Shawbrook Bank

Cebr

# Bridging Market Snapshot

Covid-19 Update

December 2020

Property Division.

Covid-19 Update.

# Contents




**A special thank you to the following broker partners for their participation in this report:**

Lucy Barrett, Vantage Finance
Simon Purdom, Commercial Financial Service
Esther Herbert, The Commercial Mortgage Practice
David Tonks, Advocate Finance

And thank you to all of the broker partners who responded to our Heavy Refurbishment poll.

**Compiled by the Centre for Economics and Business Research**


Cebr has been commissioned by Shawbrook Bank to deliver a brief update on the state of the bridging market and the impacts of the coronavirus pandemic specifically. This note will take a cursory look at the latest available data and indicators to gauge the health of the market.




**Authorship and acknowledgements**
This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The views expressed herein are those of the authors only and are based upon independent research by them.





London, December 2020

# Introduction

"The bridging market remains strong, despite the clear challenges presented by 2020. Savvy investors – and their brokers – should be confident about the outlook as we head towards the New Year.

We saw an understandable drop off in activity in Q2, but as the property market has rebounded, so too has bridging. And with the expiry of the stamp duty holiday looming, Q1 2021 could be extraordinarily busy and pave the way to a market that could exceed £5bn.

Here at Shawbrook, we have a long history in the bridging market and our goal is to support brokers and their clients through these times. We will continue to prioritise the building of trusted relationships with our broker partners, underpinned by our specialist expertise and commitment to invest in technology to make it as easy as possible to do business with us."

Emma Cox, Sales Director
Shawbrook Bank

# 1 The impact of lockdown 1.0

The pandemic has dominated all aspects of our lives in 2020. This includes the housing market which all but ground to a halt in Q2. However, perhaps more so than any other, the housing market has recovered and the bridging market has bounced back with it. New lending for 2020 is likely to be down on the £4.5bn recorded by the Association of Short-Term Lenders (ASTL) in 2019[1], but the figures alone will not tell the whole story.

Our "dumbbell year", with new lending likely to show a buoyant Q1 and Q4, with a somewhat skinnier middle, won't make year-on-year comparisons especially easy. 2019 was nearly 20% up on 2018, and whilst we all entered this year fuelled by pent-up demand, that was kept on hold.

**"We've seen a drop in bridging completions fairly in line with other products but the most severe dip in enquiries came during the toughest part of the year in the first national lockdown, as you would expect. Our lowest number of completions came across 4 months (April, June, July and August) which is partly in line with seasonal dips around summer months anyway. The volume of completions recovered really well in September which was possibly part to some pent-up demand from the quieter preceding months.**

**Demand seems to have levelled out now with strong enquiry levels and better conversions back to application in, which was an area of concern or us as enquiry demand held up better than applications and completions throughout the period of March - August – resulting in feeling busy but achieving less than we would hope or expect."**

Lucy Barrett, Vantage Finance
Shawbrook Strategic Partner

[1] https://www.theastl.org/index.php/13-news/260-bridging-loan-books-grow-by-nearly-20-in-2019

The most recent data from the ASTL paints an optimistic picture. Applications reached their highest ever level in the third quarter of this year, representing an increase of 39.1% over the previous quarter – hardly a surprise perhaps – and more significantly rising by 25.7% compared to Q3 2019 levels[2].

The influence of the first national lockdown is also reflected in Q3 2020 completion figures when compared to the same period last year. Completions in Q3 2020 were £680 million, which is an increase of 44.8% on Q2, although still down by 27.6% on Q3 2019.

**"The original lockdown period was one of enforced reduction in placeable volumes as many lenders departed the market and some smaller lenders cancelled issued offers. The payment holidays clearly played a part in this reaction with lending options diminished so it was entirely understandable that when these products and appetite returned there would be sizeable pent-up demand to be satisfied.**

**In terms of volumes, we have seen a substantial increase in the last quarter with, aside from terming out development loans, a mixture of development lending where cash is relatively tight to bridge-to-let e.g. using Shawbrook's HR1 product to complete where clients have good levels of cash in their business."**

