

# UK Bridging Market Study

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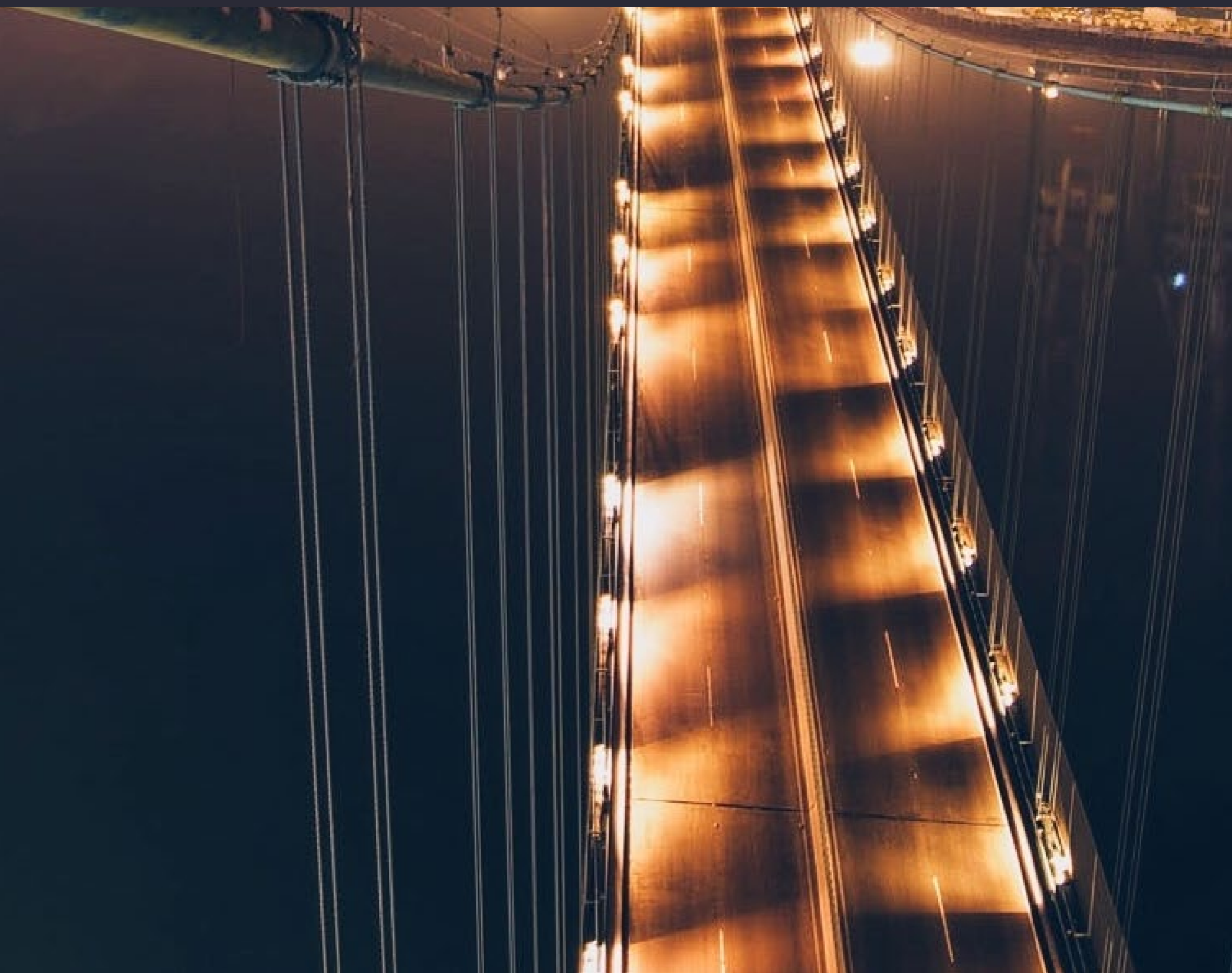
April 2019

The EY logo is positioned in the bottom right corner of the image. It features the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned above the 'Y', extending from the top right towards the center of the 'Y'.

Building a better  
working world

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# Introduction



**Nick Parkhouse**  
EY Financial Services  
Corporate Finance

Welcome to the second UK bridging market study from the EY Financial Services Corporate Finance team. Following the success and reception of the report last year, we are looking to run this survey annually and track developments in the bridging market.

This report provides insights into recent market trends, key challenges and the impact of Brexit on the bridging finance industry. These are based on the output of an online survey that we conducted between 4 February 2019 and 8 March 2019, resulting in responses from over 40 UK bridging finance lenders with a combined bridging book size of £4.3b. The range of respondents' bridging book size is from £3m to over £500m, with a median of £50m.



**Stuart Mogg**  
EY Financial Services  
Corporate Finance

The UK bridging finance market is difficult to size as it remains fragmented with a large number of small- to medium-sized lenders spread across the country, and there is no formal database that collects data to estimate the size of it. Half of our respondents estimate the market size (in terms of annual originations) to be between £3b and £5b, followed by 29% of respondents who estimate it to be over £5b, and the rest believing it to be between £1b and £3b.

Lenders continue to remain optimistic about the bridging finance market with c.60% expecting the market to grow over the next 12 months. As a result, a majority of lenders are considering a number of strategic options for their businesses over the next 12 months, including raising capital, M&A opportunities, product diversification and international expansion.

We would like to thank those who participated and provided their interesting perspectives on the developments of the sector.

We hope you find this an enjoyable read and we would welcome the opportunity to discuss further.

# Executive summary

## EY view

With over £500m of financing raised for UK bridging finance lenders over the past three years, including recently acting as sell-side advisor on the sale of a mid-market UK bridging finance lender, the EY Financial Services Corporate Finance team has a demonstrable track record in the sector.

Building out from the report of last year and with the advantage of now having analysed the responses to the bridging finance EY survey we have set out below the EY view of the UK bridging market as we see it today.

- ▶ Over the past 12 months, we have observed a notable increase in competition across the sector, as new lenders join a market traditionally nuanced for attractive yields on short duration property-backed assets.
- ▶ Growing competition requires lenders, particularly newer entrants, to be more flexible to borrowers in terms of product terms (e.g. longer term products, higher LTV's and accepting diverse property types) to build a market presence.
- ▶ This flexibility coupled with growing macroeconomic uncertainty, increased time to foreclose on loans and potential further correction in property prices means we expect to see more stress cases, during 2019.
- ▶ We believe that high quality service is one of the key differentiators in the market. Delivering high quality service, as opposed to simply increasing product risk parameters, is likely to be a key driver for supporting growth of small to medium size players through 2019.

- ▶ With increased competition and volatility in the market comes the potential for consolidation, whether through exit or merger and acquisitions, which may also support further polarisation of the sector as the differential in loan book sizes between the top and bottom quartile expands further.
- ▶ From a financing perspective, with the number of wholesale funding providers to bridging lenders increasing, there is a significant number of funding options available to lenders in the bridging market. It is important though, that bridging lenders properly evaluate each structure in line with their business strategy as we have seen valuation levels fluctuate as a result of the underlying funding structure in place.
- ▶ We do however expect wholesale funding providers to be more selective in financing bridging lenders through 2019, with a particular focus on the impact of any erosion in property values on the ability to achieve a clean exit and refinancing competitor loans.
- ▶ From a technology perspective, we do not see an immediate trend of lenders moving away from manual underwriting, however there are a number of lenders exploring and implementing technology solutions which support the broader customer journey. This is a trend we expect to continue, particularly as lenders seek to scale operations or operate alternative funding models, such as market place platforms.

