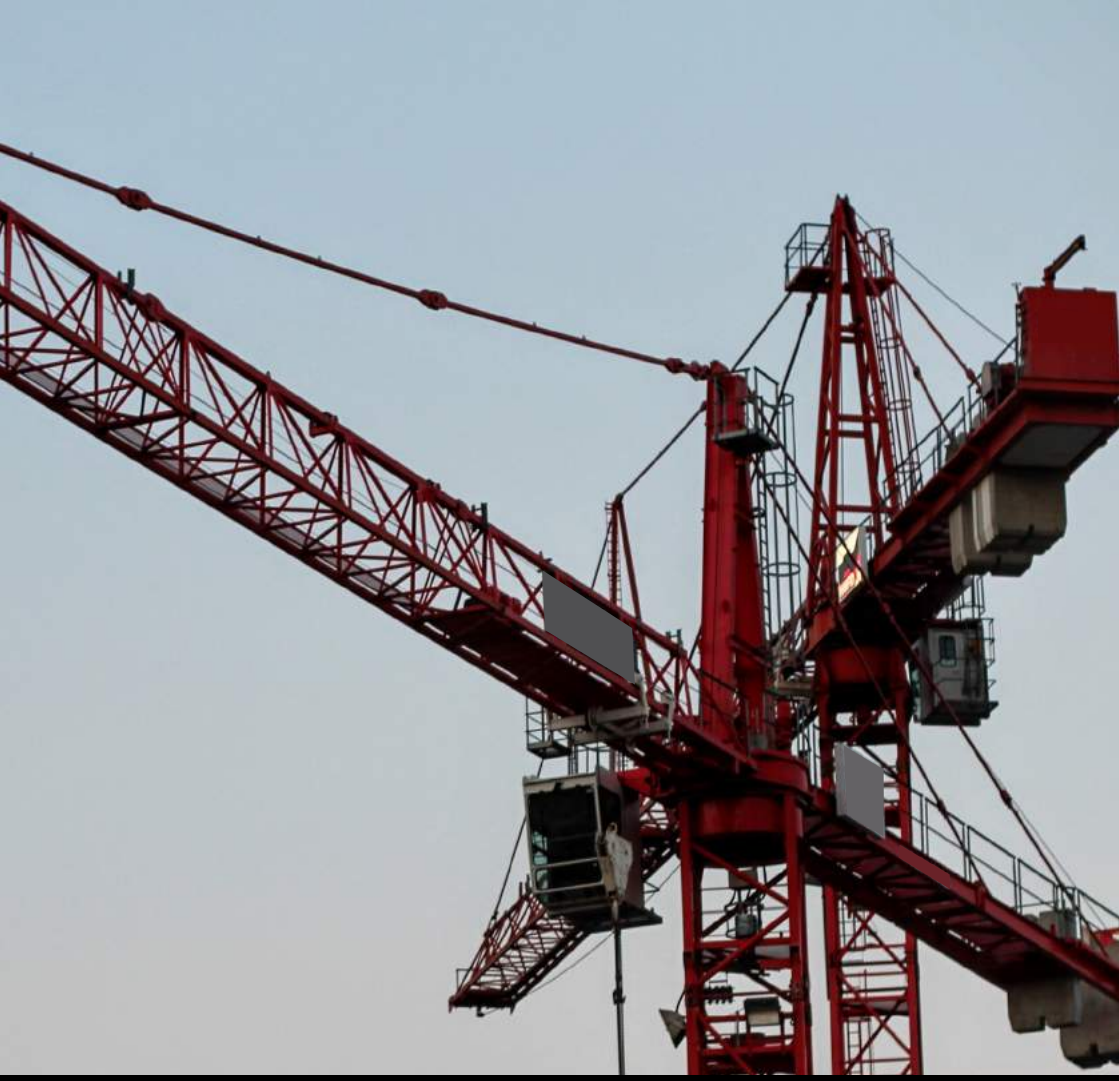

ELITE PROPERTY DEVELOPERS PRODUCT GUIDE

WINTER 2017

HoldenCAPITAL
CONSTRUCTIVE FINANCE

CALL 1300HOLCAP
www.holdencapital.com.au

HoldenCAPITAL
CONSTRUCTIVE FINANCE

For the past 6 years we have helped elite property developers navigate their journey to secure construction finance. We were there in the good weather and we will continue to be there for you when the conditions ahead are stormy. We have prepared this pocket guide to help you navigate the ever-changing market conditions, and look forward to working with you ensure your next

