THE NEW MAGAZINE FOR AUSTRALIA'S SME FINANCE BROKERS

VOL.1

SME Adviser

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THE CONSTRUCTION SPECIALIST

It's an exciting time to be a broker in the property development space. SME Adviser catches up with Daniel Holden of HoldenCAPITAL, who reveals how he built a highly successful brokerage over 10 years by specialising in construction finance

Q. How did you break into broking?
I started my career in property development, working on development projects and development management for completion. I did that for five years. Then through that found I had a knack for getting projects up and running for clients. In 2007, I was approached by a national finance firm to come and work with them, and I saw it as a great opportunity to be part of something more dynamic in terms of putting together deals. I have been involved in it for 10 years now.

Q. What do you like the most about being a broker?
I definitely like that it is so dynamic. Coming from a project development background, you would live and breathe a small project for 12-24 months from conception through to completion, whereas in finance you're generally involved in a project for 45 to 90 days and then you're on to the next one. You're seeing a lot more, doing a lot more and involved in a lot more projects at any point in time, and I find that very dynamic.

Q. Why did you decide to specialise in construction?
Mainly because of my background in construction and development; the finance component of it was one part of what I was doing previously and I find that the value-add in project finance was quite significant, as opposed to helping them refinance an investment asset, where it really has fewer variables, being interest rate and gearing. Whereas a property development loan has a number of different variables (i.e. pre-sales, gearing) and, therefore, there are a number of different outcomes that can happen. So, the value-add is more significant, and you're working on much larger projects, working with a property developer to deliver a $30 million or $50 million project. It's quite exciting.

Q. How is developer finance different from traditional mortgage broking, for example?
The numbers are substantially higher. A home loan could be $400,000, whereas the average commercial loan that we do is somewhere around $7 million or $8 million and that's generally involved in a project that is anywhere from $15 million to $50 million, so if you get it wrong, you've got a lot more to be accountable for. Making sure that you dot the i's and cross the t's is imperative, because a mistake that you might make could cost a developer half a million or a million dollars in that one single error. It's imperative that you're on your A-game and delivering good service and good product.

Q. What advice would you give to other brokers operating in this space when it comes to accuracy?
We have, and I imagine most people do, a really strict peer-review policy in our business, so we have two people sign off on all our proposals and credit papers. We do a lot of roundtable brainstorming on new projects that we work on so that we can make sure that we've come up with the best outcome for the project, and sometimes that requires a bit of creative thinking.

We've now got 14 people on our team so we find it best to put together a little pitch and present it to other team members to see if they agree with the proposed solution, see if this is the best outcome and be open to change from somebody else, to say: "No, look, this is actually better", or "Here's a better alternative product that can get the solution they want and more".

So, definitely collaboration within the team and being open to ideas from other people so that you can deliver the best outcome.

Q. What else goes into working out how to present the pitch?
A lot of our guys are operators and executives from the major banks, so they've been involved in a lot of credit pitching throughout their careers. In terms of being creative and finding a solution, that gets a little bit more difficult. It really comes down to the IP [intellectual property] of our business and how we solve obstacles and get projects funded, particularly now where we're pretty much in a non-bank lender market.

There is a wide array of non-bank lenders [see page 38 for more] out there, but they don't all have the same product. We've got, for example, about 90 non-bank lenders and investors on our panel that we work with regularly, however any given project may only be of interest to maybe three of that 90, because they each have their own appetite. So, now more than ever, it's vital to be creative, but also understand your investor or lender's appetites for new projects and what they can and can't do. That is imperative.

For two of our executive team, I'd say at least two-thirds of their workload is just talking to and dealing with lenders to make sure that we are just covering

"IT IS IMPERATIVE THAT YOU'RE ON YOUR A-GAME AND DELIVERING GOOD SERVICE AND GOOD PRODUCT"

the market in terms of product and then being able to turn that into solutions for the developers that we work with.

Q. What advice would you give to residential mortgage brokers looking to break into the commercial space?
The biggest key is deciding what not to work on. There's an abundance of borrowers wanting solutions and there's a finite number of lenders offering money in the commercial space, so managing your time as to what will cost you money or, if done successfully, create good revenue and good deal flow in your business. Hence why we have very strict quality assurance; to make sure we're working on realistic deals with experienced, elite developers. That ensures that we can get them the result and that the expectations are realistic, so that we can do this deal and then other deals for that borrower. ●

CASE STUDY

APARTMENT BUILDING

with Daniel Holden, HoldenCAPITAL

The project

[We had] one in West End [Queensland], which was 106 apartments. The project was called Citron. An existing client of ours was taking the project. We had issues with the company that was contracted initially, and we had to manage that with one of the big four banks who did the funding. We negotiated that on behalf of the developer and managed the process of removing the existing bankrupt builder and replacing them with a new contract and a new builder.

The challenge

Having a builder go broke on a $24 million building contract with construction is definitely a big challenge. Negotiating with the bank to keep them interested in the deal, and on track, and heading towards the finish line, was definitely difficult considering the change in funding appetite... They funded the budget [but there was] now the opportunity where they could have potentially walked away. That was definitely the biggest challenge I've had this year, but also the most rewarding.

The outcome

It was quite cumbersome and a little bit tedious for the developer because you don't expect the builder to go broke just after you've engaged them. So managing that process and seeing that we still managed to get that result and keep the bank on board and get the project up and running again was definitely a highlight.

TOP TIPS ON HOW TO WRITE A GOOD BUSINESS LOAN

By Ian Robinson, Robinson Sewell Partners

1. Building a relationship prior to a formal engagement generally takes one to two years, at a minimum. This timeframe builds the trust and assurance before borrowers release their most vital activity within their business to a third party.

2. A high level of due diligence allows for some visibility into the bankability of the proposition. Formal engagement allows for the technical analysis to be conducted in creating a detailed credit paper.

3. Several banks may be engaged to benchmark the outcomes and to provide the client with market intelligence. Working with the winning bank to ensure unconditional formal approval and settlement happens in the most efficient time frame.

4. Mitigate and manage all the credit issues that arise throughout the process.