With all of the above, 2019 and beyond is set to be a hugely exciting year, and we hope you find the insights from the survey useful and stimulating for further discussion.

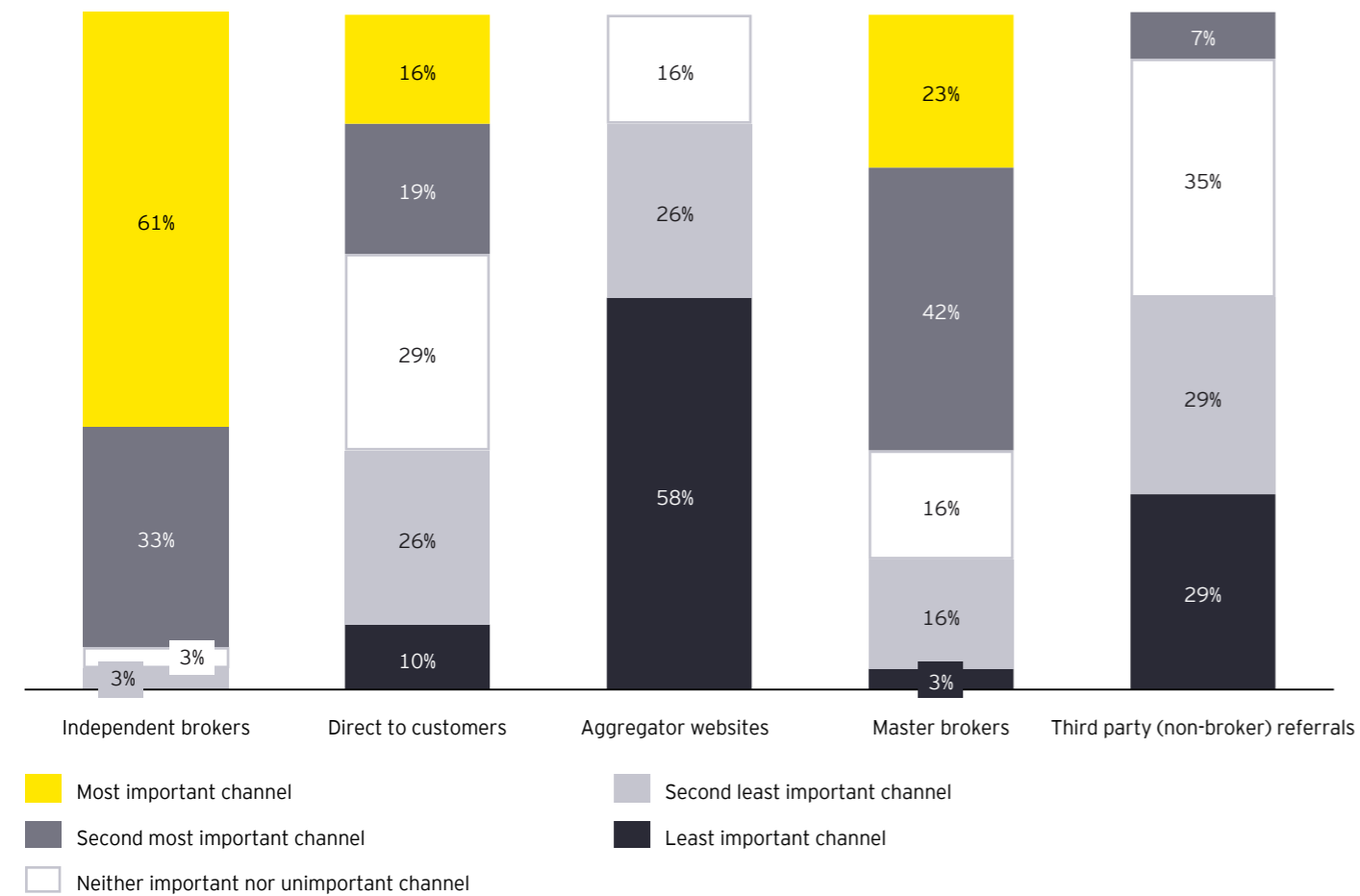
## Key findings

- ▶ For the majority of respondents, **broker-related channels are most important for loan originations**, as opposed to aggregator websites or third-party (non-broker) referrals.
- ▶ 74% of respondents believe that the **average monthly interest rate** fell over the last 12 months. This is in contrast to only 32% of respondents expecting it to decrease over the next 12 months.
- ▶ 55% of respondents are expecting an **increase in repossession**s, a significant increase on people's view on the last 12 months.
- ▶ Respondents have **changed their view on competition**. Only 39% of respondents are expecting it to increase, whilst 66% believe competition increased over the past 12 months.
- ▶ **Competition and access to talent** are the two **most important challenges** for bridging lenders.
- ▶ 82% of respondents believe **Brexit** is one of the **key challenges** impacting the UK bridging finance industry in the next 12 months.

# Originations

## Primary channels for loan originations

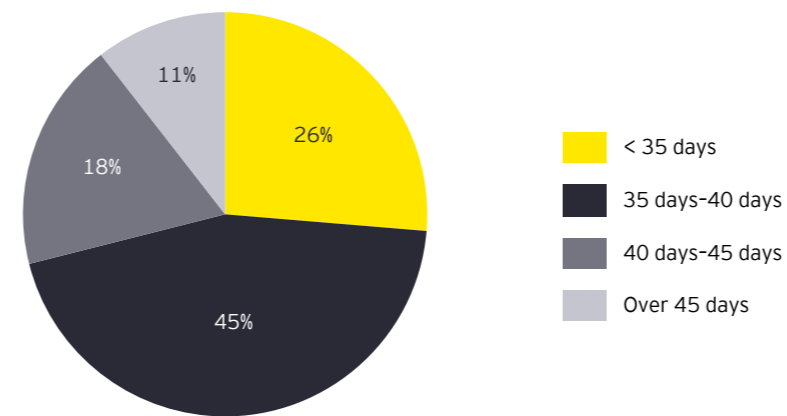
Which of the following, in your opinion, are the most important primary channels for loan originations? Please rank the following options from 1-5, with 1 being the most important and 5 being the least important.



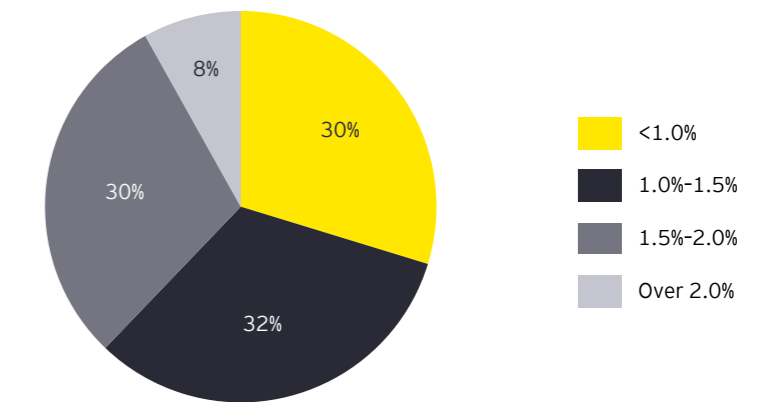
## Respondents view on loan originations over the past 12 months

Which of the options below, in your opinion, best describes the following key commercial indicators over the past 12 months in the UK bridging finance market?

