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Below Market Value Finance

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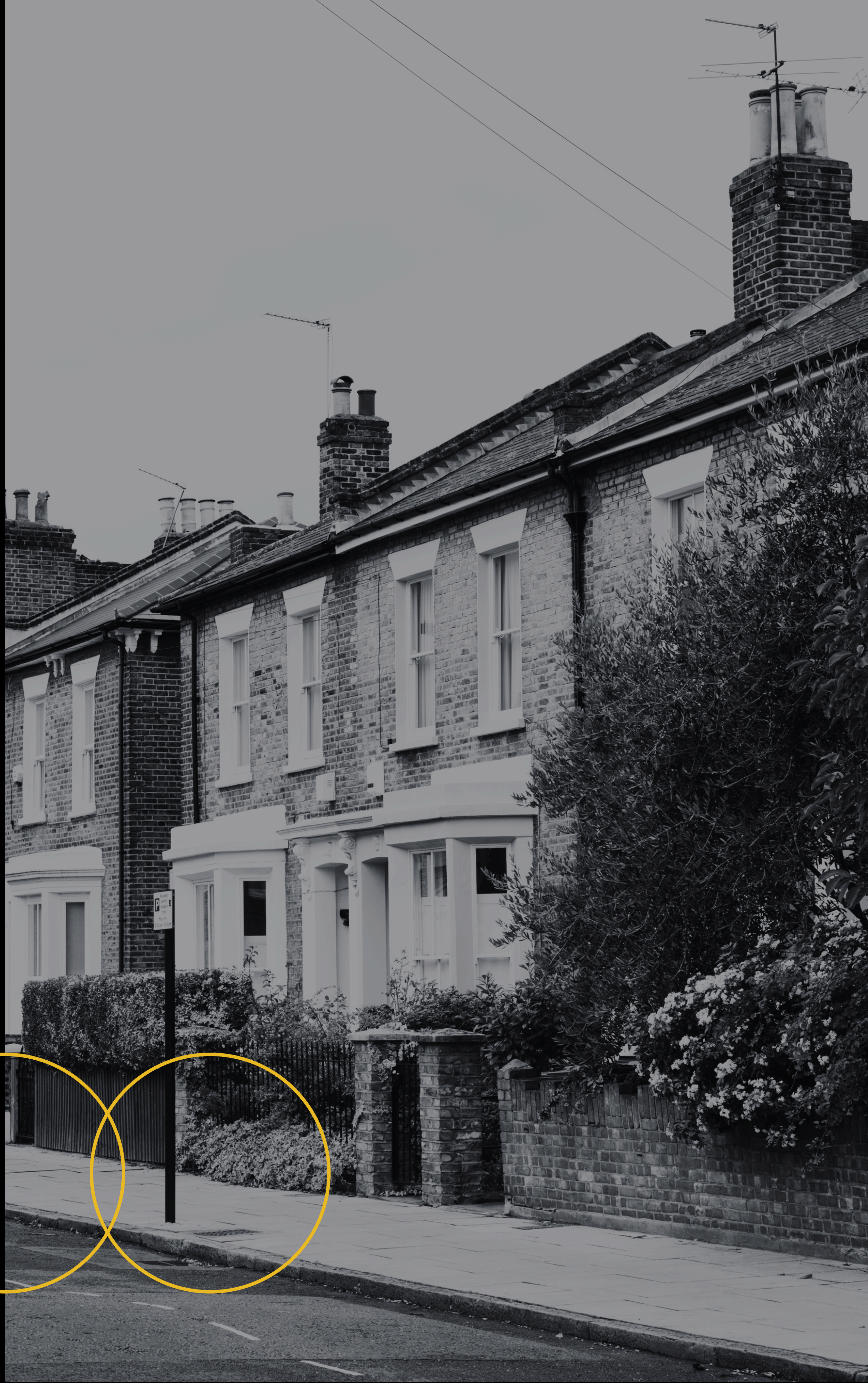

Executive Summary

Understanding the Value Gap

A BMV purchase creates an opportunity where the purchase price is lower than the supported open market value, generating immediate equity and minimizing borrower cash deposit requirements effectively.

