# UK bridging market study

Minds made for building financial services

**May 2022**

Building a better working world

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**Minds made for building financial services**

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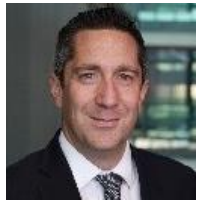
# Overview



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Welcome to the fourth UK bridging market study from the EY Financial Services Corporate Finance team. The survey tracks developments in the UK bridging finance market with the goal of bringing insight, transparency and support to the 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 15 February 2022 and 4 March 2022, resulting in responses from 47 UK bridging finance lenders and brokers. Of the survey's participants, 34 lenders provided detail regarding the size of their loan book, with these lenders having a combined book size of c.£5.1b, highlighting the continued growth and investment in the market.

This year we included additional questions around the long-term effects of COVID-19 on the market and business intentions to implement an Environmental, Social and Governance (ESG) strategy. Interestingly, 60% of respondents believe that COVID-19 has had a positive impact on the UK bridging market, through the adoption of technologies and increased demand for property. Further details regarding our participants views on these topics can be found later on in this report.

There is a general sentiment across participants that competition remains a key challenge in the UK bridging market (the view of 70% of participants) and is likely to stay the same or increase (the view of 85% of participants) going into 2022, which is consistent with our view at EY. To remain successful, participants again cited strong origination capabilities, strong relationships with brokers and speed of execution as key factors.

Strategically, participants noted that they would be considering significant investments in technology, raising debt finance or refinancing their debt facilities and product diversification as their top three key strategic routes over the next 12 months. Technology remains a key differentiator for bridging businesses and could be a driving factor behind future M&A activity.

As the market continues to mature and funder appetite increases, we expect to see further capital deployed and an increasing number of bridging lenders move towards institutional funding models. This will help bridging players to secure flexible, low cost funding that can facilitate growth.

In addition, this report brings together further insights across a range of topics, including originations, products 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 this 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 2022 UK bridging finance market survey (conducted between 15 February 2022 and 4 March 2022), coupled with a retrospective view of our own experience in the past 12 months alongside the outlook that was expected from the 2021 survey. We have also included commentary on the impacts to the market as a result of the continued aftermath of the COVID-19 pandemic.

- In line with the 2021 survey, competition remains high in the UK bridging finance market; therefore, the rates offered in the bridging market over the past 12 months have decreased. The Bank of England base rate has increased in recent months, which has put upward pressure on the base rate, which may potentially squeeze the profitability of bridging lenders.
- Due to the COVID-19 pandemic, bridging lenders have invested in the use of technology, such as Automated Valuation Models (AVM) and building end-to-end loan management systems (including e-signatures). We expect this trend to continue throughout 2022, albeit 70% of respondents have hired new employees over the past 12 months, implying that the use of technology has not been as quick as expected. Additionally, there may be a divergence between the use of technology for large and small players in the market where the loan book size does not support large investments in technology.
- Institutional funding in the UK bridging market has increased for several reasons. Firstly, bridging lenders are attracted to raising senior financing, given that this reduces the number of financing parties that they interact with to as little as one, which compared with high-net-worth financing is a slicker process. On the lender side, many financers, especially in the US, are interested in investing in UK bridging loans which offer high risk-adjusted returns.
- Interestingly, the portion of respondents looking to provide regulated funding over the next 12 months was 23%, while 76% cited no expected change to their product structure.
- The COVID-19 pandemic was expected to have a significant impact on credit quality, however only 4% of respondents cited the quality of their loans deteriorating over the past 12 months.
- Despite some credit concerns, there is appetite for larger loans with 28% of respondents looking to offer larger facilities over the next 12 months.

## Key findings

- 72% of respondents found that institutional funding into the market had increased in 2021. This is likely fuelled by the maturity of the UK bridging market and the desire for institutional capital providers', in particular credit funds', desire to seek higher risk-adjusted returns.
- Most respondents (72%) experienced increased competition over the past 12 months; something that is likely to continue given that 70% of respondents cited 'competition' as one of their top three business challenges in 2022 compared to 52% in 2021. There has been an influx of new players into the UK bridging market, and the fragmented nature of the market suggests that areas such as level of technology and proportion of institutional funding may hugely differ between the larger versus smaller players.
- 30% of respondents now use, and 34% intend to use AVMs underlining their growing role within the bridging market. These systems are used to provide estimates of capital or rental value for properties under consideration for funding. While such systems do have the capacity to be used independently, we understand some respondents noted that they are being used in tandem with on site valuations.
- The majority of respondents (60%) are planning to implement an ESG strategy over the next 12 months. One example of this is bridging lenders offering cash back to borrowers that achieve an energy performance rating of A or B at any time during the term of their loan. The incentive is designed to encourage borrowers to purchase more energy efficient properties or to undertake works to improve insulation or upgrading windows and heat sources.
- The proportion of respondents citing 'product diversification' as a strategic route (57%) over the next 12 months has reduced slightly compared to the 2021 survey (67%). This is surprising given diversification of product range could reduce borrowers over reliance on bridging products and allow lenders to retain and build longer-term client relationships e.g. moving clients onto longer term products such as buy-to-let.

