BESPOKE BRIDGING LOANS MADE SIMPLE

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How has the UK Bridging Industry Fared during the Covid-19 Pandemic?

IMPACT OF COVID

No industry has been immune to the effects of the Covid-19 pandemic. The property market and, by extension the bridging loan sector, have certainly faced their challenges.

These challenges were most pronounced during the early months of the pandemic. Between March and June 2020, when the UK was placed under its first nationwide lockdown, the real estate industry slowed to a standstill due to multiple converging factors.

Most noticeable was the difficulty of conducting property viewings, something that was essentially prohibited for three months. Moving home, too, was troublesome, particularly as removal firms were largely unable to operate in the face of strict social distancing rules. Consequently, residential property transactions **fell by approximately 50%** year-on-year in April and May last year.

Residential property transactions

50%

from 2020 to 2021

Meanwhile, during this same period, both estate agents and conveyancers were adapting to the realities of remote working, which further slowed the process of buying, selling or letting a property. Obtaining wet signatures on crucial documentation, for instance, suddenly became a significant obstacle, with HM Land Registry not announcing until 27 July 2020 that it was to begin accepting witnessed electronic signatures.

Of equal importance in the initial slowdown of the property sector was the sudden reticence of many institutions to lend to homebuyers and property investors. According to analysis from Moneyfacts, in February 2020 a homebuyer able to offer a 10% deposit could have chosen from 776 mortgage products; by September the choice had fallen to just 44. Evidently, the economic uncertainty caused by the pandemic prompted a more risk-averse approach from many traditional lenders across the UK, resulting in the removal of many mortgage products.

Set against this backdrop of multifarious challenges, the bridging industry was inevitably impacted during the early stages of the pandemic. Indeed, data from Bridging Trends revealed a **45% decline** in bridging loan volumes in the first half of 2020 compared with the same period a year earlier.