Core Thesis

Buy Below Value

Traditional Lending

Traditional lending models typically emphasize the **purchase price** as the primary factor in assessing loan eligibility, often requiring substantial cash deposits from borrowers. This approach can limit opportunities for investors seeking to maximize capital. However, it overlooks the potential of properties that are undervalued, where market conditions may justify a lower purchase price but a higher open market value.

BMV Finance

Below Market Value (BMV) finance shifts the focus to the **open market value**, assessing whether this value is significantly higher than the agreed purchase price. This allows for greater loan percentages based on market value, enabling investors to reduce their cash deposits. By leveraging BMV opportunities, investors can enhance their purchasing power while minimizing upfront cash requirements.

What is Genuine BMV?

Defining true below market value in property finance

Supported Value

Genuine BMV requires that the purchase price is below an independently supported open market value, validated by credible evidence.

Seller Motivation

The discount must be explainable through seller motivation, such as urgency, condition, or market dynamics impacting the sale. Not simply properties that have been discounted over time, which proves it was overpriced.

Valuation Acceptance

Valuer acceptance is crucial; the discount must withstand scrutiny from lenders, valuers, and legal parties involved in the transaction.

How Finanze Helps

Leveraging Supported Market Value

Short-Term Funding

Finanze offers short-term funding options that align with supported market values, allowing investors to maximize their purchasing power while minimizing cash deposits needed for acquisition.

Enhanced Cash Flow

By leveraging the higher supported market value, Finanze enables borrowers to retain more cash for other investments, enhancing overall cash flow and allowing greater capital flexibility.

Tailored Solutions

Finanze provides customized financing solutions that cater to individual project needs, ensuring optimal structuring for success based on each investor's objectives and market conditions.

Purchase Price vs Market Value

Understanding Key Definitions

A **purchase price** is the agreed amount between buyer and seller, while **open market value** reflects the property's true value. Recognizing this gap creates BMV opportunities for investors.

Purchase at Discount

Properties are acquired at a **discount to market value**, allowing for a lower initial cash deposit, making it easier for investors to enter the property market without substantial upfront costs.

Loan Assessment

Loans are evaluated based on the **supported open market value**, enabling a higher percentage of financing compared to the purchase price, effectively reducing the cash required from the borrower.

Managing Costs

Borrowers must account for additional expenses, including **fees and legal costs**, though effective deposit minimisation strategies can free up capital for further investments and improve overall cash flow.

Funding Waterfall

Step 1: Establish Value

First, determine the supported open market value through thorough analysis and credible market comparisons, setting a solid foundation for funding.

Step 2: Assess Costs

After determining the loan capacity, deduct transaction costs, including fees and legal expenses, to calculate the net loan amount available.

Step 3: Calculate Loan

Next, apply our advance rate to the established market value, determining the gross loan capacity available to the borrower.

- 75% for Residential
- 70-75% for Semi-Commercial
- 65% for Commercial

(or where WAULT is 6+ investment value can be used)

Step 4: Compare Requirements

Finally, compare the net loan against the purchase price and completion costs to determine the borrower's cash required post-funding.

Worked Example

BMV Without Works

In this scenario, the loan coverered most of the purchase price, benefiting from a strong supported market value.

Property Details	1st Charge
Charge Type	1st Charge
Market Value (OMV / 180d VP)	£650,000.00
Purchase Price	£475,000.00
Purpose of Loan	Purchase
Exit	Sale/Refinance
Loan Terms	
Interest Rate (p/m)	1.10%
Default Rate (p/m)	2.20%
Interest Type	Retained
LTMV	75.00%
LTPP	86.82%
Term (months)	12
Loan Financials	
Gross Loan:	**£487,500.00**
Less Arrangement Fee	£9,750.00
Less Administration Fee	£999.00
Less Interest Retained	£64,350.00
Less Broker Fee	£0.00
NET LOAN	**£412,401.00**
Monthly Servicing	£0.00
Exit Fee	0.00%

Worked Example 2

BMV With Works

Here, the discount reflects needed renovations; post-works value must be realistically projected to maximize financing benefits.