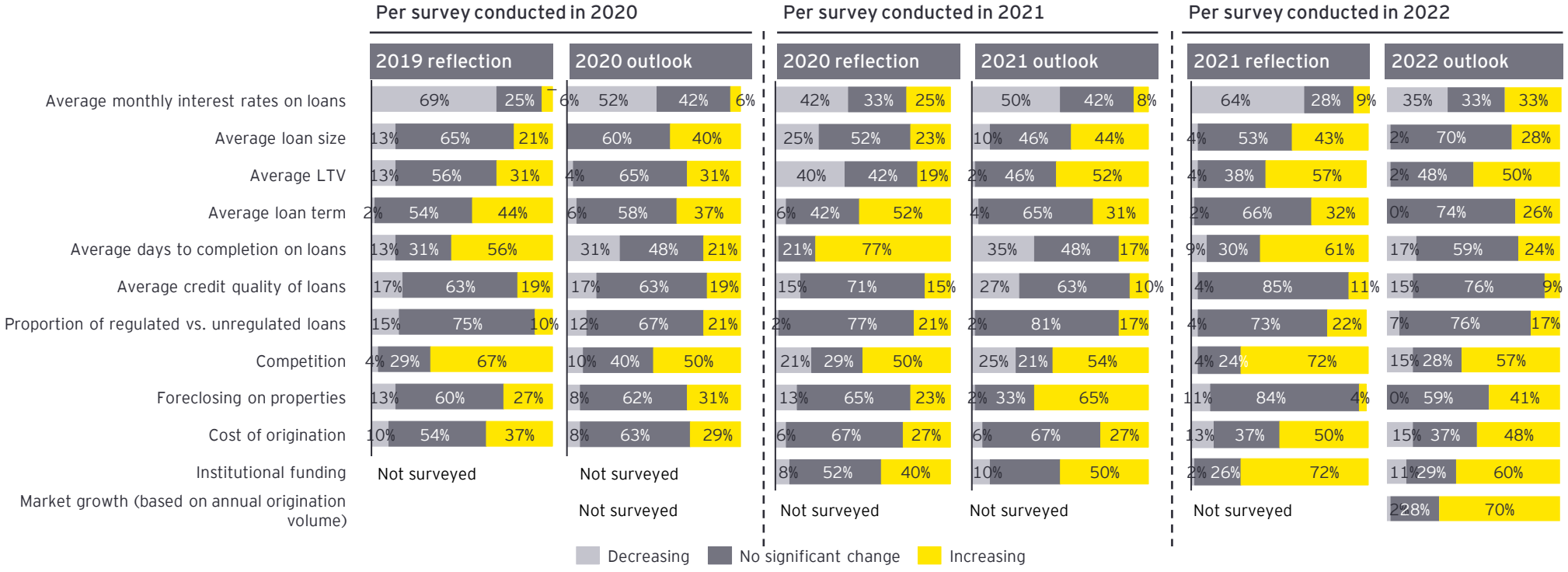
# 2

# 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.



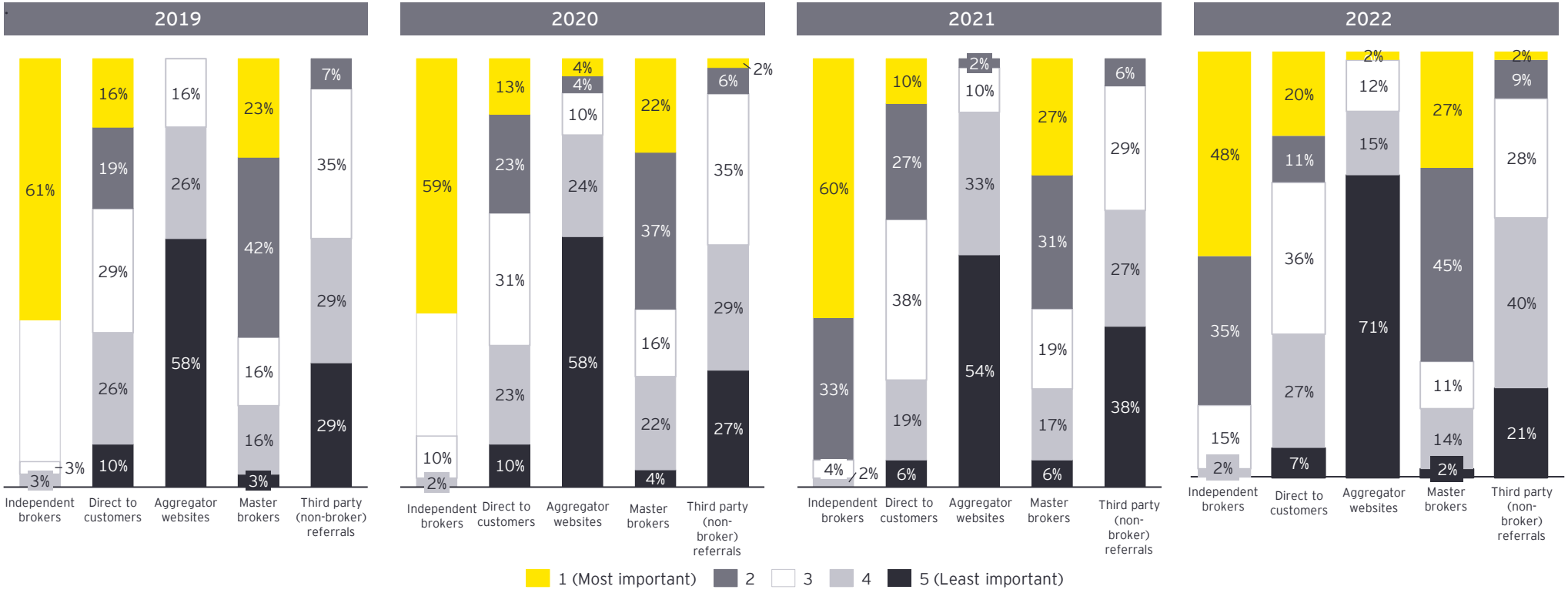

- Last year, half of respondents (50%) expected 'average monthly interest rates on loans' would decrease over the next 12 months. This year, on reflection, 64% of respondents actually found the 'average monthly interest rates on loans' had decreased during 2021, suggesting there was a compression in the market over the last 12 months; most likely a reflection of the Bank of England's lag to increase the base rate. Nevertheless, this compression may be linked to the majority of the participants (72%) believing there has been increased competition over the past 12 months; something likely to continue given that 70% of respondents cited 'competition' as one of their top three business challenges in 2022 compared to 52% in 2021 (see page 16).
- Interestingly 61%, of respondents found 'average days to completion on loans' to have increased during 2021, compared to the 2021 forecast of just 17%. This figure does decrease to 24% for the 2022 outlook, but it is a reflection of delays caused by the COVID-19 pandemic which may have taken longer than anticipated to impact the market.
- Last year, 27% of respondents expected 'cost of origination' to increase over the next 12 months. This year, the survey showed however that 50% of respondents saw an increase in 'cost of origination' for their business.
- When looking back at 2021, 50% of participants thought that 'institutional funding' would increase throughout the year. A higher percentage of respondents (72%) found that institutional funding into the market had increased in 2021, fuelled by the maturity of the UK bridging market and the desire for institutional capital providers', in particular credit funds', 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 bridging loan originations?




- In aggregate, respondents cited broker-related channels as the most important channel for loan originations, with 48% of respondents choosing 'independent brokers' as the most important channel for loan originations (and 98% giving a rating of 3 or above), consistent with the respondents' view in 2019, 2020 and 2021 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 2022 compared to 27%, 22% and 23% in 2021, 2020 and 2019 respectively. The percentage of respondents ranking this option as one of their top three origination channels, has remained broadly stable at 83% (2021: 77%, 2020: 75%, 2019: 81%).
- At 2%, the proportion of respondents citing 'aggregator websites' as one of their top two channels for loan originations remained the same as last year and reduced from 2020 where 8% of respondents ranked this in their top two choices. The appeal of 'aggregator websites' remains limited as a viable primary origination channel for the majority of respondents but it is interesting to see them being an important channel for at least some bridging lenders.
- The 'direct to customer' channel appears to be increasing in importance, with 20% of respondents citing this as their most important origination channel (2021: 10%, 2020: 13%, 2019: 16%).
- Third-party referrals was chosen by just 2% of the respondents as their most important channel. However, 39% of respondents did rank this option in their top three most important channels in the most recent survey, an increase on previous years.

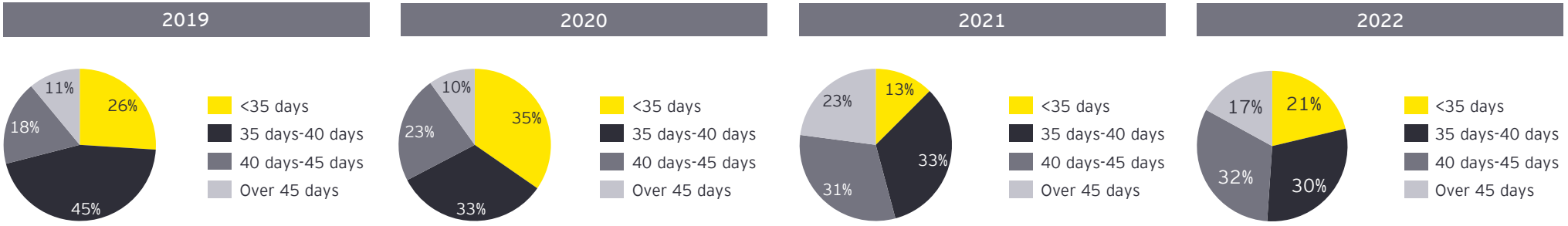
Note: Totals may not add up to 100% due to rounding/certain respondents only provided a selection of rankings in respect of answers,

# Originations (continued)

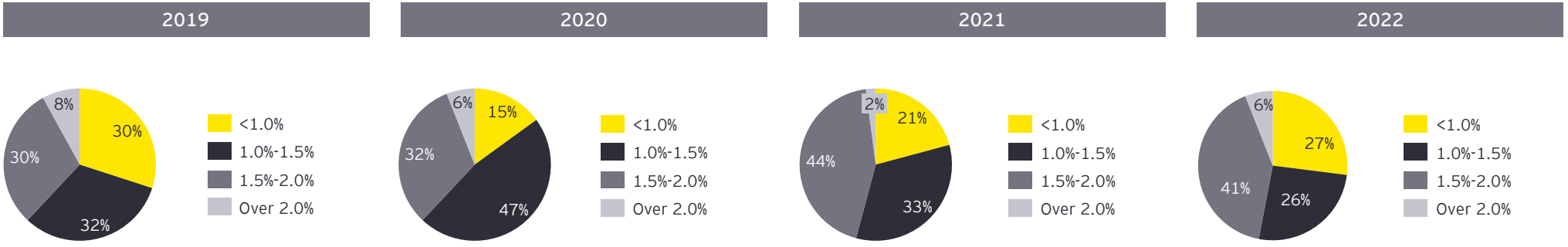
**Respondents view on loan originations over the past 12 months.**

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**



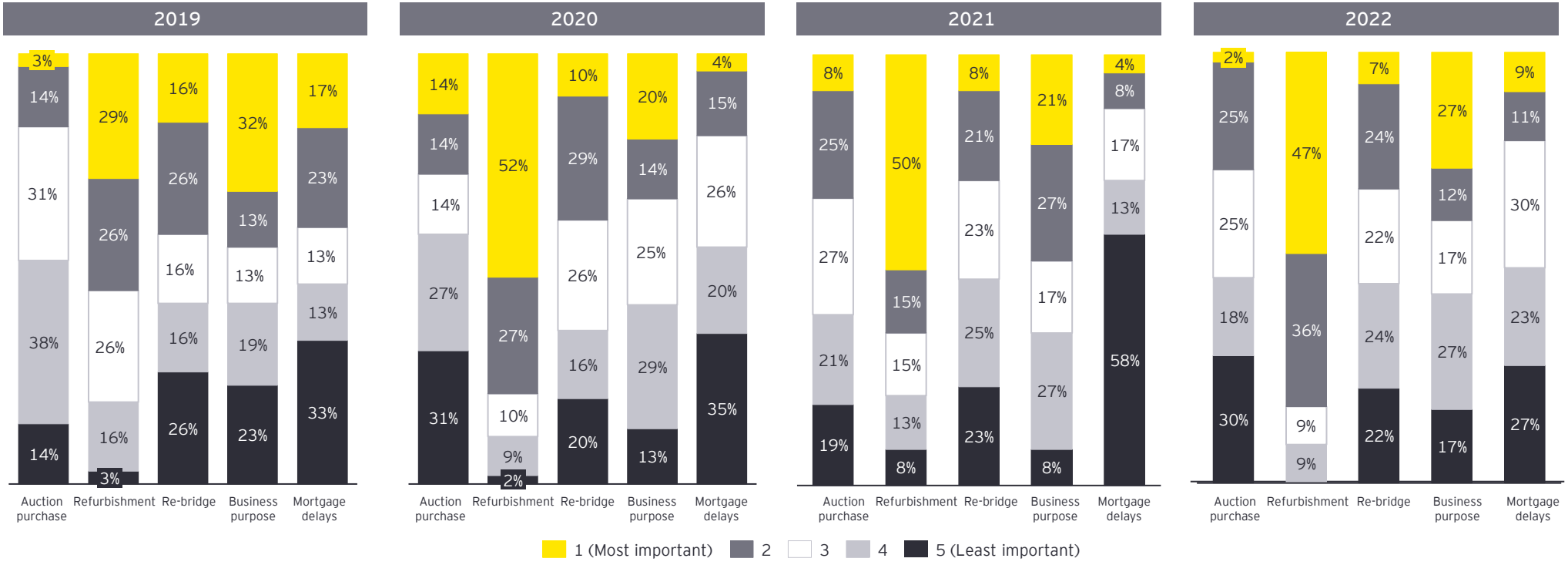

- The latest survey aligns with 2021 that respondents view the 'average days taken to complete' has increased from 2019 and 2020, with 49% believing it to be 40 days or over (2021: 54%, 2020: 33%, 2019: 29%).
- Additionally, 21% of respondents believe the 'average days taken to complete' is under 35 days, an improvement upon the previous survey (2021: 13%). This likely indicates that previous difficulties in advancing loans caused by COVID-19, such as remote working and an inability to conduct full valuations, are no longer as prevalent.
- 27% of respondents cited the 'average monthly cost of origination' to be less than 1.0%, increasing from 21% and 15% of respondents who cited this option in 2020 and 2021 respectively.
- On the contrary, 26% of respondents viewed the average monthly cost of origination to be between 1.0%-1.5%, decreasing again from 33% 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 1-5, with 1 being the most popular reason and 5 being the least popular reason.




