

What is needed in a property business plan?

Property entrepreneurs are now required to prepare detailed and comprehensive business plans indicating the up front viability of a project and how a they intend to deliver the planned projects. Given these requirements a business plan should help a potential funder or investor to understand the property developers ability to repay and look to demonstrate the long term viability of both the property business and the project and in doing so to identify short, medium and long term working capital requirements.

The importance of preparing a property business plan is apparent and time and effort will need to be spent in preparation of the plan. This note sets out to illustrate what should be included.

Background

Banks and other funders have highlighted the prospective issues that they are looking to understand through the business plan to facilitate their decision making process:

- the borrower's current financial position (balance sheet/management accounts);
- the level of indebtedness to other institutions;
- a full list of other assets and liabilities (expanded balance sheets);
- a list in order of priority, of assets to be held, disposed of and assets which require additional investment, i.e. what else is going on;
- information on individual projects;
- estimate of where the borrower expects property prices to be going forward; and
- cashflow forecasts for the next 3 years, identifying working capital requirements.

Thus, the objective in preparing the business plan is to look to demonstrate the ongoing financial viability of the business and projects and to illustrate how a borrower proposes to service any outstanding financing commitments that they may have.

Illustrating the plan to use and repay borrowed funds

Given a funder's requirements the information contained in the business plan must look to a)

demonstrate the ongoing financial viability of projects, b) illustrate how a borrower proposes to service any outstanding financing commitments that they may have, and c) demonstrate that the borrower has the resources, skill set and experience in place that will be required to complete/manage the project.

Business Plan Structure

We suggest that preparing information in the following format can help to answer a funders questions and emphasise the strengths of the borrowers business and the quality of the project in development.

a) Executive summary

b) Introduction

- company background;
- past projects and experience;

c) Management and organisation of the borrowers company

- key management and experience;
- company organisation chart & responsibilities;
- ownership structure;
- existing service providers
 - designers and professional teams;
 - project managers;
 - contractors;
 - facility managers;
 - agents;

d) Asset/project and liability descriptions

- summary balance sheet at group level;
- individual project/asset descriptions;
- planning overview. Planning reference;
- part V requirements (if any);
- project development budget & programme;
- project team composition;
- technical feasibility study (outside scope of this document) & design cost benefit review;
- appraisals and current valuations;
- associated loan term sheets.

e) Borrowers knowledge and understanding of the market

- market macroeconomic outlook;
- description of the target customer

(occupier/purchaser) segment for each part of the accommodation mix in the project etc;

- underlying demographics/demand in that segment and market size;
- forecast of future demand and trends in those sectors;
- sales price prediction and basis of assumption, market comparables;
- current supply levels to these segments;
- competition;
- required market share in the segment to deliver sales target.

f) Borrowers sales and marketing plan

- sale price/exit valuation/expected rental income from each accommodation type;
- unit sales forecast;
- planned timing of asset disposal (commercial);
- projected sales revenue forecast.

g) Borrower company management & operations

- key roles
- development management;
- design capability;
- facility management etc.;
- operational budget forecast.

h) Financial plan & risk analysis (aggregate and individual asset/project level).

- list of key assumptions;
- asset management & development costs:
 - professional fees;
 - land/asset acquisition cost;
 - tax incl. capital gains tax and VAT projections;
 - development contributions etc.;
 - part V contributions;
 - construction costs & construction inflation/deflation prediction;
 - construction cashflow projection;
 - facility management costs;
 - corporate level ongoing payroll and overhead/admin costs.
- Revenue:
 - rental income from unsold assets;
 - schedule of estimated selling prices;
 - projected cashflow from operations.
- Developers cashflow
 - base case peak borrowing requirement;
 - risks and sensitivity – best case, worse

case.

i) Funding requirement – short and long term debt and facility requirements:

- description of current funding in place;
- estimation of further funding required;
- equity funding available, proposed JVs (if any);
- development/operational cashflow projections (including interest carry and required debt funding);
- existing/expected funding term sheets – amount, rate, maturity period, proposed release schedule, commitment fees, arrangement fee etc.;
- legal security structure;
- schedule of payments – interest and capital (loan by loan);
- financial ratios:
 - debt headroom;
 - interest headroom;
 - loan to value ratios;
 - debt covenant compliance ratios;
 - debt service cover ratio;
 - interest cover ratio.

j) Appendices

- current financial accounts at group level;
- comprehensive 3 year detailed proforma account projections:
 - p & I – annualised;
 - balance sheets - monthly;
 - integrated cashflow – monthly;
 - key accounting policies.
- construction contract;
- latest project cost plan/cost report;
- construction bond details;
- insurance details in place;
- summary of lease terms.

Conclusion

A comprehensive and detailed business plan needs to be prepared by borrowers in order to a prospective funder best understanding of the borrower's ability to repay outstanding loans and demonstrate the strength and long term viability of a borrowers business.

The business plan is vital in giving comfort to the funders and helping build understanding of how asset value will be created in the short, medium and long term. This process will illustrate how the borrower has

thought through combining its financial and non-financial resources, it's managerial skill and experience to capture the upside in asset value through building, holding and disposing of the assets under control over a given period of time.

How Keogh Consulting can help you

Our team can assist borrowers in the preparation of their business plans and in the interaction with their banks and other funders. Our services include:

- assistance in preparation of your business plan;
- review of your business plan;
- preparation of financial projections;
- preparation and review of technical feasibility studies;
- advice on strategic options to maximise the value of your assets;
- preparation of risk and sensitivity analyses of your plan to demonstrate the robustness of the plan;
- construction workout;
- provision of resources on a project or interim basis to assist you maximise the value of your assets.

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