Balancing Cash Flow

It’s essential to manage cash flow effectively; ensure project costs and potential contingencies are accounted for to avoid risks.

Property Details	1st Charge
Charge Type	1st Charge
Market Value (OMV / 180d VP)	£1,200,000.00
Purchase Price	£775,000.00
Works	£135,000.00
GDV	£1,500,000.00
Purpose of Loan	Purchase & Light/Medium Refurbishment
Exit	Sale/Refinance
Loan Terms	
Interest Rate (p/m)	1.10%
Default Rate (p/m)	2.20%
Interest Type	Retained
LT1MV	75.00%
LTPP	97.90%
LTGDV	70.00%
Term (months)	12
Loan Financials	
Gross Loan:	**£1,050,000.00**
Less Arrangement Fee	£21,000.00
Less Administration Fee	£1,499.00
Less Interest (Day 1)	£118,800.00
Less Interest (Drawings)	£19,800.00
Less Broker Fee	£0.00
NET PURCHASE LOAN	**£758,701.00**
NET WORKS LOAN	**£130,200.00**
Exit Fee	0.00%

Ideal Conditions for BMV

Successful BMV Deal Factors

Genuine Discount

A genuine purchase discount is essential. It must be independently verifiable and supported by market evidence to ensure that the valuation holds up under lender scrutiny.

Clear Exit Strategy

Having a well-defined exit route is critical. An investor should be prepared for resale, refinance, or bridge-to-let options to effectively manage cash flow and mitigate risks.

Solid Liquidity

Sufficient liquidity allows borrowers to handle fees and costs without jeopardizing the project. This ensures smooth operations during the acquisition and minimizes potential financial pitfalls.

Valuation Evidence

Identifying credible evidence versus misleading indicators

Strong Evidence

Completed sales of comparable properties in the same market provide the most reliable support for valuation and can justify BMV claims.

Useful Evidence

Similar properties adjusted for various factors like condition and location can serve as useful evidence but require careful consideration and adjustment.

Weak Evidence

Asking prices and unsupported refurbishment estimates are inadequate and can lead to false assumptions about property value and BMV opportunities.

Legal and Property Due Diligence

01

Confirm title cleanliness to ensure finance eligibility and security.

02

Review all restrictions and rights affecting the property's usage.

03

Assess condition and necessary works to avoid unexpected costs.

04

Understand occupancy and tenancy issues that may impact value.

Exit Routes and Cost Strategies

01

Selling the property can maximize values and realize gains effectively.

02

Refinancing provides opportunities to recycle capital and retain asset benefits.

03

Bridge-to-let strategies transition short-term finance into long-term investment solutions.

Investor Assessment Framework

Key Questions for Review

Open Market Value

Assess whether the **open market value** is genuinely above the purchase price and supported by completed comparables, ensuring a solid foundation for financing decisions.

Discount Explanation

Clearly explain the **discount rationale** to ensure acceptance by the valuer and us, highlighting factors that contribute to the below market value purchase.

Liquidity Assessment

Evaluate the **your liquidity** to confirm their capability to cover fees and costs associated with the investment, ensuring a well-rounded financial strategy.

Why Work With Us

Understanding the value of strategic guidance in financing

Expert Insight

Our team provides essential **strategic understanding** of BMV deals, ensuring success beyond just securing debt.

Comprehensive Support

We offer guidance throughout the entire process, from valuation to legal structuring, which helps avoid potential pitfalls and costly mistakes.

Disciplined Underwriting

Our approach emphasizes careful evaluation, filtering out weak deals to maximize the potential for profitable title split opportunities.

Ready to Discuss Your Investment?

Connect with us for tailored financing solutions

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