- The option rated as most important by the most respondents (47%) was 'refurbishment' which aligns with both 2020 (52%) and 2021 (50%), albeit the proportion has slightly decreased. However, looking at respondents' top three choices, almost all (92%) chose 'refurbishment', an increase from 2020 (89%) and 2021 (80%).
- 27% of respondents believe that 'business purpose' is the most important reason for borrowers to obtain a bridging loan, which again is broadly in line with both 2020 (20%) and 2021 (21%).
- Interestingly, 52% of respondents cited 'auction purchase' as one of their top three reasons for borrowers obtaining a bridging loan. This is a decrease from the last survey (60%).
- Of the respondents who chose 'other' in their top three choices, speed of execution, upsizing/downsizing, and purchase before sale appeared.

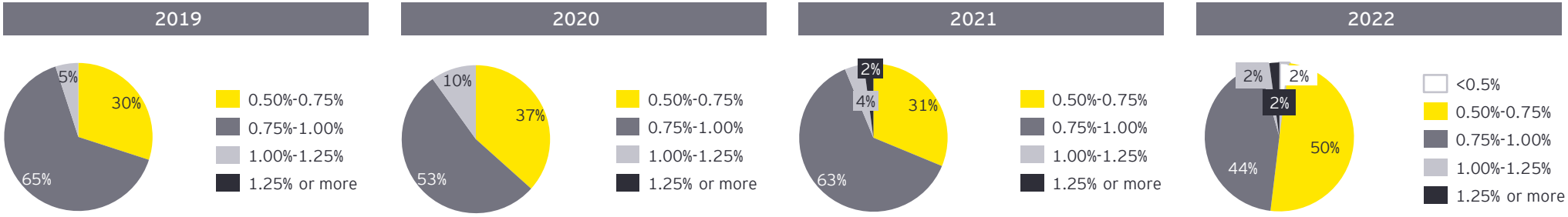
Note: Totals may not add up to 100% due to rounding.

# Product (continued)

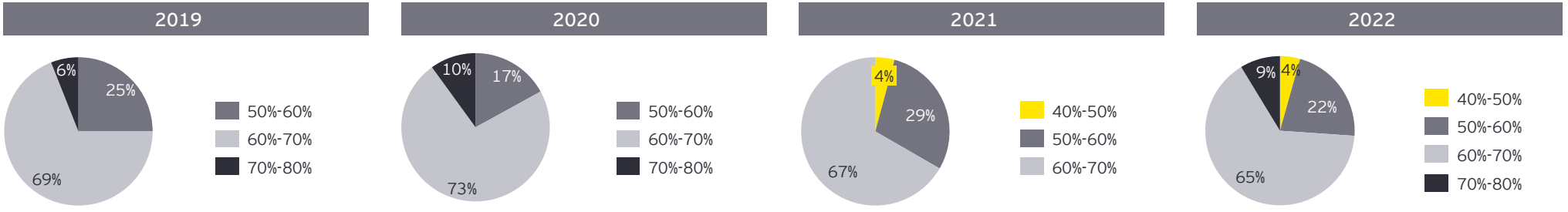
**Respondents view on product terms over the past 12 months**

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**




- The majority of respondents (50%) believe the 'average monthly interest rate' for bridging loans is 0.50%-0.75%. This was a reduction compared to the most popular option for the 2019-2021 surveys of 0.75%-1.00% which reflects the heightened competition in the bridging market and new entrants to the space.
- 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 of <40% or >80%, implying that LTV's continue to sit between these boundaries.
- Interestingly 9% of lenders cited 'average LTV' to be 70-80% which was an increase from 0% in the 2021 survey, possibly due to the loosening of COVID-19-related credit tightening.

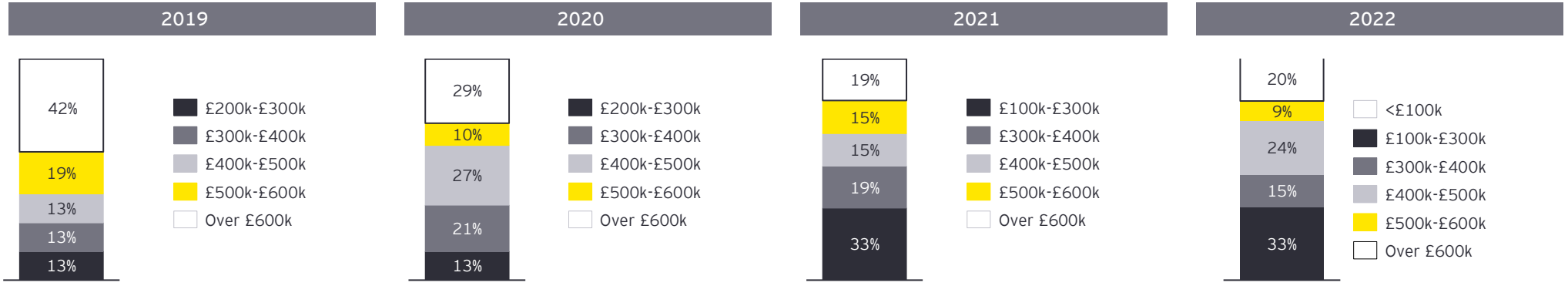
Note: Totals may not add up to 100% due to rounding.

# Product (continued)

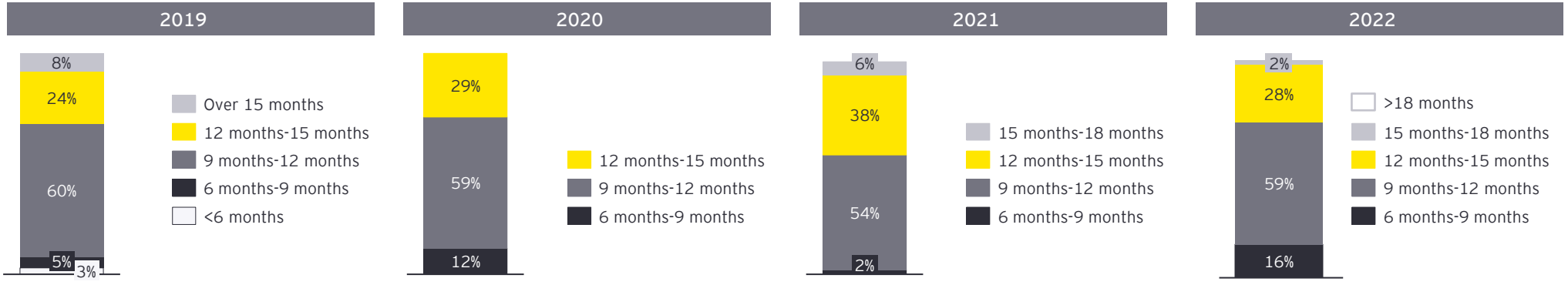
**Respondents view on product terms over the past 12 months**

