

Financial Planning and Packaging Including Sources of Financing

PRESENTATION BY *EMERY WOODSTOCK OF CONSULTANTS & PROJECTS MANAGEMENT LTD* FINANCIAL PLANNING AND PACKAGING INCLUDING SOURCES OF FINANCING

In requesting interim financing from a Financial Institution to do a development, the developer should provide that Institution with information which will enable them to assess the project. Included in the information to be provided is the financial aspect, which is in the form of a financial proposal.

It is recommended that the financial proposal presented should include:-

- Project Brief
- Developer's Budget
- Profit or Loss
- Cash Flow
- Costing of Housing Units
- Costing of Infrastructure
- Sale Projection
- Use of Purchasers Deposit

Project Brief

The project brief provides an over view of the development giving a description of the location, scope of work which will be undertaken, the development cost, selling price of the units financing required, the development period and the loan repayment period.

Developer's Budget

A developer's budget should be prepared detailing all the components, which will be costed in the project. Such costs for:-

- Land
- Housing
- Infrastructure
- Financial Cost
- Selling Cost
- Developers Cost
- Legal Cost

The element that make up the Developer's Budget should be supported by detailed information and supporting documentation.

Land

The cost of the land should be verified by a valuation report.

Housing Costs

The housing contractor who has been selected to construct the units should provide a detailed costing break down with all the relevant information for each type of unit. This information, which is verified by a quantity surveyor, should be supplied as a supporting document to the Developer's Budget.

Infrastructure Cost

The infrastructure contractor may not be the same contractor as the housing contractor. From the quantities provided by the Quantity Surveyor the contractor will provide an infrastructure cost. This cost as verified by the Quantity Surveyor will be a supporting document to the Developer's Budget.

Professional Fees

Usually these fees are negotiated between the professional required for the project and the developer.

Financial Cost

This is the interest, which will be incurred on the loan, which will be required for the construction over the life of the project. This is to be supported by a cash flow. There is also a commitment fee, which is usually 1% of the loan requested.

Selling Cost

This cost is incurred in the marketing of the development. This cost depends on the demand for the units in that particular development. If the response is favourable then the amount of advertising could be reduced.

Developers Cost

This is made up of costs not directly related to the infrastructure or the housing construction but miscellaneous cost incurred in getting approvals etc.

Legal Cost

This is an estimate of what legal costs will be incurred in splintering the titles and for transfers.

Developers Mark-up

The percentage mark-up may depend on the previous cost, which would influence the selling price of the units. The developer would have to decide on what is considered a reasonable percentage and at the same time keep the unit affordable.

Project Profit or Loss

The profit or loss statement indicates to the lending institution the viability of the development. The information as it relates to cost is obtained from the developer's budget. The additional factor is the income, which is expected to be generated from the sale of the units.

Cash Flow

The cash flow is based on the loan financing which will be obtained for the development for the infrastructure and the construction of the housing units. The monthly requirement is arrived at from a schedule which the contractors should provide indicating the amount of funds which will be required on a monthly basis.

Because the developer is allowed to use 90% of the purchaser's deposits this is therefore used before utilizing the loan funds.

The monthly draw down is indicated so that the lending institution will be able to programme the needs of the developer. Interest is calculated on the funds outstanding at a rate agreed.

The repayment of the loan is from the sales proceeds. The percentage of the sale proceeds used to liquidate the loan may vary.

Sale Projection

The Developer should prepare a sales projection indicating the amount of sales likely to take place in each month by unit and value. However most financial institution will not

The Schedule to be presented to the financial institution will indicate the deposits paid.

Use of Purchasers Deposit

From the deposit received the developer may use up to 90% of the deposit in the construction of the development. The amount can only be used on the presentation of a Quantity Surveyor Certificate, verifying that it represents construction work actually done.

SOURCES OF FINANCING

The Developer's Budget will indicate the total cost of the development, from this budget the financial institution will loan interim financing which will be a percentage of some of the categories listed, the remaining portion will be by other loans or developer's equity.

Financial Institutions usually provide loan funding for construction purposes only. The developer's equity is usually land, professional fees selling cost developer's costs and legal cost.

Some sources of financing could be Jamaica Mortgage Bank, National Housing Trust, Commercial Banks, Building Societies and Insurance Companies.

In addition to these financing could be generated from income if the project is phased. The sale and profit of one phase could assist in the financing of the next phase.