### Average days to completion on loans



### Cost of origination



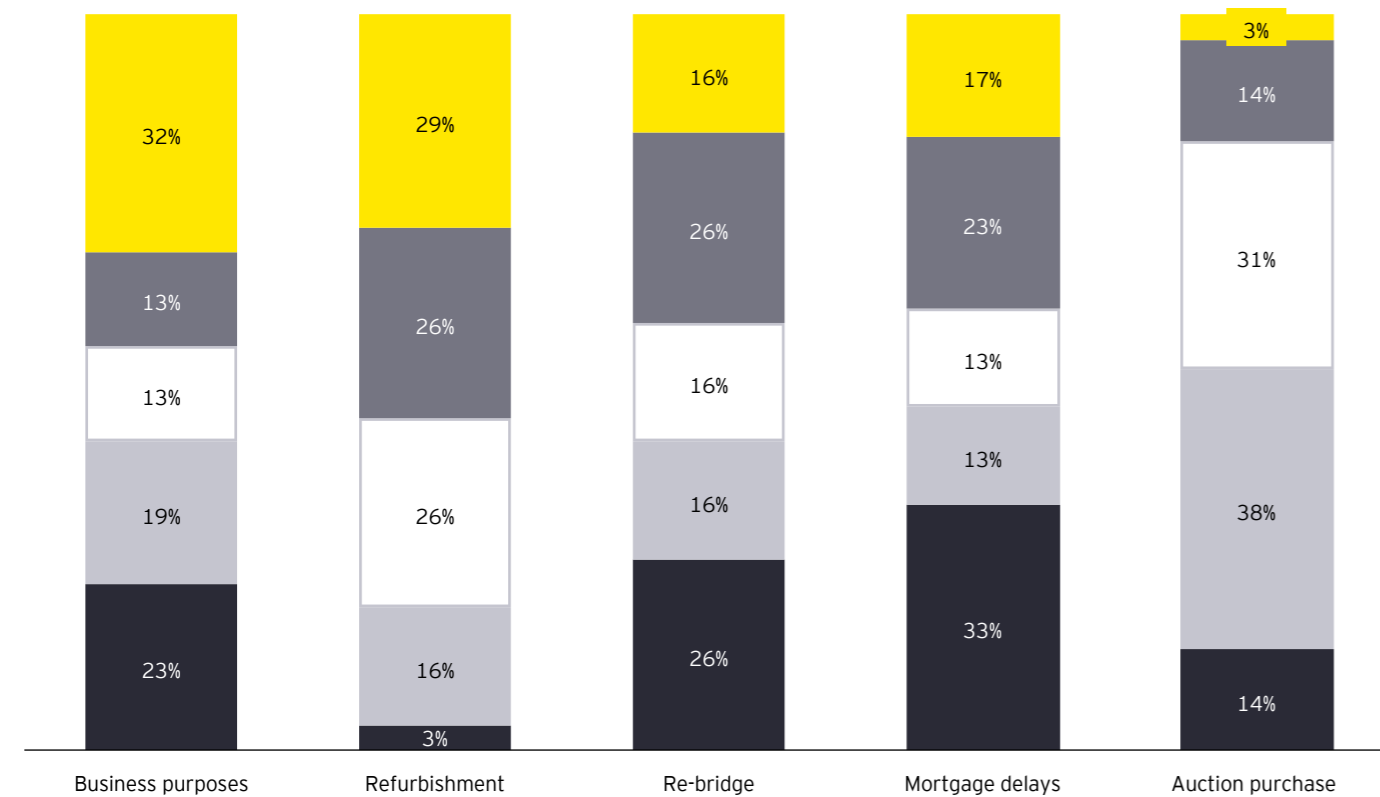
- Respondents consider broker-related channels as the most important for loan originations, with 84% citing 'independent brokers' and 65% citing 'master brokers' as any of their top two channels for loan originations. 'Third party referrals' appears to be a less important channel, with only 7% citing this as an important channel.

- 84% of respondents cited 'aggregator websites' as either the second least or the least important channel for loan originations.
- For 45% of respondents, the average days to completion on loans is between 35 and 40 days.
- 62% of respondents cited 'cost of origination' between 1% and 2%.

# Product

## Bridging loan purpose

What is the main reason for borrowers to obtain a bridging loan? Please rank the following purposes from 1-5, with 1 being the most popular reason and 5 being the least popular reason.

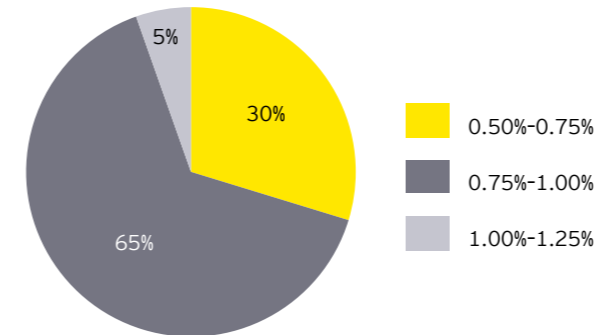


- ▶ 55% of respondents consider 'refurbishment' as any of their top two reasons for obtaining a bridging loan, followed by 'business purposes'. Respondents also cited 'other' important reasons, such as chain breaking and planning enhancement.
- ▶ 'Auction purchase' appears to be less important, with only 3% of respondents citing it as their top reason for obtaining a bridging loan.

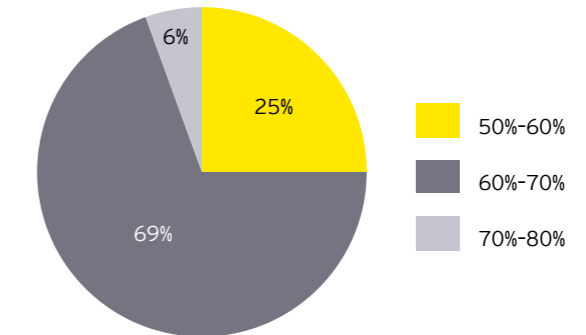
## Respondents view on product terms over the past 12 months

Which of the options below, in your opinion, best describes the following key commercial indicators over the past 12 months in the UK bridging finance market?