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



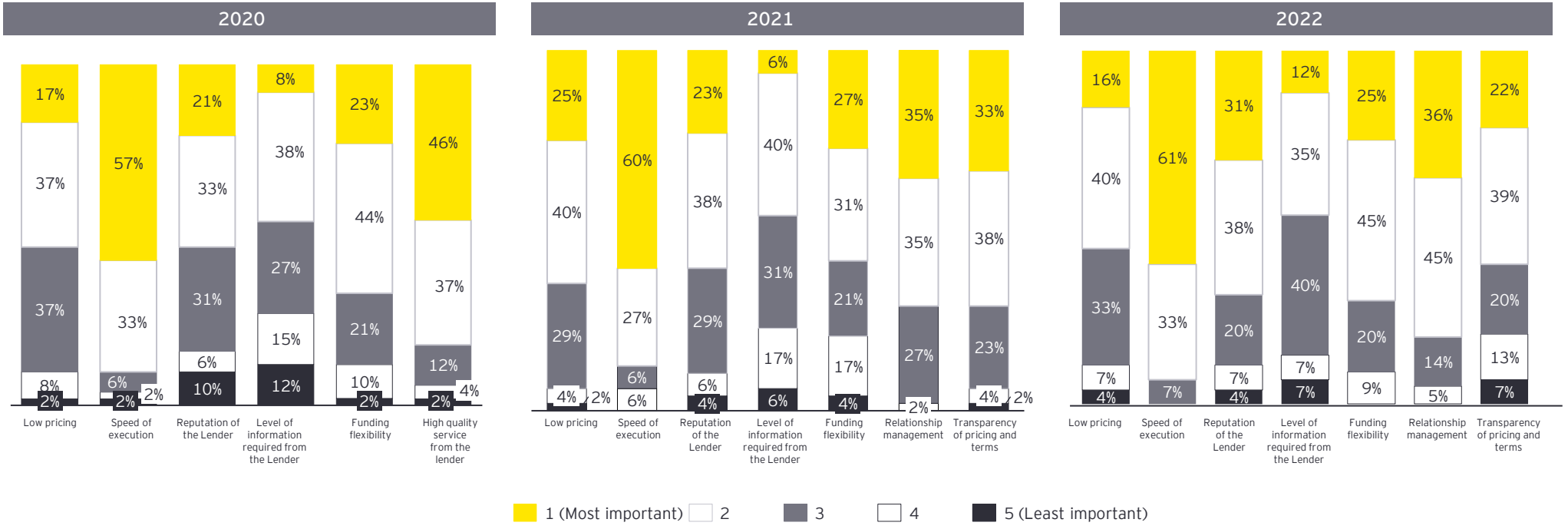

- 29% of respondents believe the 'average loan size' in the market is £500k or more, which is a decrease from 34% of respondents who shared this view last year, and 39% the year before. One-third of respondents continue to believe that the average loan size is between £100k-£300k.
- In the 2022 survey we added a new option for <£100k, albeit no respondents chose this option, implying £100k remains a lower boundary for 'average loan size'.
- The majority of respondents (59%) view the 'average loan term' to be between 9-12 months which is broadly in line with all previous surveys.

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 most important and 5 being least important.




- 61% of respondents cited 'speed of execution' as a most important consideration when choosing a bridging lender, consistent with the 2020 and 2021 survey results.
- Approximately one third (31%) of respondents cited 'Reputation of the Lender' as a most important consideration, which is likely a disadvantage to the many new players into the UK bridging market who have limited track record.
- Approximately one third (36%) of respondents cited 'relationship management' as a most important consideration, consistent with the 2021 survey (35%).
- There was a reduction in the number of respondents choosing 'transparency of pricing and terms' as their top choice (22%: 2022, 33%: 2021), which is likely a reflection of the increasing online presence of bridging lenders and use of technology, which enable easier comparison of price and terms between different market players.

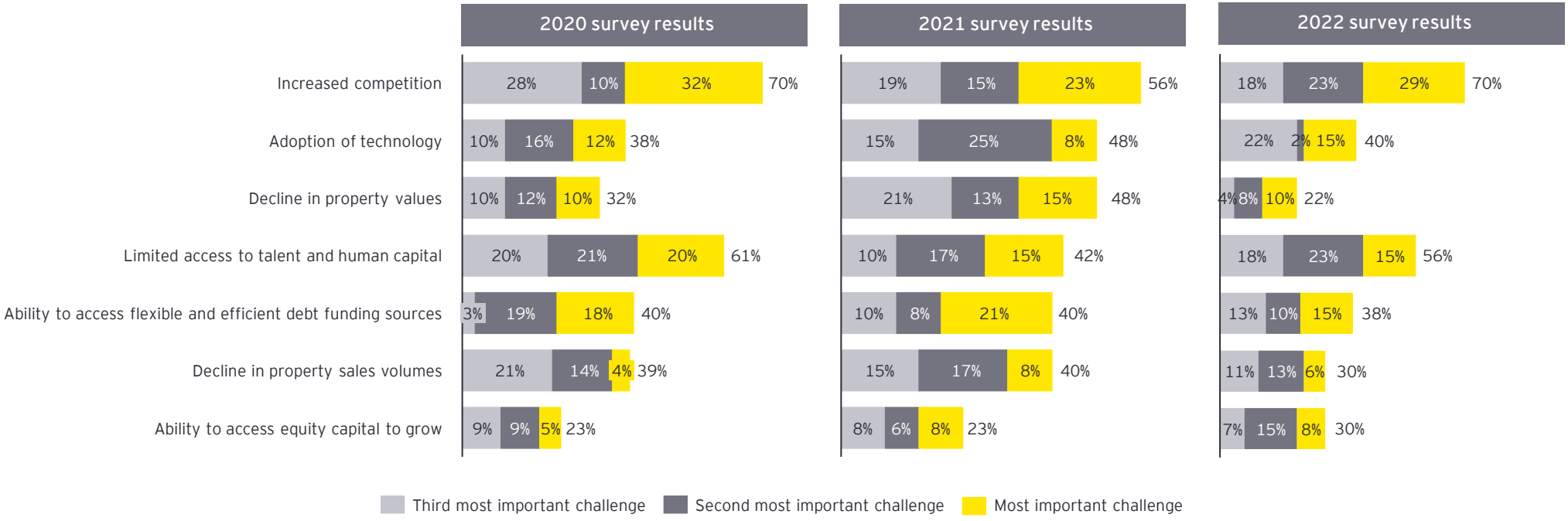
Note: Totals may not add up to 100% due to rounding.
Respondents rated each capability with a score of 1 (most important) to 5 (least important) and therefore can score more than one capability at each rating – e.g., a respondent could choose both 'low pricing' and 'speed of execution' as being '1 – most 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 2022? 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].



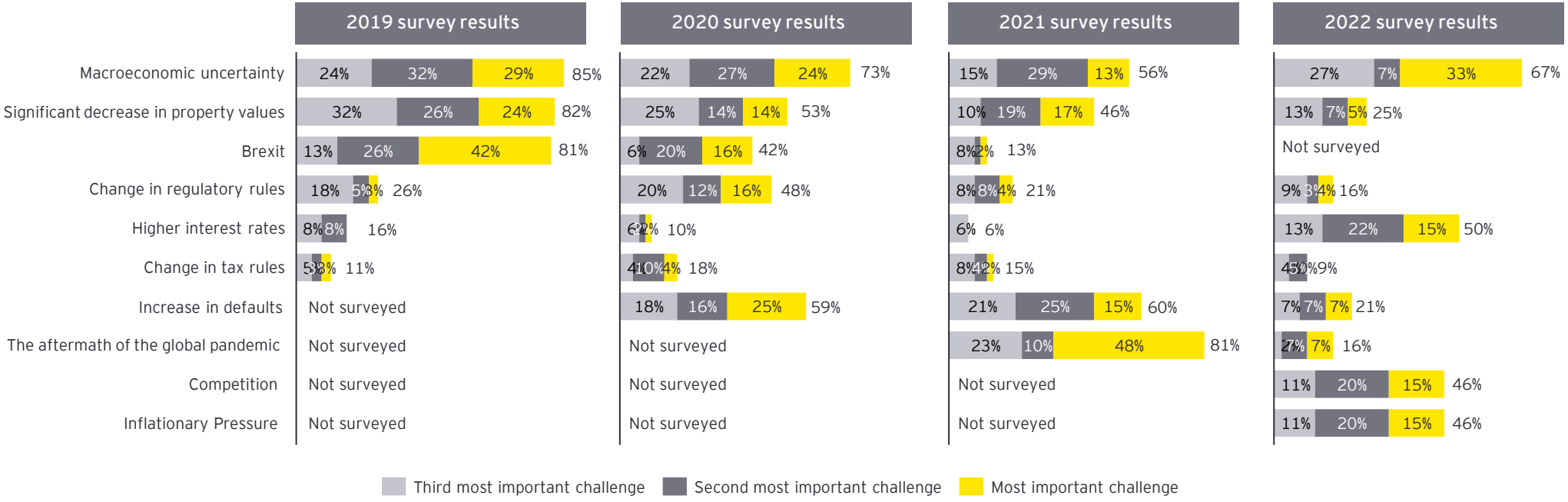

- 70% of respondents cited 'increased competition' as one of the top three most important challenges for lenders, returning to levels seen in 2020, and up 14% versus 2021. This remains the option most selected by our survey participants.
- 'Limited access to human capital' also remains a key challenge affecting lenders in the market, with 56% of respondents selecting this issue, up 14% versus 2021.
- Interestingly, less respondents selected 'adoption of technology' as a key challenge affecting lenders in the market versus 2021. Whilst some businesses are in the early stages of adopting technology, more generally the UK bridging market appears to have embraced and profited from early adoption. Technology remains a key strategic goal for bridging organisations. with 64% participants indicating that a significant investment in technology will form part of their broader strategy in the next 12 months (see page 21).
- 22% of respondents chose 'decline in property values' as one of the top three challenges that will their business in 2021, significantly down from 48% in 2020. This is hardly surprising given continued rises in the value of properties in the UK housing market. This sentiment is echoed on the next page where participants have listed a significant decrease in property prices as less of a concern for the wider market moving into 2022.

Note: Totals may not add up to 100% due to rounding.
[1]Respondents were able to rank the options provided above on a scale of 1-3. For example, 29% of responses ranked 'increased competition' as the most important challenge.

