

UK bridging market survey

May 2023



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Introduction

Overview



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Welcome to the sixth 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 9 February 2023 and 3 March 2023, resulting in responses from 43 UK bridging finance lenders and brokers. Of the survey's participants, 22 lenders provided detail regarding the size of their loan book, with these lenders having a combined book size of c.£6bn, highlighting the continued growth and investment in the market.

This year we included additional questions around the impact of the 2023 macroeconomic outlook on the UK bridging finance market, and the forms of green finance initiatives lenders plan to undertake. Interestingly, 51% of respondents believe that the 2023 macroeconomic environment will have a positive impact on the UK bridging market, driven by opportunities for bridging lenders to fill gaps in the market arising from market uncertainty and challenges around securing term debt in the current interest rate environment.

The ability to access flexible and efficient debt funding sources was voted as the most important challenge for businesses, overtaking challenges around competition from prior year surveys. To remain successful, respondents cited strong relationship with brokers, strong origination capabilities and ability to secure low cost funding as key factors.

Strategically, respondents noted that they would be considering investments in technology, product diversification and regional expansions as their top three key strategic routes over the next 12 months. Compared to last year's survey, more participants responded that they would look to raise financing debt and equity capital over the next 12 months.

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 2023 UK bridging finance market survey, coupled with a retrospective view of our own experience in the past 12 months alongside the outlook that was expected from the 2022 survey. We have also included commentary on the impacts expected driven by the 2023 macroeconomic outlook.

- ▶ **Macro environment impacting product terms and behaviour:** There has been a significant shift in the macro environment since our last survey, and the sector is adapting to a higher interest rate and inflationary environment. In addition to higher product interest rates, our survey shows the sector expects meaningful shifts towards longer average loan terms, lower loan-to-values (LTVs), longer times to complete loans and increased extensions.
- ▶ **Focus on funding:** The importance of securing competitive funding has risen on the agenda, with the right funding structures increasingly being perceived as a critical success factor for bridging lenders in the current environment. Institutional funders remain willing to fund the right players, but have become more selective in the new environment.
- ▶ **Credit and collateral quality:** Whilst there is a clear increased focus on the risk of property price declines and an expectation of increased levels of forbearance, the 2023 survey does not indicate the sector

expects a significant deterioration of credit quality or an associated expansion in servicing and work out requirements.

- ▶ **Competitive dynamics:** In previous surveys, new entrants to the market drove stiff competition for originations, and competitive pressure has been consistently cited as a key challenge for lenders in previous surveys. Our 2023 survey shows that this has changed, as macro uncertainty has led to lenders reassessing their credit appetites.
- ▶ **Strategic objectives:** There has been a marked increase in participants planning capital actions in the next 12 months, with 72% of respondents planning to raise refinancing or debt capital (vs 57% in 2022) and 51% planning on raising equity capital (vs 36% in 2022). Whilst M&A activity in both the bridging and wider property finance space have been impacted by macro events for both sellers' views on timing and purchasers' views on valuation. We still expect a number of transactions to complete this year, focused on the larger more institutionalised platforms, where there is less purchaser risk in relation to credit performance and growth projections.

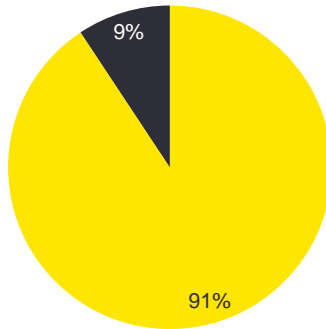
Other key survey findings

- ▶ **Macro impacts** – 51% of respondents believe that the 2023 macroeconomic environment will have a positive impact on the UK bridging market, 44% consider it will be negative. This divergence of views potentially reflects the generally higher degree of macro uncertainty in the current environment, as well as the differing ability of lenders to capitalise on the potential opportunities the market disruption presents.
- ▶ **Key customer success factors** – The ability to secure low cost funding has replaced speed of execution in the top three list of most important capabilities cited by bridging lenders needed to be successful in the UK market. The reputation of the lender and the quality of relationship management are also cited as critical success factors in this years survey, consistent with prior years.
- ▶ **Borrower reasons** – Mortgage delays have increased as a reason borrowers obtain loans in our 2023 survey, indicating that the slowdown in the mortgage market has been a source of increased demand for bridging loans. 39% of respondents ranked this option as one of their top two reasons for customer borrowing, compared to 20% in the 2022 survey.
- ▶ **Variable rate products** – Half of respondents have introduced variable rates over the past 12 months. Of the respondents who have not introduced variable rate products yet, only 10% are intending to introduce variable rates over the next 12 months. This represents a significant change to the product structure of bridging lenders traditionally fixed rate products, and provide lenders with a mitigant to the impact of further rate rises.
- ▶ **Technology penetration** – 58% of respondents state that technology investment as a strategic investment area. However, there are mixed views over the potential of technology to disrupt the sector, with most consensus around automated loan management systems acting as a differentiating factor.
- ▶ **ESG strategy** – A significant proportion of respondents plan to launch green finance products alongside other green finance tools. 42% said that green and sustainable finance is part of their planned strategic objectives for the coming 12 months.

1. Introduction

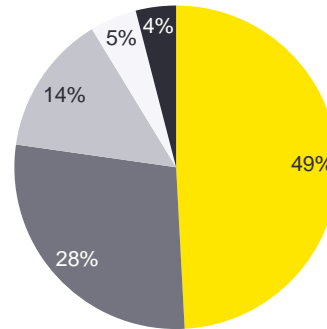
Our survey participants have grown their portfolios and headcounts since our last survey

Lenders vs. Brokers



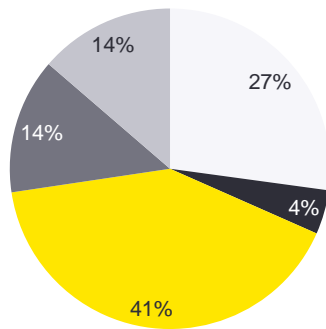
■ Lender ■ Broker

Geographical distribution of respondents



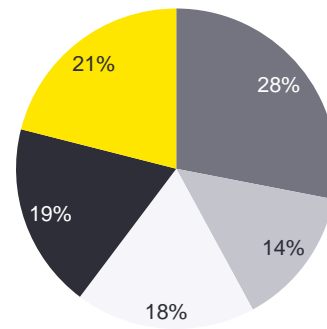
■ London ■ England - Midlands
 ■ England - South (exc. London) ■ Scotland & Guernsey
 ■ England - North

Bridging loan book size (£m)*



■ 0 - 50 ■ 100 - 250 ■ 500 +
 ■ 50 - 100 ■ 250 - 500

Employee headcount of respondents



■ 1-10 ■ 21-40 ■ 50+
 ■ 11-20 ■ 41-50

Overview and geographical location of respondents

- ▶ We have collected feedback from 43 participants in this year's UK bridging market survey. The majority of respondents (91%) are lenders.
- ▶ 49% of respondents are based in London, while 28% are in the South of England.

