



## Many happy (VAT) returns

Enabling developers, investors and businesses to bridge the VAT element when purchasing a commercial property



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**A**s the first VAT bridging funder in the UK market, we would like to be able to claim that we were formed following a bout of inspired and inventive thinking. We weren't. Bloomsmith was created because, quite simply, we forgot the VAT element on a project that was four days away from completion and did not have the cash at hand to meet the obligation.

Having solved the problem for this completion – and in the slightly embarrassed hope that they were not the only developer in the market to have suffered from the ignominy of a sudden 20% deficit in their cash flow – investigations were made into whether there was a broader market for VAT lending. There was, and the business was formally kickstarted by Peter Bloom and myself in 2015. As a further demonstration of our limited imagination and inventiveness, Bloomsmith was born and duly named.

I had formed one of the first specialised investment and development companies focussed entirely on automotive real estate in the UK back in 1996, with all the associated experience of land and commercial building purchase and construction.

With Peter Bloom leaving the business in 2018, I was joined by

Neil Petty whose background, interestingly, was in debt purchase. As well as purchasing over £1.5 billion of debt Neil's company became the first, and still the only, FCA accredited debt recovery company to operate on the highly sensitive LVST arena. Neil sold his business in 2018 and saw Bloomsmith as his next project.

Bloomsmith lends 100% of the value of the VAT due on commercial real estate transactions and unusually it does so without any charge (first or second) being taken on the property asset. Bloomsmith sees the charge as a false friend and something that is arguably unenforceable with a first charge holder in place and unnecessarily



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Typically, we'll get a call from a purchaser who has exchanged contracts on a site or vacant commercial building and has just been informed by the vendor that there is a VAT election on the property. A 20% VAT shortfall on a £7.5 million purchase amounts to £1.5 million that is required, significant when considered on top of a 30% (£3.0 million) or thereabouts equity contribution.

Do you use the equity from another project and sacrifice the opportunity? Revert to credit with the senior lender and request they lend an effective 80-90% loan to coat at day one – and in turn compromise the return on the overall amount lent by virtue of exceeding their standard LTV and having to reallocate capital ratios? Or do you forgo the deal on which much time and cost had been spent? These are all decisions that borrowers face and Bloomsmith understand from experience.

Bloomsmith only lend to newly formed SPV with the acknowledgement of a first charge holder, we do not as a rule lend on a second charge. This is done for two reasons; firstly, a second charge will challenge the investors equity in the event of project difficulties and secondly,

the idea of a non-recourse SPV project means that the risks are quantifiable and contained and not contaminated through group or associated holdings. From our perspective, HMRC's ability to exercise offset is something that often appears to pass credit committees by and this applies in the case of senior lenders as well.

In the interest of trust, simplicity and execution, the respected solicitors Fladgates LLP are engaged by Bloomsmith to process all transactions and to handle all of the money transfers and undertakings. This has been welcomed by borrowers and their professional advisors and is particularly pertinent where borrowers are operating using offshore fund structures and require surety and reputation on behalf of their clients.

As we all know, the market is a difficult one at the moment and the lending space is crowded and noisy with many lenders seeking volume at the expense of quality. Bloomsmith see a space in the market for a serious lending house, one that values predictability and consistency for all their stakeholders, brokers, senior lenders and borrowers alike. At a time of economic hiatus this is not something that is particularly fashionable or easy, but then VAT has not always been thought of as fashionable or easy. ●