Brickflow®

A Guide to Phasing

Why phasing a development can help developers scale up sooner

> *When we say a development is phased, it means that the build stages and the sales are separated. Normally, phasing is reserved for larger schemes, but it has 2x main benefits to developers; it helps preserve equity, and it also stops market saturation when it comes to selling or renting the end units. But it can also help those with less development experience scale up to bigger developments sooner.*

How Phasing a Property Development Can Help You Achieve Success Quicker

> *Cash Flow, as well as stretching one's equity, are king for developers. Whilst it may take longer to build out a phased scheme, and it may also mean some economies of scale are lost through the construction phase, in terms of maximising your own equity, it is difficult to beat the multiplier effect that a phased development can have.*

Here we explain the benefits of a phased scheme on a developers pocket, but also how it can allow developers that are short on development experience to scale up much quicker.

Phasing a development is only possible when you have houses or multiple blocks of flats. One block of flats doesn't work as it all has to be delivered at the same time.

There is no minimum level of units needed to allow phasing, 16-20 would be enough to do 2x phases, or less if they are larger, executive homes, but we tend to see phasing apply when you have 20 units or more.

Worked Example

- Let's assume a development of 60x units with a GDV of £ 18m (£ 300k per unit)
- Build costs of £ 175k per unit (£ 10.5m total + 7.5% contingency = £ 11.287m)
- Land costs of £ 2.15m (£ 2m land purchase cost + £ 150k costs)
- Build term of 20 months and loan term of 30 months (10 months to sell)

When we run these numbers through Brickflow, the top 3x lenders project they'll need a deposit of between £ 2.28m and £ 3.14m.

If we now break down the site into 2x phases of 30 units, instead;

- 30 units GDV of £ 9m
- Build costs of £ 5.25m
- Land cost of £ 1.15m (this is 50% of the land cost + 100% of the £ 150k land
- costs - land cost is still £ 2m though, I hear you say - more on that below)
- Build term of 10 months and loan terms of 16 months (6 months to sell)

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Again, if we run the numbers on Brickflow and the deposit range of the top 3x options is now £ 758k to £ 1.37m.

However, the land price is still £ 2m so how do we deal with that? If you have a good relationship with the vendor then you could see if a deferred land payment or overage is possible - more info on that here - 7 ways to stretch your equity further

> *A deferred land payment means paying something now for the site and paying the difference later. Most lenders will even allow the landowner to take a 2nd charge.*

Alternatively, if the vendor doesn't agree to a deferred payment, you could split the title and take a bridge on the remaining land for phase 2 to reduce your equity.

The remaining parcel of land for phase 2 is worth £ 1m. It has full planning permission and a bridge of 70% (gross) should be possible. The net loan amount would be circa 60% of the land value, which is £ 600k. The bridge will remain in place until you are ready to mobilise phase 2, at which point you can convert to a development loan (and you could even reduce the debt amount, by using sales proceeds from phase 1).

As developer, you may have a good working knowledge of products and finishes, but the architect is an expert who will tell you what materials to use and where to run the pipes to save spending money unnecessarily on fittings.

The net result is that the buyer of the site, now only needs equity of between £ 1.16m (£ 758k + £ 400k) and £ 1.77m to buy and build the site, compared to £ 2.28m and £ 3.14m if buying the site as one phase.

This is an equity saving of between £ 1.12m and £ 1.37m - this is financial engineering at it's best.

> *Ultimately, it's all about maximising the debt element of the structure, and reducing the equity element. Debt is almost always cheaper than equity, so by minimising your equity, you maximise your profits, as it allows you to run bigger sites sooner, or run multiple sites at the same time. It also, allows you to reduce the need for more expensive investor monies and expensive profit shares.*

In addition, breaking the project into smaller chunks may make it easier to fund. We recently had an example of a borrower that had built 3x previous schemes; 3x units, 4x units and then 8x units. They are now [purchasing a site that has planning for 42 units.

On paper there are probably very few (if any) lenders that would fund them on 42 units in one go; 8x units to 42x units is too big a jump. However, when you break it down into a 20x unit phase and a 22 unit phase, every lender will see that as a natural progression.

Phasing, therefore, not only preserves equity, allowing you to scale quicker, it also helps overcome question marks lenders may have about your development experience.

> *The next time a bigger site comes up, don't dismiss it and think I'll do that in 5 years, take a look at it in more detail today.*

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