Loan book size

- ▶ The combined loan book size of respondents (lenders) is c.£5.7bn, with an average loan book size of c.£250m (versus £150m in 2022).
- ▶ 41% lenders that have provided inputs on loan book size have a loan book of £100m-£250m, which almost doubled compared to last year's survey (21%).

Headcount

- ▶ The overall size of respondents' business by headcount have increased compared to last year's survey.
- ▶ There has been a shift towards larger FTE size banding for other categories compared to prior year survey
- ▶ Respondents with smaller teams (1-10 FTEs) are 28% of the total population, reducing from 34% in the 2022 survey.
- ▶ Respondents with more than 50 FTEs (21%) are broadly equivalent to last year's survey.

Note: *Based on 22 lenders who disclosed their book sizes

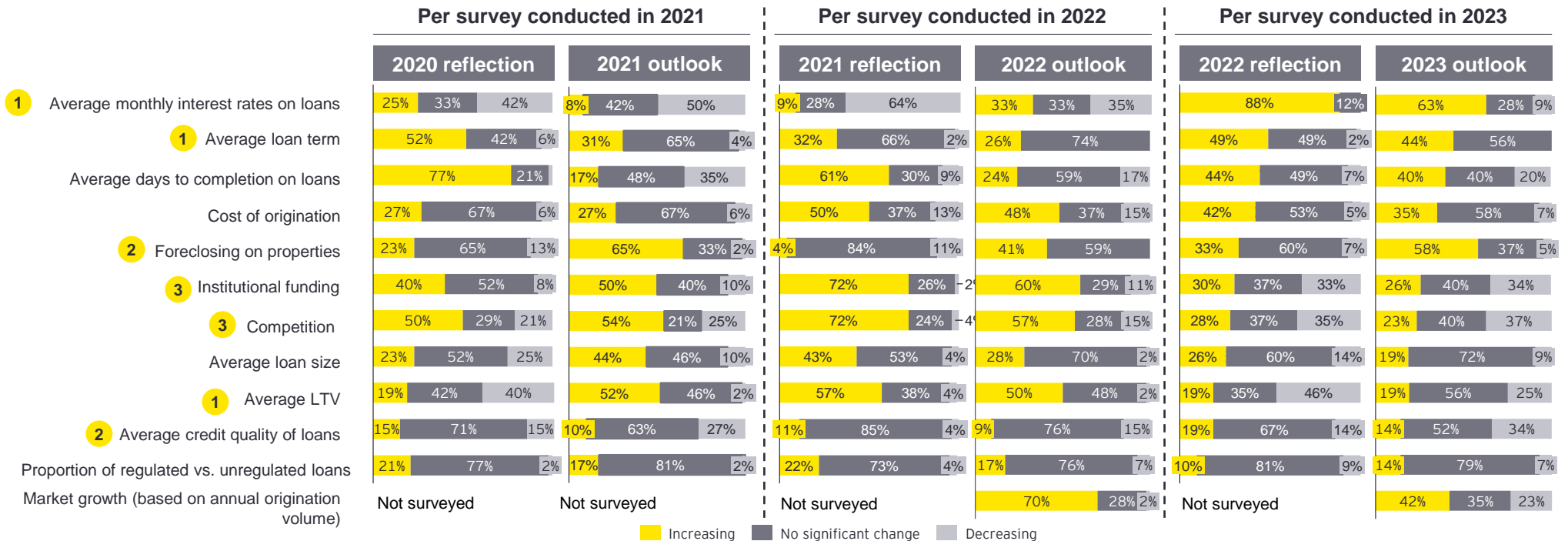
2

UK bridging market characteristics

2. UK bridging market characteristics

Our 2023 survey reveals some significant shifts, driven by changes in the macroeconomic environment experienced in 2022

Q 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.



1 Macro environment impacting product terms: There has been a sharp revision to interest rate expectations from last year's survey, with 88% of respondents in this year's survey reporting increased rates 63% of respondents reporting that they expected interest rates to continue to increase in 2023. Since the close of our survey on 3rd March 2023, the Bank of England increased base rates in the UK by a further 25bps to 4.25%.

- Average loan terms were expected to extend (44% of respondents expect increases in 2023), taking expectations towards where they were during the COVID period in 2021. Having been expected to increase in prior years, 46% of respondents cited that average LTVs in 2022 had decreased. This is in line with responses collated on average LTV presented on page 12. Such declines could be driven by the adoption of more stringent refinancing exit stress testing. 25% of respondents expected LTVs to continue to decrease in 2023.

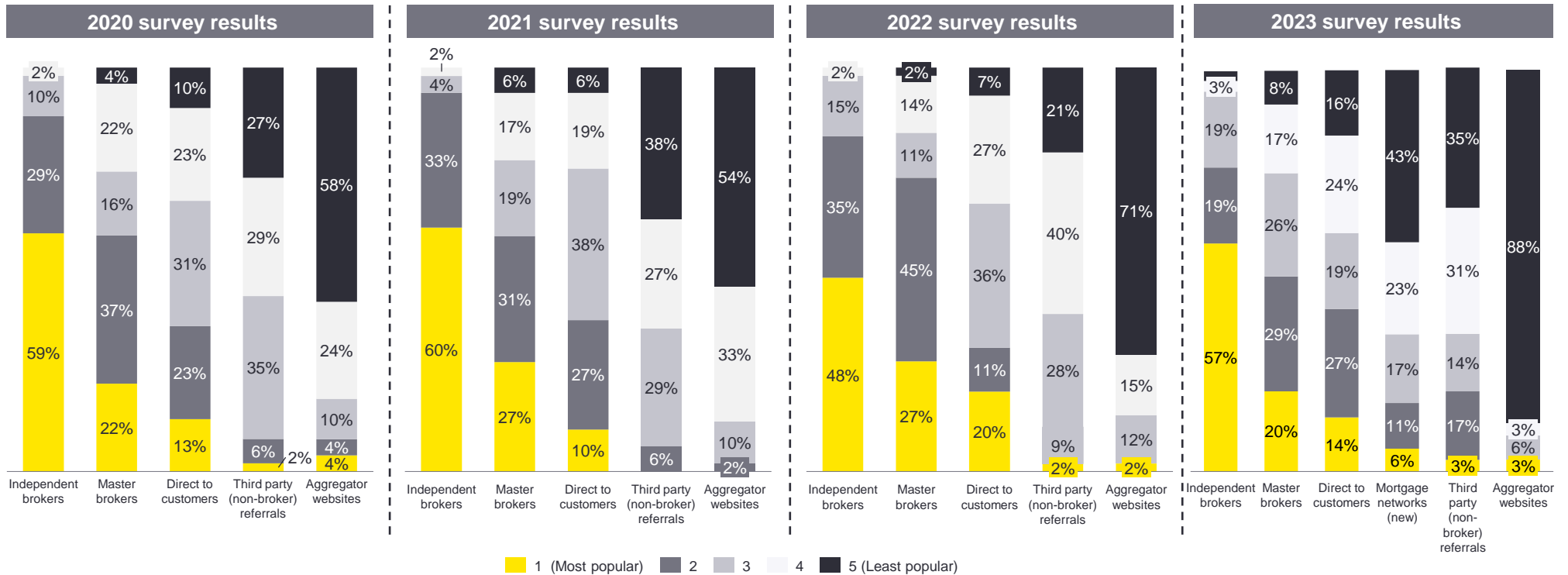
2 Increased foreclosure expectations, but not in underlying credit quality: The COVID-19 pandemic raised the expectation that there would be increased foreclosures in 2022, which ultimately did not materialise. The changing macro environment has increased those expectations again this year, with 58% of participants citing that they expect to see foreclosures increasing in 2023. Respondents views on the average underlying credit quality of loans is expected to remain broadly unchanged, suggesting that whilst macro circumstances may result in a rise in foreclosures in 2023, there isn't a sharp deterioration in the credit quality of underlying customers expected.

