



COURSE 04 / Intermediate / 25-30 min

Ground-Up Construction Financing

Branded cheat sheet: the calculations and decisions to keep beside your next scenario.

Core decision checklist

1. Distinguish land value, cost basis and project value.
2. Build a complete budget and contingency.
3. Match equity and liquidity to the draw schedule.
4. Test both build-for-sale and build-for-rent exits.

Worked examples at a glance

01 Land Basis and Project Readiness

Land cost \$100,000 and currently has a \$40,000 lien. A lender hypothetically recognizes \$100,000 land value, leaving \$60,000 unencumbered value before its eligibility adjustments. If recognized value is only \$80,000, that falls to \$40,000. Neither figure is automatically cash available to pay the contractor.

02 Build the Complete Construction Budget

Land is \$100,000, hard costs \$300,000, soft costs \$35,000, financing/carry \$25,000 and contingency \$30,000. Total economic uses are \$490,000. A \$360,000 commitment leaves \$130,000 from investor sources. If some land equity is recognized, document its treatment rather than subtracting it twice.

03 Size Funding and Plan Draw Liquidity

Eligible costs are \$480,000 and completed value \$600,000. Illustrative limits of 75% LTC and 65% LTACV allow \$360,000 and \$390,000 respectively. The lower cap is \$360,000 before other rules. A portion may remain undisbursed until work is verified, so closing proceeds will be lower.

04 Completion and Take-Out Strategy

Projected permanent value is \$600,000. At an illustrative 70% LTV, the value cap is \$420,000. If DSCR limits proceeds to \$380,000 and construction payoff is \$395,000, the investor needs at least \$15,000 plus closing costs. A high finished value does not eliminate the cash gap.



Apply it to your deal

Use documented inputs. Keep lender qualification, investment economics and cash timing visible as separate calculations.

Practice before submitting

Land Basis and Project Readiness

Prepare a site-readiness checklist covering title, access, zoning, utilities and permit status. Record land cost, current value evidence and debt separately. Ask the lender what land equity is eligible and which approvals must be complete before closing versus before the first construction draw.

Completion and Take-Out Strategy

List every completion document and its responsible party. Obtain preliminary take-out guidance using conservative income. Test a lower valuation and delayed lease-up. Build a repayment calendar ending before loan maturity, and identify cash sources for a refinance shortfall rather than assuming an automatic extension.

Quick glossary

Entitlement: Approval establishing permitted development rights.

Land basis: Recorded investment cost in the site.

Unencumbered equity: Value remaining after secured debt, subject to lender recognition.

Hard costs: Direct physical construction expenses.

Soft costs: Design, professional and administrative project costs.

Interest reserve: Funds earmarked for interest under specified loan terms.

LTC: Loan commitment divided by eligible project cost.

LTACV: Loan commitment divided by accepted as-completed value.

Primary-source reading

FDIC: construction and land development lending

These sources provide context, not universal program requirements. Formulas, eligible costs, qualifying income, seasoning and fees depend on the transaction. Examples are illustrative and are not actual loan offers.