MW CAPITAL ADVISORY

SPECIALIST PROPERTY FINANCE

Development Finance Guide

UK 2026 Edition - borrow the right amount, fund the right project, and exit on time. A practical guide for

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How to use this guide: read sections 1-5 before you look at land. The viability arithmetic in section 3 is the single most common reason projects are declined - and the easiest to get right in advance.

1. What Development Finance Is - and Is Not

Development finance is a short-term, project-based facility that funds the purchase of a development site and the cost of building it out. The loan is secured against the site and repaid when the finished units are sold or refinanced - usually within 12 to 36 months. Unlike a mortgage, which is underwritten on income and a stable asset, development finance is underwritten on the project: the numbers in the appraisal decide the outcome.

It exists because mainstream lenders will not fund construction risk. A bank will happily lend against a finished, tenanted building; it will not lend against a field with planning permission and a builder booked. Development finance fills that gap.

What it is used for

- Ground-up residential builds - from single plots to small estates of 20-40 units
- Heavy refurbishment and structural works beyond what a bridging loan would cover
- Commercial-to-residential conversions and permitted development schemes
- Change of use - offices to flats, agricultural buildings to dwellings
- Land with planning, bought and held while a build programme is assembled

What it is not

- A mortgage - it is short-term and priced on drawn balance, not on a 25-year term
- A bridging loan - though the two share mechanics, development finance includes a build facility released in stages against works progress
- For unviable "hope value" projects - a site with no planning and no clear route to one does not fit the product

2. How Much You Can Borrow: LTGDV and Loan to Cost

Two numbers set your borrowing, and both are fractions of the finished project, not the price you are paying today.

Loan to Gross Development Value (LTGDV)

The total borrowing - purchase, roll-up and works - measured against the Gross Development Value (GDV): the projected end value of the finished scheme, as assessed by the lender's own valuer. Standard senior debt runs to 75% of GDV. Strong, experienced developers on prime schemes can access more; weaker covenants get less.

Loan to Cost (LTC)

Total borrowing as a percentage of total project cost - purchase price plus build costs plus fees. Most lenders cap LTC around 80-90% for senior debt. If your own cash into the deal is small, the lender knows both your incentive and your buffer are thin.

Facility	Typical level
Senior debt LTGDV	Up to 75% of GDV
Senior debt LTC	Up to 80-90% of cost
Works facility	Up to 100% of build cost (released in stages)
Land / purchase element	Typically up to 70-75% of purchase price or day-one value

The important behaviour: the works budget is almost always 100% funded - released in arrears or, on forward-funded structures, in advance against stage certification. It is the land and purchase element where your own deposit goes.

3. The Viability Test: 75% LTGDV and 20% Profit on GDV

Every lender - and every sensible broker - runs the same two checks before a case goes anywhere. Use them as your own go/no-go filter before you spend money on plans, surveys or legal work.

Check one: 75% LTGDV

Total debt at the end of the project must not exceed 75% of GDV. Total debt includes the purchase facility, rolled-up interest, arrangement fees and the drawn works facility. If your borrowing lands above 75% of the end value, either the scheme is too expensive, the build costs are too high, or you are borrowing for the wrong project.

Check two: 20% profit on GDV

Profit on cost is vanity; profit on GDV is what lenders price. The accepted formula is: (GDV minus total project cost) divided by GDV, where total project cost includes purchase price, build costs, professional fees, finance costs and sales costs. Mainstream lenders want 20% as a floor. Below that, the scheme has no margin for the problems that construction always produces.

Worked example

Input	Amount
Purchase price	GBP600,000
Build cost	GBP700,000
Fees, finance and sales costs	GBP170,000
Total project cost	GBP1,470,000
GDV (9 units)	GBP1,890,000
Profit	GBP420,000 = 22.2% on GDV
Maximum senior debt (75% LTGDV)	GBP1,417,500

Read the last two lines together: the scheme passes the profit test at 22.2%, and the 75% LTGDV ceiling sits just below total cost - so the developer's own cash or a modest mezzanine slice covers the difference. That is a fundable structure. Schemes that pass neither test are not repriceable; they are restructurable or declineable.