3 Other significant shifts were the expectation that competition will decline, potentially as the sector focuses on raising rates and on the right lending opportunities, and more mixed views about the continued expansion of institutional funding into the market, after a period in which institutional investors have been attracted to the sector by higher risk adjusted returns.

2. UK bridging market characteristics

Independent brokers remain the most important distribution channel for bridging loan originations

Q Which of the following, in your opinion, are **the most important primary channels** for bridging loan originations?



- ▶ Brokers remain an important primary channel for bridging loan origination, with 57% of respondents (lenders) choosing “independent brokers” as the most important channel (a total of 95% giving an importance rating of 3 or above). This has been consistent throughout prior year surveys.
- ▶ Conversely, the “direct to customer” channel is becoming more important, as 41% of respondents ranking this options as one of their top two origination channel (2022: 31%, 2021: 37%, 2020: 36%).
- ▶ Master brokers are the overall second most important origination channel in 2023. However, it appears that the importance of this channel has decreased slightly compared to prior years. 49% of respondents selected master brokers as top two most important choices, decreasing from 72% in 2022.
- ▶ Consistent with prior years, “aggregator websites” remains the least important channel, as confirmed by 88% of respondents in this year’s survey.

Note: The previous survey totals may not add to 100% due to rounding. In the current year survey, we have introduced “mortgage networks” as an additional option and the rank 5 and rank 6 have been combined as least popular.

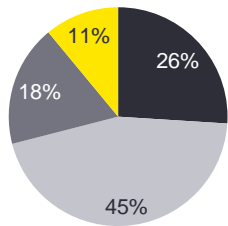
2. UK bridging market characteristics

The average days taken to complete on loans over the past 12 months have increased; however there has been no significant change to origination costs

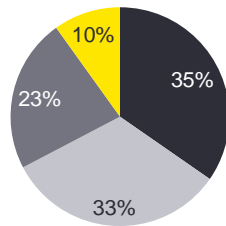
Q Which of the options below, in your opinion, best describes the following **key commercial indicators** over the past 12 months in the UK bridging finance market?

Average days taken to complete on loans over the past 12 months

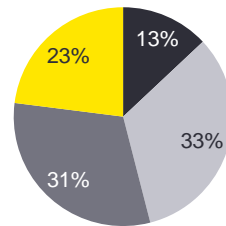
2019 survey



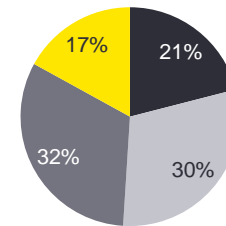
2020 survey



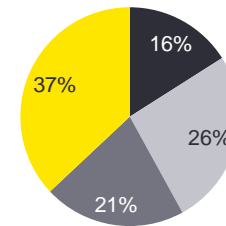
2021 survey



2022 survey



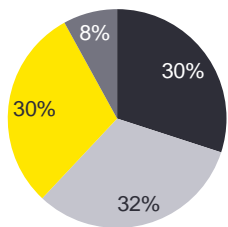
2023 survey



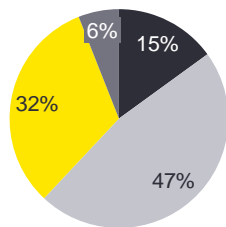
■ < 35 days ■ 35 to 40 days ■ 40 to 45 days ■ > 45 days

Average monthly costs of origination over the past 12 months

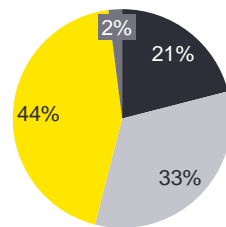
2019 survey



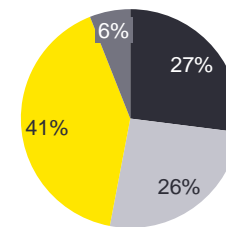
2020 survey



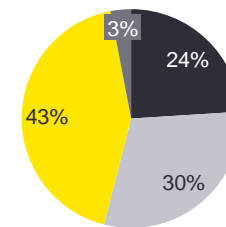
2021 survey



2022 survey



2023 survey



■ < 1% ■ 1 to 1.5% ■ 1.5 to 2% ■ > 2%

► **Days to complete on loans** have increased since 2019. In 2022, days to complete appeared to be reducing having extended in 2021 due to the COVID-19 pandemic. However, this trend reversed in our 2023 survey. The average days to complete on loans over the last 12 months has increased in 2023 in comparison to prior years, and 37% of respondents said that it takes more than

45 days to complete a loan (2022: 17%, 2021: 23%, 2020: 10%).

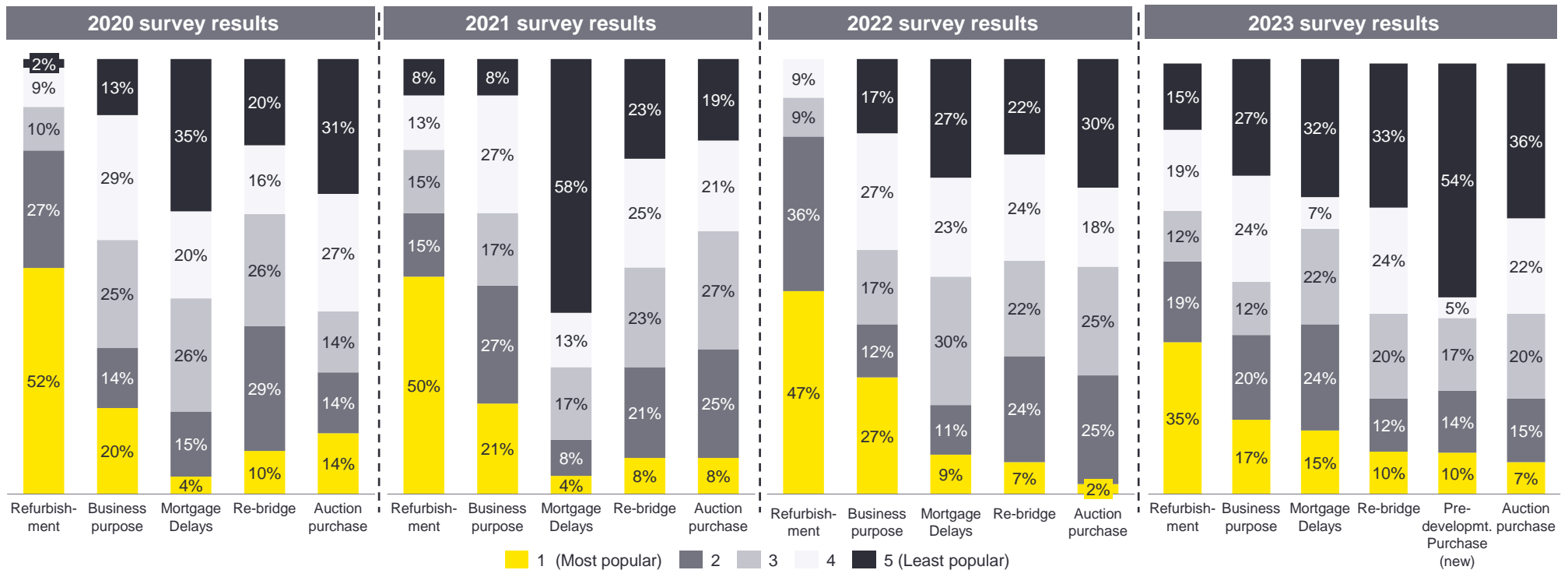
► **Origination costs** have continued to be relatively stable, consistent with our market observations that whilst there is a range around origination costs, typically driven by distribution channel, procurement pricing has tended to be stable within these channels.

