

A GUIDE TO

REFURBISHMENT

finance



SPF

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A GUIDE TO REFURBISHMENT FINANCE



Refurbishment finance can be an excellent tool for landlords, property developers and owner occupiers who are looking to add value to their properties.

SPF Private Clients (SPF) can arrange the finance to help you release equity by either fully converting or simply refurbishing a property before renting, selling or refinancing it using the growing term of BRRR, Buy Refurb Rent Refinance Repeat.

The lenders we work with can provide a loan towards the purchase as well as fund the works to the property, working off the projected end value or gross development value (GDV).

We have access to funding for all types of projects, from light refurbishment to heavy structural works, including altering the square footage of a building and carrying out works under planning permission.

The benefit of a refurbishment loan is that the lender fully funds the works therefore a minimum cash input is required, normally a deposit of circa 25 per cent. This means you can benefit from opportunities where there is potential to add value. You do however need to factor in standard costs such as Stamp Duty, professional and contingency fees.

Mainstream lenders shy away from this type of project as they are often uncomfortable with heavy works being carried

out to their security property, during the term of their loan. Another benefit of using refurbishment finance is that lenders often do not require you to have completed similar projects yourself, relying on the experience of your contractor and professional team instead. We have options available for clients undertaking their first project so please do get in touch with us to explore the options available to you and to receive a no obligation quote.

Lender requirements

Schedule of works

The lender will need an itemised breakdown of the proposed works including timeframes and costings. It's important that you include a contingency or buffer of around 15-20 per cent, to cover you in case costings over run. If you have not completed a few similar projects yourself, we need to know the professional team that you intend to use, as ultimately, we are relying on them to complete the works to the property.

Solicitor

You will need to have a solicitor to act for you on the loan. SPF are happy to put you in touch with solicitors who are competent with this type of finance.

Planning Permission

It is important to ensure you have obtained the necessary planning consents and permissions from the council, if required, as the lender will need to see these before completion.

Building regulations will not apply when you are carrying out a light refurbishment, however, development projects that include works such as loft and bedroom conversions or extensions, may require planning permission.

Make sure you check with your local council for any restrictions or minimum requirements, such as roof height for a loft conversion, that apply in your area.

Survey

A valuation will need to be carried out on the property and the valuer will need to confirm that the costings are realistic in terms of price per square foot. They will also need to confirm the end value, a key figure that the lender will be lending against.

The lender will consider a few factors such as the address of the property, the build, the location and what demand there is in the local area.

The lender may also request an assets and liabilities statement to determine your net wealth.

Exit Route

We will also need to establish your 'exit strategy' or how you intend to repay the loan, given that it is a short-term facility. This could involve refinancing onto a mainstream mortgage, or selling the property.

What type of project is suitable?

Permitted development: This often involves a conversion and heavy refurbishment works. There could be a need for a loft conversion, an extension or a barn conversion. This also includes converting commercial properties into residential dwellings.

Conversions: This is a type of development which changes the use or function of a particular building or room. Popular spaces to convert within the home include bedrooms, basements, lofts, and garages.

Commercial properties: We can arrange funding to renovate office buildings and convert commercial assets into residential dwellings.

Converting a property into a House in Multiple Occupation (HMO): We can arrange conversion loans to convert properties into HMOs. This allows landlords to potentially increase their monthly yield.

Properties in need of modernisation: Properties which are in very poor condition internally and externally may require extensive work to make them habitable or sellable. This may be a property purchased at auction, or a probate sale. We can arrange funding to allow you to do the works quickly before selling it on.

How much will it cost?

Example: A client approached us as they were purchasing a property at auction which was a one-bedroom flat in Bayswater, London, in need of modernisation. They intended to create an extra bedroom under freeholder's consent, converting the property from a one-bedroom into a two-bedroom flat. Works would take six months and they then intended to sell the property at a profit, for £1.1M.

Purchase Price: £750,000

Day One net loan towards the purchase: - £547,000

100% of refurbishment costs funded: £100,000

Rate: 0.88% per month

Interest 'rolled up'*

Lender arrangement fee: 2% (£12,940)

Exit Fees: None

GDV: £1.1M

*When interest is 'rolled up' this means that no monthly payments will be made. Instead, interest is 'rolled up' and paid as a lump sum at the end of the loan term. If you redeem the loan early, any 'unused interest' will be refunded on redemption.



Who can apply?

Unlike with development finance, where lenders typically like you to have completed one or two similar projects, anyone can apply for a refurbishment bridging loan. Our clients include professional landlords, developers, or those looking to embark on their first project and 'flip and sell'. If there is enough of an uplift in the property value, we can provide funds towards both the purchase and the works.

What factors should I consider before undertaking this type of project?

1. Plan: You should have a clear understanding of what you are looking to achieve and what changes are possible. You also need an itemised breakdown of how much each job is going to cost and how long you should allocate for each job. You should also work out which jobs can commence at the same time.

2. Budget: It is important to budget for all costs, including professional fees and to also factor in a contingency. Costs may over run so it is important to have a buffer of 15-20 per cent of the build costs.

3. Time: Time frames can vary from a few weeks to even a year, depending on the works being carried out. It's important to consider all factors including the winter weather for example, and how this may affect your build schedule. A light refurbishment where you just intend to modernise the property may only take four weeks, but a full conversion might take six to nine months.

Please contact SPF Private Clients if you are planning to embark on a refurbishment project. We can discuss your scenario and will be happy to provide you with a no obligation quote.

CONTACT US

To find out more about how we can help you please contact:

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THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

A maximum fee of 1% of the loan amount is payable – for example on a mortgage of £100,000 the fee would be £1,000, the exact fee will be dependent on your circumstances. For Bridging Finance where the net loan amount is £150,000 or below, the maximum fee we charge is £1,995.

SPF Private Clients Limited is authorised and regulated by the Financial Conduct Authority (FCA).



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