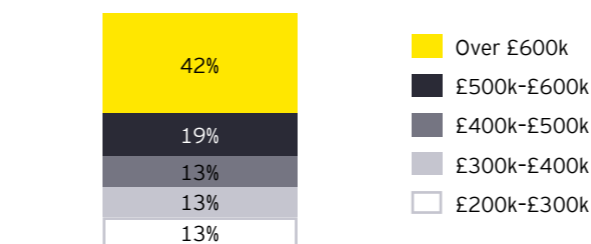
### Average monthly interest rate



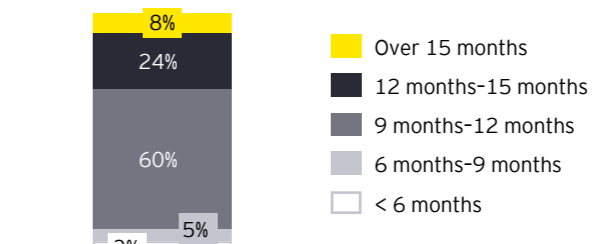
### Average LTV



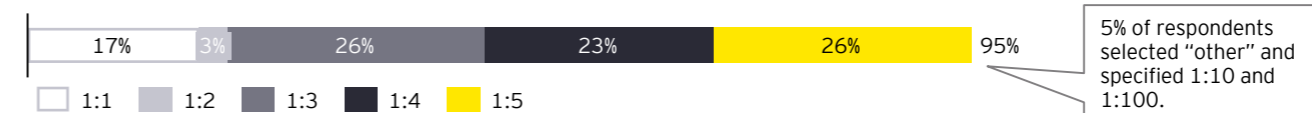
### Average loan size



### Average loan term



### Proportion of regulated vs. unregulated loans

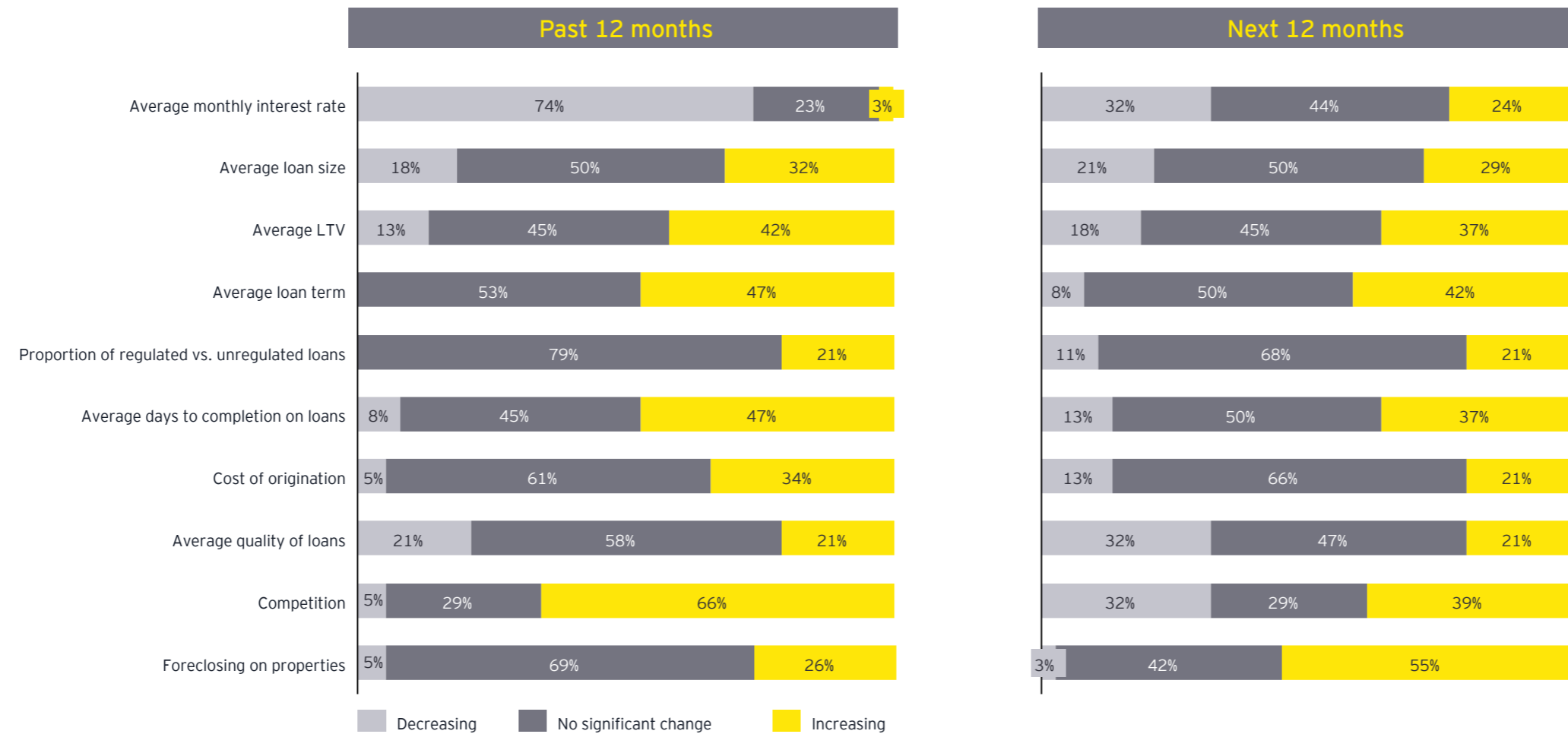


- ▶ For more than 60% of respondents, the 'average monthly interest rate' is between 0.75% and 1.00%, 'average LTVs' between 60% and 70% and 'average loan term' of 9 to 12 months. In addition, for 55% of respondents the 'average loan size' is between £500k and £800k.

# UK bridging finance market trends

## Recent and expected trends in the UK bridging finance market

Which of the options below, in your opinion, best describes the trend over the past (next) 12 months in the UK bridging finance market in respect to the following? Please answer the question in relation to your view on the market rather than specifically in relation to your business.



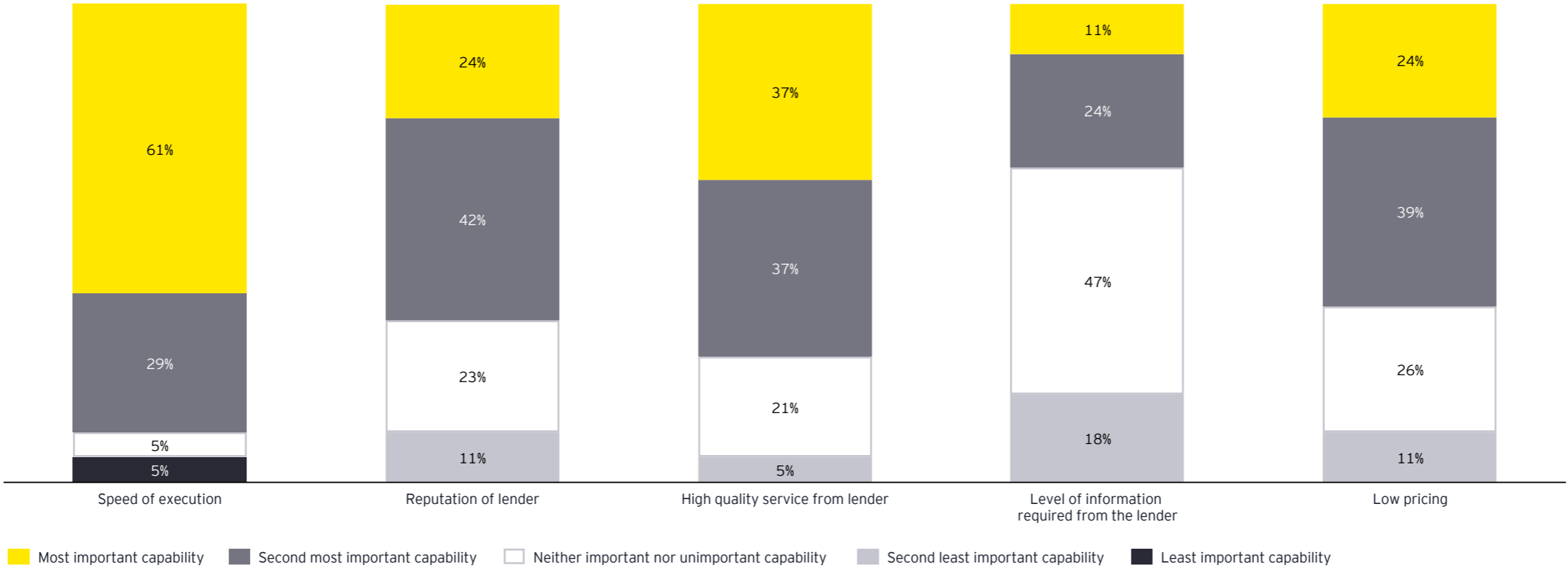
- ▶ 74% of respondents believe that the 'average monthly interest rate' fell over the last 12 months, in contrast, only 32% of respondents are expecting it to decrease over the next 12 months. We can also observe an increase in the % of respondents who believe the 'average interest rate' will increase over the next 12 months.
- ▶ Although no respondents cited a decreasing trend in the proportion of regulated vs. unregulated loans over the past 12 months, 11% foresee a decline over next year.

