Development finance 101: how development and construction funding actually works in Australia

Wednesday, 11 June 2026 — AEST A LenderBridge guide. By Adam Gee.

Development finance is not a big home loan. It is a different product, assessed on different numbers, offered by a lender market that has changed shape dramatically over the past few years. Whether you are planning a duplex, a run of 2 to 5 townhouses or a 30-dwelling site, the funding works the same way and the same filters decide who will lend.

This guide explains the mechanics in plain English: how a development facility is structured, who the lenders actually are now that the major banks have stepped back, the numbers every lender screens first and where the capital stack fits in. All figures here are indicative market observations as at 11 June 2026, not offers or quotes. Always verify the numbers with a lender, because development lending varies more between lenders than almost any other category of finance.

How development finance differs from a home loan

A home loan is one lump sum, handed over at settlement and repaid monthly out of your income. A development facility is a limit, not a lump sum. The lender approves a total facility, then releases it progressively in drawdowns as the project spends money: land settlement first, then construction in stages as a quantity surveyor or valuer certifies progress.

Interest works differently too. On most development facilities the interest is capitalised, meaning it is added to the loan balance rather than paid monthly. Nothing comes out of your pocket during the build; the facility carries its own interest cost and the whole balance clears at the end.

That points to the third difference: the exit. A development loan is short, typically 12 to 24 months, and the lender is repaid from the project itself, through settlements of pre-sold stock, sales on completion or a refinance onto a residual stock or investment facility. Lenders assess the exit as hard as they assess the build, because the exit is how they get their money back.

The lender landscape since the majors pulled back

The biggest shift in Australian development finance is structural. The major banks have retreated from construction and development lending, tightening pre-sales cover, leverage and sponsor criteria across the cycle. Industry commentary puts the non-bank property-credit gap in the order of $50B, growing at roughly 13.5% a year (indicative, as at 11 June 2026).

That retreat created a layered market. Five lender categories now matter, and each exists for a different job.

- **Major banks.** Still lend on development, but conservatively. Expect heavy pre-sales requirements, often close to full debt cover, conservative leverage and a 6 to 12 week credit process. The cheapest money in the market and the hardest box to fit.
- **Non-bank specialist construction lenders.** The engine room of the market now. Built for development, comfortable with companies, trusts and SPVs, often funding at 30 to 50% pre-sales

and settling in 2 to 6 weeks. They price above the banks for taking that risk.

- **Private credit funds.** Institutional money running property-credit strategies. Strong on larger facilities and structured transactions, flexible on terms, with leverage and pricing that sit between the non-banks and the private end of the market.
- **Private and caveat lenders.** The speed category. Land settlements on a 3-week clock, bridging and short-term needs, often settling in 5 to 10 business days. The dearest money in the market, the shortest terms and the most dependent on a clear exit.
- **Mezzanine and preferred equity providers.** Not a replacement for the senior loan but a layer behind it, filling the gap between senior debt and the developer's own equity. Covered properly in the capital stack section below.

Speed is the practical takeaway. Where a major bank wants 6 to 12 weeks, specialist non-banks routinely settle in 2 to 6 and private lenders faster again (indicative, as at 11 June 2026). Matching the category to the job is half the game.

The numbers lenders actually filter on

Before any lender reads your feasibility in detail, the deal passes or fails on a handful of screening numbers. These are the filters worth knowing cold.

- **LVR (loan to value ratio).** The loan against the value of the security, usually the on-completion value for a development facility.
- **LTC (loan to cost).** The loan against total project cost: land plus construction plus costs. Senior facilities commonly sit in the 65 to 80% LTC band depending on the lender category (indicative range, as at 11 June 2026).
- **Loan to GRV (gross realisation value).** The loan against the project's total end sales value. Many development lenders cap around 60 to 70% of GRV (indicative).
- **Pre-sales cover.** How much of the debt is covered by exchanged pre-sale contracts. This is the single number that most often decides whether a project is a bank deal or a non-bank deal.
- **Sponsor experience.** Completed comparable projects. First-time developers are fundable, but the lender field narrows and the pricing reflects it.
- **Location appetite.** "National" on a lender's website does not mean every postcode. Regional and smaller-state projects face a genuinely thinner field.
- **Entity type.** Companies, trusts and SPVs are standard development structures, and several major banks have tightened against exactly those structures. Non-banks generally take them in stride.

Every one of these moves your lender list. Two projects with identical feasibilities can have almost no lenders in common once pre-sales, postcode and entity structure are applied.

The capital stack in plain words

A development is rarely funded by one loan and one cheque of equity. The funding sits in layers, each with its own provider, risk position and price.

- **Senior debt** is the main construction loan, secured by first mortgage. Lowest risk in the stack, lowest price, first to be repaid.
- **Stretch senior** is a senior facility pushed to a higher loan-to-cost in a single line. One lender and one set of documents, priced above standard senior for the extra leverage.

- **Mezzanine debt** sits behind the senior loan, usually secured by a second mortgage or a charge over the development entity. It fills the gap between what the senior lender will fund and the equity the developer has, and it prices for that position.
- **Preferred equity** is investment rather than debt. The provider takes an equity position with a priority return ahead of the developer's profit, with no mortgage security, at the highest price in the stack.

The practical use is leverage of your own capital. Stacked properly, a senior facility plus a mezzanine or preferred layer can let a developer run 2 projects with the equity that one would otherwise absorb. The trade is cost and complexity, and the whole stack has to be disclosed to and accepted by the senior lender.

Why most developers approach the wrong lenders first

Most developers start with the lender they know: their own bank, or whoever funded the last project. In the current market that instinct is expensive, because the lender that funded a deal in 2019 may not fund the same deal today.

The pattern is predictable. The application goes to a major bank, sits in credit for 6 to 12 weeks and comes back declined on pre-sales or entity structure. The developer then works down a list assembled from search results and word of mouth, one application at a time, while the project clock runs.

What it costs is real. Months of holding costs on land that is not being built on. Acquisition deadlines missed because the chosen category could never move at the required speed. A stale-deal problem, where a project shopped to lender after lender starts to read as damaged goods. Finally, the deadline panic that pushes a developer into expensive short-term money for a job a specialist non-bank would have funded on materially sharper terms 2 months earlier.

None of that reflects the quality of the projects. It is a matching problem. The lender market is layered by design, and approaching it in the wrong order burns time, fees and credibility.

The matching question

Everything in this guide comes down to one question: which lender categories actually fit a project shaped like yours? The answer moves with every variable above. Pre-sales position, loan size, location, entity structure and sponsor track record each widen or narrow the field.

That question is what LenderBridge was built to answer. The free matching tool at lenderbridge.com.au/lender-match screens a project's numbers against the published criteria of the development-finance lenders in the marketplace and shows which lender types fit a project like yours, in about two minutes, before you apply anywhere. It is factual information, not advice or a recommendation; LenderBridge connects developers with lenders that fit, and the conversation from there is yours.

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to the borrower in writing. All figures in this guide are indicative as at 11 June 2026 and you should verify them with a lender before relying on them.

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