UK Bridging Market Study

Minds made for building financial services

April 2021

Building a better working world

Contents

1 Introduction

Overview

Nick Parkhouse
EY Financial Services
Corporate Finance
Partner, Ernst & Young LLP

T: +44 20 7197 7658
E: nparkhouse@uk.ey.com

Stuart Mogg
EY Financial Services
Corporate Finance
Director, Ernst & Young LLP

T: +44 20 7197 7457
E: stuart.mogg@uk.ey.com

Jenna Picken
EY Financial Services
Corporate Finance
Director, Ernst & Young LLP

T: +44 20 7951 6773
E: jenna.picken@uk.ey.com

Jordan Blakesley
EY Financial Services
Corporate Finance
Director, Ernst & Young LLP

T: +44 20 7197 7517
E: jblakesley@uk.ey.com

Welcome to the third UK bridging market study from the EY Financial Services Corporate Finance team. The survey is the third annual UK bridging market survey that the EY team has conducted. The survey tracks developments in the UK bridging finance market with the goal of bringing insight, transparency and support to external understanding of this market.

We would firstly like to extend a special thank you to those who participated and provided their interesting perspectives on the developments of the sector without which this survey would not be possible.

This report provides insights into recent market trends, key challenges and the views of market participants. These insights are based on the output of an online survey that we conducted between 16 February 2021 and 9 March 2021, resulting in responses from c.50 UK bridging finance lenders and brokers with a combined bridging loan book size of c. £4.8bn and annual lending and brokerage volumes totalling almost £6bn.

This year we included additional questions around how COVID-19 has impacted the UK bridging sector and the ways in which participants have navigated the many effects of the pandemic.

Technology continues to play an important role in the market, for example, 48% of respondents saw its adoption as one of the top three challenges facing bridging lenders in 2021, and is the second most cited challenge behind competition in the market. This year, 21% of respondents strongly agreed that open banking would significantly improve origination and underwriting compared to just 8% last year. We will be continuing to watch closely and engaging in discussion with those close to the sector and the relevant technological counterparties over the next 12 months to explore how technology continues to shape the market.

Views regarding market sentiment are mixed, as evidenced throughout the survey with a similar proportion of respondents expecting the global pandemic to positively or negatively impact the UK bridging market over the next 12 months. Given this, the majority of respondents viewed strong origination capabilities and broker relationships as very important to remain successful in the market. This coincides with the majority of players considering a number of strategic options for their businesses over the next 12 months, including raising debt finance or refinancing their debt facilities, making a significant investment in technology, and product diversification.

In addition to the above, this report brings together further insights across a range of topics, including technology, capabilities and challenges in the market, as well as trends in the asset class itself.

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

Executive summary

EY view

We have set out below the EY view regarding sentiment in the UK bridging finance market based on the insights gathered from the 2021 UK bridging finance market survey (conducted between 16 February 2021 and 9 March 2021), coupled with a backward-looking view of our own experience in the past 12 months alongside the outlook that was expected from the 2020 survey. We have also included commentary on the impacts to the market as a result of the aftermath of the COVID-19 pandemic.

- In line with the 2020 survey, **competition remains high** in the UK bridging finance market, which coupled with the record-low Bank of England base rate, has put **downward pressure on interest rates** offered in the market. The ability to conduct business across the property market has been **negatively impacted by the COVID-19 pandemic**, for example with restrictions on property viewings, property auctions and the completion of property transactions. This has contributed to several lenders **pausing new originations**, thereby reducing competition in the short term, with the long-term impact on competition unclear at this stage. However, a number of bridging lenders have seen a positive start to 2021, with strong origination volumes, in part due to the effect of the stamp duty holiday.
- With increased competition over the last 12 months, lenders and brokers have focused on how they can differentiate themselves to attract borrowers and this has also highlighted the **importance of technology** within the market, for example the use of **open banking** and being able to operate remotely during local and national lockdown restrictions. Indeed, almost half of respondents (48%) stated adoption of technology as one of their top three business challenges, vs. 38% last year, highlighting its growing importance within the market (see page 16).
- Additionally, **speed of execution** remains imperative for competitiveness, with borrowers also seeking **strong relationship management, transparency of price and terms and funding flexibility** as key differentiators (see page 21). This is important to enable lenders to continue to support borrowers with evolving bridging loan purposes. For example, the most common reason to obtain a bridging loan was for **refurbishment**.
- To navigate the complications arising from the pandemic, three quarters of respondents have **tightened their underwriting criteria**, whilst nearly half have utilised the government's Coronavirus Job Retention Scheme in the past 12 months in order to control business costs in this time of uncertainty (see page 27).
- From a debt financing perspective, a majority of respondents (82%) have felt supported by their existing funders during the pandemic, of which 63% cited they felt were very supportive (see page 27). Nevertheless, as a reflection of a general desire for funding flexibility, and the need to keep costs low, 65% of respondents plan to raise or refinance their debt over the next 12 months (see page 23).
- In order to raise scalable, flexible and cost-efficient funding, it is important for a business to demonstrate quality underwriting with stringent internal governance, strong asset performance, a track record of collections and sustainable origination. In terms of the latter 63% of respondents believe a differentiating factor between lenders is an **automated loan management system,** which allows live data to be extracted accurately and in a form that can easily be shared with funders (see page 22).
- Institutionalisation may bring an increase in interest from private equity sponsors, which can allow a business to unlock the funding capacity required to achieve their loan book and origination growth aspirations. 31% of respondents cited **M&A as a strategic option** over the next 12 months (see page 23). M&A activity in the bridging market may start in the near future once lockdown measures are lifted and market sentiment returns.

We hope you find the survey results contained in this report insightful, particularly with the addition of COVID-19 discussion points and look forward to any further discussions with you should this be of interest.

Key findings

- The majority of respondents cited **broker related channels** as the most important for loan originations, a continuing theme from 2020 and 2019. 97% of respondents chose independent brokers as one of their top three origination channels and 77% chose master brokers as one of their top three channels (see page 9). The importance of **'aggregator websites' and 'direct to customer'** channels has reduced over time, with 0% and 10% choosing it as the most important channel respectively (2020: 4% and 13%) (see page 9).
- The '**average days taken to complete' on loans has increased** this year, with 54% believing it to be 40 days or over (2020: 33%, 2019: 29%). Also, just 13% of respondents believe the 'average days taken to complete' is under 35 days, versus 26% and 35% in 2019 and 2020 respectively; a likely impact of the difficulties to advance loans during the COVID-19 pandemic and the challenges associated with the movement to a remote working environment (see page 10).
- There has been an increasing emphasis on **the importance of adoption of technology**, with 48% of respondents viewing it as a key challenge for their businesses, compared to 38% in the 2020 survey (see page 16).
- Almost all respondents (92%) cited **'slow legal process' as a factor causing operational delays** (see page 18).
- Half of respondents cited an increase in competition over the past 12 months, in line with expectations in the 2020 outlook. Going forward, competition is expected to continue, with 54% of respondents expecting it to increase over the next 12 months (see page 8).
- 48% of respondents cited **the aftermath of the pandemic as the most important challenge** impacting the UK bridging finance market in the next 12 months (81% cited it to be a top three challenge) (see page 17). Interestingly however, only 31% of respondents believed the observed impact of the pandemic will be negative over the last 12 months, suggesting it will be a challenge that the market will overcome (see page 25). **60% saw defaults as one of the top three most important challenges**, in line with 59% in the 2020 survey (see page 17).
- Diminishing pessimism over Brexit is apparent, with just 13% of respondents citing it as a top three challenge facing the UK bridging finance market in the next 12 months, down from 42% in 2020 and 81% in 2019 (see page 17).
- Approximately one third (31%) of respondents cited mergers and/or acquisitions as one of their key strategic options over the next 12 months, down from 43% in 2020. Also, only **8% of respondents cited sale of the business as a strategic priority** (see page 23).
- With 65% and 31% of respondents citing raising debt and equity capital respectively as one of their strategic options in the next 12 months (see page 23), the bridging finance market appears ripe for further fund inflows. Half of respondents expect institutional funding to increase over the next 12 months (see page 8).

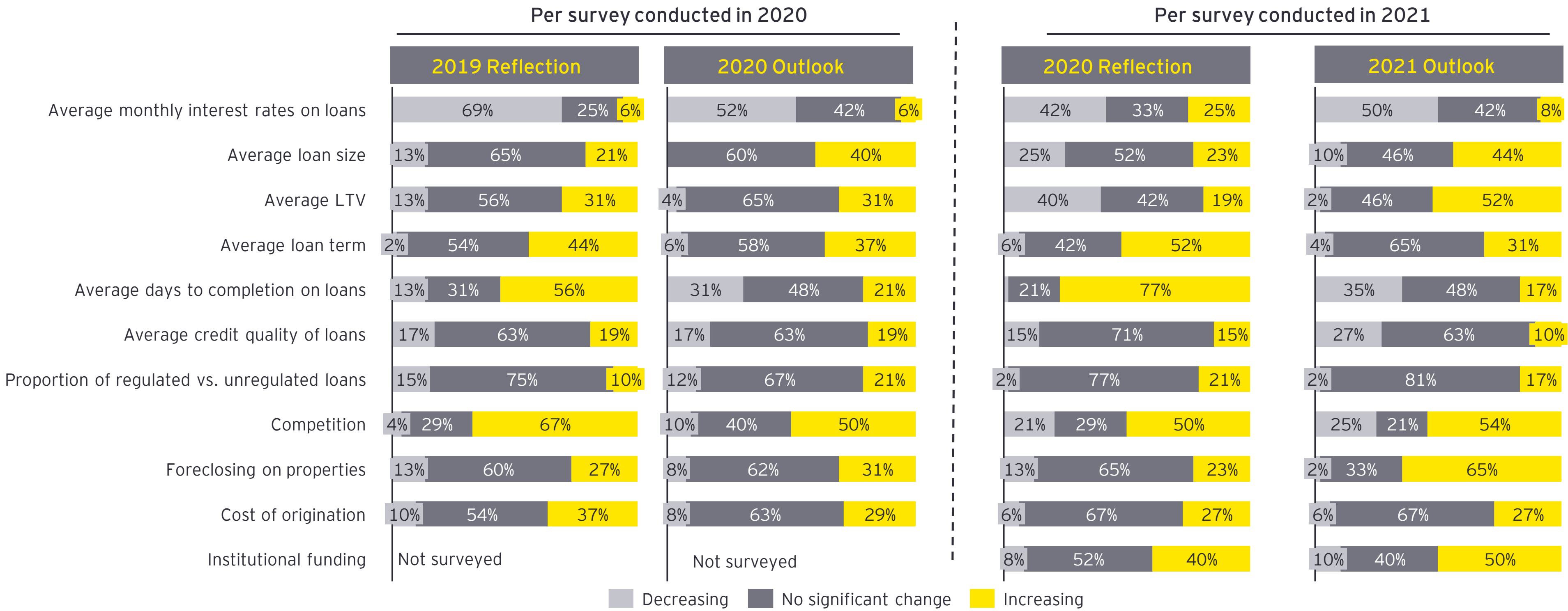
2

UK bridging market characteristics

Overview of 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 (and 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 UK bridging market rather than specifically in relation to your business.



