

Argyll Property Partners talk mezzanine finance

Paul Markovitz, a director of Argyll Property Partners, talks exclusively to Showhome magazine about the benefits of mezzanine finance

Argyll Property Partners is a mezzanine finance provider with over 60 years' experience in property lending, real estate finance and mezzanine funding. Since its formation 15 years ago, the company has contributed loans to many developers. The company focuses primarily on the SME property market place.

While dealing directly with developers, referrals also come from banks and brokers as the company is known in the industry for responding quickly to the demands of both lender and developer, as well as offering a rapid turnaround on decision-making and provision of funds for clients. Argyll Property Partners enjoys excellent relationships with banks and senior lenders, which ensures a smooth and efficient interaction between all the parties. The company relies on the same valuation and quantity surveyor's reports as the bank, which speeds up the funding process.

Showhome magazine interviewed director Paul Markovitz to discuss in depth the ins and outs of mezzanine funding and to discover why developers seek finance from Argyll Property Partners. Paul has over 20 years' experience in the UK property

business, both in development and finance and focuses heavily on the UK residential sector, primarily outside central and Greater London. Argyll lends mainly to experienced small and medium-sized residential developers in the first-time and second-time home buyers' market in regional areas of the UK.

What are the benefits of mezzanine finance?

There are many benefits of mezzanine finance. Mezzanine finance is rarely used when a developer is short of funds. Instead, in most cases, our clients choose to use our funding to increase their internal rate of return (IRR) on their projects and reduce their equity contribution required. By its nature, mezzanine funding is flexible. Every client and therefore every package we offer is different and bespoke. Mezzanine finance helps enable small developers build momentum and generate a pipeline of future projects. That's why a lot of our long-standing clients stay with us for more than one loan. Mezzanine finance is used to bridge the gap between developer's equity and the senior debt provided by a bank and helps to spread the risk across multiple projects.

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How do you ensure trust between the company and client?

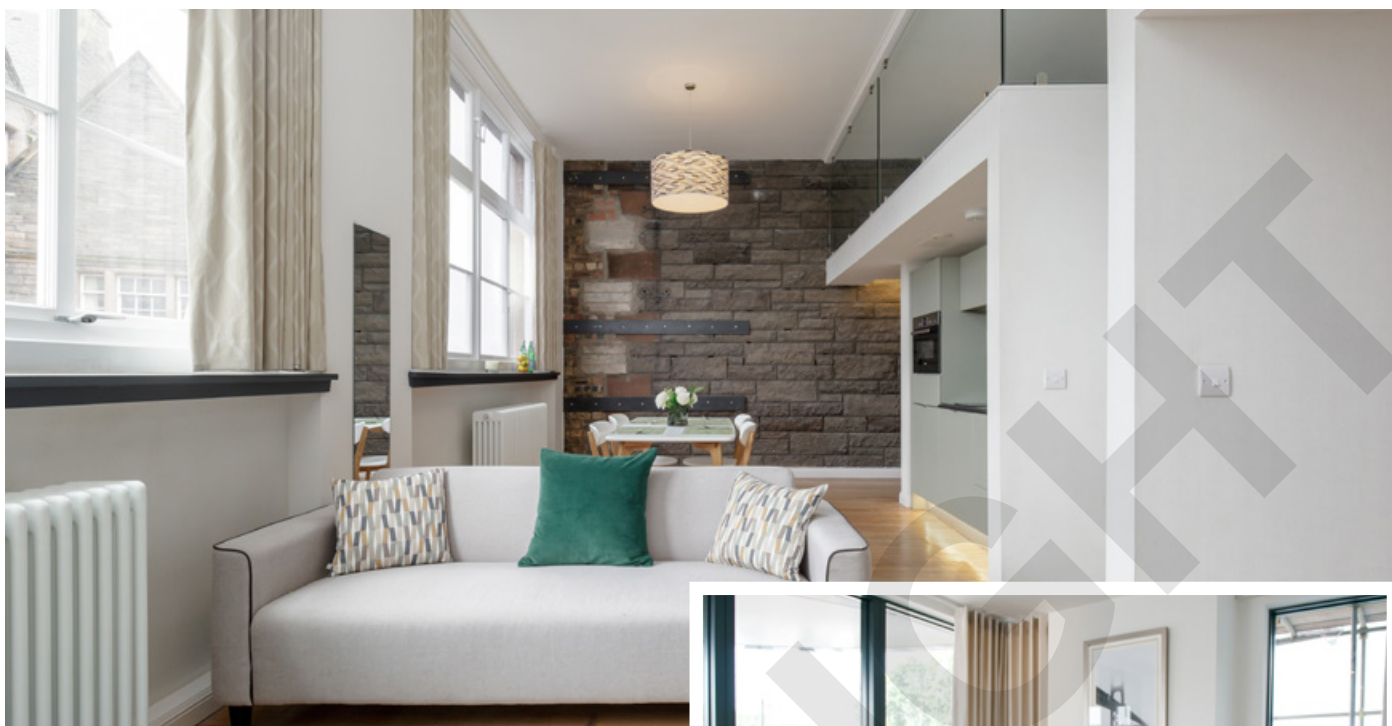
Trust is an integral part of our business. We rely on our clients as much as they rely on us to be completely honest and open regarding the project, whether it be data, predicted cost and return, etc. Sometimes there are different outcomes than predicted, but honesty and trust is key if you are going to mutually benefit from the relationship.

