

Bridging vs Development Finance: What's the Difference?



A practical 4-5 page guide for investors, landlords and developers

Introduction

Navigating the world of property finance can be complex, especially when choosing between bridging and development finance. Both offer unique solutions for property investors, landlords, and developers, but understanding their key differences is crucial for making informed decisions. This guide provides a comprehensive overview of bridging and development finance, highlighting their respective strengths and use cases.

What Is Bridging Finance?

Bridging finance is a short-term loan used to 'bridge' a gap between two transactions. It's typically secured against property and is used for periods ranging from a few weeks to several months. Bridging loans are known for their speed and flexibility, making them ideal for time-sensitive situations where quick access to funds is essential.

What Is Development Finance?

Development finance is designed to fund construction or refurbishment projects. It covers a broader range of activities than bridging finance, including land acquisition, construction costs, and professional fees. Development loans are typically repaid upon completion and sale or refinancing of the completed project.

Key Differences Between Bridging & Development Finance

Understanding the distinctions between bridging and development finance is essential for selecting the right option for your project.

Purpose & Use Case

Bridging Finance

- Short-term funding
- Property acquisition
- Auction purchases
- Refurbishment projects
- Breaking property chains

Development Finance

- New builds
- Major renovations
- Conversions
- Land acquisition and build costs
- Larger projects with longer timelines

How Funds Are Released

Bridging Finance

Typically released as a lump sum at the start of the loan term.

Development Finance

Released in stages as the project progresses. Valuers monitor the quality of work and costs before each release, also known as stage payments.

Interest Structure

Bridging Finance

Often higher interest rates, reflecting the short-term nature and associated risks.

Interest can be charged monthly, or 'rolled up' and paid at the end of the term.

Development Finance

Generally lower interest rates than bridging loans, but can vary depending on the project's risk profile.

Interest is usually charged on the drawn amount.

Lender Risk View

Bridging Finance

Lenders prioritise a clear exit strategy, typically the sale or refinancing of the property.

Lower LTVs as lenders will consider the short term nature of the loan.

Development Finance

Lenders assess the project's viability, the developer's experience, and the potential profitability.

Higher LTVs available, but more complex due diligence.

Required Documentation

Bridging Finance

- Valuation report
- Legal documentation
- Proof of income
- Exit strategy

Development Finance

- Detailed project plans
- Cost breakdowns
- Planning permissions
- Developer's experience and track record
- Market research

When to Use Each

Bridging finance is ideal for short-term needs, such as purchasing a property quickly or covering unexpected expenses. Development finance is suitable for larger, more complex projects with longer timelines, where a phased release of funds is required.

Real-World Examples

- **Bridging Finance:** A landlord uses a bridging loan to purchase a property at auction before securing a traditional mortgage.
- **Development Finance:** A developer obtains development finance to construct a block of flats, with funds released in stages as construction progresses.

Conclusion

Choosing between bridging and development finance depends on the specific needs and goals of your project. Bridging finance offers speed and flexibility for short-term needs, while development finance provides comprehensive funding for larger construction projects. Understanding the key differences between these two options will empower you to make informed decisions and secure the right financing for your property ventures. Contact us to explore your options.