West One

ISSUE 24

BRIDGING LENDING MAKES POSITIVE START TO 2016

WEST ONE BRIDGING INDEX

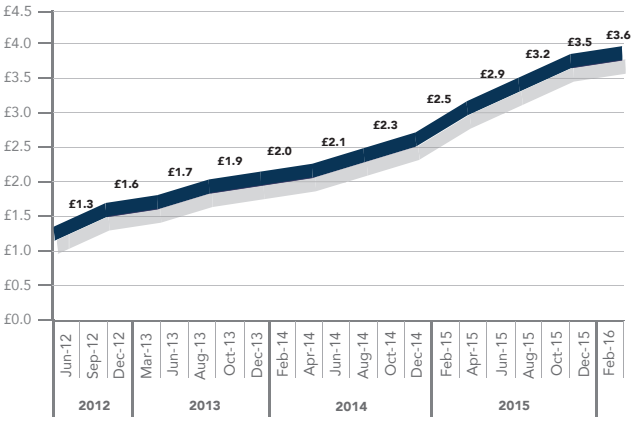
BRIDGING LENDING MAKES POSITIVE START TO 2016

- **GROSS ANNUAL BRIDGING LENDING EXCEEDS £3.6BN IN FEBRUARY**
- **BUY-TO-LET GROWTH MODERATED BY FLATTENING OF COMMERCIAL AND CONSTRUCTION SECTORS**

Gross annual bridging lending has risen to **£3.6bn** in February, increasing from **£3.5bn** at the end of 2015 according to the latest West One Bridging Index.

This expansion represents a modest **3%** lift in gross annual lending since December, showing that growth has stabilised somewhat from the previous year.

GROSS BRIDGING LENDING (£ BILLIONS)



The growth in short-term finance has been driven by a number of factors, including an uplift in demand for bridge-to-let loans in advance of April's Stamp Duty surcharge.

With property transactions rising **16.1%** year-on-year in February, there has been a surge in demand for bridging finance in order to unblock property chains and raise additional finance.

The sale of residential properties at auction also hit a record high in February, rising more than **25%** compared to the same month last year.

Bridging loans are usually the best option for buyers requiring additional finance for auction purchases because traditional forms of borrowing typically won't be approved by lenders in time to complete on the sale. This continued growth in auction sales has provided a significant boost to bridging lending in the first two months of the year.

However, total bridging growth was tempered by a month-on-month flattening of construction output in February, down **0.3%**, alongside a slight **2%** contraction of the commercial property market.

With smaller developers using short-term finance to aid in the completion of projects and specialist finance providers helping fill the post-recession gap in commercial lending, the dip in these markets has had some influence on growth in the short-term finance sector. However these markets should improve following the reduction in Stamp Duty announced in March's budget.

STEPHEN WASSERMAN, MANAGING DIRECTOR OF WEST ONE LOANS, COMMENTS:

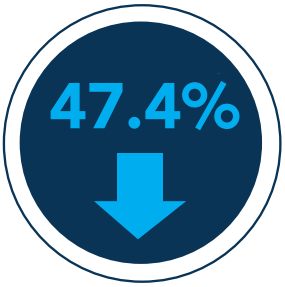
*"Stephen Wasserman, Managing Director of West One Loans, comments: "A **3%** rise in lending may seem moderate, but that's relative to some significant recent sector expansion. Moreover, we've seen healthy growth continuing in the weeks since February. A major contributor is professionals using bridging as part of their strategy to buy residential properties in need of renovation, improve them and re-sell at a healthy profit. In this case, the flexibility of bridging finance is well-suited to financing such activity. With this group often buying at auction, our experience fits with the surge in auction buying noted. Moreover, we anticipate further growth from this group, favoured by the underlying lack of supply of new homes. Recently released DCLG figures showed that housing stock growth of **0.73%** lagged population growth. That means renovating undesirable properties will continue to be a profitable and attractive business, from which bridging will benefit.*

*DCLG data also showed a greater rise in private rented housing over owner-occupied. We've also observed strong growth in bridging to acquire properties, often at auction, with a view to buy-to-let refinancing. In spite of fears that Stamp Duty changes would dampen both the BTL and linked bridging markets, we've seen that growth continue both before and after the deadline. This is because the majority of those who use bridging before BTL refinancing are professional landlords, building full-blown businesses. They will continue to do so, as **3%** makes little difference in the long run. Coupled with the fundamentals of housing supply and affordability, there's still a major opportunity for those who can access capital, to build private rented businesses. Bridging will continue to be their financing of choice."*

TRENDS IN THE BRIDGING INDUSTRY

The size of the average bridging loan has dipped in February, falling to **£937,189** from **£983,990** in December. This **5%** drop was expected after the record high at the end of 2015, but bridging loans continue to be used for significant projects. At the same time the average first charge loan-to-value ratio has also fell slightly, to **47.4%**, as the sector continues its commitment to responsible lending.

AVERAGE FIRST CHARGE LOAN-TO-VALUE RATIO FALLEN TO



AVERAGE BRIDGING LOAN SIZE

STEPHEN WASSERMAN ADDS:

"In our last edition of the index, we predicted the short-term upswing in the size of average bridging loans would correct itself at the start of 2016, so this decline was expected well in advance. However, the typical short-term loan remains relatively high, as borrowers are continuing to rely on bridging loans to improve their liquidity. Competitive interest rates on offer have enabled developers to continue using short-term finance for large projects. Coupled with absence of early-repayment charges and other exit costs of conventional mortgage financing, in some quick-turnaround cases bridging may even be cheaper overall, despite higher headline interest rates – a better customer outcome."