# 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 2022? 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.




- 'Macroeconomic uncertainty' returns as the challenge selected by the most participants in the survey, with 67% citing this as a key challenge affecting the market in 2022. With continued inflationary pressure, the cost of living crisis and the ongoing conflict in Ukraine, it is clear to see why participants identified this as a key challenge the market will face through the year.
- Interestingly, less participants thought that 'increasing default rates' would remain a key challenge for the UK bridging market going into 2022, with just 21% selecting this option as a key challenge, versus 60% in 2021. This could be down to lenders continuing to offer forbearance and extensions, which will continue to delay an uptick in borrower default rates.
- As we begin to see inflationary pressure in the economy and rising interest rates, it is no surprise to see that bridging market participants have referenced both of these points as key issues affecting the market in 2022. In respect of rising interest rates, 50% of responses received identified higher interest rates as a key challenge, reversing the trend of previous years where 16%, 10% and 6% of respondents cited interest rate rises as a key challenge affecting the bridging market in 2019, 2020 and 2021, respectively.
- There has been a continual decrease in the proportion of respondents who ranked 'significant decrease in property values' as a key challenge, with just 25% of 2022 respondents citing this vs. 82%, 53% and 46%, of respondents in 2019, 2020 and 2021, respectively.
- Interestingly, 46% of responses received cited competition as a key challenge for the market in 2022, which is lower than participants response to the previous question regarding key challenges affecting their business in 2022 (70% answered increased competition as a key challenge - see previous page). This indicates there is a clear difference between participants perception of competition affecting their own business and competition affecting other businesses in the market.

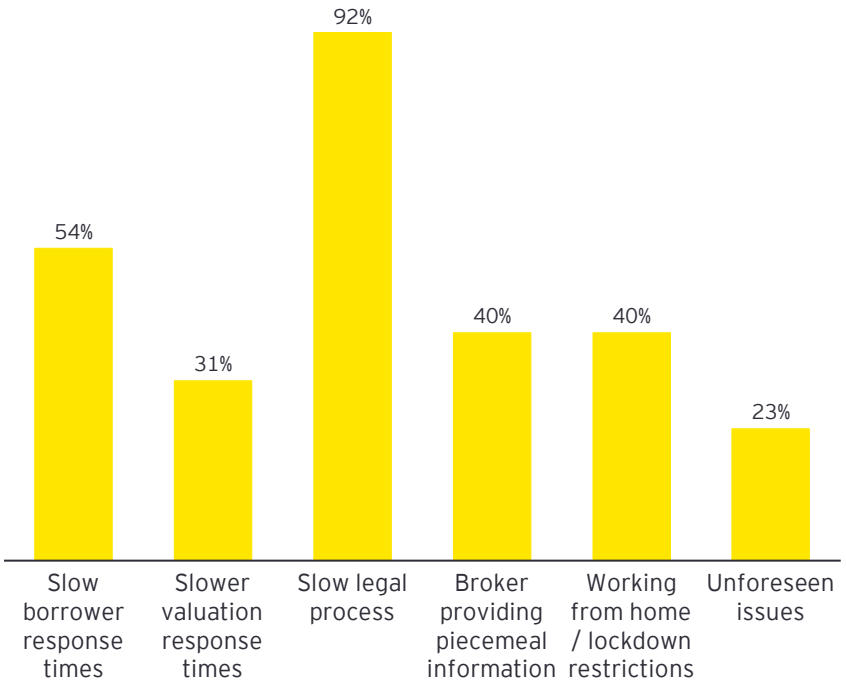
Note: Totals may not add up to 100% due to rounding.
Respondents were able to rank the options provided above on a scale of 1-3. For example, 33% of responses ranked 'macroeconomic uncertainty' as the most important challenge.

# Key challenges causing delays to operations

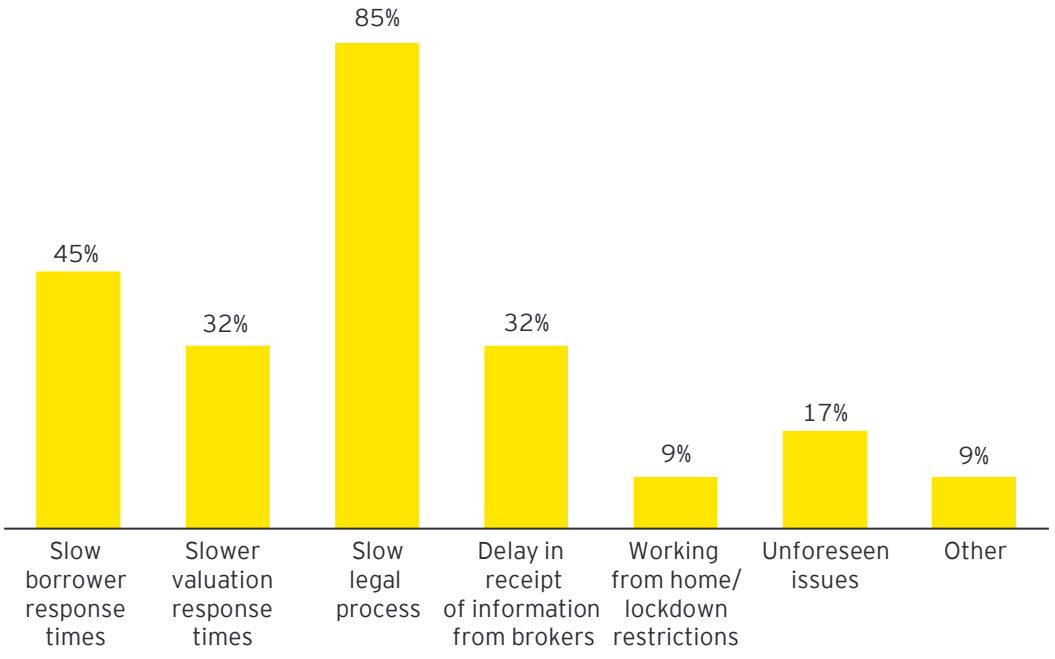
**Key challenges to efficiency**

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

2021




2022




- Trends from our 2021 survey largely remain unchanged.
- Almost all respondents (85%) cited 'slow legal process' as one of their top three factors causing delays.
- Interestingly the second most popular choice, 'slower borrower response times', was selected by 45% of respondents this year, down 9% on 2021.
- Just 32% of respondents chose 'slower valuation response times' to be in their top three choices. This finding could be a result of bridging lenders making use of AVMs and desktop valuations to underwrite loans.
- Similar to other UK industries, it is likely that the UK bridging market has adapted to a more hybrid/flexible way of working, with just 9% of respondents citing working from home/lockdown restrictions as a factor contributing to delays. This is significantly down versus 2021.
- Other responses received from participants included planning delays, local authority/land registry searches and borrower solicitors as key reasons for ongoing delays.