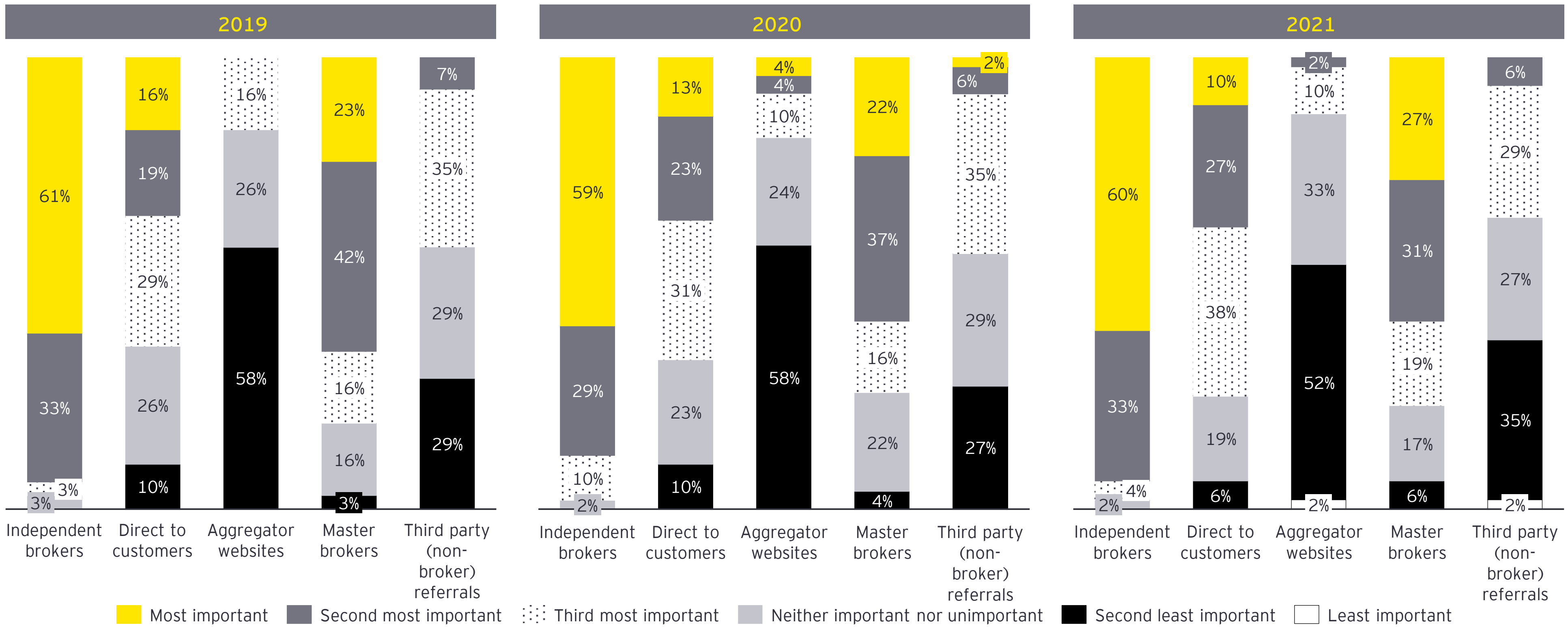
- Last year, just over half of respondents (52%) expected 'average monthly interest rates on loans' would decrease over the next 12 months. This year, on reflection, 42% of respondents found the 'average monthly interest rates on loans' had decreased during 2020, suggesting there was a lower than expected rate compression in the market over the last 12 months. Nevertheless, this compression may be linked to half of the participants believing there has been increased competition over the past 12 months; something likely to continue given that 56% of respondents cited 'competition' as one of their top three business challenges in 2021 (see page 16).
- Interestingly, 4% of participants forecasted that 'average LTV' would decrease across 2020, but in reality, 40% noted an actual reduction in 'average LTV' in 2020.
- 77% of respondents found 'average days to completion on loans' to have increased during 2020, compared to the 2020 forecast of just 21%. This drops down again to 17% for the 2021 outlook, displaying how bridging lenders view this as a temporary increase due to the COVID-19 pandemic and its associated limitations.
- Last year, 50% of respondents expected 'competition' to increase over the next 12 months. This year, the survey showed that exactly 50% of respondents believed that competition had indeed increased over the last 12 months.
- When looking back at 2020, 40% of participants thought that 'institutional funding' had increased throughout the year. A higher percentage of respondents (50%) believe that institutional funding into the market will increase further in 2021. This points to the growth and maturity of the UK bridging market, and institutional capital providers' desire to seek higher risk-adjusted returns.

Note: Totals may not add up to 100% due to rounding.

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.



- In aggregate, respondents cited broker-related channels as the most important channel for loan originations, with 60% of respondents choosing 'independent brokers' as the most important channel for loan originations (and 97% choosing it in their top three), consistent with the respondents' view in both the 2019 and 2020 survey.
- Additionally, the 'master broker' channel has become increasingly important since 2019, with 27% of respondents citing it to be their most important origination channel in 2021 compared to 22% and 23% in 2020 and 2019 respectively. The percentage of respondents choosing this option as one of their top three origination channels, has remained broadly stable at 77% (2020: 75%, 2019: 81%).
- At 2%, the proportion of respondents citing 'aggregator websites' as one of their top two channels for loan originations decreased compared to last year (8%), but was greater than in 2019 when no respondents chose this in their top two choices. Also the 'direct to customer' channel is reducing in importance, with just 10% of respondents citing this as their most important origination channel (2020: 13%, 2019: 16%). The appeal of 'aggregator websites' and 'direct to customers' remains limited as viable primary origination channels for the majority of respondents but it is interesting to see them being an important channel for at least some bridging lenders.
- Third party referrals was not chosen by any of the respondents as their most important channel. However, 35% of respondents did rank this option in their top three most important channels in the most recent survey, an increase on previous years.

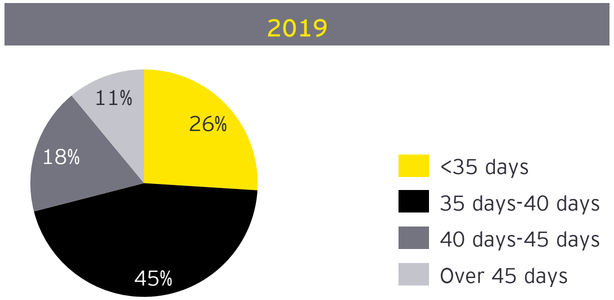
Note: Totals may not add up to 100% due to rounding.
Options in the 2021 survey were ranked from 1 to 6 to reflect the 6 options we provided. One of these options allowed participants to specify their own reason under the "Other" option. The default response for "Other" was 6. However, the majority of respondents did not use this field.

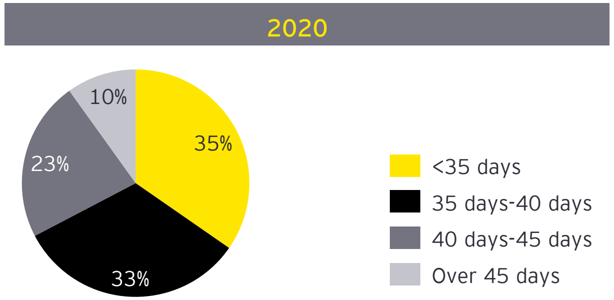
Originations (cont.)

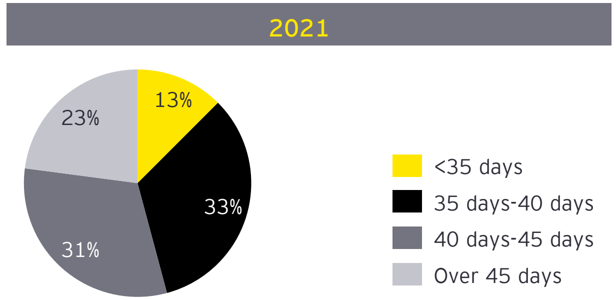
Respondents view on loan originations over the past 12 months.

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?

