Property bridging finance - Exit strategy considerations

Most property investors will be using bridging finance to acquire a residential property due to the speed of execution, especially when acquiring at auction.

What to bear in mind?

A bridge loan is a short-term funding solution to "bridge" a funding gap,

In short, it is a means to an end (and not an end in itself) which makes having an achievable exit strategy very important in the eyes of bridge loan lenders.

In our experience, one of the first questions of any bridging finance lenders will be: How is the client going to repay the loan?

Before diving into the various exit options, let's remind ourselves of the main use of proceeds from property bridging finance:

- Buy-to-Let investment
- Buy-to-flip
- Equity release

Buy-to-Let investment

The LTV of the bridge loan is based on a formula taking into the value of the property and the purchase price.

In this instance, the most likely exit or take-out of the bridging finance will be via a Buy-to-Let mortgage.

Depending on the underlying security's condition & location, etc. some bridging finance lenders may require evidence of exit in the form of an AIP (Agreement in Principal) issued by a mortgage lender.

Regardless, it is to the clients' benefit to get comfort upfront that the asset they're buying can find itself a home with a mortgage lender as it removes uncertainty and additional costs further down the line.

Additionally, by talking to mortgage lenders or brokers, clients will have an estimate of the monies they could get at refinance: will the mortgage proceeds be enough to cover the principal and interest (in case of a retained interest facility) or further equity will be required at refinance?

Buy-to-flip

Same considerations as the "buy-to-Let" scenario in terms of lending parameters.

The exit route is most likely to be via the sale of the asset at a higher price than the initial purchase (i.e. buy "low" and sell "high").

In this scenario, bridging loans lenders' appetite, proposed LTV, pricing and tenure will be mostly dictated by:

- the client's experience and;
- the expected quality & liquidity of the proposed security (vs. comparables) post refurbishment.

Hence, clients will have to demonstrate they have an established track-record with similar works/situation and know-how of the local area as, ultimately, any bridging finance lenders will be banking on the client's expertise to deliver.

Equity release

The bridging loan LTV will be based on the value of the property.

In this scenario, the exit can be:

Buy-to-Let mortgage

- Same exit considerations as the "Buy-to-Let Investment" scenario will apply

Sale of the asset

- Security's condition and a good understanding of the local area demand dynamics will be key

All in, regardless of the purpose of the bridging finance, proactively devising a realistic and achievable exit strategy will not only enhance clients' likelihood of securing a bridge loan but it will benefit them by reducing the uncertainty overhang.

At Krios Capital Partners, we strive to act as a one-stop-solution for our clients to deliver speed of execution and a seamless funding process.

Should you have any bridging finance requirements or just want to discuss a project, please get in touch with us and we would be happy to assist you.