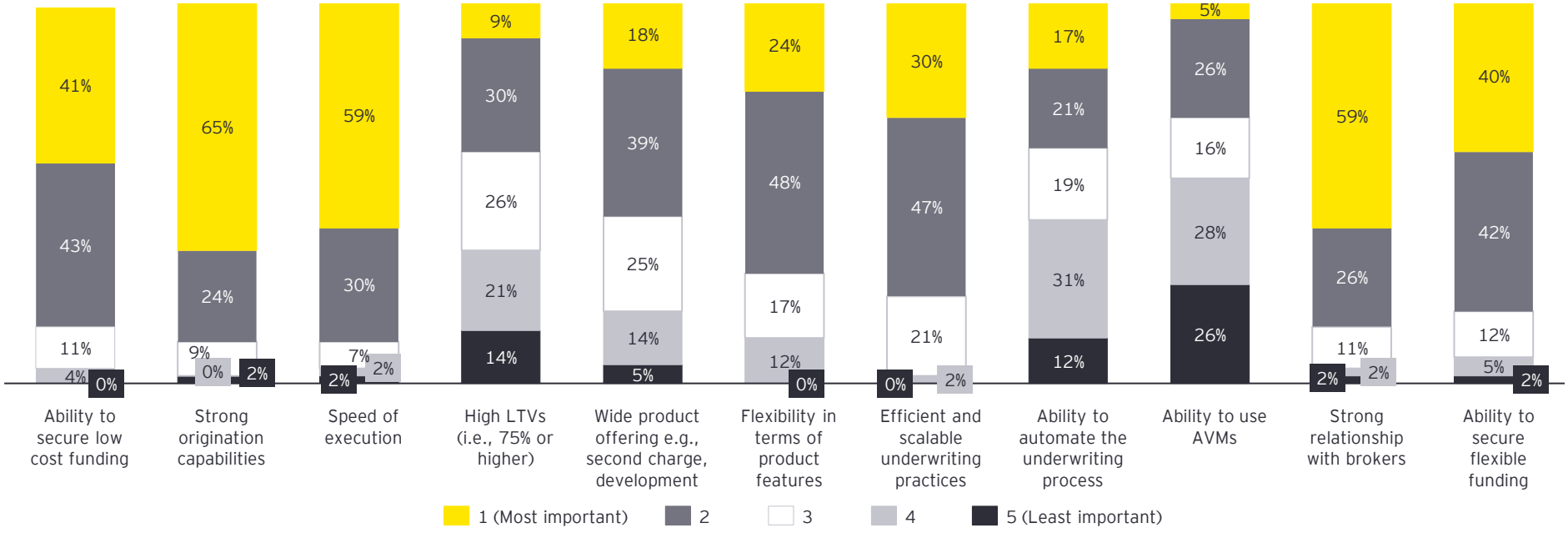
# 4

# 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 most important and 5 being least important.



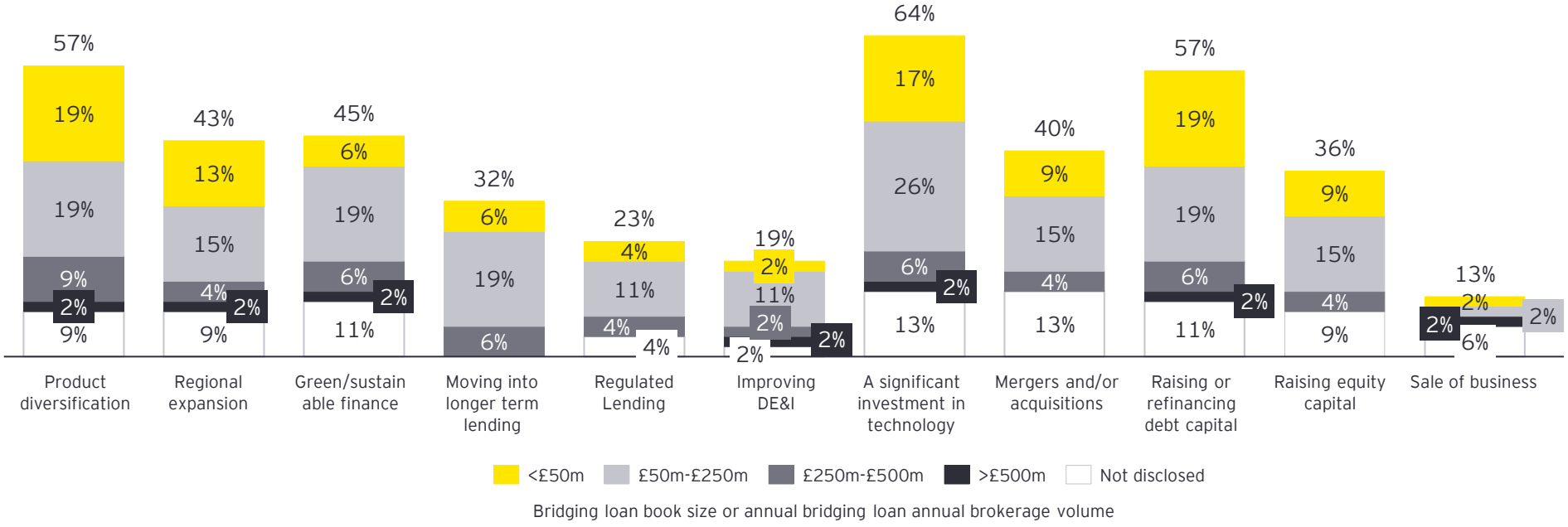

- In line with last year, 65% of respondents cited 'strong origination capabilities' and 'strong relationships with brokers' (59%) as the most important capabilities to remain successful in the market. 59% of respondents selected 'speed of execution' as an equally important capability up from 48% last year.
- Approximately 31% of respondents (2021: 23%) selected 'ability to use AVMs', and 38% of respondents (2021: 35%) selected 'ability to automate the underwriting process', as either a very important or an important capability. This is an increase from the prior year, as bridging lenders are increasing their use of technology, a movement which has accelerated even after the COVID-19 pandemic restrictions ease.
- Only 9% of respondents cited 'high LTVs' as the most important capability, up from 8% last year. This correlates with another finding where 87% (2021: 96%) 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 – yet a consistent one.

Note: Totals may not add up to 100% due to rounding.
Respondents rated each capability with a score of 1 (most important) to 5 (least important) 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 – most important'.

# 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.



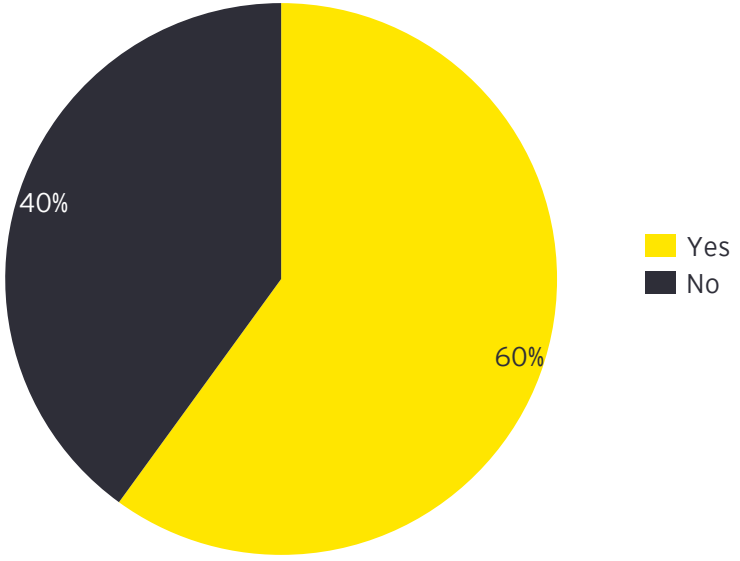

- The most popular strategic objective of participants was to invest in technology, and this was particularly popular with smaller players in the bridging market (<£250m). This was consistent with 2021 where 65% of participants chose investment in technology as a key strategic route.
- The proportion of respondents citing 'product diversification' as a strategic route (57%) over the next 12 months has reduced slightly compared to the 2021 survey (67%). This is surprising given diversification of 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 e.g. buy-to-let.
- 57% of respondents are considering 'raising or refinancing debt capital' and 36% are considering 'raising equity capital' as one of their strategic options over the next 12 months, which is broadly consistent with the 2021 survey and a reflection of the continual desire for growth within the bridging market space.
- In the 2022 survey we added, 'green/sustainable finance' as a strategic route. 45% of respondents are considering this over the next 12 months which aligns with the fact that 60% of respondents are planning to include ESG practices in their businesses.

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

# ESG

**ESG**

Is your business planning to implement an ESG strategy over the next 12 months?

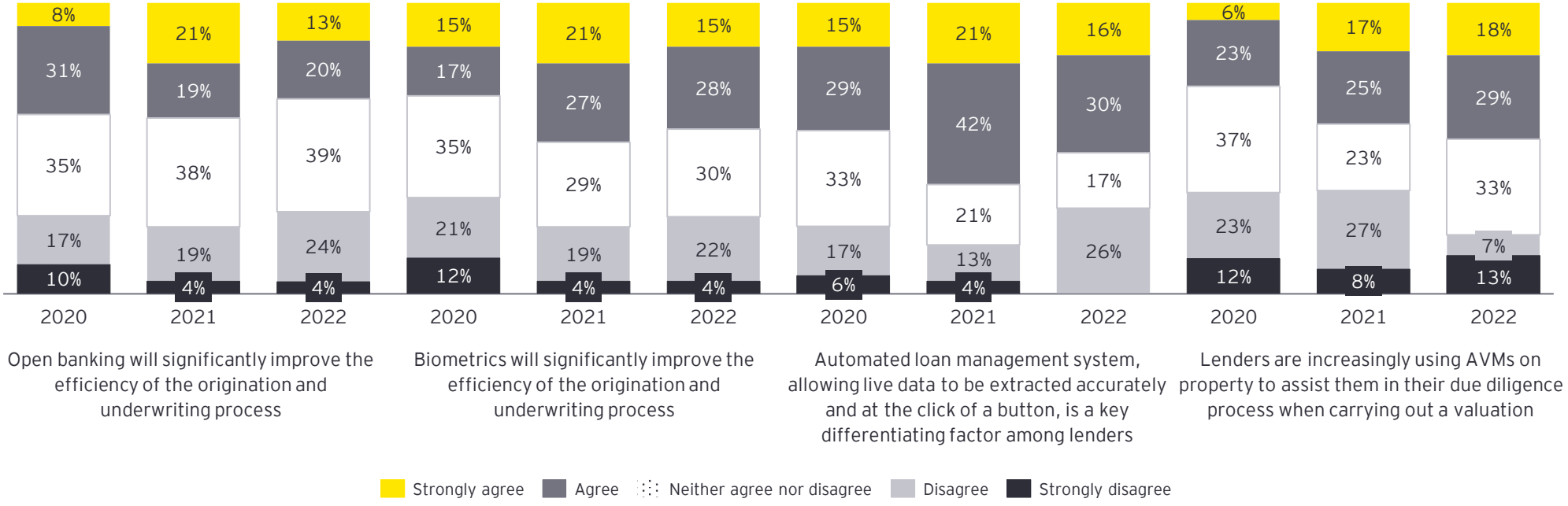



- The majority of respondents (60%) are planning to implement an ESG strategy over the next 12 months. One example of this is bridging lenders offering cash back to borrowers that achieve an energy performance rating of A or B at any time during the term of their loan. The incentive is designed to encourage borrowers to purchase more energy efficient properties or to undertake works to improve insulation or upgrading windows and heat sources.
- Whilst many of these changes are still some time away from enforcement, we note some players in the UK bridging market consider the EPC rating as a part of their underwriting process. For example, a higher interest rate may be charged for properties with an EPC rating of D or worse.
- Additionally, some bridging lenders are moving to paperless operations and encouraging their brokers and other third parties to so do. Instead, they are using technology to adapt the broker and customer onboarding process (including legal documentation where possible) through the development of end-to-end loan management systems, inclusive of e-signing.
- From a social viewpoint, we understand that some bridging lenders are supporting the local community by launching apprenticeship programmes and offering employment to those that require reskilling after losing their job due to the pandemic.
- Institutional funders are increasingly considering bridging lenders ESG practices when providing debt financing to them. A common question we have seen in the market is whether an ESG policy is in place at the business. Additional consideration is taken to workplace/board diversity, the gender pay gap, and remuneration being related to ESG focussed KPIs, albeit the effect on financing terms is currently ambiguous.