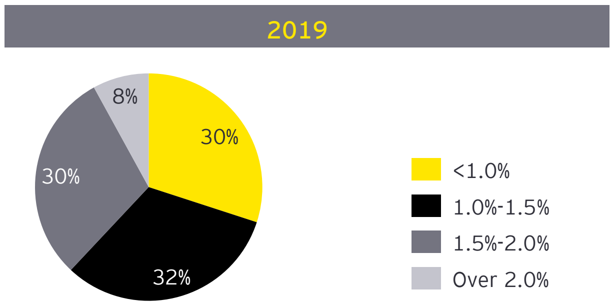
Average days taken to complete on loans over the past 12 months

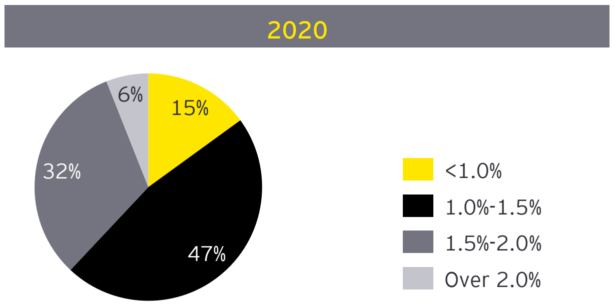


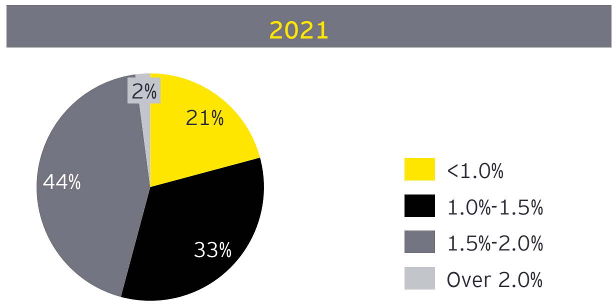




Average monthly cost of origination over the past 12 months







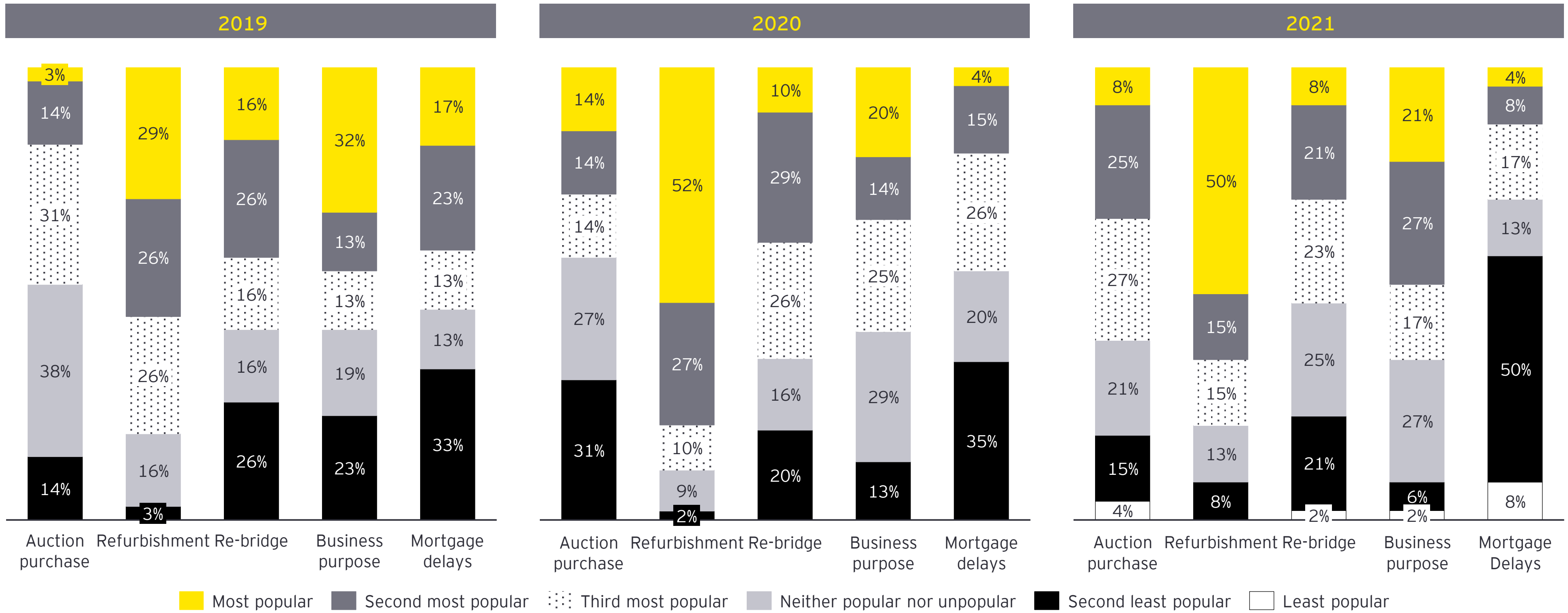
- The latest survey has revealed that respondents view the ‘average days taken to complete’ as having increased, with 54% believing it to be 40 days or over (2020: 33%, 2019: 29%). Additionally, just 13% of respondents believe the ‘average days taken to complete’ is under 35 days, versus 26% and 35% in 2019 and 2020 respectively. This is likely a reflection of difficulties in advancing loans during COVID-19 in the short term, with players having to adapt to a remote working environment, as well as difficulties in conducting full valuations. Such factors contributed to a slowdown in both broker and lender operations.
- 21% of respondents cited the ‘average monthly cost of origination’ to be less than 1.0%, increasing from 15% of respondents who cited this option last year (but a decrease from 30% in the 2019 survey). On the contrary, 33% of respondents viewed the average monthly cost of origination to be between 1.0%-1.5%, decreasing from 47% of respondents who chose this option last year. Overall, the relatively spread mix of views from respondents suggests that cost of origination does vary in the market.

Note: Totals may not add up to 100% due to rounding.

Product

Bridging loan purpose

What is the main reason for borrowers to obtain a bridging loan? Please rank the following purposes from 1-6, with 1 being the most popular reason and 6 being the least popular reason[1].



- 50% of respondents believe that ‘refurbishment’ is the most popular reason for borrowers to obtain a bridging loan, in line with the 2020 survey where 52% of respondents chose ‘refurbishment’ as their most popular option. When looking at respondents’ top three choices however, 80% chose ‘refurbishment’, a slight decrease from the 89% figure in 2020 (albeit in line with the 81% figure seen in the 2019 survey).
- ‘Business purposes’ was the second most popular purpose, with 21% of respondents choosing this as the most popular choice compared to 20% in 2020. When looking at respondents’ top three choices, 65% chose ‘business purposes’.
- Interestingly, 60% of respondents cited ‘auction purchase’ as one of their top three reasons for borrowers obtaining a bridging loan. This is an increase from previous years (2020: 42%, 2019: 48%).
- 16% of respondents chose ‘other’ in their top three choices, of which planning, acquisition, development exit, chain breaking, and downsizing appeared.

Note: Totals may not add up to 100% due to rounding.
[1] Options for 2021 were ranked from 1 to 6 to reflect the 6 options we provided. One of these options allowed participants to specify their own reason under the "Other" option. The default response for "Other" was 6, therefore 16% of participants changed this option to a higher ranking.

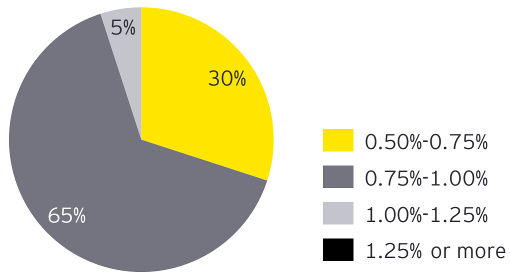
Product (cont.)

Respondents view on product terms over the past 12 months

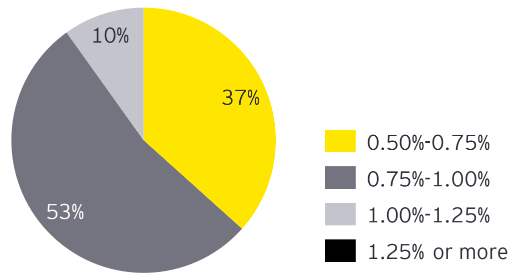
Which of the options below, in your opinion, best describes the following key commercial indicators over the past 12 months in the UK bridging finance market?

Average monthly interest rate

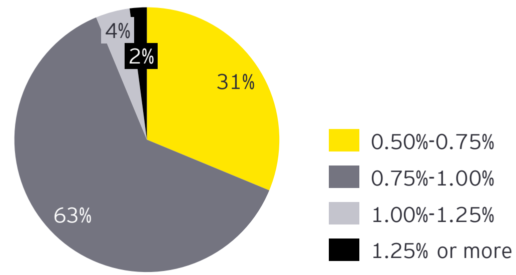
2019



2020

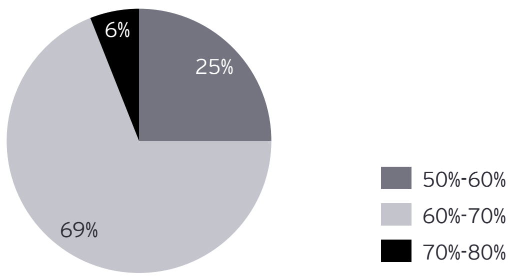


2021

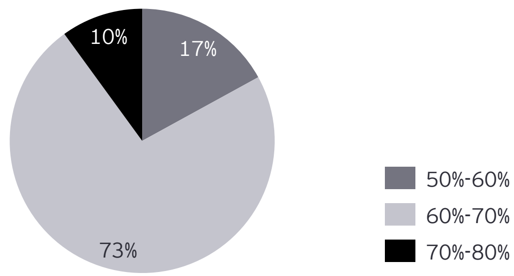


Average LTV

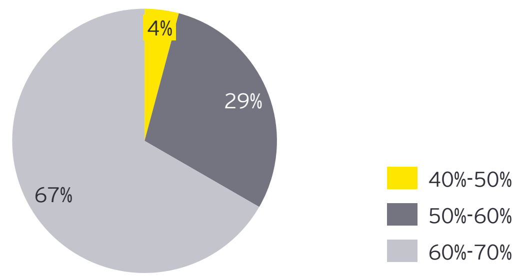
2019



2020



2021



- The majority of respondents (63%) believe the 'average monthly interest rate' for bridging loans is 0.75%-1.00%. This was the most popular option in the 2019 and 2020 surveys also.
- The majority of respondents cited 'average LTV' to be '60%-70%', a range which was consistently chosen by the majority in all previous years. No lender chose the option 70%-80% in the 2021 survey, possibly pointing to tightening of credit criteria during COVID-19.
- In the 2021 survey, we included the option to select 40%-50% as the 'average LTV', of which 4% of respondents selected.

