PILINVESTS
alternative investment fund specialists

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Money MANAGEMENT

BRIDGING FINANCE FUND

Bridging the void

PILINVESTS HAS launched a bridging finance fund intended for both income seekers and capital appreciation junkies.

The fund has a split capital structure offering 8% pa to income investors, while capital appreciation shares receive a portion of the value of the fund at the end of its five year life.

PILinvests claims that the bridging finance market is expected to grow from £2.5bn in 2005 to £5.6bn in 2010 and the fund therefore aims to take advantage of this fact.

Borrowers will be lent from £50,000 to £500,000 for one month up to a year, primarily to finance the acquisition of property. The properties will be used as collateral on the bridging loan. Applicants will be credit checked and an affordability test on the property carried out. Loan rates will typically be 1% to 2% pm, depending on the credit worthiness of the borrower.

The structure of the fund will be in the form of a limited liability partnership. PILinvests will source the equity and report to shareholders, while meeting all compliance obligations. Lawrence King and Lee Pringle will act as general managers under the specifically set up company, Catalyst Group and Graf Securities will act as adviser, lending the bridging finance to borrowers.

PILinvests estimates that £5m to £10m of equity will be raised through investors and a further £5m to £10m of third party bank fund arranged by Graf. Currently, £1m funds have been raised.

The total costs for the fund are as follows: the general partner charges 1.6% of total funds under management (including the debt element); Graf 1.5%; and PILinvests charges 0.2% of the equity element. Minimum investment £25,000.

M VIEW Borrowers will use bridging finance when cheaper forms of credit are unavailable or as a faster form of finance than a traditional mortgage. The success of this fund therefore depends on the availability of credit in the UK over the next five years and the appetite amongst property investors to finance property quickly.

The Council for Mortgage Lenders sees a small improvement in lending in 2010 as the economy slowly recovers. Recent figures show that the number of buyers has risen nearly 100% from the bottom of the market in January 2009, when only 23,000 loans were advanced

As an additional note, the costs of the fund are not calculated simply. The 3.1% charged by Catalyst and Graf is dependent on the amount of debt that is borrowed on top of the equity. PILinvests details that this could be up to £10m. If this is the case, and the equity raised is also £10, the relative costs goes up to 6.2%. The 8% rate for income investors can also be found elsewhere in investments such as social lending that have a clearer, more comprehensible structure and are probably less risky.

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