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TRANSITIONING OUT OF LOCKDOWN: PREPARING FOR THE NEW NORMAL

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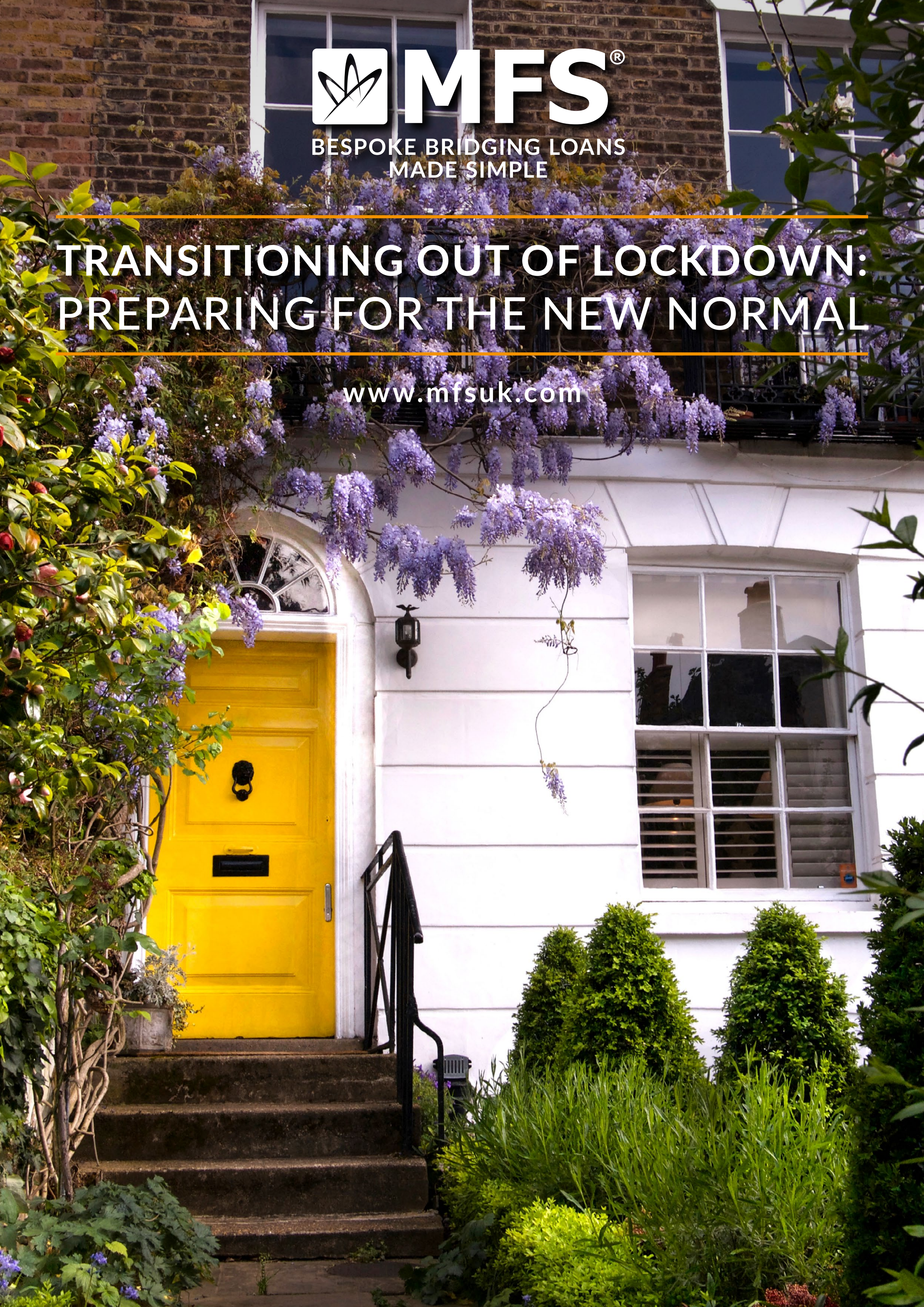


TRANSITIONING OUT OF LOCKDOWN: PREPARING FOR THE NEW NORMAL

The "new normal" is a term frequently used to acknowledge the permanent changes to society brought about by the pandemic. It is wrong to assume that things will simply return to the way they were at the beginning of the year, even as the virus abates.