FINANCIAL PRODUCT GUIDE FOR SETTLING A DEVELOPMENT SITE

The main variables that a affect a development site loan are the approval status for the intended use and then understanding the difference between purchase price and a valuation prepared for a lender. Also, development sites requiring settlement can present themselves in many differing forms of approval status and this can result in a diverse range of funding options needing to be considered, so the following table is somewhat generic and there can be many permutations that may result in a better outcome.

Banks will only look at a development site if the borrower or security property can show strong surplus income to service the debt. Some developers will try and beat the system, passing off the site as an income producing investment purchase for investment when it is actually being acquired as a development site which can lead to problems down the track and does nothing to support their reputation.

ITEM	BANK	FUND A	FUND B	FUND C	JV
Loan Amounts	Banks will only look at a development site if the borrower or property has strong surplus income to service the debt. Alternatively if it is an existing house and you lie to the bank and tell them it is an investment property and not a development site. It is possible but quite often results in a non-event.	<$2.5mil	<$5mil	<$ 5 to $40mil	Up to $5mil
LVR		65%	70%	65%	100% of costs
Locations		SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE
Application Fee Out-of-Pocket		$10k + $10k	$10k + $10k	$10k + $20k	$10k + $20k
Loan Establishment Fee		2.0%	3.0%	2.0%	3.0%
Interest Rate		10%	15%	11%	15%
Notes on the options		If no existing house / improvement, reduces to 50% LVR	Asset Lend. Quick settlement. Valuations sometimes not needed	Need to demonstrate short exit or longer term ability to service from cashflow or profit event	50% of profit after costs, mainly via sale of site with DA
Note	There are many variables regarding funding of development sites, the best way to understand what is currently available is a quick call to one of our team.				

CASE STUDIES

DEVELOPMENT SITES

38 TOWNHOUSE SITE REQUIRING DA | $3,540,000

- LOAN AMOUNT $2,100,000
- GEARING 60%
- LENDER Private
- INTEREST 15% p.a.
- PRESALES Nil

76 TOWNHOUSE SITE REQUIRING DA | $5,000,000

- LOAN AMOUNT Snr $2.76M
- GEARING Snr 60%
- LENDER Private
- INTEREST Snr 15% p.a.
- PRESALES Nil

13 LOT SUBDIVISION | $2,200,000

- LOAN AMOUNT $1,200,000
- GEARING 54%
- LENDER Private
- INTEREST 12% P.A.
- PRESALES N/A

FINANCIAL PRODUCT GUIDE FOR SMALL RESIDENTIAL PROJECTS REQUIRING SENIOR DEBT

ITEM	BANK	REGIONAL BANK	FUND A	FUND B	FUND C
Loan Amounts	Up to $25mil	Up to $25mil	Up to <$5mil, $7mil SYD	Up to $15mil	Up to $10mil
LVR	60%, rarely 65%	Up to 65%	67%	70%	74%
LCR	75%, rarely 80%	Up to 80%	85%	85%	92%
Presales	50-100% debt cover	50-80% debt cover	50-80%	Nil for smaller, large may req. some	Nil, exit fees may apply
Project Type	Res, Retail, Com	Res, Retail, Com	Res, Retail, Com	Res	Res
Locations	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE
Application Fee Out-of-Pocket	$10k + $10k	$10k + $10k	$10k + $10k	$10k + $10k	$10k + $10k
Loan Establishment Fee	1.5%	1.75%	2.5%	3.0%	3.0%
Interest Rate	1.8% + 1.8%	6.50%	10%	11%	11%
Line Fee	1.50%	Nil	Nil	1.50%	3.00%
All Up Cost	Remember, it is never as simple as just adding all of the above costs to find the cheapest option. Send us your feaso and we can very quickly tell you the best fit for your project.				