We are totally transparent with clients from the outset, say what we mean and expect that to be reciprocated by our clients. We are clear on how we operate and what charges are involved in terms of our fees and rates. We believe that this clarity engenders the trust that a client needs to work with us. Getting their project off the ground often requires putting their trust in others and no one wants to be let down during the process.

Can you talk us through a typical project process?

There are five primary steps that a developer





should take when attempting to secure mezzanine finance with us and it relates to what I said earlier regarding transparency. Firstly, the developer must make a comprehensive plan that sets out figures and numbers showing how they have arrived at the gross development value (GDV), the gross development cost (GDC) and the cost of finance.

Secondly, the client has to be realistic about the sales prices. It's tempting to present figures based on wishful thinking, but realistic figures that are backed up with empirical evidence are most relevant.

Thirdly, present a detailed explanation of the project in writing. Tell us why you have bought or are buying this property, in this location and for this price and what backs up the selling prices. Explain to us your thinking behind the scheme, your target market and what the key selling points are.

Fourthly, we like to get to know a bit about the developer, to create a relationship. We

are interested in the people behind the development as much as the developer himself. We need to know about all your past schemes, whether they were successful or not. It is also helpful to support this information with testimonials and recommendations.

Lastly, and we can't highlight this enough, be transparent about your senior debt. There needs to be a relationship of trust between lenders and their respective professionals. This starts with you being transparent with both the senior lender and us and providing identical information to both parties.

The recent NHBC stats show that new homes in London have increased by 125%, how has this impacted the property market?



We stopped working in London approximately three years ago and began to focus on other up and coming areas of the UK. Despite these brilliant statistics for London, other regions have started to catch up with London. With improved transport and commuting times, buyers are able to buy property outside of their working environment. We did a scheme in Nottinghamshire in a place called Epperstone, which is not a million miles from Newark railway station. Newark to King's Cross London takes just over an hour, so you can live in Nottinghamshire and work in London!

This is something that we are seeing particularly within the SME development sector, as a lot of the new-build product construction that we support is below the £600,000 unit price mark and this is for 3 and 4-bedroom homes. A lot of these homes are first-time and second-time home buyers and families looking for more affordable housing. Although the regions are growing

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economically, a lot of industries and companies are still based in and around London, so this cheaper cost, compared to a detached or semi-detached house inside London, combined with improved transport links, is increasingly desirable for homebuyers.

What are the biggest challenges developers face when raising finance?

The biggest challenge developers face I think is the speed of response. Knitting together all the threads involved in terms of propositions for funding, and information on their current project or expected project comes second. It is almost a 'partnership' with the developer. We are not going into partnership with them technically, but in terms of relationship we are building a bond.



A number of our long-standing clients have taken over nine or ten loans over the years so that they can continuously work on a variety of residential construction projects. It's more than just the funding, it's about the long-term relationship with their finance provider.

Do you have any big plans for expansion in the near future?

It's a difficult one as we have always grown organically, and we enjoy working with the smaller developers because there are more opportunities for building relationships and an ongoing partnership on future projects. We do not want to expand too fast as you can become faceless in terms of client communication. Some of the larger finance providers, who fund large or luxury projects, we feel, don't have that same connection. The SME clients that we work with build, to

use the phrase, 'ordinary homes for ordinary people'. That is where the demand is currently in the market place because of the housing crisis and the shortfall in construction starts especially in areas where people want to live.

Do you foresee any issues with Brexit and the property market?

Like everybody, I cannot predict the future. But what I can say is that there continues to be a consistent undersupply of homes in the UK, and there will always be a need to build places for people to live. Bigger house builders and developers deliver en masse but there will always be room for more localised smaller developers to fill the gaps with schemes of, for example, 30 or 40 unit developments, and these present opportunities for the types of people that we support and want to continue to do so.

Argyll Property Partners provides funding for £6m development

Argyll Property Partners provided the mezzanine funding portion on a £6 million (GDV) project of 36 new homes in a greenfield development in Skegby not far from Mansfield in Nottinghamshire.

The rectangular property had been mostly grassland on the edge of the town of Skegby and was used for grazing horses. Outline planning permission was granted for a residential development in 2012. Actual planning was obtained on appeal in 2017, and the borrower has developed a total of 36 dwellings, which includes four affordable houses. The open market dwellings are a mixture of three bedroom semi-detached, three-bedroom detached and four bedroom detached houses.



The development is typical of the residential schemes that we support in the southwest, north and north-west of England. Local amenities are close to the development, which include a supermarket and shops (almost on the

doorstep) and each home has outdoor space. Commuting times to larger towns and cities are reasonable and the homes (being less than £200 per square foot) are well within the government's Help to Buy limits.

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"I think they are probably the best provider of mezzanine finance in the market. I am a client and a broker so I've dealt with them extensively with both hats on. Unlike some other lenders who do the same thing, Argyll fill you with confidence from the get go and offer support throughout the project. They have a broad knowledge of the property market and respond to you quickly and professionally. I will use them again and will continue to recommend them to other developers."

- Property Developer and Broker, East London