as well as lots of nice-sounding financial buzzwords can make it difficult at times for all but the most experienced and discerning to assess the legitimacy of a lender, investor or broker.

> **"Developers are experts in the property world, but know little about obtaining finance"**

Don't get your fingers burned | Ask questions if the scheme does not make sense

If you cannot understand the words or the descriptions or the methodology your potential fund supplier is using, keep asking questions … and if you still do not understand what is going on at the end of the day, it is probably not worth the effort of pursuing them anymore.

As a company very involved in helping to arrange financing for developers on an everyday basis, Panorama International has seen it all.

We get as many as 10 financing requests per week, and vet as many as 6-8 new potential financial sources a week.

The vetting of any new financial source can be a time-consuming and expensive process. References and background checks are necessary and may incur costs, but if we do not know the financing source, detailed work like this has to be done.

While sometimes even we get fooled in the initial vetting steps with a new potential source of capital, we find that most illegitimate or hollow offers of financing typically fall into one of four major types:

1. Some variation of the classic "roll" or "trading programmes" using so-called "bank debenture instruments." In more than 25 years of pursuing literally hundreds of these, we have never come across a single legitimate one. On more than one occasion a stubborn client has insisted, against our advice, on advancing funds. In all cases, the clients ultimately never heard from the deal promoter again nor recovered any funds. In one case, even with the help of the U.S. Federal Bureau of Investigation neither the perpetrators nor the funds were ever seen again.

A careful analysis of the economic basis for these programmes would reveal their fundamental financial unsoundness and the absurdity of the logic on which they are based, but the financial nomenclature often clouds a simple, straightforward analysis of the deal.

These programmes are offered under a variety of names, including roll programmes, bank-secured trading programmes, high-yield investment programmes, leveraged pools, prime bank debenture trading programmes, currency trading programmes, or money centre instrument purchase and resale programmes. No matter what label they carry, when offered one of these, run away. These are not worth your time to pursue, under any circumstance we have seen.

2. Loans backed by or guaranteed by "prime bank paper" or other "banking instruments." Typically, a lender commits to fund a development (perhaps even 100% of development costs) if the borrower can obtain a letter of credit or similar instrument issued by a AA-rated or better financial institution.

Of course they will; they no longer have any risk as the "guarantee" provided by the borrower will cover any default. And if the borrower could obtain such an L/C or other form of guarantee, they could obtain the loan themselves, without the help of an intermediary.

They would also not have to pay the "application" and other fees typically charged by the intermediaries or at times by the purported lenders themselves.

3. "Grants" geared towards "philanthropic" projects that never need be repaid. These are typically presented as non-repayable finance provided by funds or high-net worth individuals for projects with a philanthropic intent.

Of course, there are application fees, and sometimes due diligence fees to be paid near the beginning of the process.

Don't get enticed into believing that because your project can be cast as having some sort of social or environmental benefit that there are lenders or funders willing to provide a "grant" to your project, even if they try to make the deal appear more legitimate by demanding equity in lieu of interest for the funds provided.

> **"Even with the help of the FBI, neither the perpetrators nor the funds were ever seen again"**

Sometimes this type of programme is linked with a trading programme as described in category one above.

4. Those requiring a "deposit" of some small percentage of the loan to an account that is offered characterized as an "escrow" account. Typically the borrower is required to deposit in an "escrow" account an amount equal to 2% of the loan amount, allegedly to cover the cost of a surety or guarantee for the loan. Of course, the "escrow" account is not a legitimate, third-party account and once the funds go into the escrow account they are never seen again, nor does the promised loan ever materialise.

A recent client asked us to provide $1.5 million to serve as the 6% "commitment fee" that would result in the funder supplying a "bank instrument from an "A"-rated bank" that would provide "an absolute guarantee of funding to meet the borrower's needs within 180 days". Of course we didn't, and we were able to convince the client that there was no legitimate financial foundation to the offer.

Other "flags" to watch out for:

- Entities that purport to be involved in almost every conceivable type of financing, from debt, to L/C's, to guarantees, to project finance and equity funding. Like other professions, legitimate sources of capital tend to specialise and focus on a narrow area of finance that they are most comfortable with. Legitimate lenders do not try to be all things to all people.
- "Alternative" sources of financing that often offer 100% LTV financing, low interest rates, long grace periods and the like. Anything that looks too good to be true invariably is. Legitimate lenders never lend 100% of a project's needs...full stop.
- While there are legitimate "Life Settlement" deals, many of those offered are not legitimate, especially those that involve a security underwriting, where the fees for such must be paid by the borrower before it is known whether there is any reasonable likelihood the securities will be purchased by anyone. If these involve a Rule 144A offering from a U.S. issuer, be very wary. (Rule 144A exempts from registration under the U.S. Securities Act of 1933 the re-sales of securities if certain conditions are met).

All of the scams we have outlined above can only provide a brief overview of some of the numerous types of illegitimate deals floating around. Of course there are exceptions to every situation; there is always the new twist or the new concept, and to survive in the modern world you have to be open-minded.

But at the same time use common sense and completely vet any potential new source.

Next month in OPP we will explore legitimate sources of financing and the requirements one can expect.

Bill Clover
President and Chairman
Panorama International, Inc.

Bill is an experienced board member of US firms involved in development, marketing, finance and consulting.

Does it all add up? | No matter what it is called, if you're offered a deal that looks to good to be true ... run away, says Clover