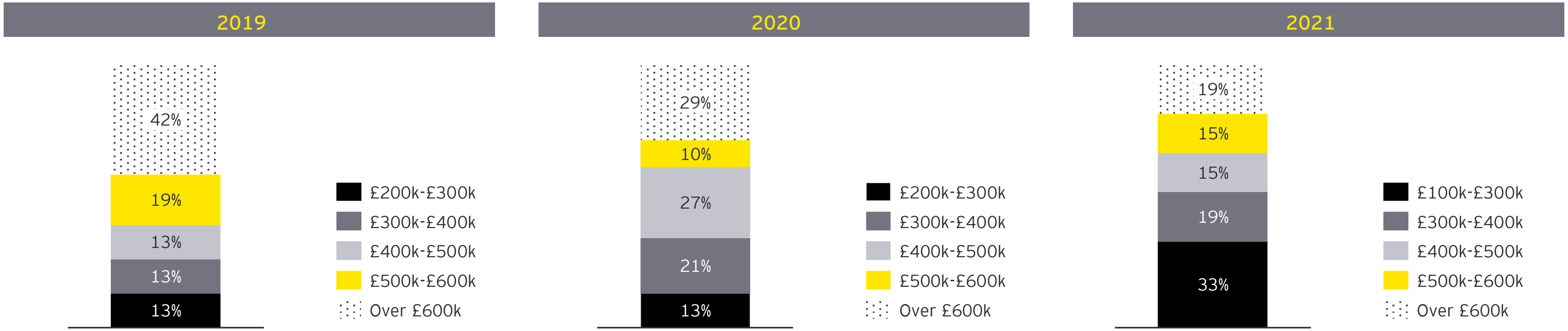
Note: Totals may not add up to 100% due to rounding.

Product (cont.)

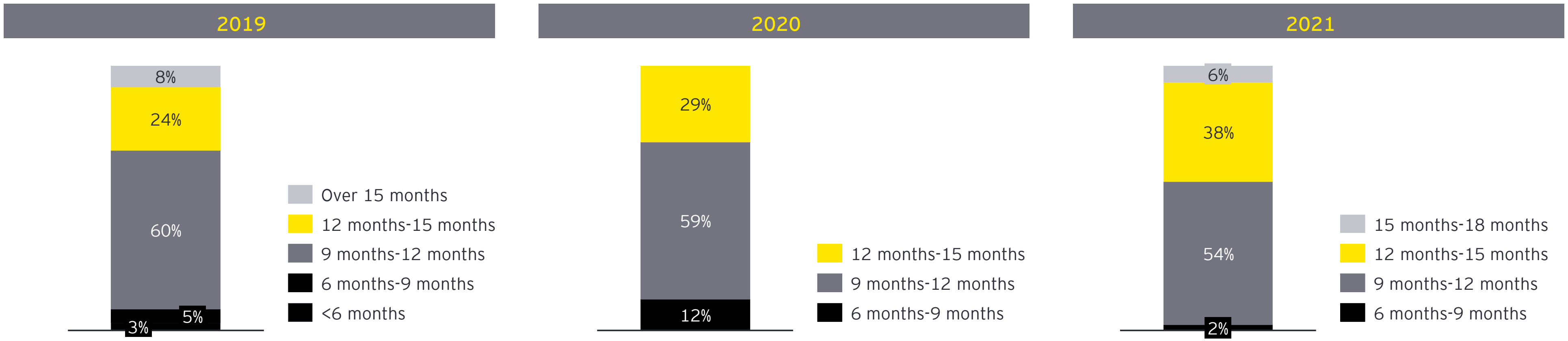
Respondents view on product terms over the past 12 months

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 loan size



Average loan term



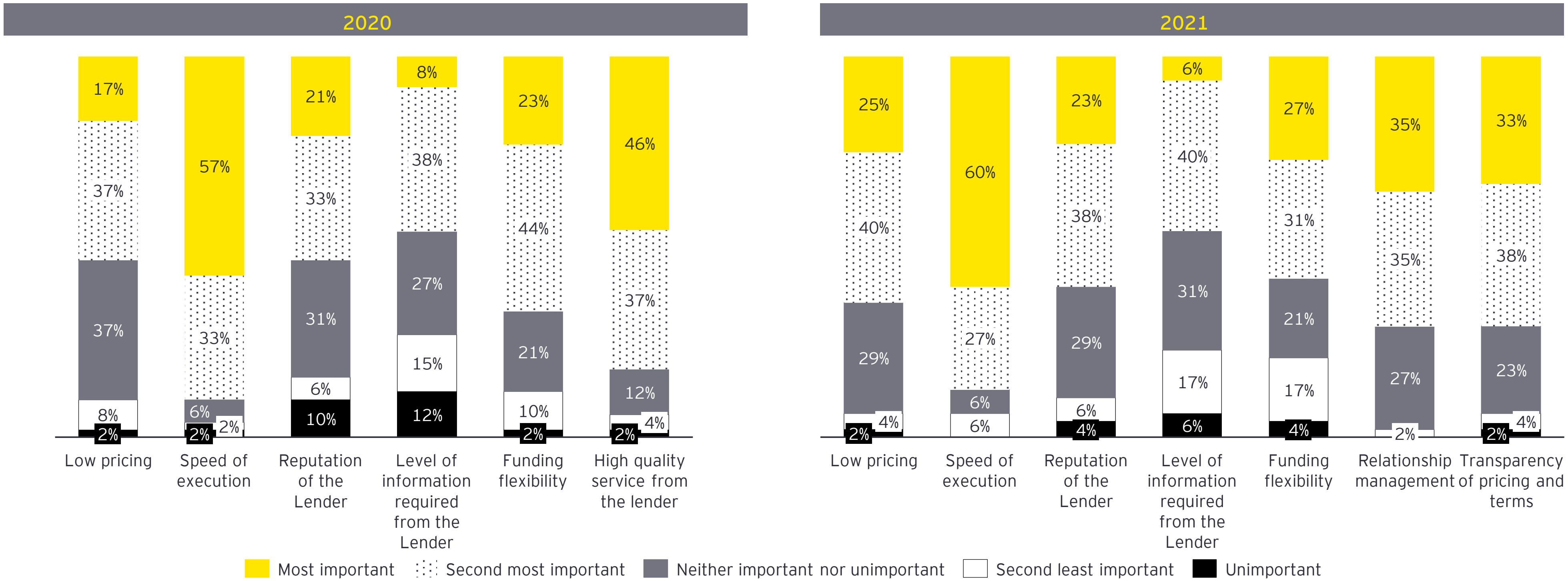
- 34% of respondents believe the average loan size in the market is £500k or more, which is a decrease from 39% of respondents who shared this view last year, and 61% the year before. There has also been a large increase in the proportion of respondents believing that the average loan size is only between £100k-£300k (33% in 2021 vs. 13% in previous years).
- The majority of respondents (54%) view the 'average loan term' to be between 9-12 months which is broadly in line with both the 2019 survey (60%) and the 2020 survey (59%).

Note: Totals may not add up to 100% due to rounding.

Key customer considerations when choosing a bridging finance 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 rate each capability with a score of 1 – 5, with 1 being very important and 5 being unimportant.



- 60% of respondents cited 'speed of execution' as the most important consideration when choosing a bridging lender, consistent with the prior year's survey results.
- One third (33%) of respondents cited 'transparency of pricing and terms' as the most important consideration, which is likely a reflection of the increasing competition within the bridging market and the influx of new players.
- Approximately one third (35%) of respondents cited 'relationship management' as the most important consideration. This was a new addition to the survey options for 2021 and has emerged as a key reason for respondents in choosing the product alongside speed of execution, and low and transparent pricing.
- An increasing number of respondents (27%) cited 'funding flexibility' as the most important capability when choosing a bridging lender, compared to 23% in 2020.
- 14% of respondents cited 'other' key customer considerations as one of their top three choices with 'certainty of decision' being most popular, followed by 'LTV', 'volume of day one proceeds', and the 'fee paid to the broker'.

Note: Totals may not add up to 100% due to rounding.
Respondents rated each capability with a score of 1 (most important) to 5 (unimportant) and therefore can score more than one capability at each rating – e.g. a respondent could choose both 'low pricing' and 'speed of execution' as being "1 – very important".

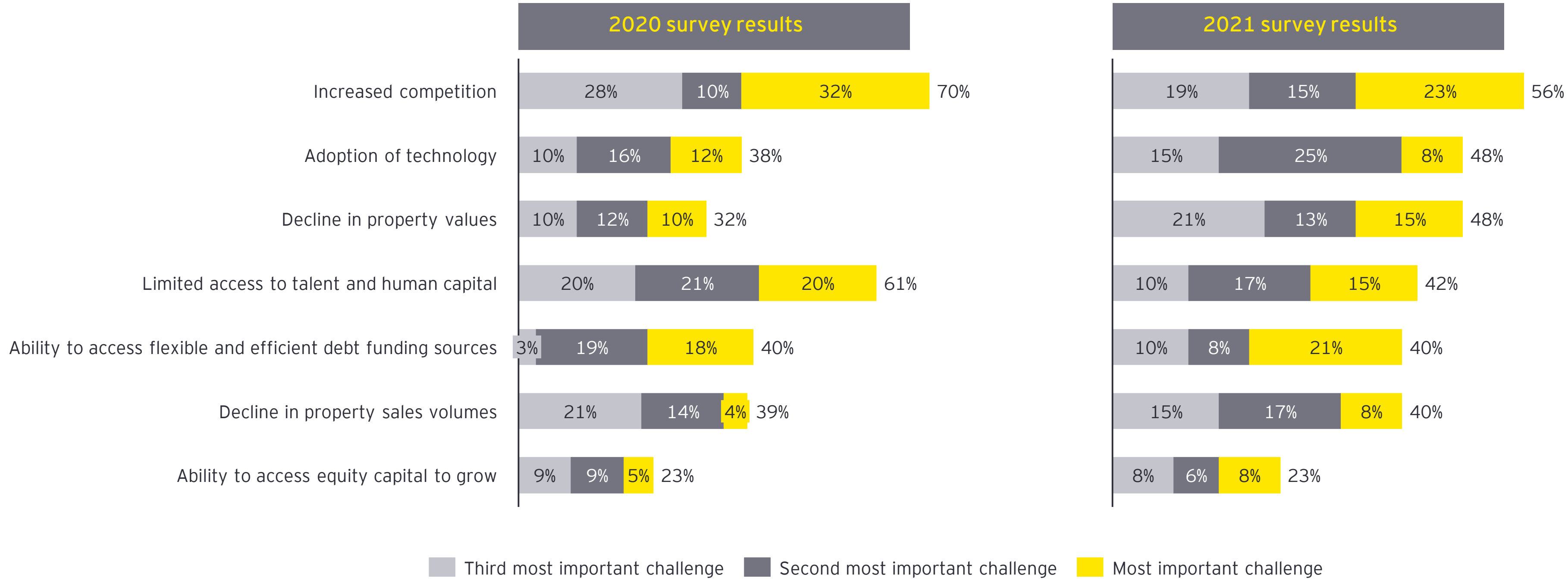
3

Bridging market challenges

Key challenges impacting the lender

Key challenges for bridging finance lenders

What do you see as the 3 biggest challenges for your business in 2021? 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[1].