Note: The previous survey totals may not add to 100% due to rounding

2. UK bridging market characteristics

Refurbishment remains the most popular reason for borrowers to obtain a bridging loan, while mortgage delays have increased as a reason borrowers obtain loans in our 2023 survey

Q What is the main reason for borrowers to obtain a bridging loan?
(Please rank the following purposes from 1-6, with 1 being the most popular reason and 6 being the least popular reason)



- ▶ **Refurbishment** remains as the main reason for borrowers to obtain a bridging loan, this trend has been consistent throughout prior years.
- ▶ **Pre-development purchase:** The 2023 survey includes pre-development purchases for the first time, showing that 24% of respondents rated pre-development purchase as the first or second most popular reason for customers' taking bridging loans. This category is likely playing a role in the apparent reductions in "refurbishment" and "business purpose" as borrowing reasons in 2023.

- ▶ **Mortgage delays** Bridging loans taken up due to "mortgage delays" have increased in this year's survey, indicating that the slowdown in the mortgage market has been a source of increased demand for bridging loans. 39% of respondents ranked this option as one of their top two reasons for customer borrowing, compared to 20% in the 2022 survey (12% in 2021 and 19% in 2020). This is consistent with the slowdown of mortgage approvals observed since H2 2022.

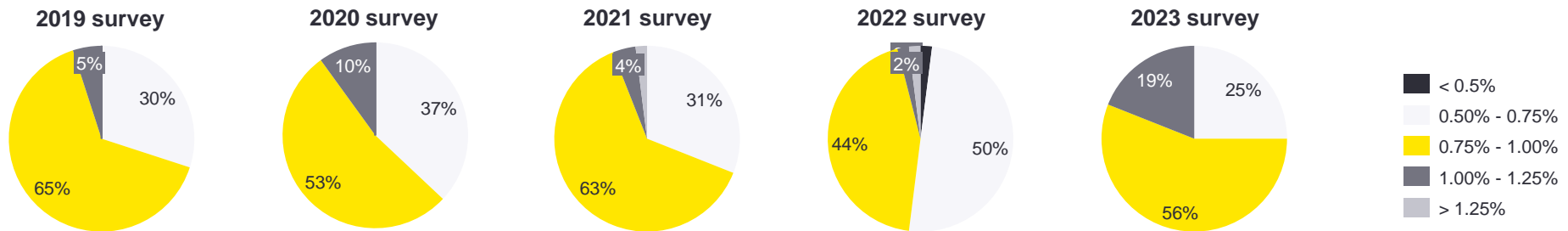
Note: The previous survey totals may not add to 100% due to rounding

2. UK bridging market characteristics

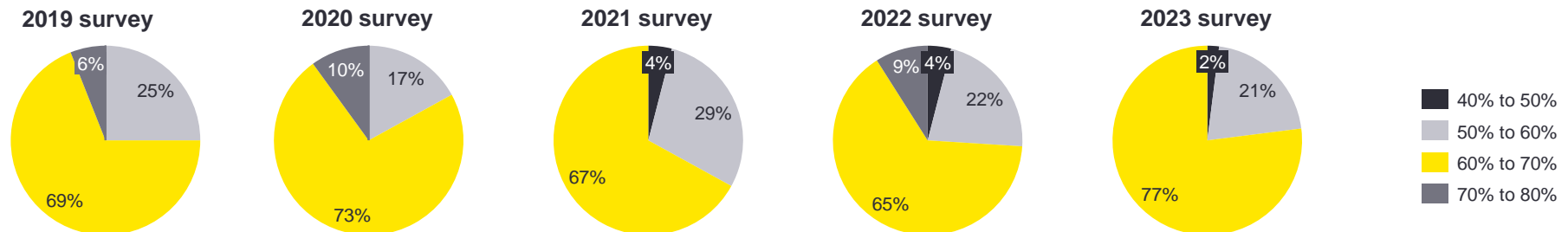
A sharp rise in average monthly interest rates has been accompanied by a reduction in the upper end of average LTVs in our 2023 survey

Q 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



- ▶ **Interest rates:** Overall, there has been an increase in the average monthly interest rates on bridging loans in the last 12 months, driven by increased base rates and indicating that the sector has been able to successfully pass on rate rises to customers.
- ▶ The majority of respondents (56%) cited that the “average monthly interest rate” for bridging loans over the past 12 months was between 0.75%-1.00%. This is an increase compared to the majority range of 0.50%-0.75% selected in the 2022 survey.
- ▶ Respondents that selected the 1%-1.25% pricing range has also increased from 2% in last year’s survey to 18% this year. Interestingly, no responses indicated that

bridging loans were being priced above 1.25%, suggesting that at least currently this represents an upper limit to average pricing on current trends.

- ▶ **LTVs:** The majority of respondents (77%) cited “average LTV” to be “60%-70%”, a range which was consistently selected 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.
- ▶ No respondent cited “average LTV” to be 70%-80% in 2023 survey which was a decrease from 9% in the 2022 survey, indicating a more cautious approach to LTV assessments likely linked to increased uncertainty over the medium-term movements in property prices.