BNE - SYD - MEL - HK

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CASE STUDIES

SMALL PROJECTS

21 OF 58 APARTMENTS | $8,000,000

- LOAN AMOUNT $6,800,000
- GEARING 72% LCR
- LENDER Mortgage Trust
- INTEREST 10.75% P.A.
- PRESALES Nil Required

9 APARTMENTS | $4,155,000

- LOAN AMOUNT $2,520,000
- GEARING 80% LCR
- LENDER Fund
- INTEREST 10% P.A.
- PRESALES Nil

5 TOWNHOUSES | $3,400,000

- LOAN AMOUNT $1,750,000
- GEARING 80% LCR
- LENDER Fund
- INTEREST 9% P.A.
- PRESALES Nil

FINANCIAL PRODUCT GUIDE FOR MEDIUM TO LARGE RESIDENTIAL PROJECTS

ITEM	BANK	FUND A	FUND B	FUND C	FUND D
Loan Amounts	$20-100mil	$20-100mil	$20-100mil	$10 to $25mil	$20-100mil
LVR	60%, rarely 65%	65%	67%	65%	70%
LCR	70% rarely 75-80%	80%	85%	80%	85%
Presales	>100%	80%	50%-80%	25%-50%	25%-50%
Project Type	Res, Retail, Com	Res	Res, Retail, Com	Res, Retail, Com	Res, Retail, Com
Locations	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL	SYD, MEL & BNE	SYD, MEL & BNE
Application Fee Out-of-Pocket	$10k + $10k	$15k + $15k	$15k + $15k	$15k + $15k	$15k + $15k
Loan Establishment Fee	1.0%	1.75%	2.0%	2.75%	2.75%
Interest Rate	1.8% + 1.8%	1.8% + 2.5%	10%	11%	13%
Line Fee	1.75%	3%	3%	1.5%	1.5%
All Up Cost	Remember, it is never as simple as just adding all of the above costs to find the cheapest option. Send us your feaso and we can very quickly tell you the best fit for your project.				

CASE STUDIES

MEDIUM - LARGE PROJECTS

18 TOWNHOUSES | $6,390,000

LOAN AMOUNT
$4,320,000

GEARING
67%

LENDER
Fund

INTEREST
9% P.A.

PRESALES
Nil

30 APARTMENTS & 4 RETAIL | $16,300,000

LOAN AMOUNT
$7,360,000

GEARING
60% LCR

LENDER
Senior Bank

INTEREST
4.3% plus
1.5% line fee

PRESALES
67% Debt Cover

67 OF 168 APARTMENTS | $27,000,000

LOAN AMOUNT
$16,650,000

GEARING
76% LCR

LENDER
Mortgage Trust

INTEREST
1% Line Fee
10.75% P.A.

PRESALES
50% Debt Cover

A MULTI-AWARD WINNING TEAM

HoldenCAPITAL
CONSTRUCTIVE FINANCE

Elite developers use elite consultants to get the best outcomes. In this product guide we aim to inform our potential borrowers of the general metrics applied to each product we currently have a available. We hope this guide helps you to develop your project by securing the best available funding based on your requirements.

Not every project is the same, and not all of these products will suit your needs, however we would encourage you to utilize the no obligation proposal that we offer to prepare for you comprising a funding evaluation which is customized and takes into account your unique circumstances.

This guide cannot not cover all of the products we have available to us, but aims to provide a general overview and cover the main stream projects that we see in our daily activity in the front line of construction finance.

It is also possible that there may be better terms available or you might have an issue with your project like regional location or borrower track record and it is possible that a more expensive product might need to be applied as it is difficult to provide a "one size fits all" solution in a guide such as this.

We suggest that you use this as a guide and be mindful that with our constant exposure to lenders across a wide range of elite developer submissions, chances are we may be able to get better terms, likewise with a first time developer, while you may not get the terms afforded an elite developer, we can certainly help you navigate the often daunting terms and conditions imposed by lenders.