Simon Purdom, Commercial Financial Service
Shawbrook Strategic Partner

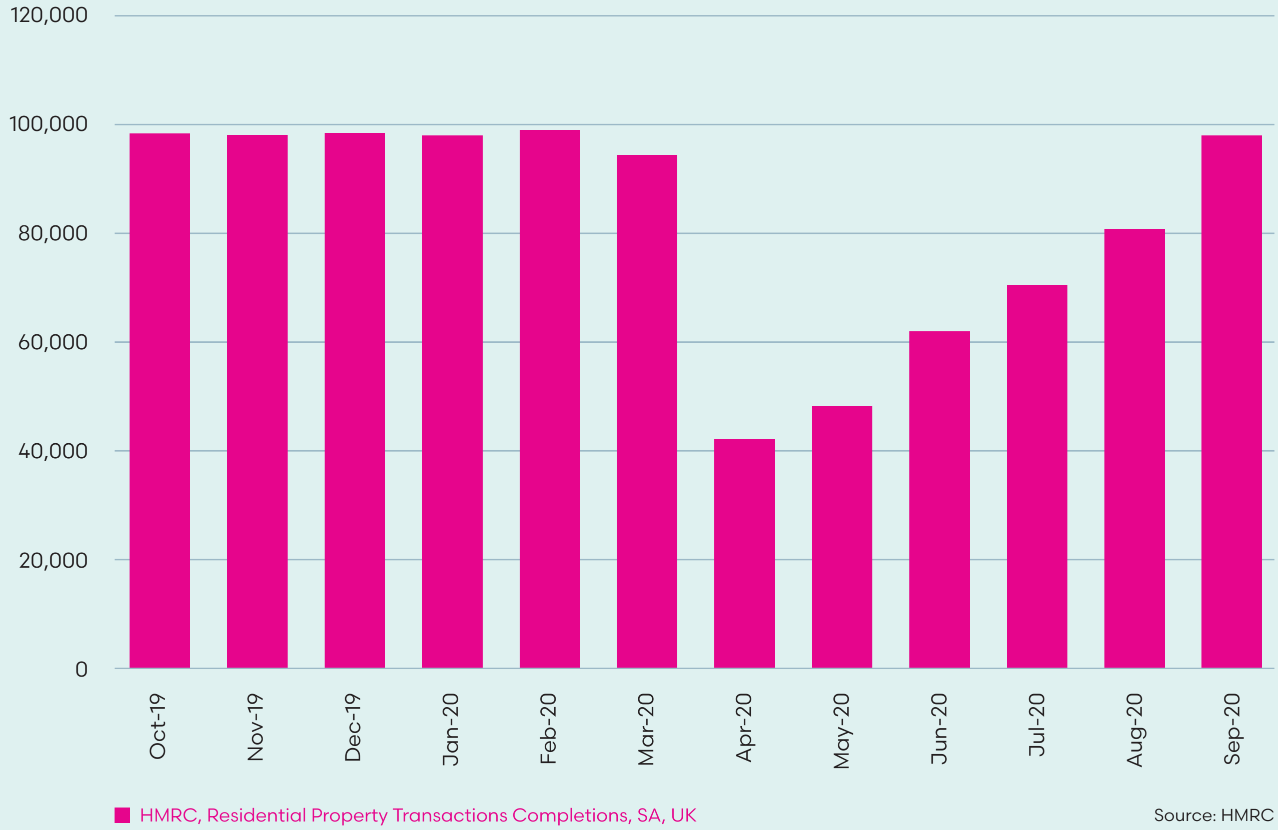
[2] https://www.theastl.org/index.php/13-news/278-bridging-applications-hit-record-levels-and-completions-bounce-back-in-q3

# 2 Encouraging signs...

Since the housing market reopened in May there has been a well-recorded flurry of activity, helped by pent-up demand from the lockdown months and – arguably – political uncertainty that was resolved with the December 2019 General Election. Add in the temporary cut in stamp duty and housing transaction numbers have recovered remarkably over the summer, though they still remain below pre-pandemic levels.

According to the latest data from HMRC, UK housing transactions in September stood at 98,010, up by 21.3% on the previous month and just 0.7% lower than in the same month last year. Similarly, Bank of England data showed mortgage approvals reaching a 13-year high in August with 84,700 secured loans approved for the month. Anecdotal evidence also suggests that landlords, who see the stamp duty holiday as an opportunity to expand their portfolios, are jumping on this opportunity and adding to the demand for bridging loans.

**Figure 1**
HMRC, Residential Property Transactions Completions, SA, UK




Source: HMRC

In line with this data, and in keeping with what Shawbrook's own experience, the ASTL reports that lenders remain upbeat about the longer term. July's Positivity Index[3] reveals that 64% of lenders had a favourable view of the long-term prospects of the UK economy, up from 50% across the surveyed members in June.