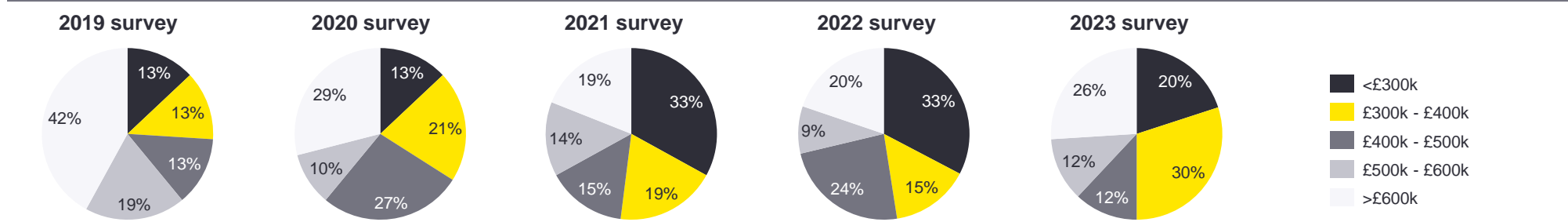
Note: The previous survey totals may not add to 100% due to rounding

2. UK bridging market characteristics

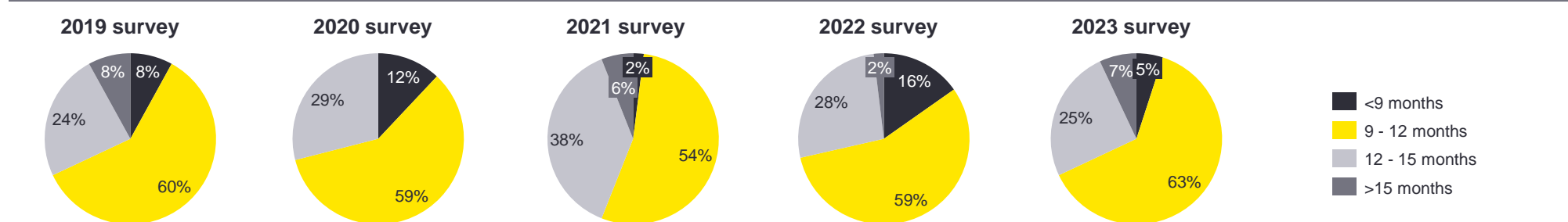
Average loan sizes and average loan terms have remained relatively stable

Q 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



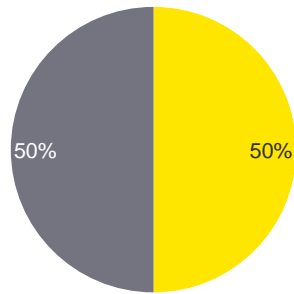
- ▶ **Average loan size:** Most respondents (30%) cited that the average loan size is between £300k-£400k. Whilst 20% of respondents chose the range of <£300k, there were no respondents that have expressed an average loan size of below £100k.
- ▶ The higher loan sizes of £600k or more have varied over time. In our latest survey, 26% of respondents consider that the average loan size is >£600k, a 6% increase from last survey.
- ▶ The mix of average loan sizes by banding implies that average bridging loan sizes have remained stable in the last 12 months (as reflected in the 2023 survey) compared to the prior period.
- ▶ **Average loan term:** The majority of respondents (63%) view the “average loan term” to be between 9-12 months which is broadly in line with all previous surveys.
- ▶ 7% of respondents found the “average loan term” to be over 15 months and only 5% of respondents found it less than 9 months, indicating the average loan term has increased since the last survey.

Note: The previous survey totals may not add to 100% due to rounding

2. UK bridging market characteristics

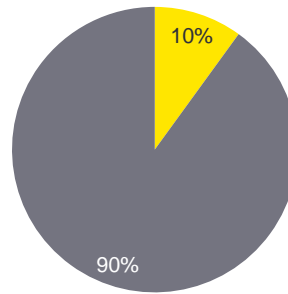
Half of respondents have introduced variable rates over the past 12 months, 10% of respondents who have not introduced variable rates, intending to do so in the next 12 months

Q Have you introduced variable rates over the past 12 months?



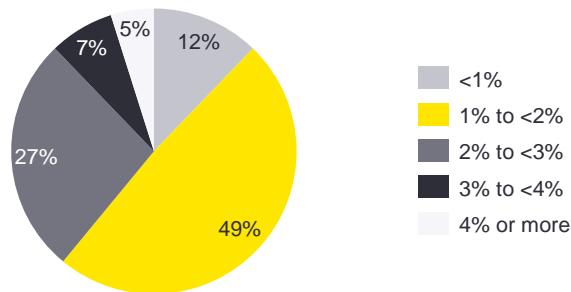
Yes No

Q Do you intend to introduce variable rates over the next 12 months?



Yes No

Q In your opinion, what best describes the average monthly default interest rate applied to loans that go over term over the past 12 months in the UK bridging finance market?



Variable interest rates

- ▶ 50% of respondents said that their businesses have introduced variable interest rates over the last 12 months period.
- ▶ Only 10% of respondents who have not introduced variable rates over the last 12 months said that they intend to introduce variable rate products over next 12 months. Indicating that the participants who have not introduced variable rates, will not intend to do so.

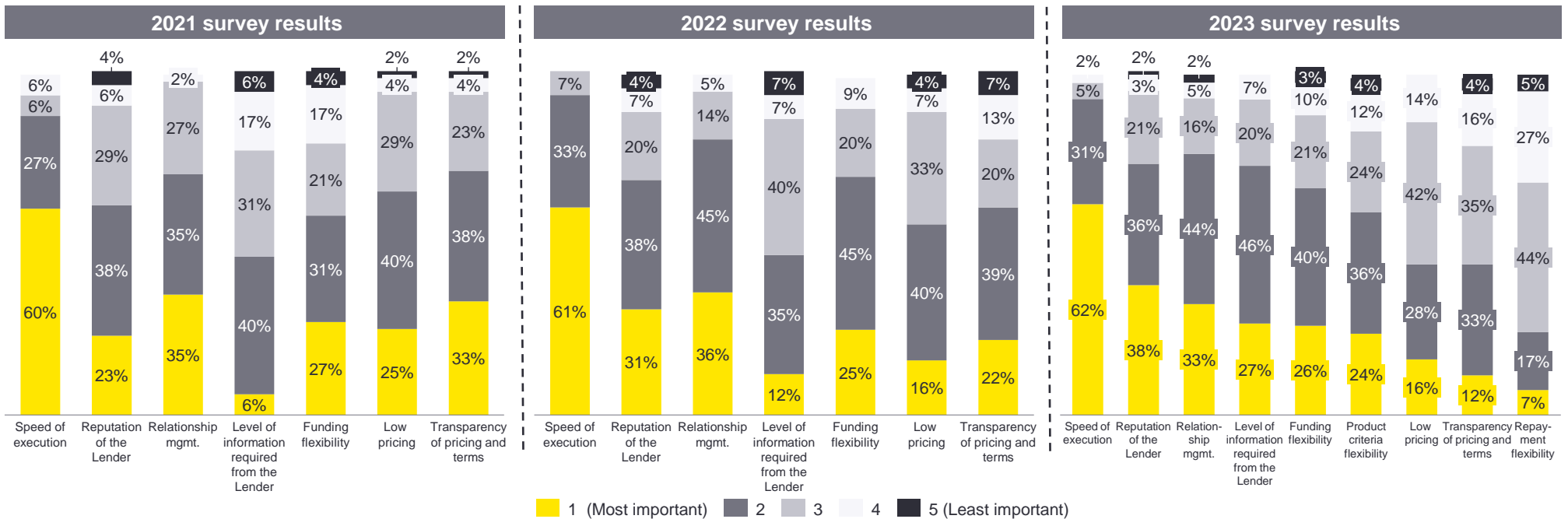
Default interest

- ▶ In the 2023 survey we asked a question on the average level of default interest for the first time.
- ▶ 49% of respondents cited that the average monthly default interest rate applied to loans that go over term is between 1% to 2%, followed by 27% of respondents that selected the range of 3% to 4%.
- ▶ Default interest rates in excess of 3% are relatively uncommon, with 12% of respondents responding in this range in the survey.