The two tests are the same arithmetic the valuer, the credit committee and the exit lender will all run. A scheme that passes 75/20 on paper today will still be standing when build costs move 5% - one that passes by 0.5% will not.

4. What Development Finance Costs

Development finance is priced on three dials: interest, fees and the way interest is charged. Senior debt in the current UK market typically prices around 9-11% per annum on the amount drawn - usually on the outstanding monthly balance - with heavier pricing for higher-risk profiles and lighter for experienced developers on strong schemes.

The cost stack

Cost	Typical range
Interest (senior debt)	~9-11% p.a. on drawn balance
Arrangement / facility fee	1-2% of the facility
Exit / redemption fee	0-1% (deal-specific)
Valuation	GBP1,500-5,000+ (scheme-dependent)
Monitoring surveyor (PPM)	GBP400-1,000 per stage visit
Legal (both sides)	Scheme-dependent

How interest is charged

- Rolled up - added to the balance and repaid at the end; most common on ground-up builds
- Retained - deducted from the advance on day one; common on smaller refurbishments
- Serviced - paid monthly; rare on development, common where income exists on site

Roll-up is the default for good reason: a project with no income cannot service monthly payments. But it means the debt grows through the term - stress-test your exit against the rolled-up balance, not the day-one figure.

5. What Lenders Look For

Credit committees read development files in a predictable order. Get these five right and the pricing conversation moves in your favour.

1. The exit

Ranking above everything: how does the loan get repaid, and is the evidence real? A presold scheme or a refinancing offer in principle is worth more than a beautiful appraisal. Every development lender has been burned by a "sell two units and refinance the rest" story that assumed a sales market that never arrived.

2. The borrower

Experience is scored, not asserted: previous projects completed, their size and type, and how they went. A first-time developer is not excluded - but pairs with an experienced builder or project manager and accepts tighter terms. Personal credit, net asset position and prior insolvencies are reviewed.

3. The location and the scheme

Comparable evidence within a mile, a genuine local demand story, and an appraisal built on real numbers - real quotes, real build programme, realistic sales values. Optimistic GDVs are the most common self-inflicted decline.

4. The team

Architect, structural engineer, principal contractor, monitoring surveyor, planning consultant. Development finance is team lending; a weak contractor with no track record is priced like a weak borrower.

5. The structure

Most lenders prefer a special purpose vehicle (SPV) - a single-purpose limited company that holds the site and the loan. SPVs isolate the project, make security clean, and are the market standard. Personal guarantees from directors are routine; they are underwritten alongside the project.

6. Ground-Up, Heavy Refurbishment and Conversion

Ground-up new build

The full product: land facility plus staged works facility. Schemes from a single plot to 20-40 units are the heart of the market; larger schemes move to development banking and institutional funding. The planning position is decisive - full planning for the full scheme is the smooth path; phased or conditional consents complicate both lending and cost.

Heavy refurbishment

Where works exceed roughly 20-25% of end value - structural extensions, reconfiguration, full strip-outs - bridging gives way to development finance on a lighter process. Works are released in 2-4 stages against certified progress. Light cosmetic works stay on a bridging facility and do not need this product.

Commercial to residential / permitted development

Conversions - offices to flats, barns to dwellings, retail to residential - sit between the two products. The lender underwrites the consent (full planning or PD rights plus prior approval), the conversion specification, and the end values. PD schemes can move faster than the lender's own process allows; do not exchange contracts before the credit committee has the file.

7. Funding 100% of the Project: Mezzanine and Stacked Structures

Senior debt alone reaches roughly 75% LTGDV. Where the developer has the experience but not the full equity, two structures close the gap - at a price.

Mezzanine debt

A second loan behind senior debt, typically taking total funding to 85-90% LTGDV, priced at high-teens to low-twenties percent with an exit share in some structures. Mezzanine providers are small, discretionary and relationship-driven; a broker who knows which desks are open saves months.

Equity and joint venture structures

Where neither senior nor mezzanine gets to 100%, equity partners fund the balance in exchange for a profit share - typically 50/50 of the developer's share. The developer contributes skill and management rather than cash; the investor carries the capital risk. Structured through a development agreement with clear controls.

Forward funding of works

On refurbishment projects, some lenders release the works budget in advance against the projected end value rather than in arrears against certified stages - materially better cash flow for the developer. This is a genuine differentiator in the market and worth asking your broker to test.