Meanwhile, 41% of lenders expected turnover to grow over the next six months with just 36% saying they expected a decrease.

[3] https://www.theastl.org/index.php/13-news/269-bridging-lenders-upbeat-on-long-term-prospects

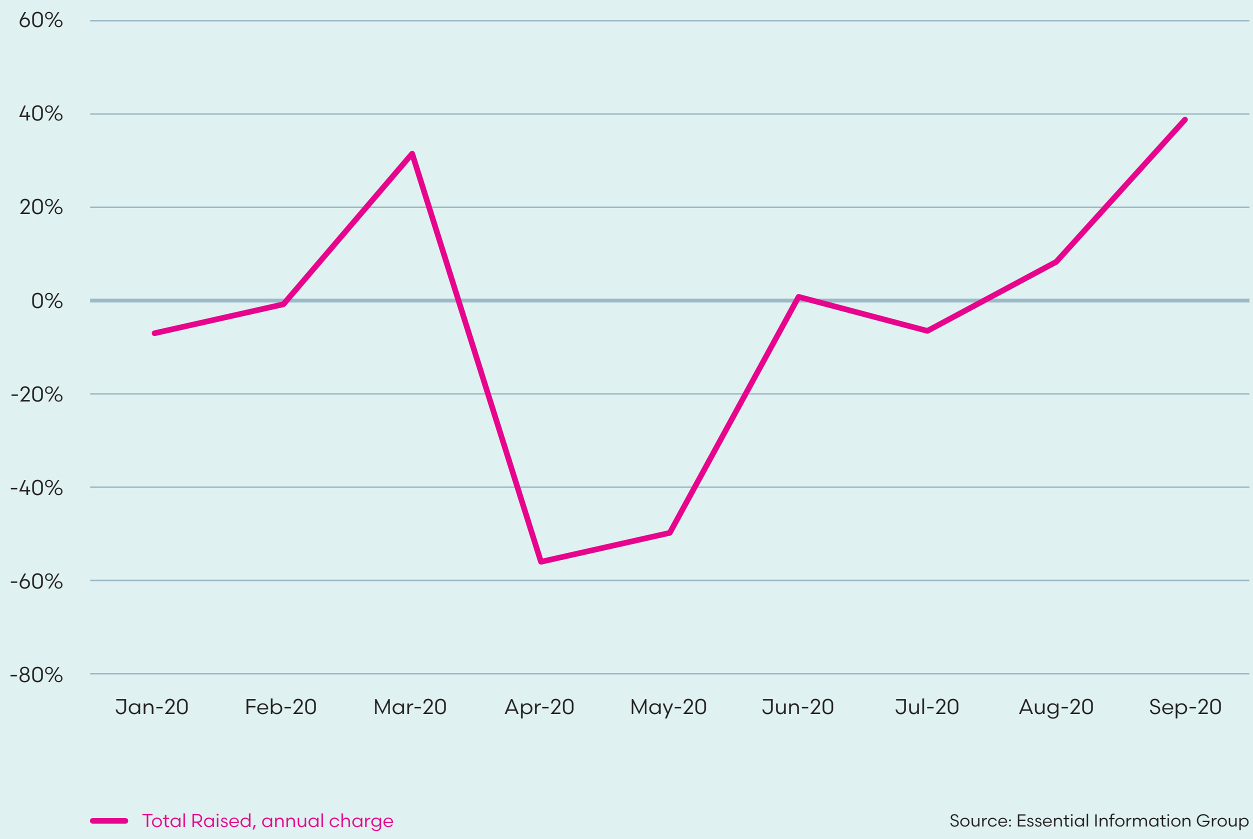
# 3 A buoyant auction market

Another good indication of a bounce back in the bridging market can be seen from the latest data on auction activity. Auctions are an important driver of demand for bridging finance - loans are often used to fund auction purchases when a buyer is short on capital to complete the purchase outright. The latest data from the national auction analysis[4] show that activity has recovered at an impressive rate since the depths of lockdown earlier in the year. In September, total amounts raised stood 38.8% above the same month in 2019, compared to an annual drop of 56% in April 2020.

The sharp increase in September was driven by two large commercial sales leading to a jump in the annual growth rate of commercial amounts raised to 153.6%. In a testament to the broad-based nature of the recovery, amounts raised from residential lots were also up 22.3% in the year to September

**Figure 2**

Total amounts raised in auctions, annual change




Source: Essential Information Group

[4] https://www.eigpropertyauctions.co.uk/news/newsletters

# 4 Heavy refurb underpins market bounce back

An uptick in heavy refurbishment projects is also an indicator of market bounce back. Our own data certainly reflects increased demand from customers looking to fund heavy refurbishment projects for higher yielding assets such as larger HMOs, multi-unit blocks, and converting space above commercial property. This sentiment is also directly supported by Shawbrook's broker feedback, with 53%[5] of brokers seeing an increase in demand.