The debt and equity markets are constantly evolving and new players are entering the landscape on a regular basis, so this guide will be valid for a period of a few months, after which we suggest you look on our website or contact one of our team to get the most recent version.

Did you know HoldenCAPITAL has been awarded #1 commercial mortgage broker for 2015 and 2016, we received these awards based on volume, professionalism, knowledge integrity and reputation.

IS IT TIME YOU GOT CONSTRUCTIVE WITH YOUR FINANCE?

HoldenCAPITAL
CONSTRUCTIVE FINANCE

STEVE WILTSHIRE
41 YEARS EXPERIENCE

DAN HOLDEN
15 YEARS EXPERIENCE

DAVID KELLY
25 YEARS EXPERIENCE

BRETT COTTAM
19 YEARS EXPERIENCE

ERIC TRIEU
21 YEARS EXPERIENCE

MELVIN SEETO
20 YEARS EXPERIENCE

ADAM HARTARD
13 YEARS EXPERIENCE

DANIEL HOUNSELL
21 YEARS EXPERIENCE

FINANCIAL PRODUCT GUIDE FOR
JUNIOR DEBT & PREFERRED EQUITY

WHAT IS THE DIFFERENCE AND WHEN DOES EACH APPLY?	Junior or Mezzanine Debt is best described as a debt top-up. It is used to cover a shortfall of debt where there is a gap between the Developer's equity contribution and the level of debt available based on the lender's Loan to Cost ratio policy. That said, beyond a certain Loan to Cost ratio or where the junior debt piece becomes larger than the amount contributed by the developer, it generally transitions into a preferred equity structure. In some cases the junior debt can exceed the developers contribution but there would need to be strong mitigating circumstances such as an elite developer with a demonstrably strong track record and or sponsor personal net wealth position to demonstrate they can contribute more capital if required but they are electing not to for sound commercial reasons. The old saying applies that if you prove that you don't need the loan then they will be more likely to approve it.
WHAT IS THE COST?	Junior debt ranges in cost from as low as 15% up to the more usual range of 22-24%pa. It is risk and reward balanced, so if the debt piece is low down in the capital stack where say the bank peaks at 70% LCR and the junior debt is topping up to 80% LCR and it is covered by presales with a good developer, a strong builder and metro location then the likely funding cost could be as low as 15%pa. Start diluting or removing some of those mitigating factors and increasing the risk by increasing the LCR beyond 85 or 90% and or lowering the resale cover and the cost will escalate. Upfront fees range from 3-5%, again based on risk and transaction size. Preferred Equity is exactly that, Equity. And as such it needs to generate equity style returns. Developers often ask what is the least I can pay the investor, they argue that investors are only getting 2% in the bank so a return slightly above that should be seen as a bargain. That is fine if you want to deal with uneducated investors, take their money whilst they are playing lawn bowls, and then answer questions on a national current affairs program when things don't go quite as planned. Alternatively, you can deal with educated capital which understands the market, risk and return and can provide many other advantages which we spell out in a number of articles available on our website. The cost of this capital which is market tested regularly, typically involves what is referred to as a 80/20 - 50/50 deal where the developer puts in 20% of the capital component after the Senior debt funds 80% of the Total Development Cost and charges suitable DM fees, assuming they do not outsource that function.