2. UK bridging market characteristics

Speed of execution, reputation of lender and relationship management have been the most important considerations when choosing a bridging lender

Q 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)



- ▶ 62% of respondents cited “**speed of execution**” as a most important consideration when choosing a bridging lender, consistent with the 2022 and 2021 survey results.
- ▶ 38% of respondents cited “**reputation of the lender**” as a most important consideration, overtaking “**relationship management**” ranking second highest in terms of most important scores in this year’s survey after “speed of execution”. This is potentially a disadvantage to the newer players in the UK bridging market with more limited track records.
- ▶ However, looking at respondents’ top two choices in aggregate, “relationship management” (77%) outweighs “reputation of the lender” (74%), signalling that this remains an important factor in customer borrowing decisions.
- ▶ 27% of respondents cited “**level of information required from the lender**” as the most important consideration when choosing a bridging lender, significantly increased from 2022 (12%) and 2021 (6%) survey results, potentially indicating an increase in the importance to customers of the ease of the application process.
- ▶ The number of respondents that selected “**Transparency of pricing and term**” as their top choice continues to be in decline (2023: 12%, 2022: 22% and 2021: 33%), suggesting that bridging customers and brokers continue to place importance on lender reputation and relationship, potentially driven by the relatively high rates of renegotiation (e.g. of term) that are a feature of bridging lending products.

Note: The previous survey totals may not add 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”.

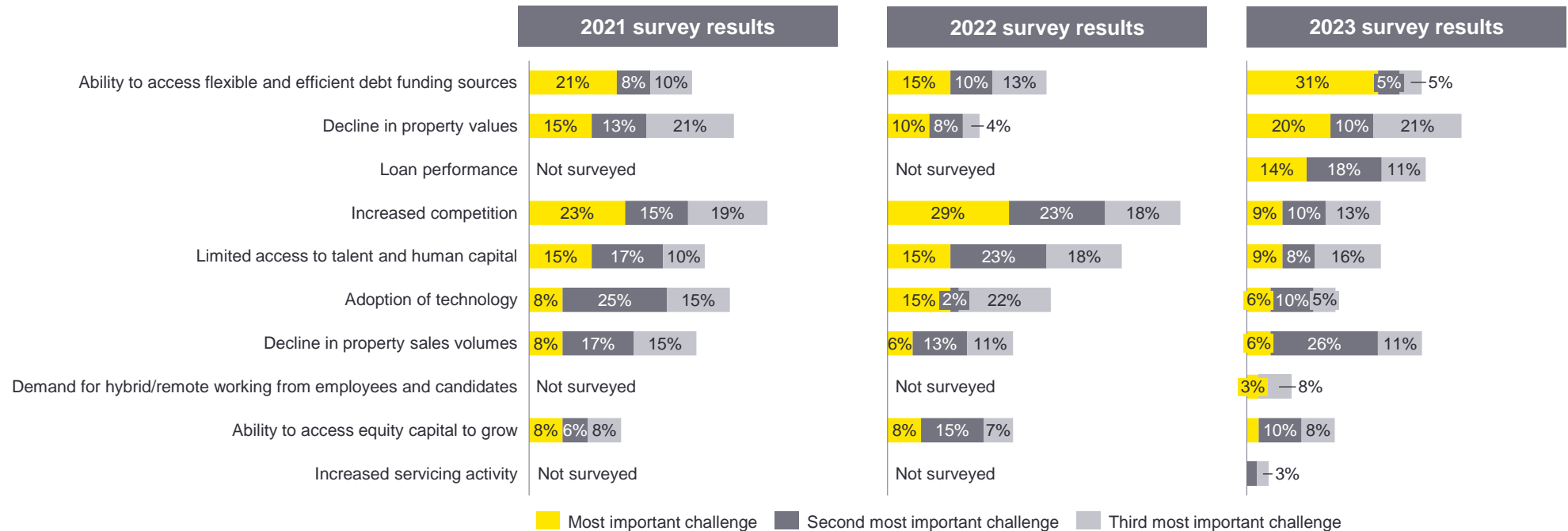
3

Bridging market challenges

3. Bridging market challenges

Ability to access flexible and efficient debt funding sources, declines in property values and loan performance were cited as the three biggest challenges to bridging lenders in 2023

Q What do you see as the **3 biggest challenges for your business** in 2023?
(Please rank the options by order of importance, with 1 being the most important, 2 being the second most important and 3 being the third most important)



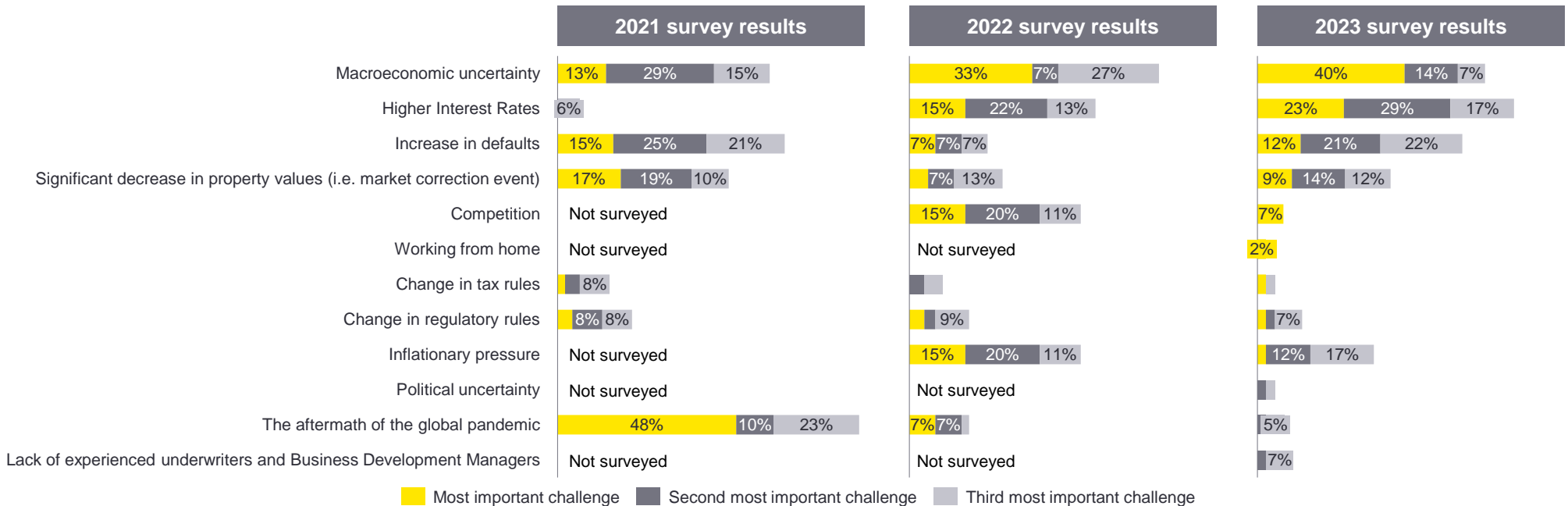
- ▶ The **“ability to access flexible and efficient debt funding sources”** was selected as the most important challenge for individual lenders in 2023. Respondents that cited this have increased to 31% (in 2023) compared to 15% in the 2022 survey.
- ▶ **“Decline in property values”** and **“loan performance”** have also been cited as key challenges in 2023, with 51% and 43% of respondents selecting this as one of the top three challenges for their businesses respectively.
- ▶ This sentiment is echoed on the following page where participants have listed **“Higher interest rates”** and **“Increase in defaults”** as one of their biggest challenges impacting the wider UK bridging finance market in 2023.
- ▶ 26% of respondents cited **“decline in property sales volume”** as the second most important challenge, which could have a knock on impact on originations for bridging lenders focusing on mortgages.
- ▶ **“Increased competition”**, which featured as the biggest challenge in prior year surveys has fallen in priority as businesses have shifted their focus on adapting to challenges posed by the macroeconomic trends.
- ▶ Similarly, the focus on challenges imposed by **“limited access to talent and human capital”** and the **“adaptation of technology”** also appears to be reduced in 2023 vs prior years. However, 58% of respondents cited **“investment in technology”** as a planned strategic objective over the next 12 months, signalling the continued importance of technology investment in the bridging finance sector (see more on page [23](#)).

