DUBLIN
HOUSE

Memo on Financing and Loan Issues

This memo is by way of background information only. This is a suggested approach and does not purport to be the final or only approach that may be used.

The memo was developed in discussion with Permanent TSB. Discussions were also held with AIB. Groups are advised to seek their own financial advice with regard to the development of Dublin House.

Note

Permanent TSB bank has made the following personnel available to liaise with prospective customers of the Dublin House project. These personnel are from their branches at 2, St. Stephen's Green, and 70 Grafton St., Dublin 2.

John O'Brien, Senior Manager: john.obrien@permanenttsb.ie , 087 988 4963
Gwen McDowell, Mortgage Advisor: gwen.mcdowell@permanenttsb.ie , 086 234 6558
Sinead Murphy, Mortgage Advisor: sinead.murphy@permanenttsb.ie , 085 715 4322

The contact details of other banks will be posted if made available.

1. Background and Context

The initial site that the Council are proposing for the first Dublin House is 29/30 Fishamble Street. If this first project is successful, other sites may be made available by the Council and in due course, private land owners and possibly other state agencies will see the potential to develop their sites themselves or with similar groups of potential owner occupiers.

There are risks and challenges facing this initiative which is designed to help to repopulate the city centre with families happy to live in apartments. The idea that a group of families would have the interest, capacity and commitment to design, build and finance their own homes is not novel; there are many examples of people designing, building and financing the construction of their own homes. However, what may be somewhat innovative is that the form of the construction is a multi unit development rather than a detached or semi detached house.

2. Development Group - Company Limited by Shares

The Council has concluded, after much deliberation and consideration of the alternatives, that for the first project in the Dublin House initiative, a Group is required who can bring to the project clarity and certainty about who will be developing the site. This Group will comprise the individual applicant households and needs to be unified and coherent legally and financially. The Group also needs to be in agreement about the overall design of their new home.

However, given the project objective to demonstrate the versatility and flexibility possible in the design of apartments and having also considered the end product from an individual's perspective; the Council has also concluded that there is no requirement to have a uniform fit out of units. While the Group must agree on the design, costs and programme of the building structure, external finishes, building services, common areas (Shell and Core) it should be possible for individual households to decide on the timing and design of the fit out of their own unit/home. This would allow greater flexibility in terms of design, layout and budget to individual households.

A way that this could work is for the Group to form a Company limited by shares which would borrow as that corporate body to fund the design, planning and construction of the Shell and Core of the building within which the individual apartments are situated. An arrangement would also be required in relation to the site acquisition costs (nominal and market value).

Each individual household would become a member of the company with a shareholding that reflected their "take" on the building based on area or whatever

other method is agreed between the households. Each household would be required to provide the bank/lender with personal guarantees up to the amount of their shareholding/take in the scheme. This would be their exposure or risk in the event that the development does not proceed as planned and the project has to be sold as an incomplete scheme by the bank. If individuals opted out of the scheme but the scheme goes ahead without them then they would have to arrange to sell their shareholding to another suitable household. Personal guarantees would not be required to take responsibility for the actions of other members of the Group/Company however shareholdings cannot be simply abandoned. As stated above, either a replacement household is found or the bank/lender would be left with no option but to call in the loan. This would force the development to be sold as an unfinished scheme at which time the Council would also wish to recover some or all of the site market value depending on the amount realised from the sale. The lenders and the Council would need to agree the Memo and Articles of Association and to be advised prior to any changes to those documents as they would be relied upon by the lender and the Council to mitigate their risk.

3. Fit Out of Individual Units

Once the shell and core of the building is in place then the fit out of the individual units would be a matter of agreement with the bank/lender who would need to “pre approve” the fit out costs. This would become a matter of personal decisions and agreement between and bank/lender and the household. There would need to be interaction among households regarding timing and fit out to mitigate potential nuisance, management and maintenance costs for other resident households associated with prolonged construction work, cleaning of common areas and unheated units. There would also need to be an undertaking with the Council regarding the final occupation date of the development.

At the point where practical completion of the shell and core is achieved the corporate loan to the company can be converted into individual mortgages and the fit out costs would then be added to these mortgages. At this point the Company could become solely the apartment management company and take on the role of managing the interface between the various owners. Alternatively a separate management company can be established and operate in parallel with the original company during the construction phase.

4. Deposits/Security

It would be important for the corporate body to open a deposit account with the institution that will be advancing the funding for the construction of the shell and

core. Typically the money is held on deposit for some time before the project starts on site and is used to finance the project before it goes on site i.e. to pay for the land, design and planning costs. The Council would be agreeable to a lodgement of its land payment being held in the Corporate account with the proviso that the deposit account is not allowed to fall below the land price owed to the Council at least until an agreed stage of development has occurred.

5. Loan Arrangements

There are two loans required. The first is for the construction and would be to the body corporate (the Group). This would be a maximum of 60% of the construction cost (this is to recognise that in the event of the project being abandoned and having to be sold as an incomplete development it would only realise something like 60% of the money spent on construction). The 60% LTV ratio to exclude fees, expenses and VAT. The second loan would be a mortgage to an individual household and this would be up to 90% of the total cost (converted construction costs when corporate loan is wound up, land value payable to Council, fees and planning costs and finally fit out cost). The mortgage amount would relate to the capacity of the borrower and the policies of the lender.

Loan repayments could commence either immediately payments to the Main Contractor is made i.e. staged payments to Contractor on foot of Architect's certificates would trigger monthly or quarterly loan repayments by the body corporate from the deposit account. The Group should service interest on loan from day one. However it would depend on the strength of the promoters and there would be a premium for rolling up the interest and capital repayments. As already mentioned, lenders would not typically fund design, planning costs or land acquisition costs. These need to be funded separately from savings. It is possible that they can be added into the mortgage at the end of the project if the lender believes there is capacity there for repaying that level of loan and if it is not more than 90% of the value of the assets produced.

The interest rate charged would need to reflect the riskiness of the project and the strength of the guarantees. Construction loans (bridging) would be higher than typical mortgages, 9% compared to 4%. In addition a lender will only fund if it is believed that the full amount of the loan advanced at any stage in the process can be repaid if the project has to be abandoned. This means that the value of the project at completion and the current state of construction would influence the amount of loan that would be advanced as well as the strength of the promoter. The normal percentage of the development finance sanctioned would be circa 60% as set out above.