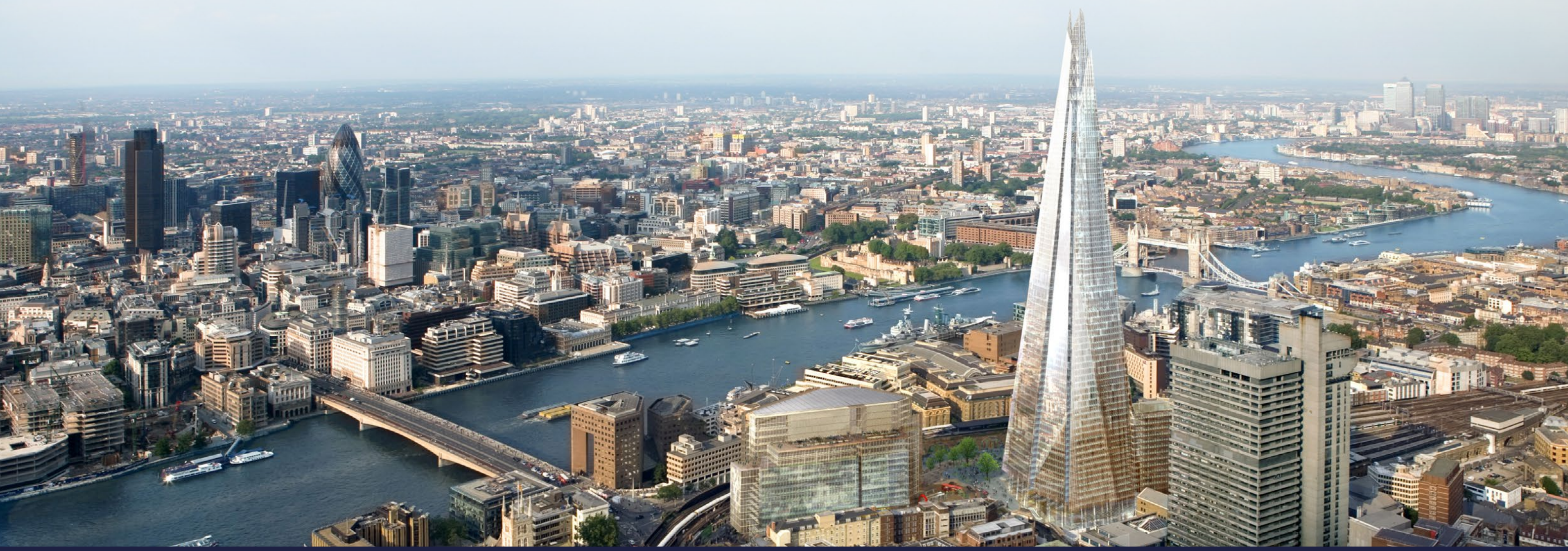
At MFS we see this as an opportunity for the bridging sector to take a step back, critically review current practices and update existing processes so that borrowers, brokers and indeed lenders can benefit in the long-term.

MFS is one of the few bridging lenders who has remained open for business throughout the coronavirus lockdown and we can see that the UK has reached a critical turning point in its battle against COVID-19. The rate of infection has dropped substantially, and in response, the Government is encouraging businesses, investors, and the wider community to transition out of lockdown. This is proving to be easier said than done, posing new challenges for a society that has had to adapt to the disruption caused by the pandemic.

The ultimate aim of the Government is to **kickstart an economic recovery**. It is doing this through its own financial stimuli while also encouraging consumer spending and investment. As a result, Westminster will be hoping that key industries receive the support they need to bring productivity and growth back to pre-COVID-19 levels. This is not something that will happen overnight; according to some estimates, **the UK economy could contract by as much as 11.5% in 2020**.

However, there are also reasons to be optimistic. Most notably, various industries – including the real estate sector and, more recently hospitality – have sparked back to life throughout June and July. Furthermore, Chancellor Rishi Sunak has introduced a series of new measures to help stimulate economic growth, most notably looking to boost consumer spending and investment flows.

Having analysed the impact of the COVID-19 pandemic throughout 2020, this report looks at how the property market and the specialist finance sector are adapting to the so-called 'new normal'. By doing so, the report will also highlight why bridging loans have been playing – and will continue to play – a vital role in supporting a growing number of real estate buyers.



STIMULATING ECONOMIC GROWTH THROUGH PROPERTY INVESTMENT AND BRIDGING LOANS

On Tuesday 7th July, Chancellor Rishi Sunak delivered his 2020 "mini-budget". The aim of this announcement was to put in place the necessary financial relief needed to protect jobs, support local businesses and encourage investment. These ranged from a VAT cut for the hospitality industry to a job retention bonus scheme. However, most importantly from the perspective of the UK property market, the Chancellor also announced the introduction of a Stamp Duty Land Tax (SDLT) holiday with immediate effect.