- ▶ Only 39% of the respondents believe 'competition' will increase over the next 12 months, even though 66% cited this trend over the past 12 months.
- ▶ 55% of respondents are expecting an increase in repossessions, a significant increase on people's view on the last 12 months.

# Key customer considerations when choosing a bridging lender

## Key customer considerations when choosing a bridging lender

How important are each of the following capabilities to a customer (or broker) when choosing a bridging lender? Please score each capability from 1 – 5, with 1 being the least important and 5 being the most important.



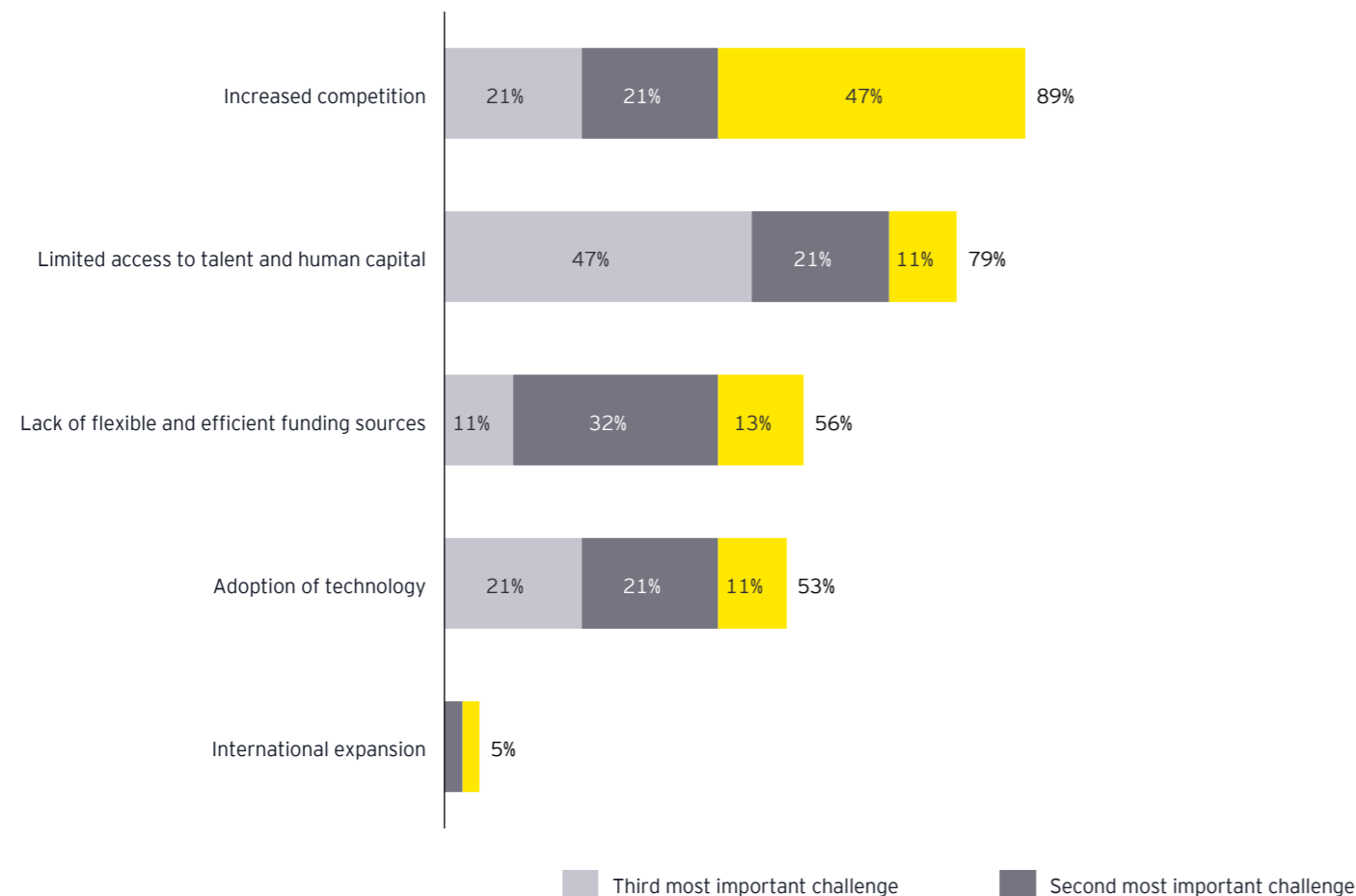
- ▶ 61% of respondents cited 'speed of execution' as the most important capability for a customer when choosing a bridging lender.
- ▶ Similarly, over 60% of respondents believe 'high quality service from lender', 'reputation of lender' and 'low pricing' are any of the top two customer considerations.
- ▶ Respondents also cited 'other' key customer considerations such as ease to get credit to agree, flexibility, procurement fee paid and reliability of delivery.
- ▶ Almost half of the respondents believe customers are indifferent about the 'level of information required from the lender'.