WHAT IS THE COST?	The investors fund the remaining 80% of the "equity" component in return for which they receive 50% of the profit. Sometimes that gets fixed upfront as an exit fee, and often a coupon applies, either for the project duration, or sometimes there is a trigger for it to commence after project completion so any delays don't drastically reduce the Investor IRR, and to time motivate the developer to complete. There are occasions where a capital partner might agree to fund up to 100% of TDC, however this is not widely available and would only be done in special circumstances based on very strong project metrics and an impeccable developer pedigree. The other thing to remember about this style of capital is that it usually only gets involved in a project that is shovel ready, if it needs to be involved earlier on in the project time line where more risk is involved and the cost will be comensuratly higher. The other thing to remember about this style of capital is that it mainly only gets involved in a project that is shovel ready, if it needs to get involved earlier on in the project while more risk is involved, the cost will be higher.
RETAIL AND COMMERCIAL PROJECTS	The beauty of retail and commercial projects is that there is a tenant(s), preferably with a strong trading history, who will be committed upfront to pay rent once the building is complete. This avoids the risk of of multiple end buyers completing their purchase allows the construction debt to be refinanced promptly. This type of transaction brings its own form of market risk into play but is one that is easier to determine upfront. As such, capital partners will usually take a stronger view of these types of projects and a rough metric for a starting point in determining if the capital partner will be debt or preferred equity is their gearing relative to the on completion value. For example, if it is say 70-72% and below, then a refinance on completion is likely to be readily available with their exposure viewed as debt. If the combined debt package is higher than that gearing, a refinance and immediate repayment on completion is less likely to be achieved, and therefore the capital partner needs to rely on an asset sale or a debt reduction program over a longer period of time, all of which increases the risk and will generally result in a profit share or similar style requirement.

FINANCIAL PRODUCT GUIDE FOR MEZZANINE DEBT & PREFERRED EQUITY

ITEM	FUND A MEZZ	FUND B MEZZ	FUND C MEZZ	FUND D PREF	FUND E PREF
Loan Amounts	Over $5mil	Over $5mil	Up to $5mil	$3-10mil	Up to $4mil
LCR	85% </=50% of the Equity	90-92% </=50% of the Equity	90-92% </=50% of the Equity	95% </=75% of the Equity	95% </=80% of the Equity
Presales	80-100% of total debt	80-100% of total debt	Senior Lender Driven	Senior Lender Driven	Senior Lender Driven
Locations	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE
Application Fee Out-of-Pocket	$15k + $15k	$15k + $15k	$15k + $15k	$15k + $15k	$15k + $15k
Loan Establishment Fee	4% for <$15mil 3% for >$15mil	4% for <$15mil 3% for >$15mil	4% for $5mil 5% for <$3mil	4% for $5mil 5% for <$3mil	5%
Investor Return	16-18% p.a.	20-24% p.a.	24% p.a.	50% of profits of 15% coupon & 35%	50% of profits of 15% coupon & 35%

CASE STUDIES

MEZZANINE DEBT & PREFERRED EQUITY

MEZZANINE DEBT FOR 52 APARTMENTS AND RETAIL | $19,500,000

LOAN AMOUNT
Snr $14.8M*
Mezz $3.58K

GEARING
94% LCR
77% LVR

LENDER
Private

INTEREST
23% p.a. with 5% Est Fee

PRESALES
Nil

SITE ACQUISITION FOR 8 LUXURY TOWNHOUSES (VIC) | $3,200,000

LOAN AMOUNT
Snr $2.3M
Mezz $500K

GEARING
Snr 66%
Mezz 80%
Pref Equity 94%

LENDER
Private

INTEREST
Snr 15%
Mezz 20%
Pref Equity – ??%

PRESALES
Nil

MEZZANINE FOR 50 APARTMENTS | $19,500,000

LOAN AMOUNT
$3,800,000

GEARING
81%

LENDER
Fund

INTEREST
22% P.A.

PRESALES
26 Presales with a further 3 per quarter during construction

FINANCIAL PRODUCT GUIDE FOR RESIDUAL STOCK LOANS

Refinancing product on completion is not as straightforward as most think. Banks have many fixed metrics that often prevent them from providing the type of loans a developer actually wants. This includes things like serviceability from day 1 of the facility, which is often not practical for small and even some larger developers, who rely on somewhat lumpy cashflows as they complete projects. Other limitations include the lenders concentration within any particular location, their general view of the market, the application of a lower gearing for a commercial loan rather than the 85% LVR that an individual investor loan typically gets without LMI. Another key factor is flexibility, which comes at a cost. Low cost funding options generally have all the terms favouring the lender, for example when a developer wants some proceeds from individual lot settlements, most low cost options do not allow for that.

