

HOW TO ATTRACT THE LIMITED SOURCES OF CAPITAL AVAILABLE

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Once bitten, twice shy is a maxim lenders are clearly taking to heart. Reeling from the effects on the financial markets of under-regulated and, many would say, unwise lending, they are not going to make the same mistakes again. The result is a huge shortage of available debt and many more hoops to jump through to get it in future.

The capital that is available at the moment is in the form of equity, largely from private investors and Sovereign Wealth Funds. Quite rightly, they're taking an opportunistic stance - looking for great deals and driving some very hard bargains. Debt will eventually become available again. But, when it does, we expect it to be from different sources, on different terms, with very different investment criteria.

So what can you do now to make sure your business is best placed to attract capital when it does start to become available again? And how can you secure it on the best terms for you?

Certainty and control

One of the things we're advising our clients is that lenders are going to need more certainty in the future - which means that developers are going to have to demonstrate more control.

We're already finding that lenders are shifting the emphasis of their due diligence process. Previously, they've concentrated mostly on the quality and value of the asset they were lending against. From now on, they'll be placing just as much emphasis on the organisation they're lending to. That means property developers and investors are going to have to focus much more on how they operate as businesses, and how they manage and deliver assets.

Their ability to do this will have a huge impact on whether they'll be able to attract funding and what the cost of that funding will be. Those organisations that can demonstrate they have very robust internal risk management and development controls, a clear view on how they're going to deliver value from their investments, and are firmly in control of their supply chain, are going to have a huge competitive advantage when liquidity eases up.

Whereas the due diligence on the asset will only be done once you make the decision to invest, the due diligence on your business is something you should be doing now. Those businesses that put their houses in order before debt comes back on the market will be able to move fastest and secure the best deals.

But what has become very evident to us over the last cycle of development is that very few people are really in control. Rising values have been hiding a whole range of inefficiencies and poor practice down through the supply chain - both in delivery and operation. No one can afford to ignore such things now.

With fewer people as a result of downsizing in the recession, developers will be relying even more on their consultants' and partners' to deliver certainty and control. This will demand different delivery models based on partnership and collaboration with their consultants.



Competitive edge

Another thing we're finding is that, in a slowing market, there is a danger of confusing falling costs with greater certainty. If the market rate is coming down, everyone is experiencing the same price drops. To keep your competitive advantage, you've got to beat the market. For instance, if the UK market falls by 5% a year, the winners will be those who can achieve 15% savings out of their operational expenditure to accommodate the higher cost of borrowing and more stagnant values.

Introducing stricter controls will help you achieve those sorts of savings, as will reviewing the way you're engaging with the supply chain. You need to look at everything from your procurement strategy, your contracts and how you incentivise your suppliers to how you're driving out waste and improving efficiency. We've been able to help our clients achieve savings in excess of 15% by taking a new approach to procurement. Quintain achieved 10% savings in this way. In our view, the next 12-18 months present a fantastic opportunity to secure a supply chain that can be quickly mobilised when the time is right to deliver at the lowest cost in the market.

Expertise is essential. Organisations will need to be very clear about what markets and assets to invest in, and will need to apply expert product knowledge to drive those extra percentage points out of the margins. That means not only having internal expertise but making sure that the supply chain and advisors also share expert product knowledge.

However, organisations need to ensure they don't fall into the trap of 'Buy now - pay later'.

Anyone active in the current market will need to have a far more rigorous approach to the delivery of their projects. Standard forms of contract and traditional management techniques may fail to provide the necessary degree of protection.

We have found that clients who include an independent audit as part of their pre-contract strategy will increase the likelihood of securing funding on projects, as well as potentially improving the commercial terms for that funding.

In addition to securing funding, the reasons for undertaking such an audit are many. Contractors will invest heavily in their commercial teams as they look to maximise commercial outcomes. If tender documents contain errors or discrepancies, or if the project design requires development or value engineering, problems are likely to occur and so issues may well be brought to the attention of project teams too late and the opportunity to mitigate and avoid additional costs is often lost.

Over the last year, we have advised on over £12 billion of investment deals and have increasingly found that corporate governance and cost control are becoming as important as the asset itself in the due diligence process. Investors want to know that there is the right level of control and the right calibre of international advisors, that risk is being managed and that there is more focus on certainty of outcome.

When the market does come back, we expect it to move very quickly. So you need to be brave enough to make the investment now in strengthening your position so that you're best placed to benefit from a rising market in the future.

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