# Key challenges

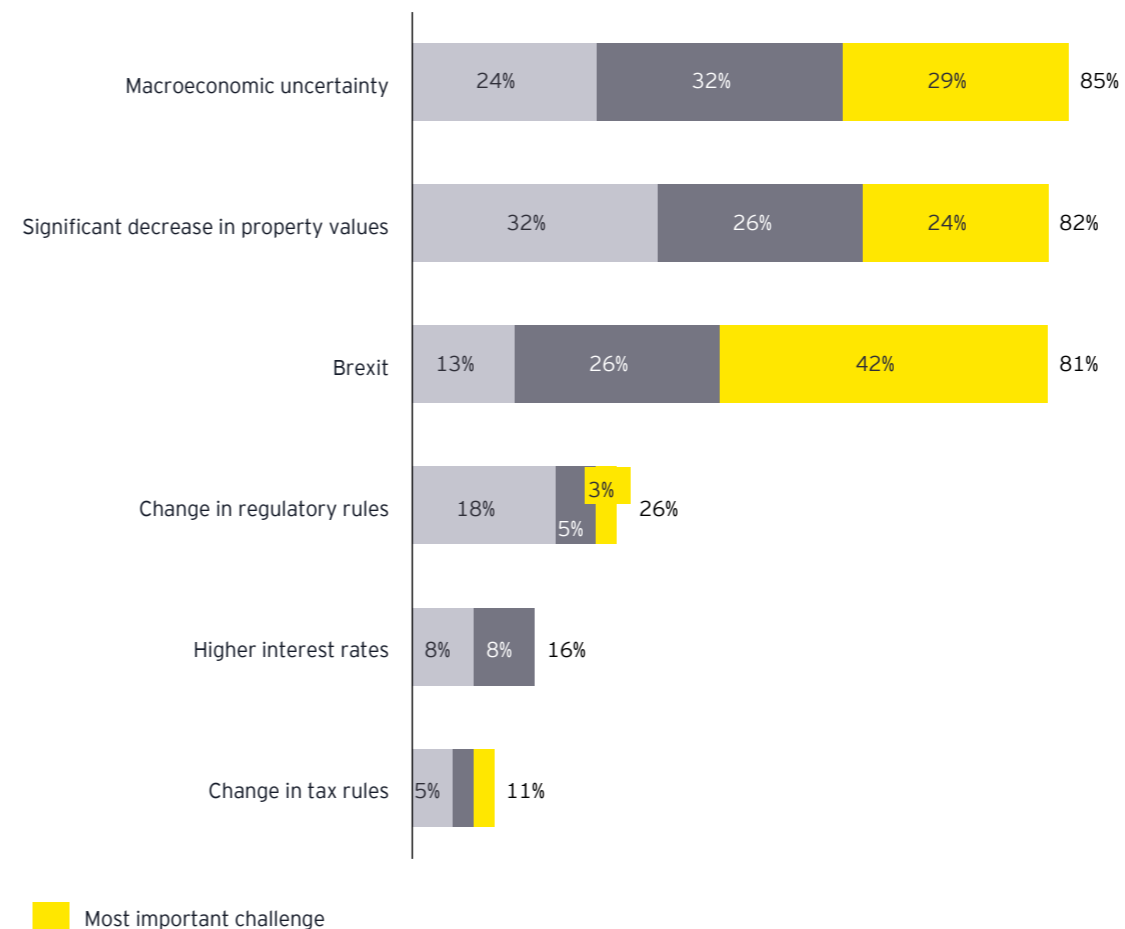
## Key challenges for bridging lender

What do you see as the 3 biggest challenges for your business in 2019? Please rank the following options by order of importance, with 1 being the most important, 2 being the second most important and 3 being the third most important.



## Key challenges impacting the bridging market

What do you see as the 3 biggest challenges impacting the bridging market in 2019? Please rank the following options by order of importance, with 1 being the most important, 2 being the second most important and 3 being the third most important.



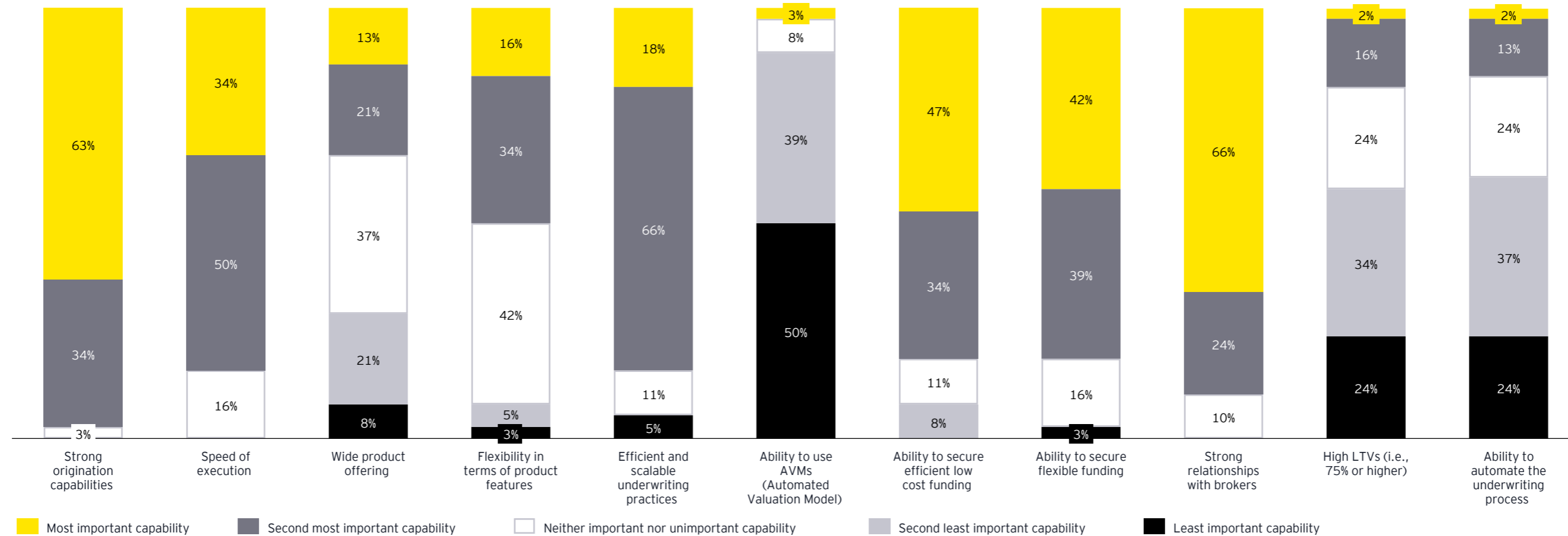
- ▶ Most respondents selected 'increased competition' and 'limited access to talent and human capital' as the two most important challenges for bridging lenders.
- ▶ Only 5% of respondents cited 'international expansion' as an important challenge, which ties into the fact only 8% of respondents are considering it as a strategic route.

- ▶ Over 80% respondents selected 'Brexit', 'macroeconomic uncertainty' and 'significant decrease in property values' as key challenges impacting the bridging market.
- ▶ Respondents also cited 'other' key challenges impacting their business such as asset class performance, blended cost of funds, potential Brexit impact on property values, property market stagnating, and regulation.

# Key capabilities to remain a successful bridging lender

## Key capabilities to remain a successful bridging lender in the market

How important are each of the following capabilities to your business in order to remain successful in the bridging finance market? Please score each capability from 1- 5, with 1 being the least important and 5 being the most important.