HOW DOES THE SDLT HOLIDAY WORK?

The SDLT threshold has been **raised from £125,000 to £500,000** in England and Northern Ireland. This will remain in place until 31st March 2021, ensuring **no SDLT will need be paid on the first £500,000** of any residential property purchase.

The Government estimates that **9 out of 10 transactions** will no longer be subject to any SDLT as a result of the reform, with the average stamp duty bill falling by **£4,500**. Importantly, the SDLT holiday is applicable to all property transactions meaning that buy-to-let (BTL) investors and non-UK residents can also benefit from this relief.

This is welcome news, including for those seeking new investment opportunities at the higher end of the property market – buyers looking for prime real estate in places like London and the South East could save up to £15,000. However, the additional homes surcharge of 3% still applies for those buying a second property.

WHAT IMPACT HAS THE SDLT HOLIDAY HAD SO FAR?

Since the immediate introduction of the holiday, there has been a notable increase in the number of buyers and sellers re-engaging with the property market. Estate agencies have recorded a sharp rise in enquiries, and this will no doubt lead to a spike in transactions and is likely to influence house price growth.

The below statistics highlight the extent to which pent-up demand during the lockdown has now been released, resulting in high levels of activity within the UK property market:

2.4%

The average asking price of property coming to market in July was up 2.4% when compared to pre-lockdown levels in March

27%

London house sales grew by 27% in the two weeks following the Chancellor's mini-budget

2.7%

Average house prices were up 2.7% in the 12 months leading to June – a month-on-month increase of 0.2%.

75%

Property enquiries areup by 75% since the Chancellor's mini-budget, with a 25% increase in buy-to-let enquiries

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FAST BRIDGING LOANS ARE VITAL TO THE UK'S ECONOMIC RECOVERY

The SDLT holiday provides the financial incentive needed for an increase in real estate transactions. However, it will not be able to achieve its full potential if buyers are not able to access the finance needed to complete a sale.

> ***"At this critical time, lenders and brokers in the property market need to work together and ensure buyers have access to the finance needed to complete on sales. Doing so will provide BTL investors and homebuyers alike with confidence, in turn helping to release the pent-up demand that has been mounting as a result of the COVID-19 pandemic."***
>
> **Paresh Raja, CEO, Market Financial Solutions**

As discussed in a previous MFS report, during the lockdown period many big banks and mortgage providers temporarily pulled products from the lending market, stopped taking on new applications and delayed, or in some cases denied, mortgages that had already been agreed to in principle. In doing so, these lenders put existing sales at risk of collapsing and dented homebuyer confidence.

Consequently, since the introduction of lockdown measures on 23rd March 2020, an increasing number of brokers and property investors have been looking beyond high street banks to access finance that can be deployed within days of an application being lodged. Specialist finance is naturally positioned to meet this demand, which is why **Market Financial Solutions was able to deliver over £30 million worth of bridging loans between 23rd March and 30th June**, extending to both commercial and residential purchases.

Mainstream mortgage providers are slowly returning to the market. However, given the uncertainty of the current climate and risk-averse nature of many traditional lenders, it can still prove difficult for prospective real estate investors to access mortgages. A survey of lenders by the Bank of England revealed that the availability of both secured and unsecured forms of credit is on track to have decreased in the three months to August 2020. This will be a significant challenge for those not aware of all available finance options.

> ***"MFS supports the SDLT holiday as a way of encouraging all types of property investors to take advantage of new opportunities during this important transition out of lockdown. While the holiday comes to an end on 31st March 2021, the Chancellor should also be open to additional incentives so that buyer momentum can be maintained, and pent-up demand fully released."***
>
> **Paresh Raja, CEO, MFS**

RETURNING TO THE NEW NORMAL

As MFS has been one of only a few lenders that have continued to lend during the pandemic, we have been able to quickly and reactively adapt to new market conditions, whilst continuously refining and perfecting our professional services and bridging loan products. We have seen 30% of our business come from new brokers during this time, and have bolstered our team with new members so that we can meet current and future demand for our specialist finance.

To support the recovery of the property market, **MFS is now offering rates from 0.59% and taking cases at a maximum LTV of 75%.** Our loans range from first and second charge residential and buy-to-let, to first and second charge commercial and semi-commercial, meaning we are able to deploy loans regardless of seemingly complex circumstances.

Please do not hesitate to get in touch if you are planning on a residential or commercial property purchase in the coming months. Or, if you would like further information about bridging loans and how they can be used to facilitate transactions during the UK's transition out of lockdown, our team would be happy to assist.

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BRIDGING WITH FINESSE

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