# Hilltop Property

## What is...

# Deferred Consideration ?

## CONTACT US

info@hilltop-property.com
www.hilltop-property.com

# What is ... Deferred Consideration?

Deferred consideration is a payment arrangement in which a portion of the purchase price for a property is to be paid at a later date, rather than upfront at the time of the property purchase.

It may be structured as a lump sum payment due at a specific future date, or as a series of scheduled payments over a period of time.

## Example

A buyer agrees to purchase a property for £1,000,000 with a deferred payment of 80%.

This means the buyer pays £200,000 upfront (£1,000,000 * 20%) and defers £800,000 (£1,000,000 * 80%).

Assuming the buyer successfully renovates the property and increases its Gross Development Value (GDV) to £1,800,000, the buyer will need to pay the deferred consideration of £800,000.

Calculating the ROI:
Initial investment: £200,000
Deferred payment: £800,000
Total investment: £1,000,000
GDV after renovation: £1,800,000

Total profit after paying deferred consideration: £1,800,000 - £1,000,000 = £800,000
ROI: (Total profit / Total investment) * 100
ROI: (£800,000 / £1,000,000) * 100 ROI: 80%

In this example, the buyer's ROI is 80% after successfully completing the renovation and paying the deferred consideration.

## Advantages

- Flexibility: allows buyers to spread the cost of a purchase over time, making it more manageable and potentially allowing for better budgeting.
- Risk mitigation: By paying for the property in instalments, buyers can reduce their financial risk.
- Negotiation power: Offering deferred consideration may give buyers an edge in negotiations, as it can sweeten the deal for the seller and make the offer more attractive.

## Disadvantages

- Limited financing options: Some lenders may be hesitant to provide financing for properties with deferred consideration, as it adds an additional layer of complexity to the transaction
- Interest fees: buyers may end up paying significantly more for the property than if they had paid in full upfront due to potential interest charges.