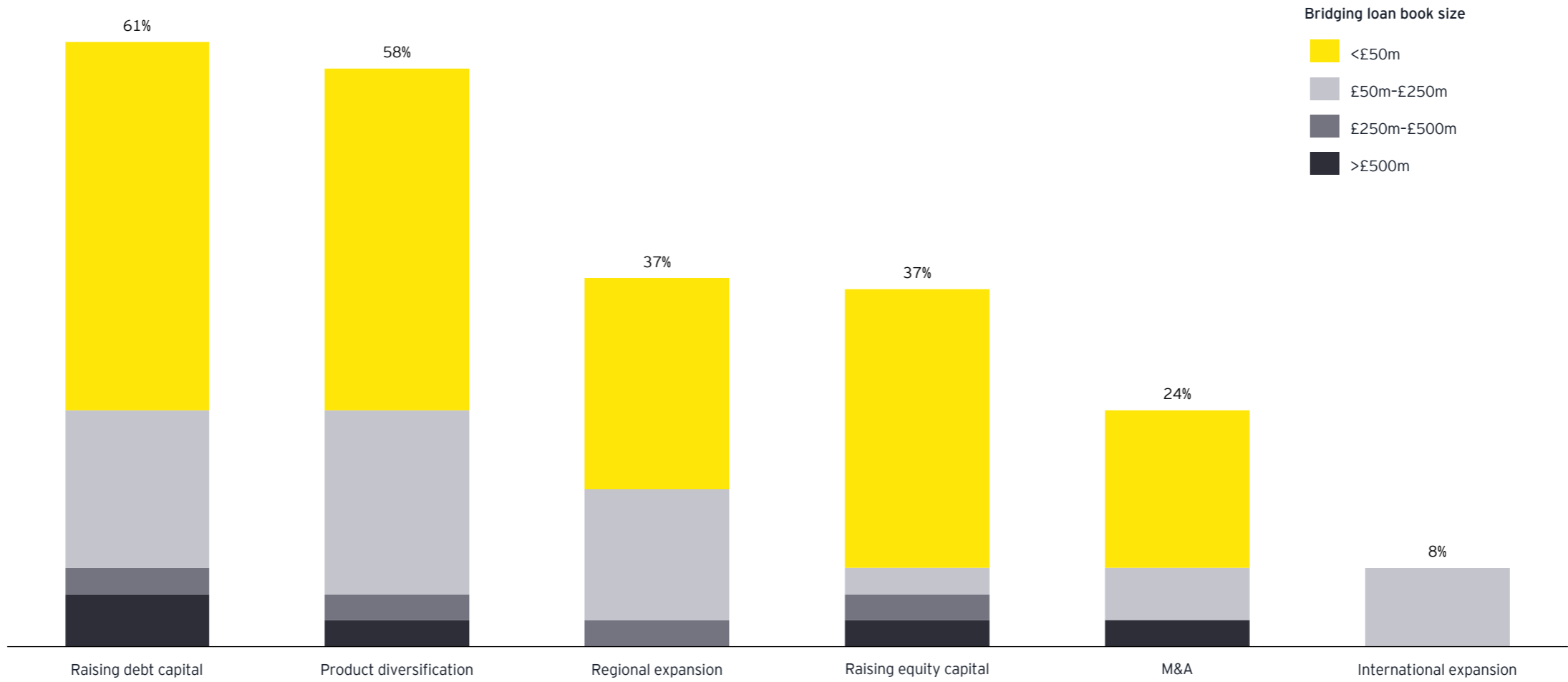


- ▶ Respondents cited 'strong origination capabilities' and 'strong relationships with brokers' as the most important capabilities to remain successful in the market, with 97% of respondents citing 'strong origination capabilities' as any of the top two capabilities.
- ▶ 50% and 66% of respondents selected 'speed of execution' and 'efficient and scalable underwriting practices' as the second most important capability.
- ▶ 'Ability to use AVMs' and 'ability to automate the underwriting process' appear to be the least important capabilities, with 89% of respondents citing 'ability to use AVMs' as any of the two least important capabilities.

# Strategic routes

Are you, as a business, considering any of the following options over the next 12 months?

Please select all that apply, and add any other you consider relevant.

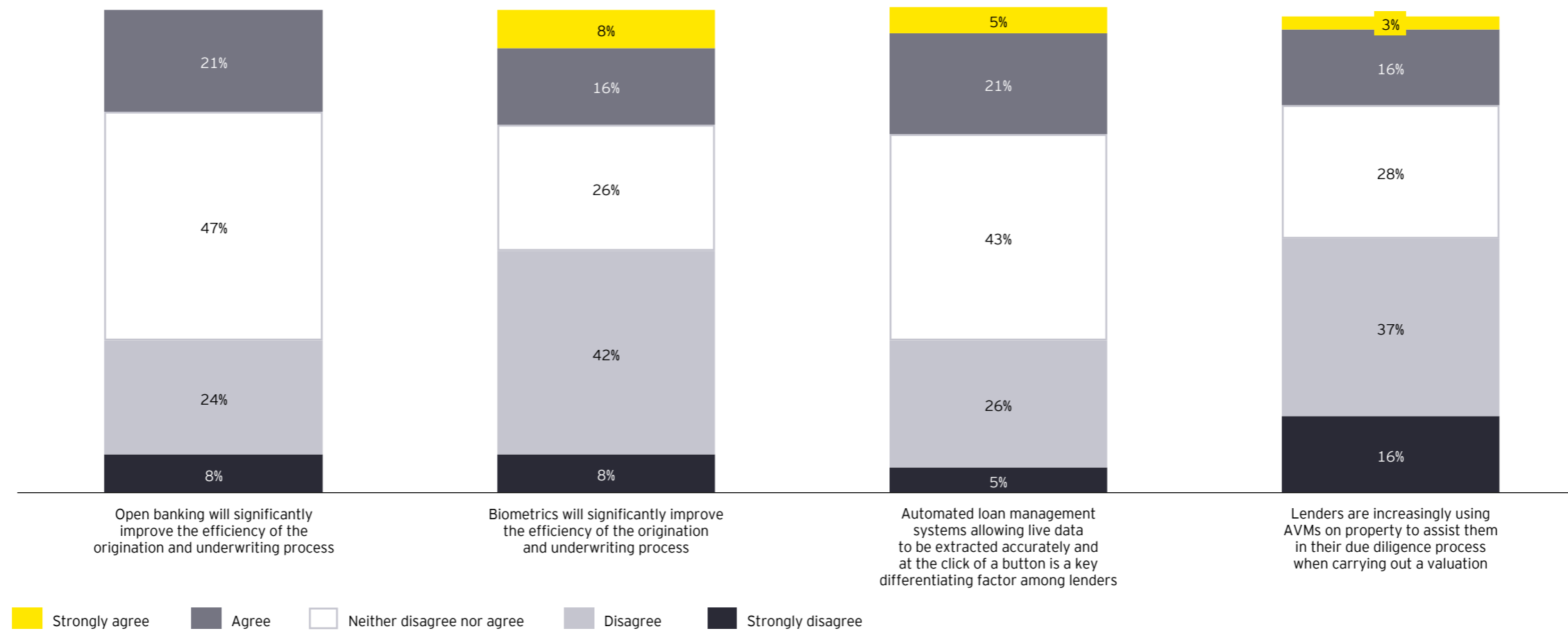


- ▶ 61% of respondents are considering 'product diversification' and 'raising debt capital', of which the majority are lenders with a loan book size smaller than £50m.
- ▶ 'Regional expansion' and 'raising equity capital' are also being considered by over a third of our respondents, most of which have a small bridging book.
- ▶ 'M&A' opportunities are being evaluated by 24% of our respondents, of which the majority have a bridging loan book between £50m and £250m.
- ▶ 8% of respondents are considering 'international expansion', all of which have a bridging loan book between £50m and £250m.