Note: Respondents were able to rank the options provided above on a scale of 1-3. For example, 31% of responses ranked “Ability to access flexible and efficient debt funding sources” as the most important challenge.

3. Bridging market challenges

Macroeconomic uncertainty, higher interest rates and increases in defaults were the key challenges cited by respondents on the wider UK bridging finance market

Q What do you see as the **3 biggest challenges impacting the UK bridging finance market** in 2023?
(Please rank the following options by order of importance, 1 being the most important, 2 being the second most important and 3 being the third most important.)



- ▶ **“Macroeconomic uncertainty”** remains as the challenge selected by the most participants in the survey, 40% citing this as the most important challenge affecting the market in 2023, as continued inflationary pressure, the cost of living crisis, and the ongoing conflict in Ukraine are expected to continue to impact the bridging market.
- ▶ In line with this, **“Increasing default rates”** and **“significant decrease in property values”** have increased as areas of challenge in 2023, up from 21% to 55% and up from 25% to 35% between 2022 and 2023 in each category respectively.
- ▶ Interestingly however, concerns over defaults and property values are not

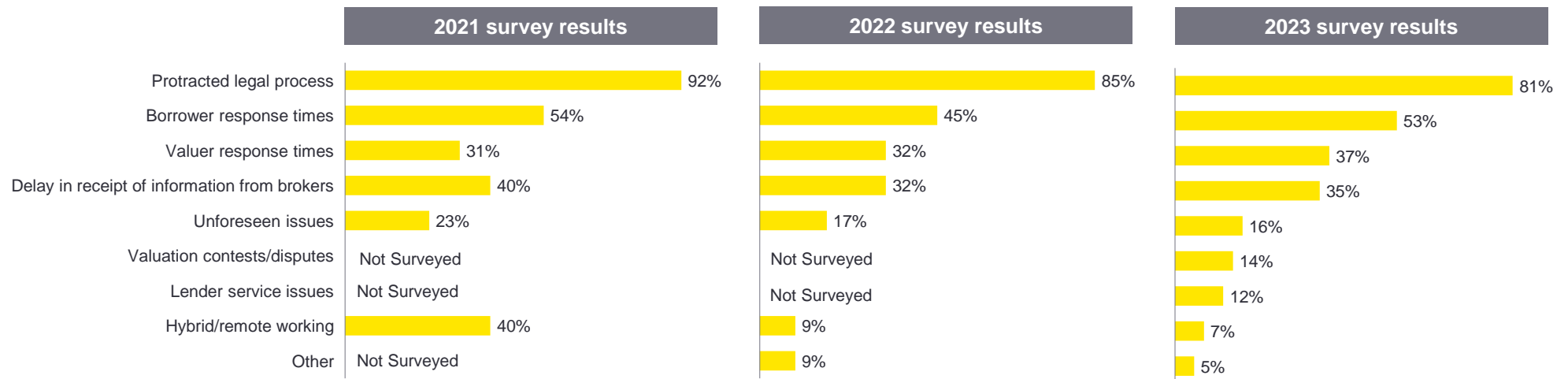
- above the levels surveyed during the COVID-19 pandemic, which still represents a high water mark in terms of lender concern in these areas across past surveys.
- ▶ In addition, **“inflationary pressure”**, which was cited as a key challenge by respondents in the 2022 survey as the pricing impacts of the conflict in Ukraine fed into lender sentiment, has fallen down the agenda of challenges in 2023, likely reflecting the consensus view that recent and potentially future rate rises will serve to counteract inflationary pressure during the remainder of 2023.

Note: Respondents were able to rank the options provided above on a scale of 1-3. For example, 40% of responses ranked “macroeconomic uncertainty” as the most important challenge.

3. Bridging market challenges

Protracted legal process, borrower/valuer response times and timing of information received from brokers remain the key factors contributing to operational delays

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



- ▶ The current year trend compared to our prior year surveys largely remain unchanged.
- ▶ Almost all respondents (81%) cited “**slow legal process**” as one of their top three factors causing delays.
- ▶ Other key factors causing delays are driven by longer borrower and valuer response times and delays in receipt of information required from brokers.
- ▶ In parallel with other Financial Services sectors, our survey indicates that the UK bridging market has adapted to hybrid or remote working, with just 7% of

