Lime Consultancy
making business finance simple

Phone: 01293 541333 / 0207 866 2102
limeconsultancy.net
hello@limeconsultancy.net

FOCUS ON

PROPERTY DEVELOPERS

Over 42,000 property development businesses operate within the UK, from major constructors to small developers. The sector generates over £36bn per annum.

In 2020 developers lost over two months of workable time due to Covid, compounded by 35% of firms reporting deteriorating payment terms or non payment of invoices

PRESSURE BUILDING

There is a saying never to work with children or animals. You can add to that never to develop a property during a global pandemic.

2020 saw property developers lose two months of work time due to the first lockdown*. Since then the labour numbers on sites has reduced to maintain distancing. If you then add in a deterioration in payment terms* within the sector leading to cash flow challenges then the pressure on the sector starts to become obvious.

It appears to be an almost perfect storm, albeit one that is only now starting to arrive.

A Delayed Storm

If we want to understand what is happening and why the biggest challenges, in terms of finance, may yet be ahead for the property development sector then we need to consider some of the factors in play:

Delayed Completions + Finance Lines Expiring + Lender Ambivalence + Longer Lead Time to Sell → Less Cash & Can't Repay Debt

Most developers have funding lines which are only now starting to expire, This is when the crunch is going to be felt. Lenders extending their terms may be a solution, but one that is a sticking plaster for an injury that requires more attention.

WHO WE ARE

The Expiring Finance Line

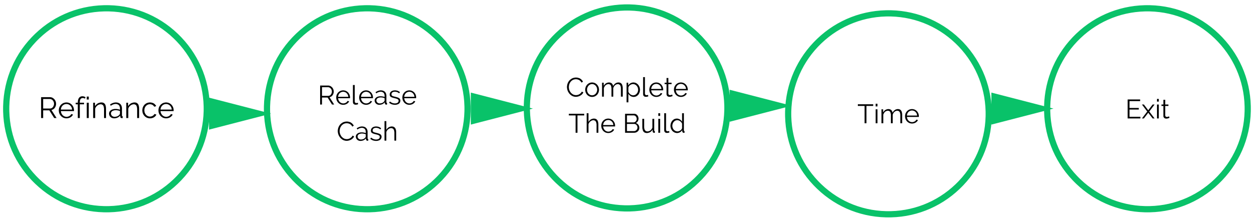
Firstly lets identify an increasing ambivalence toward the construction sector with some lenders withdrawing any new finance*. Of those developers whose funding is expiring then it is likely they will obtain an extension, albeit at an increased cost and maybe not for as long as they need.

The developer then has the exit to consider.

Whilst they may have expected to sell their completed properties we have an economy with unemployment at 5.5%* and 9.9 million jobs subject to furlough. The ease of obtaining a personal mortgage is expected to revert to pre-Covid levels by the end of 2021* but for now, it is much more difficult.

So What Is The Answer?

To use a card analogy, it can be better to stick, then twist. It is rare that the best option is to just extend the current funding line. The number one commodity for property developers is time. The more you can get the better, that means a finance agreement that gives the time to complete the build and exit.



Just because a development has stalled or is under pressure doesn't mean that the developer cannot finance, complete and exit. Remember that exit can be via sale or letting, either option can work.

We are starting to see developers reach the point where the cash is running out and projects are stalling as well as completed developments not yet sold.

The Fear

Our experience is that the biggest fear is that there are no options, that the current lender is the only option. This tends to be driven by a reluctance by lenders to advance funds on CBILS and some lack of clarity from the current finance provider.

There are options. Part built developments can be financed and more time can be obtained. The pressure doesn't have to be there, we do have options dedicated to this sector. For more details then please get in touch.

Dave Farmer Lime Consultancy

david@limeconsultancy.net 07722874789

- *References: 1 Construction News 14/12/2020; *2 Building.co.uk 20/06/2020; *3 Iwoca 22/2/2021; *4 Statista 3/2/2021; 5* bbc.co.uk 23/2/2021

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