Module 3: Raising Finance

Private Finance & Development Funding

What You'll Learn

- What private investors look for and how to approach them
- The different types of investor and what you can offer each one
- How to build credibility and create a compelling investor pack
- How development finance is structured — senior debt, mezzanine, and equity
- How lenders assess a deal and what they need from you
- How to present a deal professionally to investors and lenders
- Legal structures: loan agreements, JVs, and SPVs

What You'll Get

- Investor pack template
- Deal presentation framework
- Sample loan agreement
- Finance structure overview
- Risk management checklist

Introduction: Why Finance Is the Key to Scaling

Aspiring property developers often struggle not with finding deals, but with funding them. Understanding how to raise private finance and structure development funding is the skill that separates developers who do one or two projects from those who build a serious pipeline.

This module explains how private finance works, how to raise it ethically and commercially, and how development finance structures operate in the real world.

Key Principle
Investors don't fund deals. They fund developers. Your credibility is the product. This is why it is always easier to raise funds from your own network first — there is already a level of trust built up with these people that makes every conversation easier.

Section 1: Understanding What Private Investors Want

1.1 What Investors Are Looking For

Before you approach any investor, you need to understand their perspective. Private investors are not looking for excitement — they are looking for security, reliability, and a return that beats what a bank will give them.

Private investors typically look for:

- **Security —** usually a legal charge or debenture over the property, similar to a mortgage. Unlike a mortgage, you can have more than one charge on a property, which gives flexibility when structuring deals
- **Predictable returns —** fixed interest or a defined profit share, so they know exactly what they are getting
- **A competent developer —** track record, team, and clear delivery capability
- **A clear exit —** sale, refinance, or long-term hold
- **Transparency —** clear numbers, realistic timelines, and honest risk disclosure

1.2 Types of Private Investor

Different investors have different expectations and motivations. Understanding which type you are speaking to helps you pitch the right opportunity in the right way.

Component	Detail
High-Net-Worth Individuals (HNWIs)	Cash-rich individuals seeking passive returns. Often prefer simplicity and security over maximum yield.
Sophisticated Investors	Experienced in property or business. More comfortable with complexity and willing to assess risk themselves.
Family Offices	Small private investment firms managing family wealth. Seek stable, long-term returns with professional management.
Business Owners	Often have surplus cash and want diversification away from their core business. Respond well to clear numbers and professionalism.
Co-investing Developers	May co-invest for margin rather than sourcing deals themselves. Can be valuable partners on larger schemes.

Each group has different expectations, but all require the same foundations: professionalism, clarity, and trust.

Section 2: What You Can Offer Investors

2.1 Fixed-Return Loans

The simplest structure. The investor lends money and you pay a fixed interest rate, typically secured by a first or second charge over the property. This is the most common approach for bridging deposits, planning uplift funding, or early-stage works. The investor knows exactly what they will receive and when, which makes it an easy conversation.

2.2 Joint Ventures (JVs)

The investor provides equity and you deliver the project. Profits are split according to an agreed formula. JVs require strong trust, clearly drafted legal agreements, and very clear expectations from both sides about roles and responsibilities. They are best suited to situations where the investor wants more than a fixed return and is comfortable with some uncertainty.

2.3 Equity Top-Ups

Used when development finance requires additional equity that you cannot or do not want to provide yourself. The investor receives either a share of profits or a fixed return in exchange for plugging the equity gap. This is common on larger schemes where the senior lender requires 20–30% equity and you want to preserve your own cash for future deals.

> **Real Talk**
> When you talk to potential investors, focus on what you are offering them: a higher return than they would get from a bank, with relatively low risk, secured against a physical asset. In the worst case scenario — if you went bust — their loan is secured against the land or property, so when it is sold they would get their funds back. That is a powerful and honest story to tell.

Section 3: How to Raise Private Finance

3.1 Build Credibility First

Investors back people they trust. Before you approach anyone, make sure your professional presence reflects the developer you are becoming.