BRIDGING INTEREST RATES

Average interest rates stayed broadly flat at **1.11%**. This marks the eighth consecutive month that interest rates for short-term finance have remain below **1.2%**.

Interest rates have dropped due to the competitiveness of the industry which has welcomed an influx of new lenders, ensuring that customers get the best deal possible, with such a wide range of products of offer. The Bank of England continues to maintain the base rate at **0.5%**, meaning current low rates on offer in the short-term finance sector should remain in the coming months

As an investment opportunity, the short-term finance sector continues to have great potential, consistently offering far higher returns than Government bonds. Bridging loans offered a monthly return of **1.11%** in February, compared to only 0.13% available through gilt yields.

INTEREST RATES FLATTEN TO

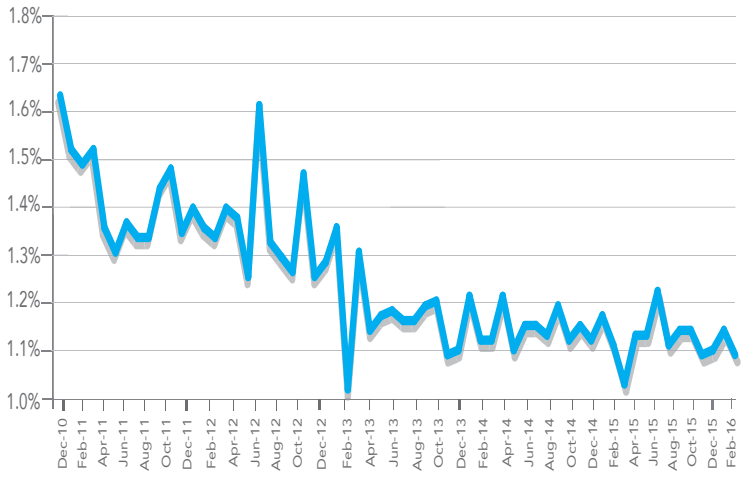
1.11%

DANNY WATERS, CHIEF EXECUTIVE OF ENTERPRISE FINANCE CONCLUDES:

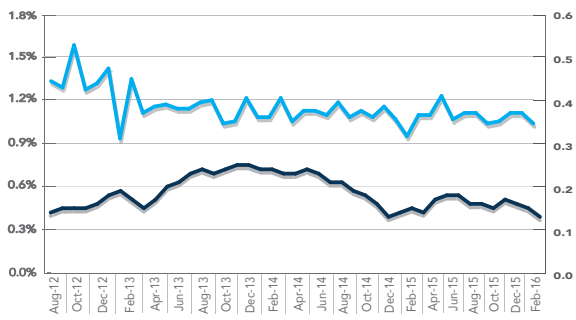
"The bridging industry has continued its success at the start of 2016, which is fantastic news for everyone involved in the sector. As gross lending continues to expand, there are some brilliant opportunities on offer for potential investors considering short-term finance.

"With the construction sector set to bounce back in 2016, due to the Government's housebuilding agenda and commercial market about to take off after the cut in Stamp Duty, we could see a very successful few months for bridging lenders. The turbulence in global markets means that short-term finance is a very enticing option for investors looking to protect their capital from the turbulent economic climate."

INTEREST RATE (MONTHLY)



INTEREST RATE (MONTHLY) VS 10 YEAR ZERO COUPON GILT YIELD (MONTHLY)



ABOUT BRIDGING INDEX METHODOLOGY

West One analyses detailed data based on their own Management Information and industry sources to create the index. In some cases, where stated, three-month moving averages are employed to help reveal trends more clearly.

In May 2013, the West One Loans Bridging Index was recognised by Wikipedia as a key measurement tool of the UK Bridging industry.

ABOUT WEST ONE LOANS

West One Loans is a specialist provider of short-term bridging finance for residential and commercial properties. Established in 2005, the group is now one of the biggest privately funded short-term secured lenders in the UK, having completed deals in excess of £1bn to date.

West One Loan Ltd is a founder member of the Association of Bridging Professionals, patron of the National Association of Commercial Finance Brokers and member of the Association of Short Term Lenders.

West One Loans would be grateful for any hyperlinks you could provide. For ease, we've provided these links: West One Loans short-term loans or, preferably, bridging lender which you can copy and paste directly into the articles.

West One Loan Ltd is authorised and regulated by the Financial Conduct Authority. Firm Reference Number: 510024. Certain types of loans are not regulated, for example loans for business purposes or certain buy-to-lets.

West One Loan Ltd is registered with the Information Commissioners Office. Registration Number: Z2651210.

West One Loan Ltd is registered in England and Wales. Company Number: 05385677. West One Capital is an unregulated subsidiary of West One Loan Ltd, and is registered as a limited company in England and Wales. Company Number: 08880521. Registered Office Address: 3rd Floor, Premiere House, Elstree Way, Borehamwood, Hertfordshire. WD6 1JH.

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NOTES FOR EDITORS

Managing Director, Stephen Wasserman is available for interview and comment on a variety of industry-related topics.

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