# 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.



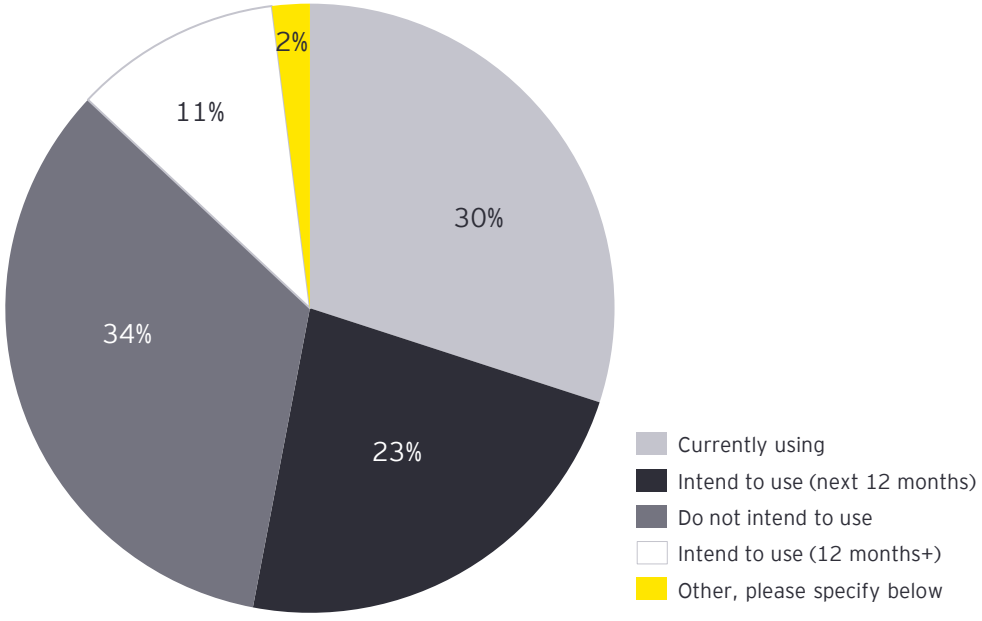

- 33% of respondents expressed agreement[1] with the statement 'open banking will significantly improve the efficiency of the origination and underwriting process', which is a reduction versus 2020 (39%) and 2021 (39%), but has increased from the 2019 survey (21%). Additionally, the respondents' strength of agreement has decreased, with 21% strongly agreeing in 2021 vs. just 13% for 2022.
- There has been a reduction in the proportion of respondents (46%) who expressed agreement[1] with the above automated loan management systems statement compared to 63% for 2021, which may reflect the slow implementation of this technology in the UK bridging market, particularly among the smaller players.
- There has been an increase in the number of respondents that believe lenders are increasingly using AVMs for diligence (47%: 2022, 42%: 2021). It is likely that this movement initiated in the COVID-19 pandemic lockdowns, where AVMs replaced full valuations (which were not possible to do for a large part of 2020) and then lenders have continued to / increasingly operated in this way.
- 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.

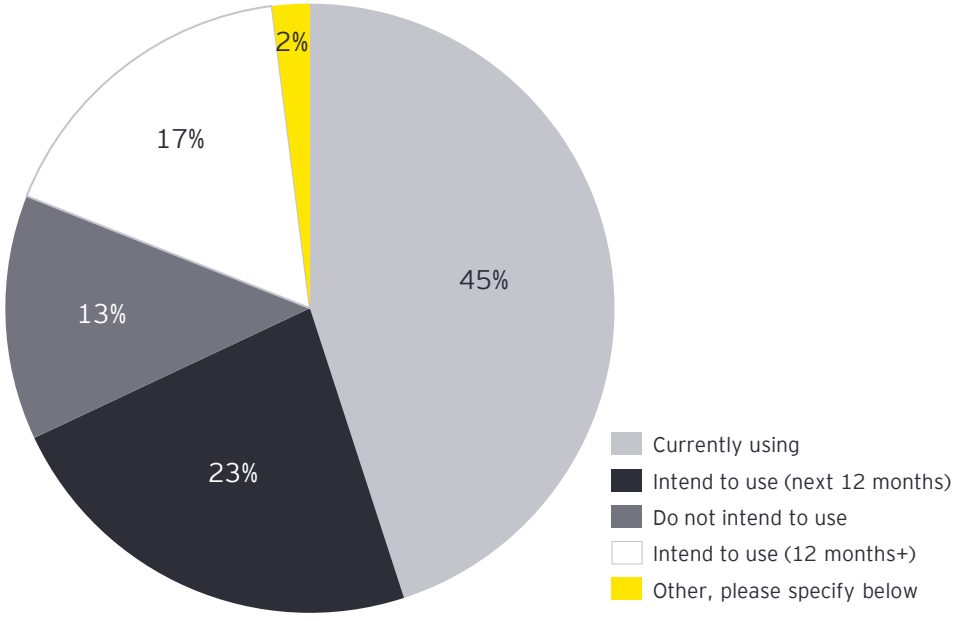
# Technology and operations

## Operations

### Planning to, or currently using, AVM technology




### Planning to, or currently using, electronic signatures for legal documents




- 30% of respondents now use, and 34% intend to use AVMs underlining their growing role within the bridging market. These systems are used to provide estimates of capital or rental value for properties under consideration for funding. While such systems do have the capacity to be used independently, we understand some respondents noted that they are being used in tandem with on site valuations.
- In the context of bridging, most respondents cited AVM's use as adding an extra element of speed to the valuation process, in addition to cost savings which can be passed on to the end client. While AVMs are of great use, market feedback suggests that they must be monitored carefully, and will provide a range of confidence levels depending on the quantity and quality of data available.

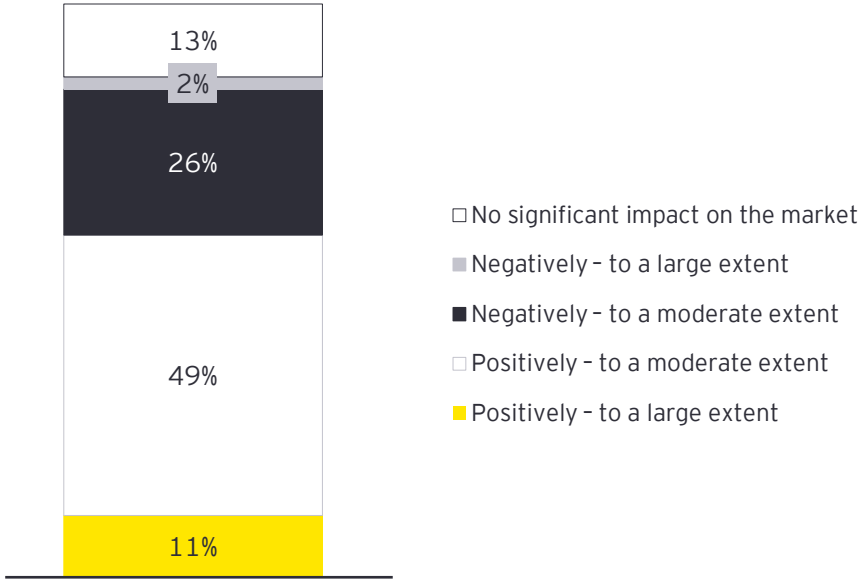
- As of September 2019, electronic signatures can be used to execute documents, including where there is a statutory requirement for a signature, with 45% of respondents now using this technology, and 23% expected to do so in the next 12 months.
- This means that there is a possibility that more than 50% of users could be using this technology at the time of the next survey. Since July 2020, witnesses are also able to execute electronically after the HM Land Registry deemed this acceptable.
- There is an argument to e-signatures increasing the risk of fraud, and invalidating a deed. While electronic signatures are of great benefit, there remains the need to provide proper power of attorney documentation, and confirmation of identify for parties involved. HM Land Registry has continued to expand on its work in this sector, providing guidance to market participants and we look forward to continued, safe, digitisation of this sector.

# 5 Coming out of COVID-19

# COVID-19

**Impact of the global pandemic in the UK bridging finance market**

Overall, to what extent do you believe the COVID-19 pandemic has impacted the bridging finance market?




> COVID-19 has significantly sped up the adoption of new technology and it has led to lenders with poorer underwriting practices or risk models to be driven out of the market.

> We have seen an increased focus on the residential property market, sparked by the stamp duty waiver and the need to secure preferred properties quickly. This has placed the bridging product into the mainstream lending market.

- As illustrated above, the majority of respondents (60%) believe the global pandemic has had a positive impact on the UK bridging market. This shows a different viewpoint to the 2021 survey where just 33% thought COVID-19 would have a positive impact.
- The results reflect the increased level of certainty in the UK economy as we move out of the COVID-19 pandemic. Issues associated with the onset of the pandemic, such as difficulty of remote working, are now the features that are enhancing many people's working lives and creating workplace efficiencies. Also, other key milestones, such as the vaccine rollout, have allowed the UK economy to return to normal operations.
- Over the next few pages, we explore in more detail, respondents' view of the impact the pandemic has had.