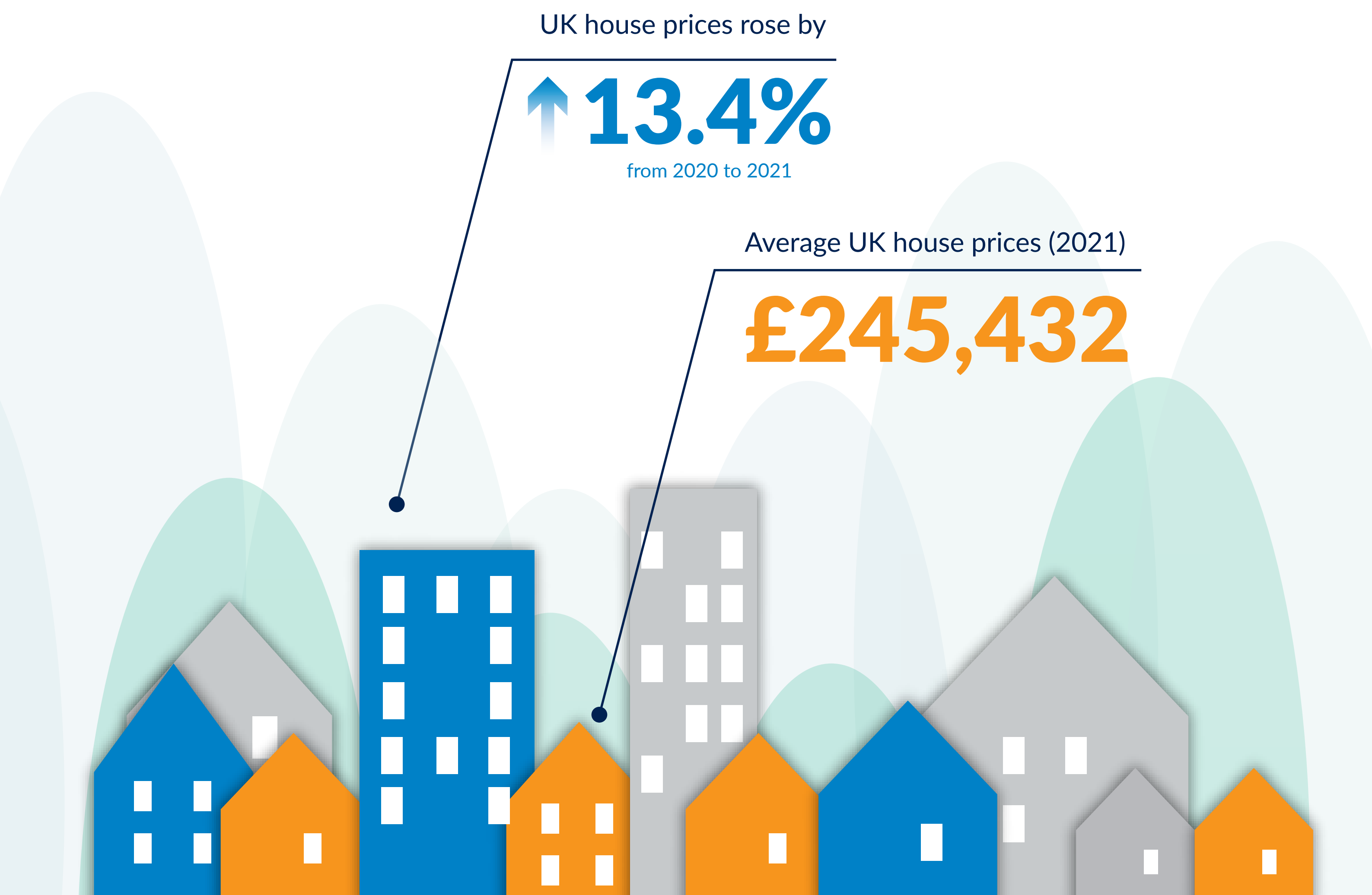
THE BOUNCE-BACK

In July 2020, this narrative changed dramatically. The property market rebounded from the hardships of the first lockdown as quickly as it had first fallen into a slumber – and since then it has kept on advancing.

Pent-up demand was already being released after the first lockdown had ended in June 2020 when, on 8 July, the Chancellor introduced the Stamp Duty Land Tax (SDLT) holiday. Offering residential property buyers savings of up to £15,000, the Government's initiative has been well documented for its galvanising effect, triggering a boom in house prices and transactional activity in the 12 months that followed.

According to Nationwide, UK house prices **rose by 13.4%** in the year to June 2021, reaching a record high of **£245,432**. This is the fastest annual rate of growth recorded in more than 17 years.

Further, HMRC data shows that residential property transactions **exceeded 350,000** in Q4 2020 as well as Q1 and Q2 2021 – a level not reached in the preceding six years.



STAMP DUTY PROMPTS GREATER DEMAND FOR BRIDGING LOANS

Bridging finance has played a critical role in the property market's remarkable bounce-back. For one, with the number of traditional mortgage products available to prospective home-buyers still below their pre-pandemic levels, many turned to short-term finance options – especially buy-to-let investors awaiting the sale of one property to finance another.

In that regard, there are echoes of 13 years ago in the bridging sector's increased visibility over the past year. In 2008, the global financial crisis had taken hold and, like during the peak of the pandemic, traditional lenders withdrew many products and implemented far more rigorous, risk-averse application processes.

Many property buyers, particularly those with complicated financial structures and irregular sources of income, found it more challenging to meet the tick-box methodologies applied by some mortgage providers, and instead turned to more flexible and bespoke bridging options. This trend has become more prevalent during the Covid-19 crisis, with the bridging industry seeing increased levels of demand since the market sparked back to life last summer.

According to the Association of Short-Term Lenders (ASTL), there was a **25.7% rise** in bridging loan applications in Q3 2020 compared to a year earlier. This increased even more sharply in Q4 2020, with 39.1% more applications versus the same three months of 2019.

URGENCY OF STAMP DUTY HOLIDAY

The stamp duty holiday has also resulted in increased demand for bridging loans. Here, the driving factor has largely been the rate at which loans can be issued.