ITEM	BANKS	MORTGAGE TRUST	FUND B	FUND C	FUND D
Loan Amounts	Up to $3mil	Up to $5mil	Up to $10mil	$10-25mil	Up to $5mil
LVC	65%	65%	67%	65%	70% inc. GST
Locations	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL	SYD, MEL & BNE	SYD, MEL & BNE
Application Fee Out-of-Pocket	$5k + $10k	$5k + $10k	$5k + $10k	$10k + $15k	$5k + $10k
Loan Establishment Fee	1.5%	2.5%	3.0%	2.75%	3.0%
Interest Rate	6%	8% - 10%	12%	13%	15%
Product Notes	All proceeds to repay debt	Flexibility to re-gear	Proceeds shared oce <50% LVR	Proceeds shared oce <50% LVR	75% to Lender

CASE STUDIES

RESIDUAL STOCK LOANS

REFINANCE OF 6 OF 64 APARTMENTS | $1,900,000

LOAN AMOUNT $1,300,000
GEARING 68%
LENDER Fund
INTEREST 7.5% P.A.
PRESALES N/A

REFINANCE OF SERVICED HOTEL APARTMENTS 3 OF 48 APARTMENTS | $15,300,000

LOAN AMOUNT $1,000,000
GEARING 70%
LENDER Fund
INTEREST 15% P.A.
PRESALES N/A

REFINANCE OF LUXURY APARTMENTS: 9 OF 109 APARTMENTS | $5,400,000

LOAN AMOUNT $3,230,000
GEARING 67%
LENDER Fund
INTEREST 15% P.A.
PRESALES N/A

FINANCIAL PRODUCT GUIDE FOR COMMERCIAL INVESTMENT LOANS

Assets cover a wide array of uses like Retail, Commercial, Industrial, Bulky Goods, Service Stations, Childcare and Storage.

ITEM	BANKS	FUND A	FUND B	FUND C	FUND D	MEZZ
Loan Amounts	Up to $15mil	<$2.5mil	<$5mil	<$ 5 to $40mil	$100k to $3mil	Up to $5mil
LVC	65% Occasionally 70%	65%	70%	65%	75% Occassionally to 85% ^	100% of costs
ICR - Interest Cover Ratio	1.5	0.9 Single Asset 1.2 Portfolio	1.2	1.2	1.5 - 2.0	1.2
Locations	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE	SYD, MEL & BNE
Application Fee Out-of-Pocket	$5k + $10k	$5k + $10k	$5k + $10k	$5k + $10k	$5k + $10k	$15k + $15k
Loan Establishment Fee	1% for <$15mil 0.6% for >$15mil	2.0%	3% for <$5mil 2% for >$15mil	4% for <$3mil 2% for >$10mil	2.5%	5% for <$3mil 3% for >$25mil
Interest Rate	1.8% + 1.8%	1.8% + 3%	1.8% + 4.5%	1.8% + 3.5%	5.9% to 8.00%	14% for <75%LVR 20% for ~80%LVR

THE HOLDENCAPITAL PROCESS

PROJECT STATUS

What is the journey to date, what has been achieved, what needs to happen to get the project funded and construction commenced.

ASPIRATIONS

Aspirations of the developer, what is their funding requirement for the project, also comparing their overall business model & sustainable growth.

EVALUATE

Evaluate the key criteria of the project, namely 1. Sponsor, 2. Market, 3. Delivery, 4. Project Viability, and 5. Constraints. Be sure to identify the strengths and weaknesses of the deal, remembering to be impartial and un-biased towards the project.

MATCH

Match the best debt/equity product to suit the projects strengths, weaknesses and constraints. HCAP have over 60 active debt providers and equity investors on their panel.

FORMULATE

Formulate the best way to present the deal to the chosen parties, presentation is critical to showing the reasons why a deal should be done. Remembering most decision makers will not attend the initial meetings & therefore the team of people who look at the document need to get a comprehensive understanding of why they should commit funds to this project over the other 5 deals sitting on their desk.

NEGOTIATE

Negotiate the terms to be fair and commercial to all parties, the journey ahead is typically 12-36 months to complete most project, best to ensure all parties as satisfied with the deal they have committed to delivering.