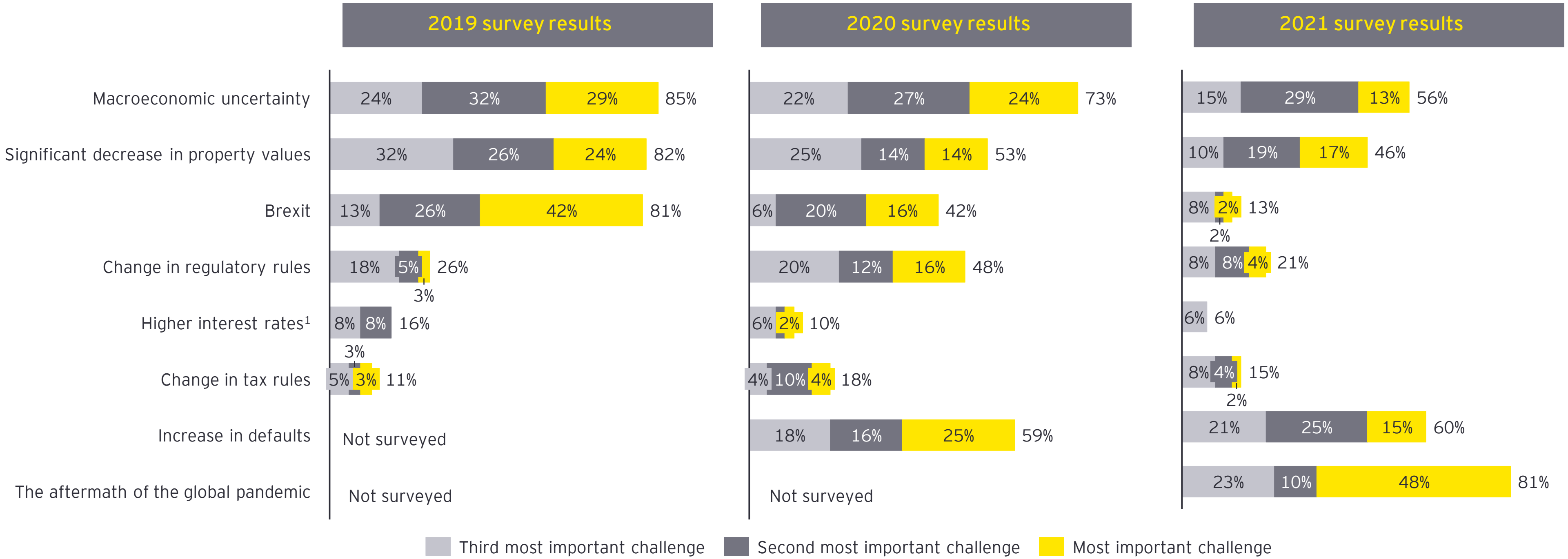
- 56% of respondents selected 'increased competition' as one of the top three most important challenges, which, whilst lower than the results from the 2020 and 2019 survey, still represents the majority of respondents.
- Interestingly, the 2021 survey depicts an increasing emphasis on the importance of access to technology. 48% view its adoption as a key challenge for their businesses, compared to from 38% in the 2020 survey.
- 48% of respondents chose 'decline in property values' as one of the top three challenges impacting their business in 2021, an increase from 32% in 2020. Interestingly, on the next page we see that 46% of respondents chose 'significant decrease in property values' as one of the top three challenges impacting the bridging finance market as a whole in 2021. This suggests respondents are more concerned about the impact of a decline in property values on the market rather than on their own business.
- The general sentiment on property prices is likely due to UK property prices showing strong growth recently, with price levels at record highs[2], which when coupled with the macroeconomic environment and an ultimate end to the stamp duty holiday, could see the current price growth seen in the market start to taper off.

Note: Totals may not add up to 100% due to rounding.
[1]Respondents selected three options from the above and ranked them from 1-3. For example, 23% of respondents ranked 'increased competition' as their most important challenge.
[2] See Nationwide's House Price Index, February 2021 Release

Key challenges impacting the market

Key challenges impacting the UK bridging finance market

What do you see as the 3 biggest challenges impacting the UK bridging finance market in 2021? 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.



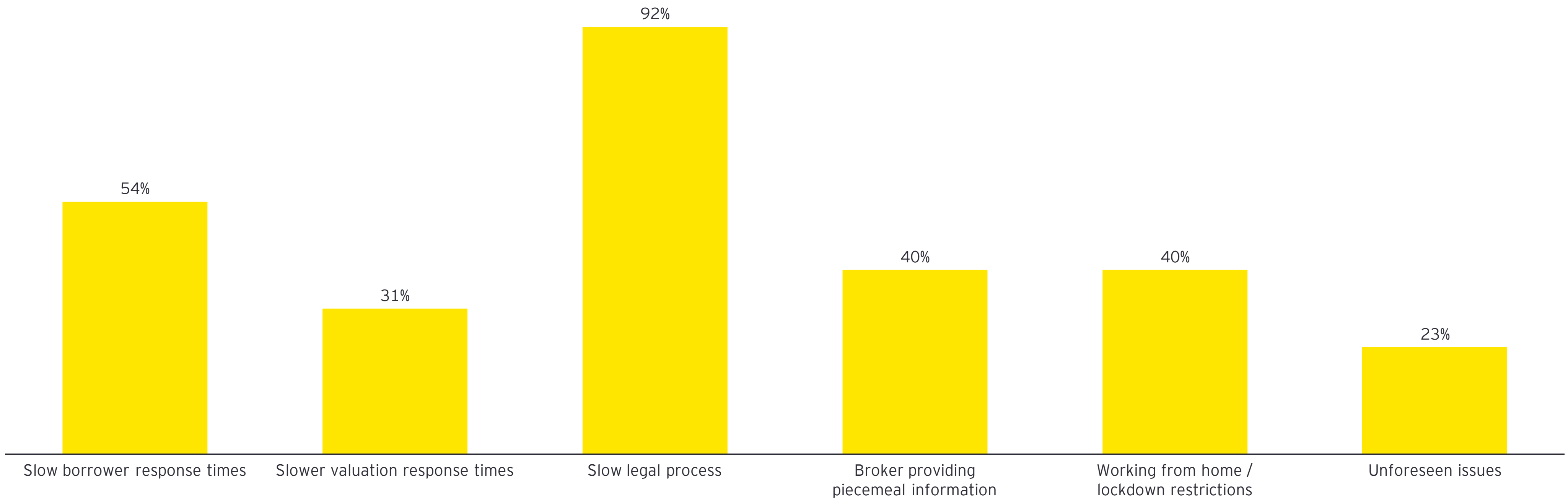
- 81% of respondents chose ‘the aftermath of the global pandemic’ as one of their top three challenges and 48% chose it as the most important challenge; a clear leader due to the economic uncertainty that the COVID-19 pandemic brings.
- ‘Increase in defaults’ was the second most popular choice, with 60% of respondents choosing it as one of their top three challenges; something expected as the government’s forbearance schemes come to an end.
- There has been a continual decrease in the proportion of respondents who ranked ‘significant decrease in property values’ as a key challenge, with 46% of 2021 respondents citing this vs. 53% and 82% of respondents in 2020 and 2019 respectively. Similarly, only 13% of respondents cited ‘Brexit’ as one of the three biggest challenges; a significant decrease on the 42% and 81% of respondents who chose this option in the 2020 and 2019 survey respectively.
- As expected, just 6% of respondents chose ‘higher interest rates’ as one of their top three challenges, a continual decrease from 2019 (16%) and 2020 (10%), a reflection of the low interest rate environment in the UK, with bridging market players expecting such an environment to persist in 2021, especially given expansionary monetary policy response in light of COVID-19.

Note: Totals may not add up to 100% due to rounding.
Respondents selected three options from the above and ranked them from 1-3. For example, 13% of respondents ranked ‘macroeconomic uncertainty’ as the most important challenge in the 2021 survey.
[1]Refers to the Bank of England base rate

Key challenges causing delays to operations

Key hindrances to efficiency

When timescales have protracted, which of the below factors have contributed most to delays (please select the top three)?