According to figures from Trussle, the average amount of time it took to get a mortgage approved almost trebled from eight to 22 days throughout 2020. And that is just for the approval of the application, not the delivery of the loans.

Faced with an increased number of applications from prospective homebuyers keen to take advantage of the SDLT savings on offer, many mortgage lenders struggled to cope. Coupled with similarly overwhelmed conveyancing and surveying industries, many buyers and sellers have found themselves in protracted transactions over the past 12 months.

The result was that thousands of deals were not completed before the initial stamp duty holiday deadline on 30 June 2021. In fact, data released by Rightmove estimated that there were **704,000 sales** going through the conveyancing process as the deadline passed.

The solution of choice for many property investors keen to avoid this fate was to turn to bridging finance. Indeed, a bridging loan from a lender like Market Financial Solutions (MFS) can be deployed within as little as three days, ideal for anyone looking to deliver within a tight timeframe.

The stamp duty has, then, brought bridging loans from the realms of alternative finance and further into the mainstream. In particular, it has underlined the various strengths of short-term finance products for property investors.

SPEED AND FLEXIBILITY HAVE BEEN KEY

As noted, speed has been a critical factor in driving interest in bridging finance during the pandemic, especially as the first stamp duty holiday deadline approached at the end of June. This speed has also been important for those looking to repair a broken property chain.

Investors will often use the sale of one property to finance their next. Therefore, when a potential sale falls through, the purchase risks doing the same – and broken property chains have been common throughout the pandemic, with an uncertain economic climate and lengthy mortgage delays threatening to destabilise deals.

According to the aforementioned Bridging Trends data, the most popular use of bridging loans in Q1 2021 was to solve a chain-break, contributing to **20% of all loans** in Q1 2021.

Another popular use of bridging loans during the pandemic has been to finance auction purchases, which themselves have become more popular owing to the speed at which deals can be done and the fact they could proceed virtually. Meaning people did not need to travel during lockdowns. Indeed, the total value of properties sold at auction in 2020 was nearly **40% higher** than in 2019.

Bridging loans are well established in the property auction space – given a buyer must typically transfer funds within 28 days of their successful bid, having access to a loan that can be deployed quickly is essential. And so, as auctions have become more popular during the pandemic, so too have fast bridging loans.

Along with speed, flexibility is another defining feature of bridging loans that makes them popular among property investors. Bridging lenders like MFS can take a more complete assessment of an individual or business' financial circumstances, including the assets they hold, to then make an informed decision on whether they can offer a loan and, if so, at what terms.

In a rapidly evolving climate such as that exhibited during the pandemic, the speed and flexibility of the bridging loan market have shone through.

MFS EXPERIENCES STRONG GROWTH DURING THE PANDEMIC

Like the wider bridging sector, MFS has enjoyed a period of growth and sustained success despite the challenges presented by the Covid-19 virus. Looking at 2021 alone, there have been several standout achievements that bear mentioning.

At the start of the year, we invested in and then relocated to a new office in Mayfair. A larger space was required to support the growth of the MFS team. Indeed, the company's employee headcount increased by **more than 40%** in the first six months of 2021.

MFS has brought onboard new business development managers and underwriters over recent months, which ensures enquiries can be handled at pace and bespoke bridging finance solutions can be deployed without delays.

Three new funding lines have been secured so far this year – these are worth a combined **£400 million**. Furthermore, in April, MFS revamped its lending criteria; our maximum loan amount increased to **£30 million**, our maximum loan term extended to 24 months, and we launched a new development exit product. These changes reflect the increased demand MFS has experienced for larger loans, development exit loans, and deals with longer payment terms.

In light of the successes achieved over the past year, MFS enters the final four months of 2021 full of confidence and optimism. More importantly, we remain fully committed to supporting all the brokers and private clients we work with. There is never room for complacency, and we will continue to strive to deliver the best possible bridging products with the highest standards of service.

MFS®
BESPOKE BRIDGING LOANS MADE SIMPLE

40%

increase in staff in the first six months of 2021.

£400m funding

2021

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Contact us today to arrange your fast, bespoke bridging loan:

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