Property Auction Finance Guide

Need To Speed Up Your Property Purchase!

Unlock the potential of your next investment with our auction finance and fast bridging loans. Apply today for approval!

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Fast Bridging Loans Available!

Secure your property purchase with our auction finance. Fast and hassle-free bridging loans are just a click away.

We can pre-qualify your application so you can be sure that funding will be available if your bid is successful.

A fast bridging loan for auction property can support property purchases made through auction houses that often need to be wrapped up within 28 days.

Get started today

Need any questions answered or want to set up a meeting?

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WELCOME

Property Auction Finance Guide

Bridging and How You Can Use It to Your Advantage

Purchasing properties at auction can be lucrative, but it often requires quick access to substantial funds. This is where bridging finance comes in. Bridging finance offers short-term funding solutions designed to bridge the gap between purchasing a property and securing long-term financing or selling the property. Whether you're looking to buy, refurbish, refinance, and rent (BRRR) or simply make an auction purchase, bridging loans can be a powerful tool.

What is Bridging Finance?

Bridging finance is a form of short-term loan that provides immediate capital for property transactions. These loans are typically used to secure a property quickly and are paid back once longer-term financing is arranged or the property is sold. They are particularly useful in competitive auction environments where a swift financial response is crucial.

The BRRR Method and Bridging Finance

The BRRR method is popular among property investors. Using bridging finance to invest in property auctions can maximise your investment potential while minimising risks. ●

Ready to explore how bridging finance can help you succeed in property auctions?

Contact Bridgemore Capital today to discuss your options and take the first step towards successful property investment.

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Property Auction Finance

Bridging and How You Can Use It to Your Advantage for Buy, Refurbish, Refinance, Rent Strategies and Auction Purchases

A bridging loan for property investors is essentially a short-term mortgage, with lending periods lasting from 3 to 24 months. This type of financing is particularly effective for quick purchases, such as at auctions, or for providing time to add value to an asset before refinancing onto a standard buy-to-let mortgage at a higher value.

The Buy, Refurbish, Refinance, Rent (BRRR), or flip strategy is currently one of the most prevalent approaches among those eager to expand their property portfolios. Various companies widely teach This method online, underscoring its potential profitability.

Recycling Your Cash for Faster Growth

The essence of this strategy lies in recycling the cash you initially invested, allowing you to use it repeatedly for successive properties. This enables you to grow your portfolio much more rapidly without needing an entirely new deposit each time.

In practice, you purchase a property using short-term finance, commonly known as a bridge. After purchasing, you refurbish the property, thereby increasing its overall value.

Leveraging Increased Property Value

Once the refurbishment is complete, you obtain a standard buy-to-let mortgage based on the new, higher value of the property. This process allows you to extract a portion of your original deposit, which can then be used for your next property investment. You can build a substantial property portfolio efficiently and effectively by continuously repeating this cycle.

Buy

Utilising bridging finance, investors can purchase rundown properties, those requiring modernisation, or properties available below market value. This type

The enhanced rental yield not only covers the costs associated with the mortgage but also generates additional income, making the investment more profitable and sustainable over time.

of financing is ideal for quick acquisitions, enabling investors to secure opportunities that might otherwise be missed.

Bridging finance is a short-term loan designed to bridge the gap between purchasing a property and its longer-term financing. It provides the necessary funds to act swiftly in competitive markets and seize valuable investment opportunities.

Refurbish

There are two main types of refurbishment to consider when aiming to improve a property's value:

Light Refurbishment: This generally involves cosmetic updates such as new bathrooms, kitchens and general redecorating. These works do not typically require extensive structural changes but can significantly enhance the property's appeal and functionality.

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Heavy Refurbishment: This type of refurbishment involves more substantial structural work, including extensions, significant layout changes, or major repairs. Heavy refurbishment can transform the property's potential and significantly increase its market value.

Refinance

Once the refurbishment works are completed and the property's value has increased, the bridging loan can be repaid through a buy-to-let term mortgage. Typically, this mortgage will amount to 75% of the new, higher property value.

Refinancing in this manner allows investors to transition smoothly from a short-term bridging loan to a more stable, long-term financial arrangement. The buy-to-let mortgage ensures that the property remains an income-generating asset.

Rent

With the property now refurbished and improved, it can be rented out at a higher rate than was previously possible. This increased rental income will cover the mortgage payments and provide a net rental income for the investor.

The enhanced rental yield not only covers the costs associated with the mortgage but also generates additional income, making the investment more profitable and sustainable over time.

Repeat

Following the value increase and refinancing at 75% of the new property value, the uplift often covers most or all of the initial deposit. This enables investors to retrieve some or all of their original funds, allowing them to move on to the next project.

This cycle of buying, refurbishing, refinancing, renting, and repeating allows investors to build a robust property portfolio. By continually reinvesting the funds retrieved from each project, investors can expand their holdings and maximise returns.