The honest hierarchy: senior debt is the cheapest money you will ever borrow for a project, mezzanine is expensive but fast, and equity is the most expensive of all. Every pound of your own cash is worth two pounds of mezzanine in profit terms.

8. The Process: Application to Drawdown

A typical timeline for a scheme that arrives with its numbers in order:

Stage	Typical timing
Enquiry and indicative terms	Day 1-3
Full appraisal and pack submission	Week 1-2
Lender credit decision (DIP)	Week 2-3
Valuation instructed	Week 2-4
Legal and security work	Week 3-6
First drawdown (land facility)	Week 4-8
Works stages	Per build programme
Exit - sale or refinance	On completion

What moves it faster

> A complete pack at first submission - every document in section 9, not drip-fed
> An appraisal that already passes 75/20 and shows its arithmetic
> A named, priced contractor and a real programme, not an outline guess
> A solicitor experienced in development security - not a high-street conveyancer

What slows it down

> GDV built on hope rather than comparables
> Planning conditions outstanding or S106 obligations unquantified
> Contingency left out of the build cost - lenders price the absence of it

9. Documents Checklist

The pack a lender needs to issue terms - have it ready before you speak to anyone and you halve the timeline.

Project

- Development appraisal: purchase, costs, GDV, programme - or the numbers to build one
- Planning permission and drawings (or PD evidence plus prior approvals)
- Site plan, title plan and title information from your solicitor
- Tendered or estimated build costs, with a 10% contingency
- Any S106 or community infrastructure liability quantified

Borrower and team

- Company accounts for the SPV (even if dormant) and personal ID
- CV or schedule of previous projects - addresses, values, dates, outcomes
- Contractor details, programme and evidence of insurance
- Architect and engineer details; monitoring surveyor arranged by the lender
- Personal asset and liability statement where requested

Exit

- Sales evidence - comparables, or reservations / heads of terms if presold
- For refinance exits: an indication from an exit lender, or a track record of similar exits

10. Case Study: A GBP1.8m Ground-Up Scheme

An experienced but cash-constrained developer approached us with a scheme that bank panels had declined - not on viability, but on structure. The numbers below show why the structure was solvable.

Item	Amount
Purchase (site with full planning)	GBP600,000
Build cost (9 units, 14-month programme)	GBP760,000
Professional fees and finance costs	GBP175,000
GDV	GBP1,890,000
Total cost as presented	GBP1,535,000 - 81% of GDV
Profit on GDV as presented	18.7%

At first pass the scheme failed the 20% test. The route through was a renegotiated purchase (the site had been marketed nine months), a tighter works package, and a phased release structure that cut roll-up cost. Final numbers: total cost GBP1,470,000, profit 22.2% on GDV, funded at 71% LTGDV with the works budget 100% funded in stages. First drawdown five weeks from application; the scheme completed on programme.

The lesson: the decline letter was about the numbers as presented, not the scheme. Development lending is an underwriting of arithmetic - and arithmetic can be restructured.

11. Exit Strategies Lenders Will Accept

Sale of the units

The default for trading developers. The lender underwrites the local sales market through its valuer and sizes the term to the sales programme. Presales strengthen both the case and the pricing.

Refinance onto a term product

The default for investors holding the asset: the scheme completes, tenants go in, and a term lender refinances the development loan out. Evidence for this exit is a term lender's indication or a portfolio of similar completed refinances.

Sale of the project

Selling the scheme with planning or partly built to another developer. A real strategy at the right price and point - but lenders treat it as the weakest exit unless a named buyer is in the frame. If this is your plan, say so early and bring evidence; nothing burns a broker-lender relationship like a disguised exit.

One rule: the exit must be evidenced in the file before completion, not narrated at completion. Terms issued against a hoped-for exit are the ones that turn into problem loans.

12. Your Next Step

If you are weighing a scheme - land in view, numbers half-built, or a decline letter you do not agree with - the most useful next step is an honest viability read. Send us the purchase price, build costs, GDV and programme, and we will tell you where the scheme sits against the 75/20 test, which lenders are active for that profile, and what the funding stack could look like.

MW Capital Advisory

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