DEVELOPMENT FINANCENZ

Equity for developments – What it is & How to minimise it

When a developer goes looking for project funding, one of the lender's first questions is how much equity can you put in? Typically, development lenders are looking for equity of 20 – 35%

This percentage is the portion of the total project development costs, including interest, agent commissions and contingencies that the developer can input themselves. Usually this equity portion needs to be fully spent before you can draw down any loan funds.

Banks have become tougher over the last 2 – 3 years on the amount of equity that they require from developers. Equity is usually cash available or value in the development site. (It may be mortgage free) But there are ways to work through the equity requirements.

Equity can be introduced in other ways, such as:

- **Increase in value of development site.** If you have had the site for some time and have obtained Resource Consent this may assist.
- **Other property.** Being able to offer security over other property, even property owned by someone else, can reduce the funds you will need.
- **Value of work done.** Can include earthworks or engineering work for example. These could be credited towards the overall project budget.
- **Deferred costs.** If costs are not paid until after a development is completed, it may be possible to reduce the equity required up front.

Non-bank lenders are better at finding ways to get developments under way with less equity. It pays off to source advice from experts to save yourself time and money.

PFNZ are experts at this, talk to us to get your project started.

Contact Kingsley Turner
P +64 9 215 0939
E kingsley@pfnz.co.nz