

# Forward funding: a market re-alignment

## How forward funding works:

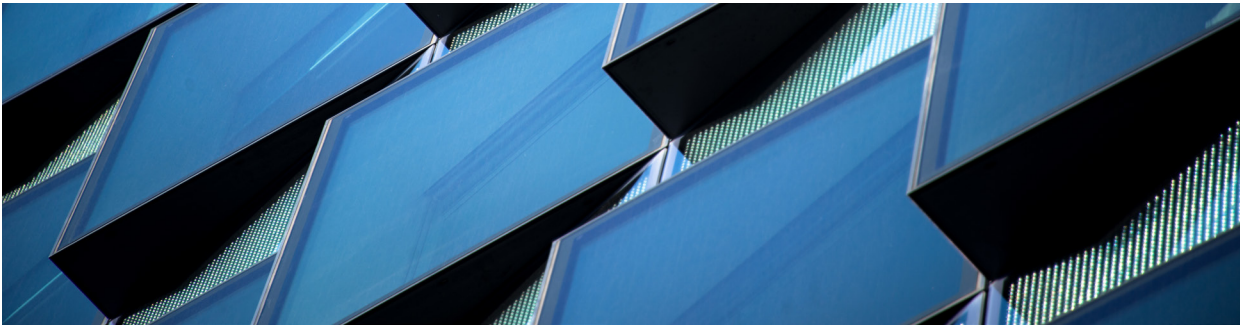
Forward funding is a type of development funding provided by investors to developers to allow (predominantly) large property schemes to be developed; usually upwards of 100 units and often significantly more. The forward funder (often pension funds or longer term real estate investors) legally agrees at the outset to purchase the completed development at a confirmed price once the scheme is completed and trading at maturity. They will then advance the funds for the full build costs and all associated costs on a staged drawdown basis, ~80% of the agreed purchase price (the GDV). The developer benefits by receiving funding for their project and a share of the overall profit.

Key takeaways are that investors have more control over the build and will release funds at a pre-agreed amount at certain points along the development timeline. This provides a source of capital for developers above and beyond the amount available from Alternative Lenders/Private Debt funds, but with a secure exit route not dependent on open market conditions at the time.

There are different structures around how the funds are released and who owns the land, for example sometimes the forward funder will want to complete the development themselves. A typical structure, however, would be for the forward funder to purchase the land with planning from the developer, enter into a JCT contract with them. The developer would either have to have the ability and track record to develop out by themselves or appoint a main contractor, usually Tier 1 or upper Tier 2 if the build costs are £50m+.

The developer would therefore have all but their initial costs covered, a guaranteed build project over 24-36 months with a net profit margin built into each drawdown of funds, and an agreed share of the 'profit' – the difference between the costs and the GDV, which is calculated on a yield basis. This would be less than if they developed the scheme themselves but to do so they would also have required an extra 10%-20% equity, which given the size of these schemes means large amounts of cash.

Factor in that if the completion is on time and budget, there would be similar opportunities in future so it's easy to see why this business model was attractive to developers.



### Which sectors utilise forward funding?

PBSA (Purpose Built Student Accommodation) has been a beacon for this type of funding for two reasons. The demand far outstrips the supply, as per our 2025 Q1 Property Report, and new student residences have historically maximised their occupancy extremely quickly given the set date students have to be in by, and that each new year of students wants to be in the newest available accommodation.

There are also opportunities within the PRS (Private Rented Sector), notably BTR (Build to Rent) which can be sub-divided into Multi Family Units (predominantly high rise city centre apartments), Single Family Units (multiple house on one development often in secondary, suburban locations) and Elderly Living, which means retirement villages/complexes. It's more complicated than this as there can often be mixed use schemes, for example PBSA might incorporate some BTR units and a larger Single Family Unit of 200+ homes might be a mix of BTR, open market and affordable housing, however hopefully this helps to provide some context.

### Market re-alignment

With higher interest rates and tariffs, there has been a slow down in the amount of forward funding available over the last couple of years. As is so often the case, when one door closes, another one opens. There are still plenty of funds available for well-thought-out, profitable schemes in the right locations with the right demand.

New funders have spotted opportunities and capital has come back into the market, even as others have pulled back. The period in between where there was minimal funding available is now providing plenty of pent up demand for developers, some of whom still have pre-Covid schemes that have only just returned to financial viability.

There are certainly signs of a shift in the PBSA market with continual daily updates of schemes moving forwards, which is great news for the industry. The question now is, from a developer's perspective, how do I get my project funded and, from a forward funder's perspective, which horse should I back?

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## Challenges for developers

As a developer you may have been working on a project for a period of time and/or worked with one forward funder multiple times who has now exited the market.

This will often mean that, through no fault of your own, you may not be sure where to turn when you next have a project to fund, or it might even make it questionable as to whether you decide to go ahead with the scheme at all.

### These scenarios create multiple questions:

- How do I fund my next project?
- Are there other forward funders out there?
- Who are they and how do I approach them?
- How much additional time will I now have to spend on securing finance, which is only one piece of the development puzzle?
- What do I need to provide for the forward funder to select my development to back?

## Challenges for forward funders

Forward funders that are active now have a completely different challenge. They can afford to be very selective about which deals they consider and progress. Rather than being faced with the prospect of trying to find and win a deal against their competitors, and with potentially finer margins, they are now able to take their pick of the deals that cross their desk without the requirement for a focused deal origination strategy.

If there are 10 or 20 (or more) active proposals on your desk, which ones should you choose to back and why should you choose one similar scheme over another?

## Solutions

One important element to note here is that developers used to be able to fund these schemes with only an option on the land. Now, with more choice than ever for forward funders, it's important that the developer owns the land. This provides more questions for developers, who often don't want to purchase the land outright without an exit plan secured, and lenders who provides funds against land with or without planning still require an exit route, so developers can't borrow the majority of funds required.



All the above means the forward funders should be approached with a well-thought-out, financially viable scheme at the first time of asking. In my capacity as Head of Debt Advisory at Heligan Corporate Finance, I like to say ‘put your best foot forward the first time’.

It’s really important to gather, assimilate and present the information in the right way, and having the benefit of a professional corporate finance advisor not only presenting the information but advising on the financial side of the project provides credibility to the proposition immediately for the forward funders.

Within [Heligan Debt Advisory](#), we have our own dedicated property finance team whose specialisms include these three areas below, which allows us to project manage a transaction throughout the full process and provide our experienced advice:

- Understanding the aims of developers and investors from the immediate to the longer term strategic vision, including the wider picture across multiple development sites.
- Transforming all the above into specific risk management strategies and financial models in a format that investors require and understand.
- Continuously updated and expert property market knowledge which ensures access to key industry players on both the development and funding side.

If you are a forward funder looking for well-thought-out and presented schemes, or a developer looking for a forward funding partner, we would like to hear from you. For the developer, if it turns out the forward funding market isn’t the right way for you, there are other routes such as JVs or equity partners. For forward funders, if you’re looking for a specific type of scheme to fund, we have the ability to source these transactions for you as well.



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