# The impact of technology in the market

## Technology disruption in the UK bridging finance market

To what extent do you agree with the following statements in relation to technology disruption in the UK bridging finance market? Please score each of the following activities of the value chain from 1-5, with 1 being strongly disagree and 5 being strongly agree.

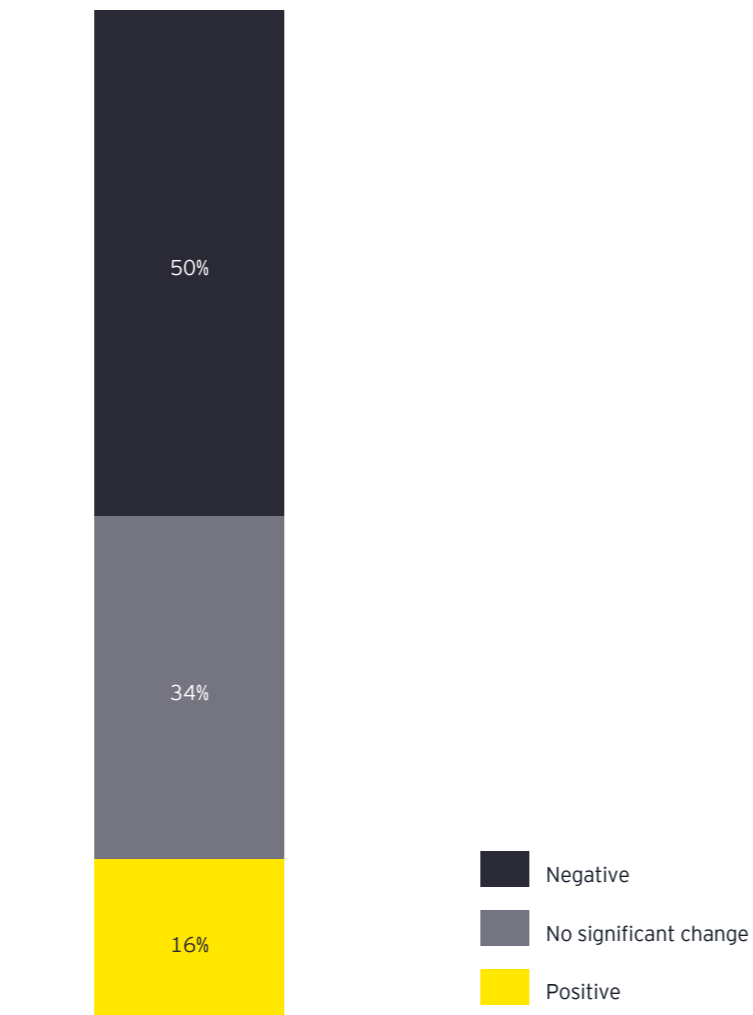


- ▶ 26% of respondents consider 'automated loan management systems' as a key differentiating factor among lenders.
- ▶ Although 21% of respondents agree with the statement 'open banking will significantly improve the efficiency of the origination and underwriting process', 32% of respondents disagree with this statement, and almost half of the respondents appear to be indifferent to its implementation and adoption.
- ▶ Over 50% of respondents disagree with the fact 'lenders are increasing the use of AVMs on property to assist them in their due diligence process'. This is consistent with half of the respondents citing 'ability to use AVMs' as the least important capability to remain successful in the bridging finance market.

# Brexit

## Impact of Brexit in the UK bridging finance market

How do you expect Brexit to impact the bridging finance industry in the next 12 months?



“I see Brexit as a huge opportunity for my business”

**Managing Director, mid size bridging lender**

“Opportunity with the uncertainty in the market. Declining property values increase demand from professional property investors taking advantage of the buyers market”

**Mid size bridging lender**

“Leaving the EU with either a deal of some sort or no deal will negatively impact the general economic outlook”

**Operations Director, mid size bridging lender**

“The uncertainty is the issue, once we know how we are to proceed, people can plan for either scenario”

**Lending Manager, mid size bridging lender**

- ▶ Half of the respondents believe Brexit will have a ‘negative’ impact in the UK bridging finance market over the next 12 months.
- ▶ However, 16% of respondents consider Brexit will have a ‘positive’ impact for their business which will reflect in the UK bridging finance industry.

- ▶ These responses tie into the fact over 80% of respondents selected ‘Brexit’ as any of the top three challenges impacting the UK bridging finance market.

# How and why EY can help

## Advising shareholders on strategic options

- ▶ The combined M&A and debt offering in the Corporate Finance team allows the team to fully consider the available options.
- ▶ We recently worked with a bridging lender to assess its strategic options and are now raising growth funding for this lender.
- ▶ For potential buyers of bridging lenders EY teams can advise on capital structure options through the M&A process.

## Advising bridging lenders on raising finance

- ▶ The EY Debt Advisory team previously worked at banks providing wholesale financing to speciality finance companies.
- ▶ This experience means that we are able to structure transactions well and understand key areas of focus for funders.
- ▶ The strong relationships with funders across the capital structure mean we can access the right pools of liquidity to meet a company's financing strategy.

## Analysing data tapes of bridging lenders

- ▶ EY transaction experience in the sector means we are able to analyse data tapes and compare against best-in-class operators.
- ▶ EY teams recently advised a private equity firm on an acquisition in the speciality finance sector, providing insight on the loan book and data quality.

## Securitisation advisory

- ▶ EY teams recently advised a secured lender on the appointment of arrangers for its first public securitisation.

## Selected recent credentials in the bridging market

This announcement appears as a matter of record only.



**December 2018**

Raising of a £50m senior variable funding note and £5m mezzanine facility for development on-balance sheet lending capabilities.

EY acted as sole Financial Advisor



This announcement appears as a matter of record only.



**November 2018**

Acquisition of MSP Capital by investment funds managed by Cabot Square Capital LLP

EY acted as Financial Advisor on the sale of the company and debt financing, as well as providing vendor due diligence




This announcement appears as a matter of record only.

**Project Corner**

**November 2018**

Raising senior financing for a bridging and development finance provider

EY acted as sole Financial Advisor



This announcement appears as a matter of record only.



**June 2018**

Raising senior financing for a new development finance portfolio

EY acted as sole Financial Advisor



This announcement appears as a matter of record only.



**May 2018**

Raising a £50m senior debt facility to finance bridging and development loans

EY acted as Sole Financial Advisor on the Debt Financing



This announcement appears as a matter of record only.



**January 2017**

Raising of a £90m facility for funding bridging finance activity

EY acted as Sole Financial Advisor and Arranger on the Debt Financing



# Key EY contacts



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Partner, Corporate Finance  
Ernst & Young LLP

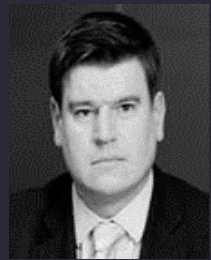
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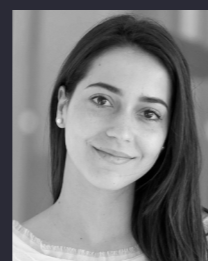
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