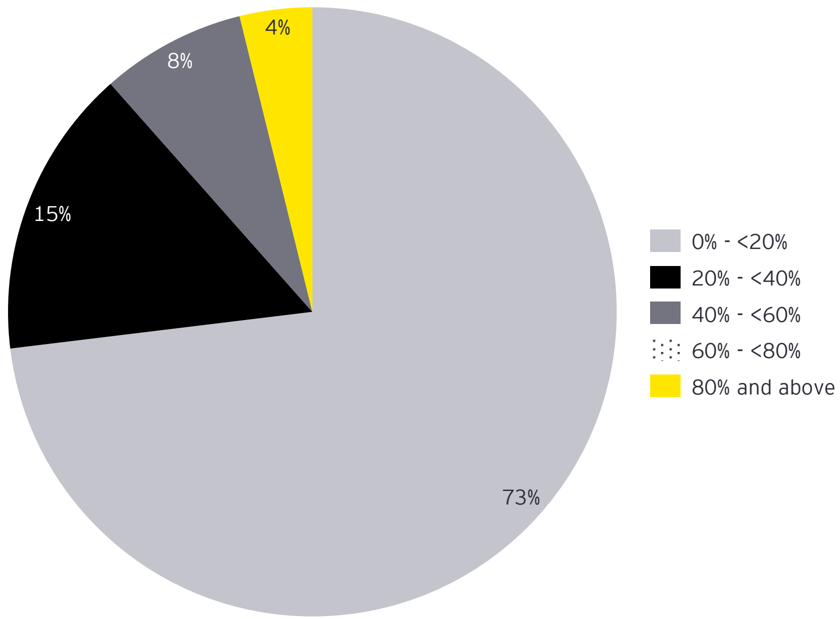


- Almost all respondents (92%) cited 'slow legal process' as one of their top three factors causing delays.
- Interestingly, the second most popular choice was 'slower borrower response times', of which 54% of participants chose this in their top three reasons to cause delays.
- Just 31% of respondents chose 'slower valuation response times' to be in their top three choices, which is very surprising given that property valuations could not be performed throughout the COVID-19 lockdowns, of which the UK has experienced three over the past 12 months. However, this finding could be the result of bridging lenders adapting in relatively short order, making use of AVMs and desktop valuations to continue to underwrite loans.

The impact of the stamp duty holiday on the market

Stamp Duty Land Tax holiday deadline

On average, from July 2020 to December 2020, what percentage of your regulated bridging loans were for the purpose of meeting the SDLT holiday deadline?



- The UK government cut UK stamp duty to 0% for purchases (up to £500,000) until the 31st March, and has since extended this until 30th June 2021.
- In the last six months of 2020, despite this period being the run up to the initial SDLT deadline, the majority of respondents (73%) reported that only 0-20% of their regulated bridging loans were made for the purpose of meeting the SDLT holiday deadline. This result was much more muted than we had initially expected, particularly with the record high numbers of mortgage approvals (99,000: Jan-20[1]) experienced in the UK housing market.
- 88% of respondents reported that less than 40% of their regulated bridging loans were made for the purpose of meeting the SDLT deadline.
- Whilst the majority of participants saw only a minority of their new lending being used for the purpose of the SDLT holiday deadline, it is interesting to see that 4% of participants experienced the *majority* of their new lending (80%-100%) for this purpose.
- No respondent reported 60-80% of their regulated bridging loans were made for the purpose of meeting the SDLT holiday deadline.

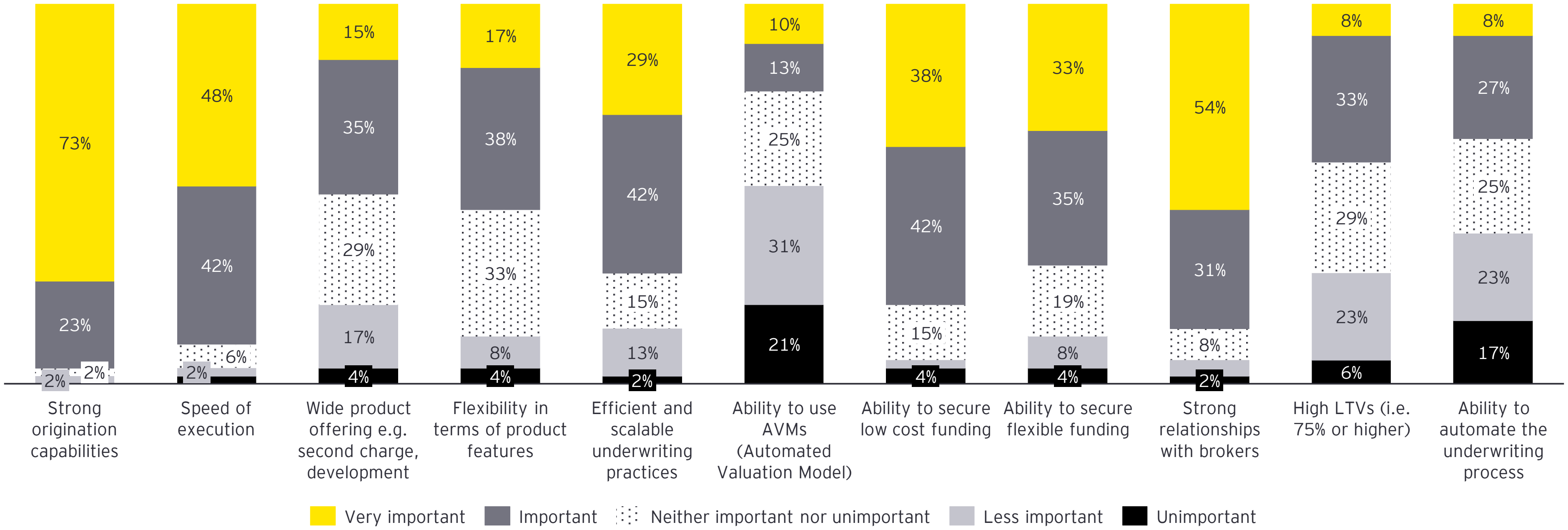
Note: Totals may not add up to 100% due to rounding. 22 of the participants chose not to disclose information about the SDLT deadline.
[1]Bank of England as at 01-Mar-2021

4 Strategy in the UK bridging market

Key capabilities to remain successful in the market

Key capabilities to remain a successful bridging finance lender

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



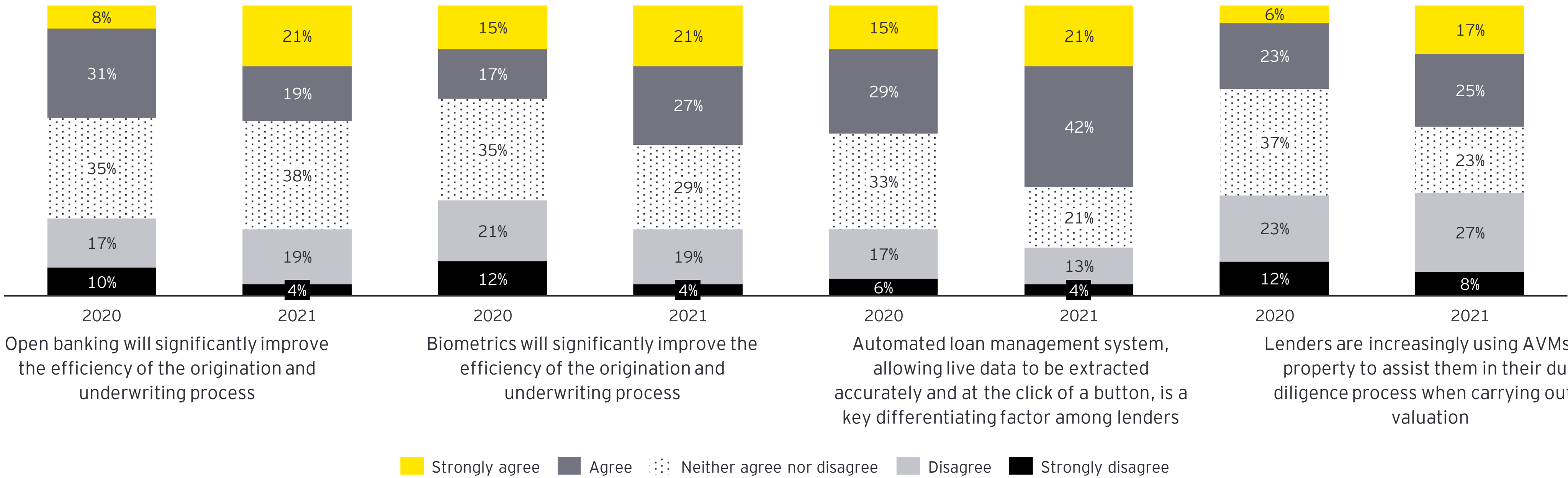
- In line with last year, over 50% of respondents cited 'strong origination capabilities' (73%) and 'strong relationships with brokers' (54%) as the most important capabilities to remain successful in the market. 48% of respondents selected 'speed of execution' as the most important capability, up from 40% and 34% of respondents who were of the same view in 2020 and 2019 respectively.
- Approximately 23% of respondents (2020: 3%) selected 'ability to use AVMs', and 35% of respondents (2020: 15%) selected 'ability to automate the underwriting process', as either a very important or an important capability. This is a significant increase from the prior year, as bridging lenders are increasing their use of technology; a movement which has accelerated due to the COVID-19 pandemic.
- Only 8% of respondents cited 'high LTVs' as the most important capability, down from 13% last year. This correlates with another finding where 96% (2020: 90%) of all respondents believe the 'average LTV' observed in the market is between 50%-70% (see page 12), suggesting that very high LTVs are neither a desirable nor a differentiating feature in the bridging market.

Note: Totals may not add up to 100% due to rounding.
Respondents rated each capability with a score of 1 (most important) to 5 (unimportant) and therefore can score more than one capability at each rating – e.g. a respondent could choose both 'strong origination capabilities' and 'speed of execution' as being "1 – very important".

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 agree and 5 being strongly disagree.