- A clean, commercial LinkedIn profile that presents you as a serious developer
- A track record — even small projects count. Renovations, buy-to-lets, assisted projects all demonstrate relevant experience
- A clear development strategy — what you do, where you operate, and what returns you target
- Professional branding and documentation — nothing undermines credibility faster than a poorly presented proposal

3.2 Create a Simple Investor Pack

Your investor pack does not need to be elaborate. It needs to be clear, factual, and reassuring. A well-structured pack builds confidence before you even speak.

Your pack should include:

1. Your background and relevant experience
2. Your development strategy and target market
3. Case studies — even if they are small or assisted projects
4. Your investment model — loan, JV, or equity, with example returns
5. Your risk management approach

3.3 Where to Find Investors

- LinkedIn — direct messages work far better than public posts
- Facebook property investor groups
- Networking events — property and business
- Warm introductions through architects, planning consultants, and commercial agents
- Your own existing network — always start here

3.4 How to Open the Conversation

Keep your outreach commercial and credible. Avoid hype, pressure, or 'get rich' language. A simple, confident message is far more effective:

> **Example Outreach Message**
> "I work with investors who want secure, predictable returns backed by real assets. If you review opportunities with strong numbers and clear exits, I'd be happy to share a brief overview of what we do."

No hype. No pressure. Just a professional introduction that gives the other person an easy way to say yes.

Section 4: Understanding Development Finance

Development finance is structured to fund both the acquisition and construction of a project. Unlike a standard mortgage, it is drawn down in stages as work progresses, which means the lender's exposure builds over time and they manage risk through a monitoring surveyor.

4.1 Senior Debt — The Main Development Loan

- Typically covers 60–70% of GDV, or 70–90% of total costs
- Released in staged drawdowns as construction milestones are reached

- Interest is usually rolled up and paid at the end, rather than monthly, which preserves cashflow during the build
- Lenders typically want to fund 100% of build costs — this gives them confidence that the project can be completed. For example, if build costs are 70% of the total loan amount, the remaining 30% will go towards land purchase, stamp duty, CIL, and fees
- Rates typically range from base rate + 3.5% to base rate + 6%. As a new developer, expect to pay at the higher end. Entry and exit fees of around 1% each are standard and can usually be added to the loan amount

4.2 Mezzanine Finance

Mezzanine finance sits behind senior debt in the capital stack. It carries higher interest because it takes on more risk — if the project runs into difficulty, senior lenders are repaid first. It is used to reduce the amount of equity you need to put in, allowing you to preserve cash or spread it across multiple projects.

4.3 Equity

Equity is your skin in the game — either your own cash or investor cash. Development lenders typically require 10–20% of total project costs to come from equity. This can be structured as your own funds, private investor loans, or JV equity.

4.4 Typical Finance Structure

Component	Detail
Senior Debt	60–70% of GDV. Staged drawdowns. Interest rolled up.
Mezzanine Finance	Sits behind senior debt. Higher interest rate. Reduces equity required.
Equity (your cash or investors)	10–20% of total costs. Can be own funds, investor loans, or JV equity.

4.5 What Lenders Need From You

Development finance lenders will conduct thorough due diligence before committing. We can put you in touch with suitable lenders — remember they are in the business of lending money, and the information they ask for is ultimately what forces you to do your own due diligence properly.

Lenders typically require:

- A valuation report from an approved valuer
- A QS (quantity surveyor) or monitoring surveyor appointment
- Legal due diligence on the site and title
- Developer CV and track record
- A fixed-price build contract

4.6 Fees and Costs to Budget For

- Arrangement fee: 1–2% of the loan
- Exit fee: typically 1%
- Rolled-up interest during the build
- Monitoring surveyor fees
- Legal fees on both sides

> **Important Note**
> These costs are real and significant. Make sure they are included in your appraisal from day one. A deal that looks profitable before finance costs may not stack up once all fees are accounted for. Model the full cost of finance before you commit to a land price.