**"The biggest demand we have seen in terms of heavy refurbishment is for commercial to residential and semi-commercial, especially in smaller towns and cities for development into accommodation – for example, 1st floor residential and ground floor office pod type of facilities. This is driven from people who have been working from home, either in bedrooms or at the kitchen table and have made it work in the short-term, but do not have personal accommodation to make it work longer term, so need to rent or purchase a space to work from. On top of this, some of larger employers are offering allowances for working from home of up to £5000 pa to cover the cost of this, making it more attractive."**

Esther Herbert, The Commercial Mortgage Practice
Shawbrook Strategic Partner

[5] A Shawbrook poll of brokers, October 2020

**"Refurbishment as a product option always features highly for any lender active in the bridging market. Whenever an asset requires either planning changes or structural work there will be a requirement for a Heavy Refurbishment Bridge and, even with the ongoing pandemic creating challenges, investors remain hungry for opportunities to maximise their returns from either new acquisitions or existing assets.**

**Following the 'enforced pause' earlier in 2020, investors are now looking for quick ways to maximise opportunities in what little time remains of this year and prior to the closing of the Stamp Duty Holiday. We are seeing a spike in appetite for Heavy Refurb products, including schemes that involve permitted development of currently used commercial assets. With the government's relaxations on planning, this has certainly played into investor hands as an additional opportunity for growth."**

Emma Cox, Sales Director
Shawbrook Bank

**"Whilst some pressures may be seen in the letting market Q1/Q2 2021 we do not see this suppressing demand from clients looking to develop high yield end products – there remains sufficient development lending appetite in addition to bridge to let options to satisfy this demand which is probably 100% up on the first half of the year.**

**Providing the client focuses on producing a quality product they will still find rental demand even if, in some areas, some modest downward pressure on rental rates is seen.**

**It is the older or lower quality offerings that will be more likely to suffer voids and struggle to service their indebtedness. Ironically, this will present opportunities for professional investors to buy and upgrade (already becoming a feature) to enhance product quality, yields and ultimately uplift capital values of these poorer quality assets. Thus, the normal cycle of purchase and development will continue unabated."**

Simon Purdom, Commercial Financial Service
Shawbrook Strategic Partner

# 5 Looking ahead to 2021

The full impact of the pandemic on the bridging market is unclear but the available data suggest that the peak of the crisis was passed during the first lockdown over the spring, quickly followed by an encouraging bounce in activity.

We see this momentum carrying across into the winter months. That is not to ignore the threat of further lockdown measures in the New Year of course, although the arrival of a vaccine has driven market confidence. Nonetheless, the pandemic is far from over and the wider housing market faces a challenging 2021.

With the Job Retention Scheme coming to an end in March 2021, the resulting falls in disposable incomes will put further pressure on the market. Moreover, the stamp duty holiday is set to expire at the same time, which is likely to prompt a reduction in transaction numbers in Q2 2021 thanks to potential buyers bringing their purchases forward.

**"Shawbrook is leading the way in this dynamic bridging market, bringing scale and capacity by considering loans up to 75% and deals up to £15 million. Flexibility with their heavy refurbishment offering but most important to us as advisers, are the customer friendly terms by way of no exit fees, daily compounded interest, no minimum interest period, no extension fees and very competitive interest rates."**

David Tonks, Advocate Finance

# 6 Conclusion

"In the short term, investors will look to bridging to capitalise on the opportunity to save on stamp duty. Beyond that, there were well established growth trends in the market that we expect will resume. Whether on residential purchases or new investments, there will be opportunity for brokers familiar with the intricacies of the bridging market to support their clients.

From a lender perspective, a firm grip on the impact of the inevitable spike in volumes will be necessary and lenders must ensure to align capacity and appetite with valuers and conveyancers, much the same as the Stamp Duty changes of 2018. Working closely with the broker community to manage client expectations will be crucial, as well as focusing on consistency and reliability to ensure a positive customer journey.

The bridging market has demonstrated remarkable resilience throughout this year. There are still challenges ahead, but we remain confident in the long-term outlook for the property market."

Emma Cox, Sales Director
Shawbrook Bank

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