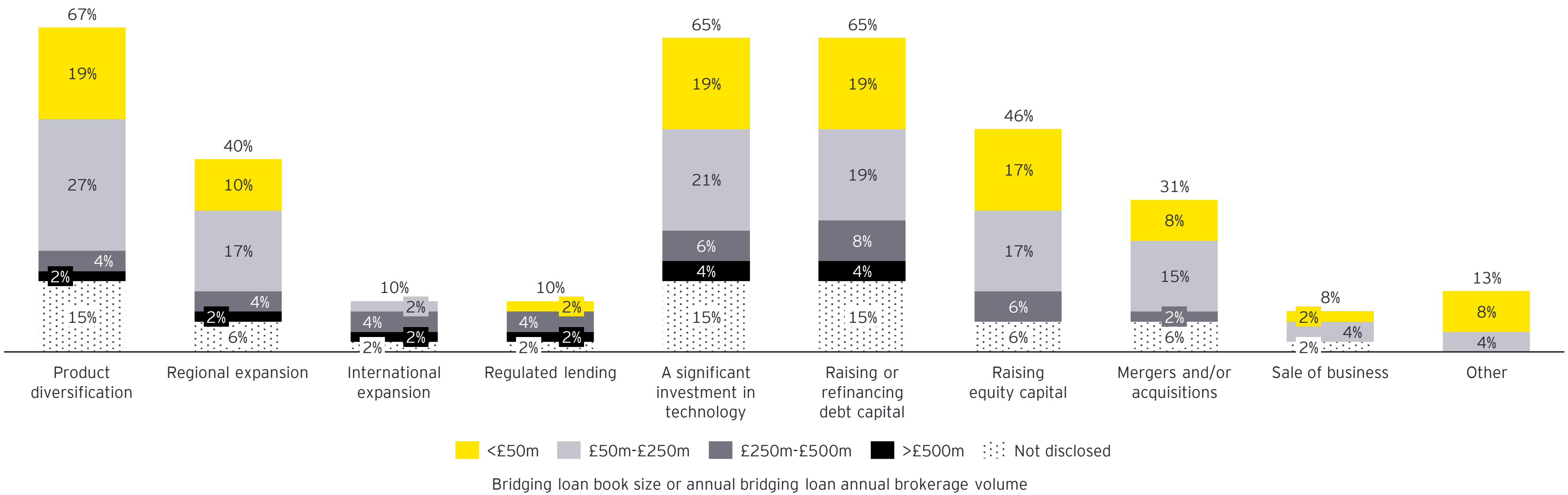
- The proportion of respondents who expressed agreement[1] with the statement 'open banking will significantly improve the efficiency of the origination and underwriting process' has remained the same as last year (39%), but has increased from the 2019 survey (21%). Despite this, the respondents' strength of agreement has increased, with 21% strongly agreeing in 2021 vs. just 8% for 2020. This trend could potentially be the result of the market becoming more familiar with the benefits of open banking as it becomes more mainstream.
- There has been an increase in the proportion of respondents (63%) who expressed agreement[1] with the automated loan management systems statement compared to 44% and 26% for 2020 and 2019 respectively, again, suggesting the growing importance of technology and automation as a whole in the bridging market, as it continues to grow and evolve.
- Compared to 2020, an increasing number of respondents (42%) expressed agreement[1] that lenders are increasingly using AVMs for diligence. It is likely that this movement has been accelerated by the COVID-19 pandemic lockdowns, where AVMs replaced full valuations (which were not possible to do for a large part of 2020).
- Respondents have generally placed more importance on the impact of technology on a bridging player's operations relative to previous surveys.

Note: Totals may not add up to 100% due to rounding.
[1]Indicates strongly agree or agree.

Strategic routes considered

Capital, growth and business strategy

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.



- The proportion of respondents citing 'product diversification' as a strategic route (67%) over the next 12 months has remained largely consistent compared to the 2020 survey (63%). Diversifying the product range would reduce over reliance on the bridging market and may also allow players to keep the customer relationship for longer if they're able to move them onto longer term products. Approximately, one-tenth (9%) of respondents citing 'product diversification' as a growth strategy are also considering 'regulated lending'.
- Interestingly, we added a new strategic option this year being 'a significant investment in technology', which was the (joint) second most popular choice (selected by 65% of participants), and was particularly popular with smaller players in the bridging market.
- 65% of respondents are considering 'raising or refinancing debt capital' and 46% are considering 'raising equity capital' as one of their strategic options over the next 12 months, consistent with the 2020 survey and a reflection of the continual desire for growth within the bridging market space.
- Approximately one third (31%) of respondents are considering 'mergers and/or acquisitions' during 2021, which is a decrease compared to the 2020 survey (43%).
- Only 8% of respondents are considering 'sale of business' as a strategic option over the next 12 months (2020: 9%) and no respondents that selected this option are lenders with a £500m+ loan book.

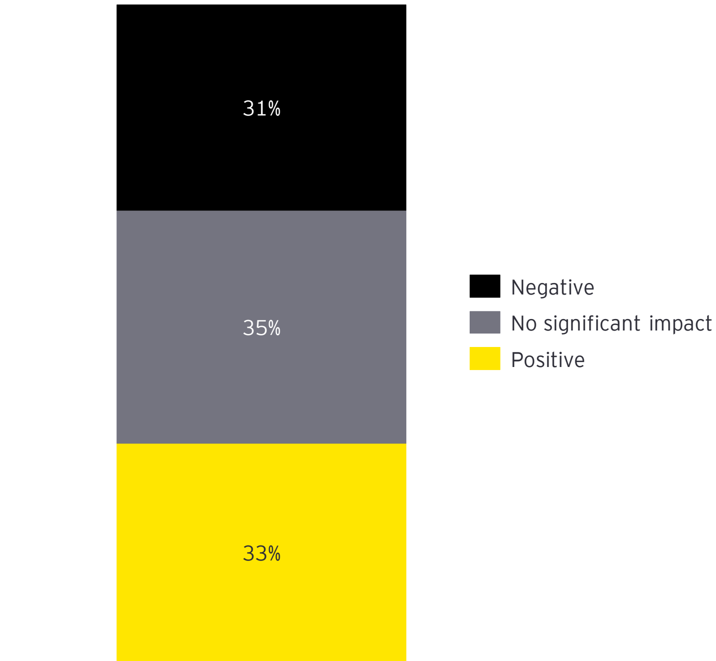
Note: Totals may not add up to 100% due to rounding.

5 COVID-19

COVID-19

Impact of the global pandemic in the UK bridging finance market

How do you expect the global pandemic to impact the UK bridging finance industry in the next 12 months?



"I believe some lenders will have experienced increased delinquency, and as such, their funding lines will have been suspended or withdrawn"

Regulated bridging lender

"It has been a tough year and we have had to be understanding with some of our borrowers due to the COVID-19 situation."

Bridging lender

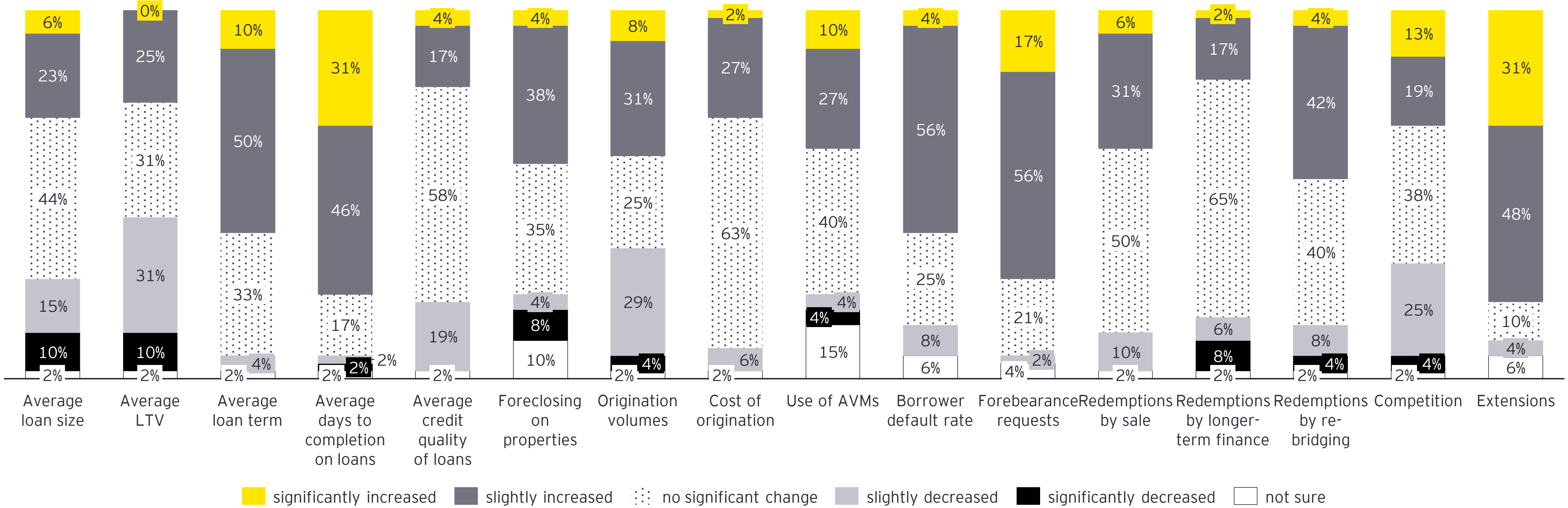
- As illustrated above, there is an almost equal split of respondents who believe the global pandemic will have a 'negative' impact (31%), a 'positive' impact (33%), or 'no significant impact' (35%) at all on the UK bridging finance market
- The results reflect the vast level of uncertainty and/or varying viewpoints posed by the future impact of the COVID-19 pandemic, and the effectiveness of the UK's vaccination programme in moving the economy as a whole, back to a normal environment.
- Over the next few pages, we explore in more detail, respondents' view of the impact the pandemic has had.

Note: Totals may not add up to 100% due to rounding.

The global pandemic

Respondents view on the impact of COVID-19 on their business

For each factor below, please choose the option that most closely reflects the impact of the COVID-19 pandemic and associated government measures on your business specifically.