Section 5: How to Present a Deal

5.1 How Lenders Assess a Deal

Before you approach a lender, understand what they are looking for. A deal that is well-presented and clearly evidenced will move through the process far faster than one that is vague or incomplete.

Lenders focus on:

- **Gross Development Value (GDV) —** is it realistic and well-evidenced by comparables?
- **Total build costs —** are they from a credible contractor or QS?
- **Developer experience —** have you delivered similar projects?
- **Contractor strength —** is your main contractor financially stable and experienced?
- **Planning status —** is permission granted, or what is the risk of refusal?
- **Location and demand —** is there a proven market for the product?
- **Exit strategy —** is it credible and achievable within the loan term?

If the numbers stack and the team is credible, funding is usually available.

5.2 Your Deal Pack

Your deal pack is the document you present to both investors and lenders. Keep it factual, commercial, and concise — no more than 10–12 pages.

A strong deal pack includes:

6. Executive summary — one page, the whole deal at a glance
7. Location and demand analysis
8. Purchase price and acquisition terms
9. Build costs and contingency (with QS sign-off)

10. Professional fees
11. GDV and comparable evidence
12. Project timeline
13. Risks and mitigations
14. Exit strategy
15. Investor return structure

Section 6: Risk Management

6.1 What Investors Care About

Every investor, whether private or institutional, is fundamentally asking the same question: what happens if something goes wrong? Your job is to show them you have thought about this and have mitigation in place.

Key risk mitigations to include in every deal:

- Fixed-price build contract — protects against cost overruns
- Contingency of 5–10% built into the appraisal
- Insurance-backed structural warranties
- Planning certainty before drawing down finance
- Conservative GDV assumptions — use sold comparables, not asking prices
- A strong, experienced professional team
- Regular reporting to investors throughout the project

Practical Advice
The developer who communicates proactively — even when things are not going perfectly — retains investor confidence. The developer who goes quiet when there are problems destroys it. Set up a simple monthly update process from day one and stick to it regardless of what is happening on site.

Section 7: Legal Structures

7.1 Loan Agreements

Used for fixed-return investors. The agreement should clearly set out the security (charge on the property), interest rate, loan term, and repayment structure. We can provide copies of loan agreements we have used. The simpler these are, the better — complexity creates confusion and erodes trust.

7.2 Joint Venture Agreements

Used when sharing profits with an investor. The agreement must cover roles, responsibilities, profit splits, decision-making authority, and dispute resolution. Do not attempt to run a JV without a properly drafted agreement — the cost of getting it right upfront is far less than the cost of a dispute.

7.3 SPVs (Special Purpose Vehicles)

Each development project should sit in its own SPV — a separate limited company set up specifically for that project. This keeps the project's finances clean and ring-fenced, simplifies reporting to investors, and protects both parties if something goes wrong on one project.

> **The Golden Rule**
> Every project gets its own SPV. This is non-negotiable for any serious developer. It protects your investors, protects your other projects, and makes your accounts far simpler to manage.

Section 8: The Developer's Role

It is worth being clear about what your job actually is when you are working with investors and lenders. You are not just building houses — you are running a business that other people have placed their trust and capital in.

Your core responsibilities as a developer:

- Find and secure deals that meet your investment criteria
- Manage the planning process and all associated consultants
- Appoint and manage contractors to deliver on time and on budget
- Control costs and manage variations rigorously
- Communicate proactively and transparently with investors
- Deliver the project and manage the exit

Investors want a developer who is organised, commercial, and transparent. If you can demonstrate all three consistently, raising finance becomes progressively easier with every project you complete.

> **Summary**
> Private finance is built on trust. Development finance is built on numbers. Master both and you can scale your development career.
> To raise private finance and secure development funding you must: build credibility before you need it; understand what each type of investor is looking for; present deals professionally with clear numbers and honest risk disclosure; understand how development finance is structured and what it costs; and manage risk and communicate clearly throughout every project.