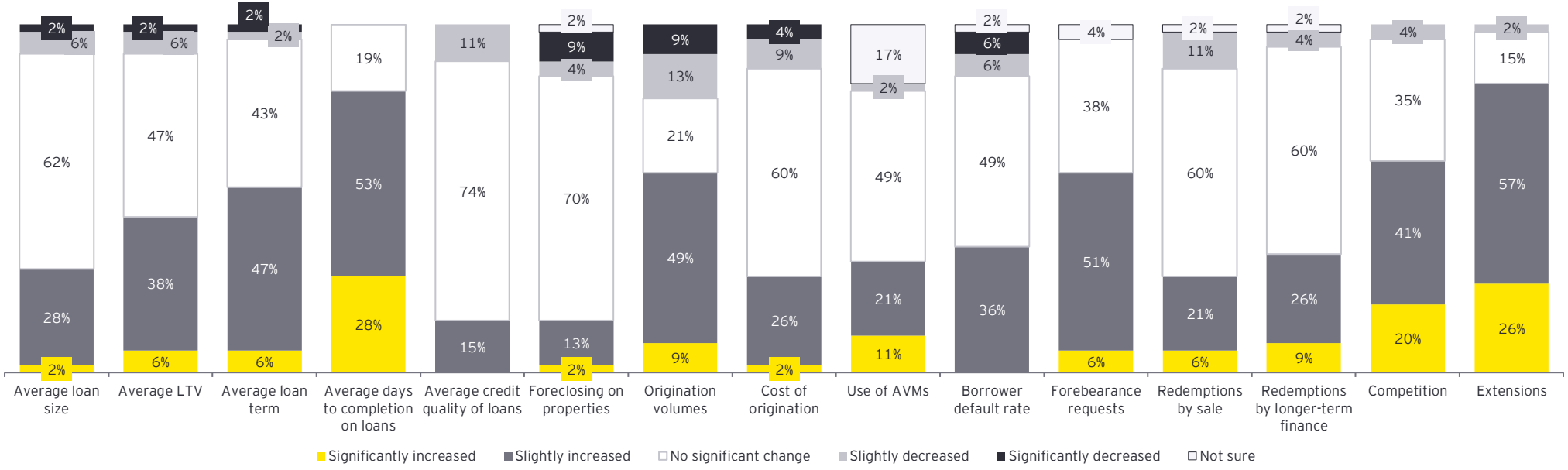
Note: Totals may not add up to 100% due to rounding.

# 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.

**Impact of the COVID-19 pandemic and associated government measures on your business specifically in 2021**




- 83% of respondents have seen an increase[2] in the number of extensions on their bridging loans, the largest factor to increase as lenders continued to offer forbearance to their borrowers. As a result 57% of respondents reported forbearance requests to have increased[2], albeit this a reduction from 73% in the 2021 survey, likely a reflection of bridging lenders starting to return to normal operations following the pandemic.
- Interestingly, no respondents noted a 'significant increase' in borrower default rates, which links to the previous discussion around forbearance and extensions potentially mitigating or delaying an uptick in borrower default rates.
- 81% of respondents noted an increase[2] in 'average days to completion on loans'. 28% of these noted a 'significant increase' which is a slight reduction compared to the 2021 survey (31%), but not as significant as we would expect now most business operation disruptions relating to the pandemic (e.g. no in person valuations) cease to exist.
- Only 22% of respondents cited 'origination volumes' to have decreased[1], which is lower than the 2021 survey (33%) as confidence in the UK economy has continued to rebuild across 2021.
- Conservatism in the UK bridging market appears to have eased, as just 8% of lenders have decreased[1] the LTV on their loans advanced (41%: 2021) and 8% have decreased[1] their average loan size (25%: 2021) as prior credit tightening caused by the pandemic eases.

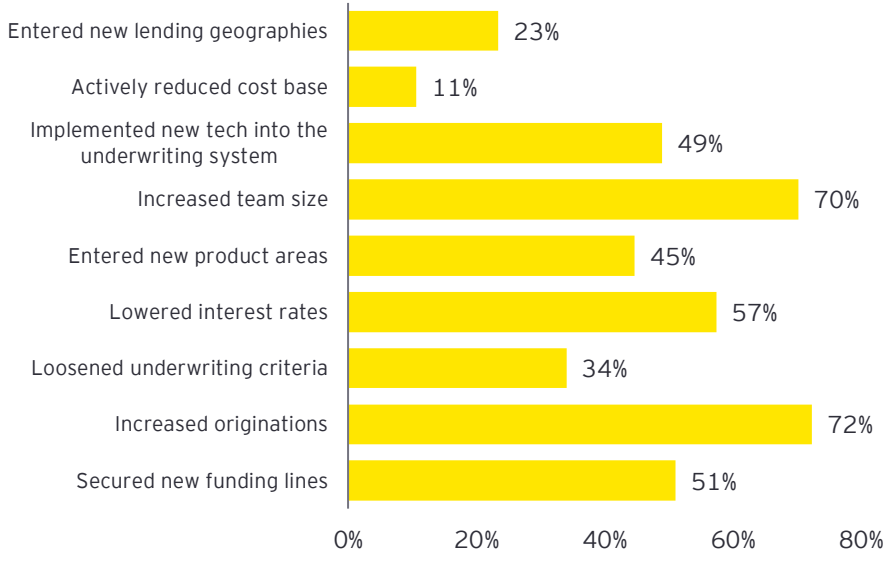
Note: Totals may not add up to 100% due to rounding.
[1]indicates slightly decreased or significantly decreased
[2]Indicates slightly increased or significantly increased

# The global pandemic (continued)

### Actions taken by respondents

Which of the following actions have you taken in the past 12 months since the COVID-19 restrictions were eased?

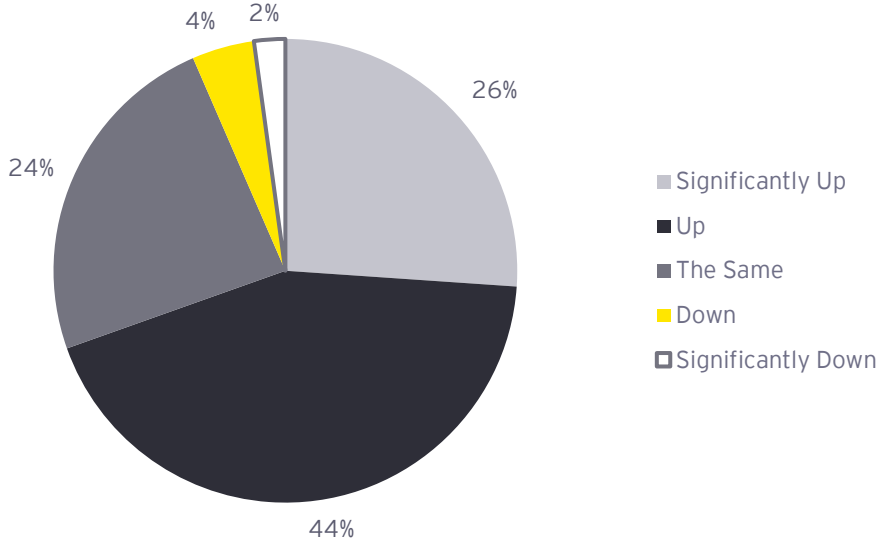
**Actions taken in the past 12 months since COVID-19 restrictions were eased?**




### Financial performance of respondents

How does the profitability of your business compare to pre-pandemic levels?

**Profitability of your business compare to pre-pandemic levels**




- The majority of respondents (72%) have increased origination volumes over the past 12 months, which is unsurprising given the tightening of credit criteria and lending appetite during the COVID-19 pandemic and the subsequent easing of this.
- Interestingly, 70% of respondents have indicated that they have increased their team size in the past 12 months, which may indicate a lag in the use of technology within the UK bridging market and that many manual operations are still in play. Given a smaller percentage (49%) have implemented new tech into the underwriting system in the past 12 months, this is likely a driver of increasing team sizes due to the trade-off between people and technology. Also, the increased team size may be a result of the reversal of staff layoffs and furloughed staff during the peak of the pandemic.
- 57% of respondents have lowered interest rates, which-reflects the increasing competition and influx of new players into the UK bridging market. 51% of respondents have secured new funding lines, illustrating funder appetite in the space for high risk-adjusted returns and further fuelling the competition in the market.
- Minimal respondents (23%) have entered new lending geographies over the past 12 months, which may be due to lenders building their origination back up to pre-pandemic levels in the geographies that they are familiar with. However, due to the increasing normality of the UK economy, it is possible that this figure will be increased across 2022 and beyond as lenders look for additional opportunities to build their loan book when competition is rife.
- In line with 60% of participants observing that COVID-19 has impacted the market positively, 70% of businesses have experienced increased profit versus pre-pandemic levels.

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 16 bridging finance transactions since 2018, including six in the past 12 months alone, 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

**Debt advisory: Advising bridging lenders on raising finance:**

- We have experience of advising bridging finance lenders on various debt financing structures, including senior, mezzanine, forward flow and private securitisation.
- The EY team were appointed to advise a bridging and development lender on the increase and amendment of their senior finance facility to £290m in May 2021.
- We were appointed to help raise a €100m forward flow facility to finance Irish development finance loans in September 2021.
- We were appointed as the sole financial advisor to a mid-sized bridging and development lender to raise their first line of senior finance of £120m in February 2022.

**M&A advisory: Advising shareholders on strategic options**

- The EY team advised 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 an M&A process.
- The EY team were appointed as sell-side advisor to a mid-sized specialist bridging and development finance lender, whilst also providing debt advisory services. The team successfully completed the transaction, selling the business to a private equity house.

**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 offer advice 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 focused, investing time in building sector knowledge and insights on the UK bridging finance market.

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