Simple Light Refurbishment Example

To illustrate the process of light refurbishment without considering additional costs such as borrowing, stamp duty, and legal fees, let us consider an example:

Purchase Price: £60,000
Stamp Duty: £1,800
Refurbishment Cost: £15,000
Deposit (25%): £15,000
Total Cash Input: £31,800

After completing the refurbishment, the value of the property increases significantly:

Value of Property After Refurbishment: £90,000

Equity in Property: £45,000

Refinance and Equity Release

Upon reaching the new property value post-refurbishment, refinancing takes place:

Refinance at: £90,000 (bridge paid off and new buy-to-let mortgage in place)
25% Left in Deal: £22,500

This refinancing allows the investor to pull out funds and proceed to the next project:

Money to Pull Out and Move On to the Next Project: £22,500

This example showcases how a straightforward light refurbishment can not only improve the property's market value but also provide the necessary equity for future investments, allowing investors to expand their portfolios continually.

For further information or if you have any questions about light refurbishments and property investment strategies, please do not hesitate to contact us. Our team of experts is ready to assist and guide you through each step of the process.

Frequently Asked Questions

Q: Is a bridging loan expensive?
A: The interest rate on a bridging loan can start from around 0.6-1.1% PCM.

Several factors will influence the exact rate, including:

- Loan-to-Value (LTV) ratio
- Lender's policies
- Borrower's financial profile
- Nature of the project
- Type of property

Q: How much can I borrow?

A: The amount you can borrow largely depends on the specific opportunity you are pursuing.

Here are some general guidelines:

Standard bridge to purchase of up to 75% to get the transaction across the line in 28 days, as most buy-to-let lending can typically take 2 months.

Light Refurbishment Projects: Typically, you can borrow up to 75% of the purchase price. Some lenders might offer contributions towards refurbishment costs, potentially increasing the borrowing amount to 85%.

Heavy Refurbishment Projects: It is possible to borrow 70-75% of the purchase price and receive 100% funding for the refurbishment works.

Higher Contribution Options:
Some lenders may lend 70-75% of the market value, which can be advantageous if the purchase price is below market value.

You can use other property assets as additional security. If you have equity in another property, you might be able to secure additional funds up to 70% of the property's value. For example, if a property is worth £100,000 with an existing debt of £60,000 (60% LTV), you may add another £10,000 using this asset.

Q: What are the rules around affordability?
A: Bridging lenders generally focus less on your income compared to traditional mortgage lenders. The primary concern for a bridging lender is your exit strategy, which could be through selling the property or refinancing onto a longer-term product. Your income may be considered if you choose to service the loan by paying monthly interest.

Q: What happens if the bridging loan is not repaid before the end of the term?

A: During the application process, both the lender and borrower will assess the exit strategy and ensure the loan term includes contingency time. If the project runs over and you approach the end of the term, it is crucial to inform your lender as soon as possible. Most lenders will work with you to support the situation, potentially extending the loan term.

Q: What if the investor has adverse credit?

A: Lending options still exist for investors with adverse credit, although each situation is unique. Some lenders are willing to consider applications from those with poor credit histories, depending on the circumstances surrounding the adverse credit.

Q: What is the difference between retained, rolled, and serviced?

A: Firstly, it's crucial to understand that regardless of the option you choose, the overall cost of the loan will remain the same. Here, we break down the differences between retained, rolled, and serviced interest options in bridging loans.

Serviced Loans

Serviced loans involve paying the monthly interest of the loan until you exit. Opting to service the monthly interest requires proof of affordability. Clients must demonstrate their earnings through payslips, yearly accounts, and bank statements from the last three months.

For example:
Purchase Price (PP): £100,000
Lender Offer: 75% (£75,000)
Monthly Interest at 1% over 12 months: £750 per month (PCM)

In this scenario, you would receive £75,000 towards your purchase price, minus the arrangement fee (typically 2%).

Retained Loans

On the other hand, retained loans involve the lender deducting the total monthly interest for the entire loan term upfront. This amount is subtracted from the initial loan amount provided to you.

For example:
Purchase Price (PP): £100,000
Lender Offer: 75% (£75,000)
Monthly Interest at 1% over 12 months: £750 PCM
Total Interest Over 12 Months: £750 x 12 = £9,000

In this case, you would receive £66,000 towards your purchase price (£75,000 - £9,000), less the arrangement fee (typically 2%).

Rolled Interest

While not mentioned initially, rolled interest is another option available to borrowers. With rolled interest, the monthly interest payments are added to the principal loan amount and paid at the end of the loan term rather than being deducted upfront or paid monthly.

Understanding these different interest options can help borrowers choose the best financial strategy for their specific situation.

Please contact us if you require further information or assistance with bridging loans. Our team of experts is ready to provide guidance tailored to your needs. ●

Ready to discuss using the BRRR Property Investment Strategy to grow your property empire?

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