DOCUMENT

Document the deal, provide the conditions precedent requirements in advance to ensure a smooth settlement process.

SETTLEMENT

Settlement hopefully went to plan, ensure all parties are aware of the process for monthly claims and dates for Project Control Group Meetings.

5 REASONS TO PARTNER WITH HOLDENCAPITAL

1 WIDE RANGE OF SOLUTIONS TO MEET YOUR FUNDING NEEDS

HoldenCAPITAL have over 60 active debt and equity providers, including major and minor banks, mortgage trusts and trusted relationships with numerous private investors, as well as our own Equity Fund in HoldenINVEST.

2 INFLUENTIAL RELATIONSHIPS ENSURE YOU GET THE BEST TERMS

It is not just knowing which lenders have an appetite for a particular loan type but also having a trusted relationship with their decision makers to ensure you get the best possible terms and conditions.

3 BESPOKE SOLTIONS TO MAXIMISE YOUR RETURN ON EQUITY

There are many variables in every project that make it unique for you as the developer. A major factor in getting the right finance structure is understanding your capital requirements and ensuring that the deal is tailored to suit your needs AND your wants.

4 EXCEPTIONAL REPUTATION FOR DELIVERING RESULTS

Our business has grown and matured out of the tough times of the GFC aftermath of 2012 and flourished in the increased market activity of 2014/5. This is because we have a stable of developer clients who trust us

5 THERE ARE MANY WAYS TO PARTNER WITH HOLDENCAPITAL

We see our role is to work hard on your behalf to create competitive tension between the lenders to get you best outcome. We can also provide a loan from one of our white-label loan products, or invest in your project through our Equity Fund, HoldenINVEST.

DON'T THINK, DON'T HOPE, DO!

- JOHN KENNEDY

ALL TO OFTEN IT IS TEMPTING TO WAIT AND HOPE A SOLUTION WILL PRESENT ITSELF BUT ELITE DEVELOPERS DON'T HOPE, THEY DO SOMETHING ABOUT WHATEVER IS IN THEIR WAY.

Property Developers faced a big problem when the major banks wound back their lending, they turned to HOLDENCAPITAL, who rose to the challenge, and rather than hope something would come along to fill the void HOLDENCAPITAL actively went on the hunt for more lenders both domestic and offshore.

This resulted in us settling 84 transactions for our elite property developers over the past 12 months, up 23% on the previous year and also providing us with real bargaining power amongst lenders that we can leverage to benefit all our clients.

We have direct access to decision makers across all banks and wide range of alternative lenders including access to over 100 non-bank capital providers, most of whom do not have a front door you can walk through or sales teams to source and vet new projects. They rely on firms like HoldenCAPITAL to identify structure and present appropriate deals which meet their evolving appetite.

We have been voted #1 commercial broker in Australia for 2015 and 2016, based on deal flow, settlement ratios, credit paper quality and professionalism.
Why would you risk your project with anyone but the best?

SO, DON'T THINK, DON'T HOPE, PICK UP THE PHONE AND CALL YOUR HOLDENCAPITAL CONSULTANT NOW AND REAP THE REWARDS OF DOING SOMETHING POSITIVE.

IS IT TIME TO GET CONSTRUCTIVE WITH YOUR FINANCE?

1300HOLCAP

THE
CONSTRUCTIVE FINANCE
PODCAST

HoldenCAPITAL

ELITE PROPERTY DEVELOPERS DISCUSS
MARKET VIEWS
CHALLENGES AND OPPORTUNITIES
LESSONS LEARNED & ADVICE

LISTEN NOW

The Constructive Finance Podcast is a fortnightly property development podcast, created & hosted by HoldenCAPITAL. With over 3,000 listeners, it has featured guests such as Bernard Salt, Matthew Gross, John & Matt McAndrew, Mike Tomkins, Don O'Rorke and more.

To keep up to date with everything you need to know about property development and finance, subscribe to The Constructive Finance Podcast today.

www.holdencapital.com.au/podcast Also available on iTunes:

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VOTED AUSTRALIA'S #1 COMMERCIAL BROKER
2015, 2016 & 2017

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