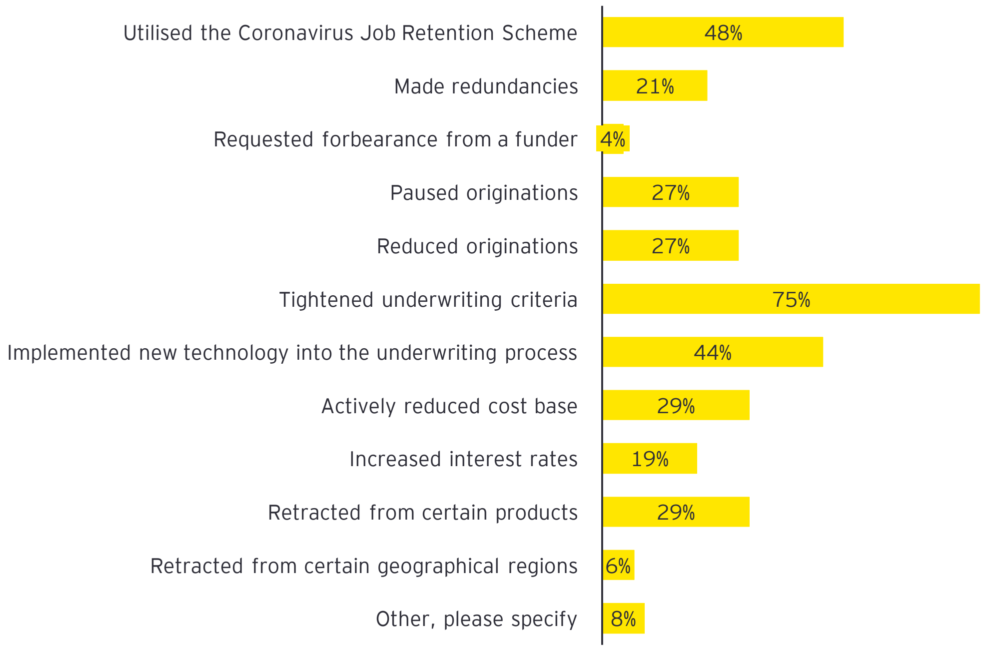
- 41% of respondents have decreased[1] their LTVs on loans advanced and 25% have decreased[1] their average loan size, reflecting a tightening of credit criteria and more conservative lending within the bridging market.
- Just 33% of respondents cited 'origination volumes' as having decreased[1], of which 4% reported a significant decrease despite the macroeconomic uncertainty experience in the UK over the past 12 months.
- As previously observed, 'average days to completion on loans' was the largest factor (31%) to significantly increase as a result of disrupted business operations, particularly at the onset of the pandemic.
- In a similar vein, 'extensions' was the joint largest factor to significantly increase (31%) as bridging lenders offered forbearance to their borrowers. As a result, 73% of respondents reported forbearance requests as having increased[2], 17% of which reporting a significant increase.
- Interestingly, 37% of respondents have increased[2] their use of AVMs over the last 6 months with only 8% reporting a decrease[1] in the use of AVMs.
- The view of the level of competition that the respondents are seeing in the market as a *direct result of COVID-19* shows a relatively even split across the possible responses, with 32% reporting that competition has increased[2], 29% reporting that competition has decreased[1], with the remainder citing 'no significant change'.

Note: Totals may not add up to 100% due to rounding.
[1]indicates slightly decreased or significantly decreased
[2]Indicates slightly increased or significantly increased

The global pandemic (cont.)

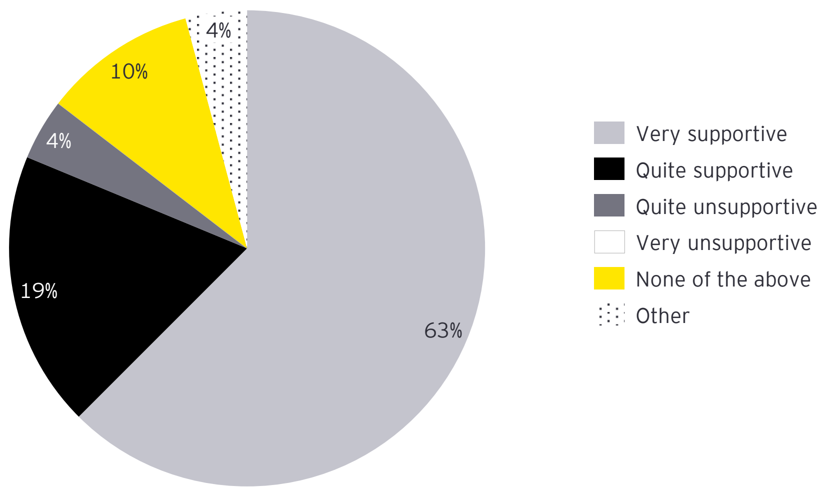
Actions taken by respondents

Which of the following actions have you taken in the past 12 months in order to help navigate COVID-19?



Respondents view on the level of support received from funders

To what extent have your funding providers been supportive during the crisis?



- The majority of respondents (75%) have tightened underwriting criteria over the last six months and 44% having implemented new technology into their underwriting process.
- 48% of respondents have furloughed staff and 29% have actively looked to reduce their cost base to improve their cash position amidst forbearance requests from borrowers.
- 27% of respondents had paused originations altogether at some point during the last 12 months. 27% of respondents also made a decision to either pause originations or reduce originations at some point over the last 12 months[1].
- The respondent that chose 'other' as a response to the question on COVID-19 actions included becoming an accredited CBILs lender, and consideration of shorter term loans as a result of the macroeconomic uncertainty.
- 4% of respondents requested forbearance from their funder(s), with the majority (82%) reporting their funder(s) to have been either very supportive or quite supportive over the last 12 months.
- The respondent that chose 'other' as a response to the level of support their existing funders (4%) has cited that they're seeing varying degrees of support across their current funding partners.

Note: Totals may not add up to 100% due to rounding.
[1]Whilst some respondents made a decision to pause or reduce originations at some point during the last 12 months, some of these respondents had also reported an increase in originations when taking the full 12 month period into account.

6

How the EY team can help

How the EY team can help

With the successful completion of 10 bridging finance transactions since FY18, the EY Financial Services Corporate Finance team has a demonstrable track record as a trusted financial advisor in the UK bridging finance market.

How the EY team can help

Advising shareholders on strategic options

- The EY team recently advised MT Finance, a short term property lender, on consolidating 100% ownership of the company back into the hands of the founders.
- For potential buyers of bridging finance lenders or brokers, we can advise on capital structure options through both the M&A process.
- The EY team were appointed as sell-side advisor to a mid-sized specialist bridging and development finance lender, also providing debt advisory and vendor due diligence services, which was acquired by a private equity sponsor.

Advising bridging lenders on raising finance

- We have experience of advising bridging finance lenders on various financing structures, including senior, mezzanine, forward flow and private securitisation.
- The EY team were appointed as sole financial advisor to a mid-sized independent bridging lender on arranging a forward flow facility with a global investment manager.
- The EY team are currently mandated on helping a small to mid-sized bridging and development lender to raise their first line of senior finance.

Analysing loan portfolios and policies

- Using our in depth sector experience, we provide loan portfolio data tape analysis, and compare against best-in-class operators.
- This also extends to reviewing underwriting and collections policies, with a view of advising on developing policies to support with raising debt and equity capital.
- The EY team were appointed as sole financial advisor to a large specialist mortgage lender on refinancing their debt facilities, which included providing insight on the loan portfolio data tape quality.

Why the EY team?

- We take a broad view, with a combined M&A and debt advisory proposition.
- We advise on solutions across the broad capital spectrum.
- We maintain strong relationships with a broad network of capital providers.
- We are a team led by ex-bankers, meaning we understand the key areas of focus when approaching funders.
- We are highly experienced on advising on complex and structured solutions.
- We remain fully independent, confirming our advice has no lending, transactional or product bias.
- We are sector focussed, investing time in building sector knowledge and insights on the UK bridging finance market.

EY Corporate Finance contacts

Nick Parkhouse
Partner

m: +44 7730 584 443
e: nparkhouse@uk.ey.com

Jordan Blakesley
Senior Manager

m: +44 7876 276 330
e: jblakesley@uk.ey.com

Geoffrey Guillemard
Senior Manager

t: +44 20 7197 1185
e: geoffrey.guillemard@uk.ey.com

Jack Dutton
Manager

m: +44 7341 078 626
e: jack.dutton@uk.ey.com

Sharoze Malik
Executive

t: +44 20 7980 9362
e: sheroze.malik@uk.ey.com

Stuart Mogg
Director

m: +44 7789 207 464
e: stuart.mogg@uk.ey.com

Taylor Gwilliam
Senior Manager

t: +44 20 7951 6715
e: taylor.gwilliam@uk.ey.com

Brian Keane
Manager

m: +44 7724 558 184
e: brian.keane@uk.ey.com

Arihant Jain
Executive

m: +44 7552 807 492
e: arihant.jain@uk.ey.com

Caleb Ong
Analyst

t: +44 20 7980 9195
e: caleb.ong@uk.ey.com

Jenna Picken
Director

m: +44 7387 051 089
e: jenna.picken@uk.ey.com

Kai Holdgate
Senior Manager

m: +44 7385 344 452
e: kai.holdgate@uk.ey.com

Mikal Chawdry
Manager

t: +44 20 7197 9229
e: mchawdry@uk.ey.com

Will David
Executive

m: +44 7880 084 529
e: will.david@uk.ey.com

Bronte Parkinson
Analyst

m: +44 7469 323 148
e: bronte.parkinson@uk.ey.com

Note: The individuals above are members of EY LLP.

Key wider EY FS Strategy and Transactions contacts

Peter Galka
Transaction Diligence
Partner

t: +44 20 7197 7661
e: pgalka@uk.ey.com

James Aldridge
Transaction Diligence
Associate Partner

t: +44 20 7951 2958
e: jaldridge@uk.ey.com

Oliver Henderson
Transaction Diligence
Associate Partner

t: +44 20 7951 6085
e: ohenderson@uk.ey.com

Alex Araujo
Transaction Diligence
Associate Partner

t: +44 20 7951 3887
e: aaraujo@uk.ey.com

Ajay Rawal
Turnaround & Restructuring
Partner

t: +44 20 7806 9252
e: arawal@uk.ey.com

Saleem Malik
Turnaround & Restructuring
Partner

t: +44 20 7951 5330
e: smalik1@uk.ey.com

Matthew Tucker
EY-Parthenon Strategy
Partner

t: +44 20 7951 5501
e: matthew.tucker@parthenon.ey.com

Michael Wada
Transaction Strategy & Execution
Partner

t: +44 20 795 19368
e: mwada@parthenon.ey.com

Nick Robinson
Valuations
Associate Partner

t: +44 20 7951 4231
e: nrobinson@uk.ey.com

Note: The individuals above are members of EY LLP.

EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.