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Development loans – which one do you qualify for?

Development loans don't have to be hard.

What is a development loan?

A property development loan is designed to fund the construction of multiple properties under the same title. For developments of up to four units, funding falls under a residential property loan. For any larger development, a commercial property loan is needed.

Before you begin any development project, it is crucial to first establish how much you can borrow and how you will be able to manage aspects of the development. This will save you the stress of trying to refinance later on or going over your projected budget.

When looking at property development loans, it is important to understand the two different types. Knowing which loan is right for your development will save you both money and time spent lodging documents, and get you on your way to building much faster.

Residential development loans vs commercial development loans

Most lenders split property development into two parts, which can have very different approval processes, fees and interest rates.

- Residential- Most lenders define residential property development as a small scale development of up to four units.
- Commercial- If your property development is greater than four residential units, lenders are likely to class it as commercial property development. This can range from a series of commercial properties to an apartment complex.

How do residential loans work?

Funds for residential property loans are generally released at the end of each building stage instead of in one lump sum. This is to ensure that you are continually able to pay your builder throughout the construction process. Because developments of residential properties are smaller than those of commercial, they are seen as a lower risk to the lender and have easier lending criteria.

The typical stages of residential development loans

Because your loan will be paid out in stages, it's important to be aware of what those stages are.

- The deposit
- Base stage
- Frame stage
- Lock-up stage
- Fixing stage

It's at the end of each of these five stages that your funds will be released for you to pay your builder and tradespeople, as well as to make sure that your build is progressing correctly.

What are the features of a residential development loan?

Because developments of two, three or four units are classed as residential by lenders, they're seen as a lower risk compared to larger commercial developments. As a result, lenders usually have less strict lending criteria for residential developments.

Some features of residential property development loans are:

- **Up to 80% LVR-** The LVR is the amount of your loan compared to the value of your property. The maximum amount you can borrow varies depending on the size of the project and the lender you choose.
- **Contingency funds-** Some lenders will require you to have extra funds ready in case something goes wrong during the construction process, or to cover any funding shortfalls.
- **Hard costs-** Development loans generally will only cover 'hard costs', which are the labour and materials associated with construction. All other costs, called 'soft costs', may not be covered by your loan. These could include approvals, land clearing, legal fees and architects. It's important to factor these expenses into your calculations when working out the total cost of your development and to check with your lender on what is actually covered.

Things to consider about residential development loans

When choosing a residential development loan, it's important to keep the following in mind:





- **Calculate first-** Before you get started, it's important to work out how much you will need to borrow. Once you know how much you will need and you have an idea of how you will manage the costs associated with the development, you can start looking for the right loan.
- **Consider your plan-** Will you sell all of the properties? Do you want to live in one, and rent out the others? Will you retain ownership of all, but rent them out? Knowing this will help you work out both where to build, and the type of development to build.
- **The application process-** Applying for a property development loan is more complicated than applying for an ordinary home loan. Not only will the lender need to assess your financial history, but they'll also need to consider the viability of the development.

With Tiger Finance, you'll have your own loan expert to help you through the entire process, making applying for a residential development loan simple.

How do commercial development loans work?

Commercial loans can be a necessity for business owners who won't own their own spaces. Lenders generally have strict requirements when considering a commercial development loan application.


Although commercial developments can be a long process, there are a few things you can do to ensure an easier time.

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- **Check regulations-** It's a good idea to check out the building standards for the type of property you want to develop.
 - **Look at the zone-** Checking with your local council before you apply for a commercial development loan, in case the area that you want to develop in is residentially zoned.
 - **Research the location-** It may be worth looking to see out how much commercial properties similar to what you're developing are being sold for.
 - **Get a strong team together-** It's important to make sure that you have a licensed builder and experienced tradespeople for your development. You may also need an architect to help you with the development process.

With Tiger Finance, you'll have loan experts to help guide you through the entire process, which will make applying for a commercial development loan easy.

What type of commercial development loans are available?

Depending on your lender, there may be different commercial loans available. These could include short and long-term loans, unsecured or secured against real estate property, and equipment or other assets. Generally, the main differences between loans are whether they are fixed-rate or variable.



Does it matter what type of commercial property you want to develop?

When looking at commercial development, it's important to first think about the purpose of your loan. This is because the purpose of your loan will affect how lenders assess your application.

- **Buying commercial property as an investment-** If you're choosing to invest in commercial property and then lease it out, lenders may view you as a low-risk borrower and will generally offer an easier application process, and better interest rates.
- **Buying commercial property as an owner-occupier-** If you want to buy a commercial property to act as the premises for your own business, lenders may classify you as a higher risk. As a result, you'll need to pass stricter lending criteria.

Many factors can affect the type of loan you are approved for. Your lending amount, interest rate and flexibility may change depending on the type of commercial development, but that is to be expected.

What can be used as security for a commercial development loan?

The property you will offer as security for your loan can have a big impact on the amount a lender will allow you to borrow.



Offering your own home as collateral may be an option to help you access a better interest rate, however, other commercial properties are usually a good type of security for your loan. Security options may include office or retail space, warehouses, factories or residential property.

If you list a property as security for your loan, your lender may need to perform a detailed valuation of the property to work out the details of your loan amount.

The difference between construction loans and development loans

If you're looking for a residential property investment loan, you might notice a few similarities with a residential construction loan. A construction loan should be used if you're building a house, either to live in or as an investment property. The key to construction loans is that payments are staggered, based on the stages of construction. Your lender will release funds to your builder only when those stages have been met, rather than all of it in one lump sum. Once construction has finished, the construction loan will become a typical mortgage.

In the case of residential development loans, they are designed to fund the construction of multiple properties under the same title. For developments of up to four units, funding falls under a residential property loan. Construction loans are for a single residential property under one title.



What do you need to apply for a development loan?

One of the main things to consider when obtaining a development loan is whether you will need a residential or commercial development loan. The way that the funding is arranged depends on the number of properties being built on the development site. Banks tend to have a tougher approach to development loans, meaning that you'll need to provide a range of personal details and extra documentation in addition to the lending standard criteria.

Along with the usual forms of identification, you will need to provide your financial details. Documents such as bank statements, cash flow projections and details of your assets and liabilities may be needed.

Your lender may ask for details of the property you want to purchase, such as its location, as well as a professional valuation to determine how much the property is worth.

Depending on your lender, they may ask for a wide range of other details. This depends on the size of the loan you have applied for, and the property you are purchasing. If you're finding the application processes of other lenders too complicated, Tiger Finance is here to help.

What is the easiest way to get a development loan?

Our finance specialists can help you find the right development loan for your project. We're here to help you through the complexities and get you the loan that you need.

With Tiger Finance, we can get you a loan in four easy steps. You'll have a free consultation with one of our specialists, and we will tailor-make you a loan. We'll negotiate with lenders on your behalf before you're approved. Our fast loans mean that you'll achieve your goals much sooner in a hassle-free experience.

If you are one of the many Australians finding development loans difficult, Tiger Finance can make the process simple and pain-free.

4 SIMPLE STEPS TO GET FUNDED



1

**FREE LOAN
CONSULTATION**



2

**WE TAILOR
MAKE A LOAN
THAT FITS YOU**



3

**WE NEGOTIATE
WITH CREDIBLE
LENDERS**



4

**APPROVED &
SETTLED**