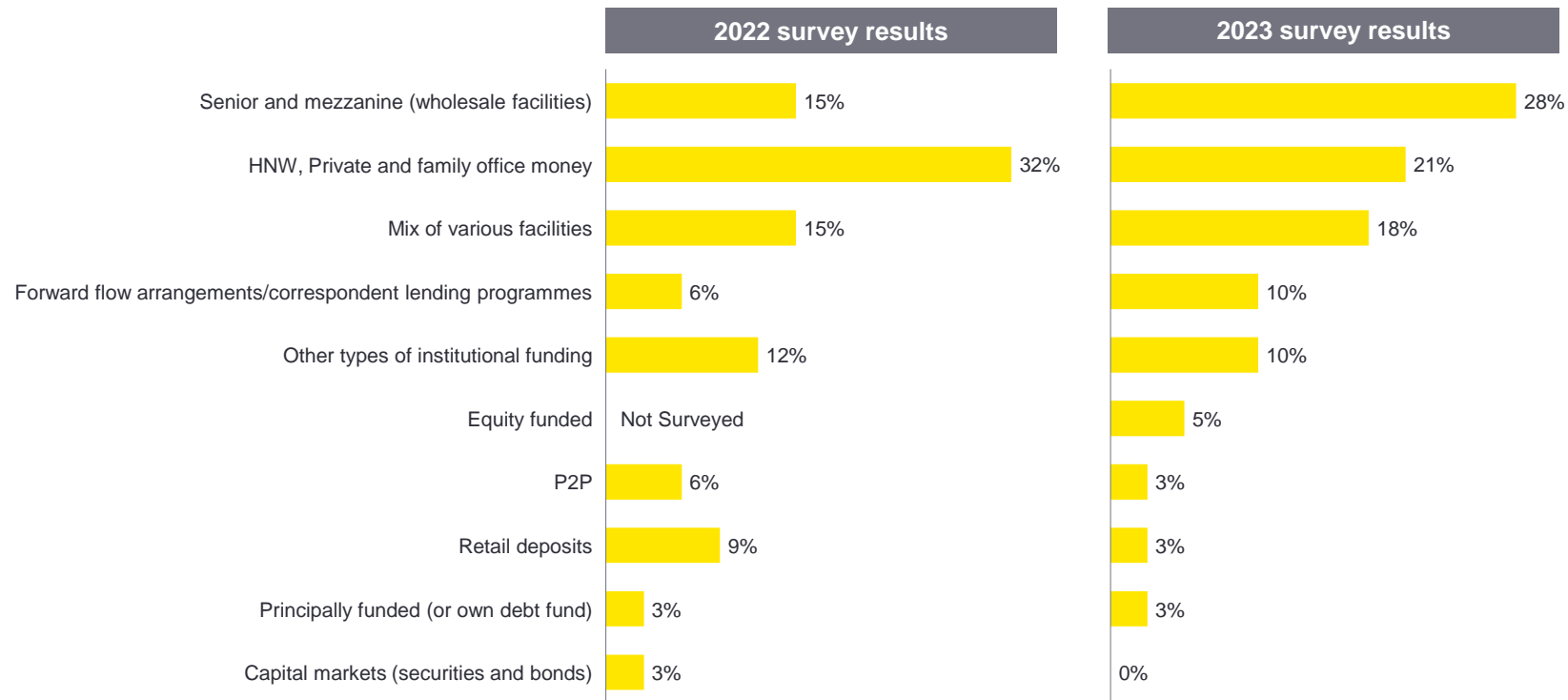
respondents citing working from home as a factor contributing to delays (a reduction from 40% in 2021). This is likely driven by a combination of employees returning to work post lockdowns, and sufficient time since lockdown for businesses and employees to adapt to hybrid working and thus reducing inefficiencies caused by this.

- ▶ Other responses received from participants in this year’s survey included “solicitor acting for borrower is inexperienced in bridging” and “land registry” as key reasons for ongoing delays.

3. Bridging market challenges

Senior and mezzanine facilities are the main sources of funding for Lenders, followed by funding obtained from high-net-worth individuals, private and family offices

Q As a lender, what best describes your funding model?



- ▶ 28% of lenders have described senior and mezzanine funding as their main sources of funding.
- ▶ Funding from high-net-worth individuals (HNW), private and family office money continues to be another main source of funding for lenders. Although lenders who voted for this option has decreased from 32% (in last year's survey) to 21% this year.
- ▶ 18% of the lenders described a mix of various facilities as their funding model

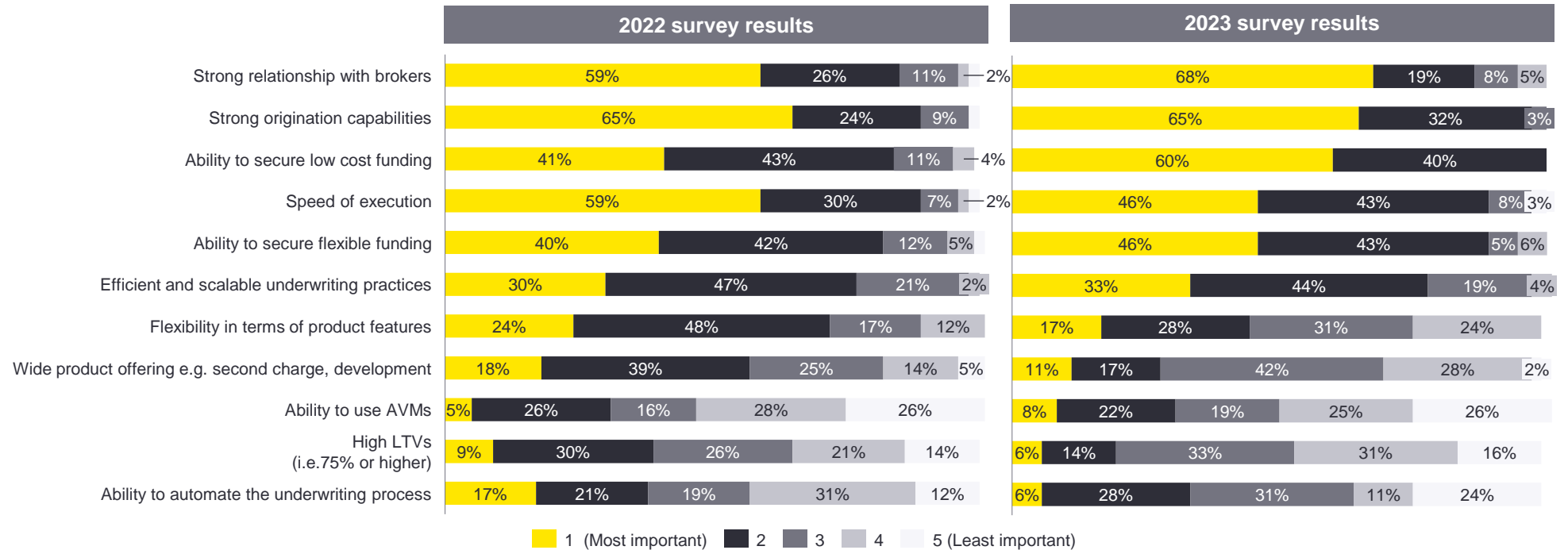
4

Strategy in the UK Bridging Market

4. Strategy in the UK Bridging Market

Ability to secure low cost funding has replaced speed of execution in the top three list of most important capabilities cited by bridging lenders needed to be successful in the UK market

Q 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)



- ▶ **“Strong relationship with brokers”** and **“strong origination capabilities”** remain as the top two most important capabilities for a lender to remain successful in the market. “Strong origination capabilities” was selected as the most important capability in last year’s survey (65%).
- ▶ **“Ability to secure low cost of funding”** has overtaken **“speed of execution”** as a top three capability, compared to last year’s survey. Selected as either the top one or two most important capability by all respondents, managing the cost of funding has become more important to preserve margins and profitability in the current rising interest rate environment.

- ▶ 25% of respondents selected **“ability to use automated valuation models (AVMs)”** and **“ability to automate the underwriting process”** as the least important capability, broadly consistent with last year’s survey.
- ▶ Only 6% of respondents cited **“High LTVs”** as the most important capability, one of the lowest in the survey. This correlates participants’ responses that the average LTV observed in the market is mainly between 60%-70% (see page 12), signalling that high LTVs are neither a desirable nor a differentiating feature in the 2023 bridging market.

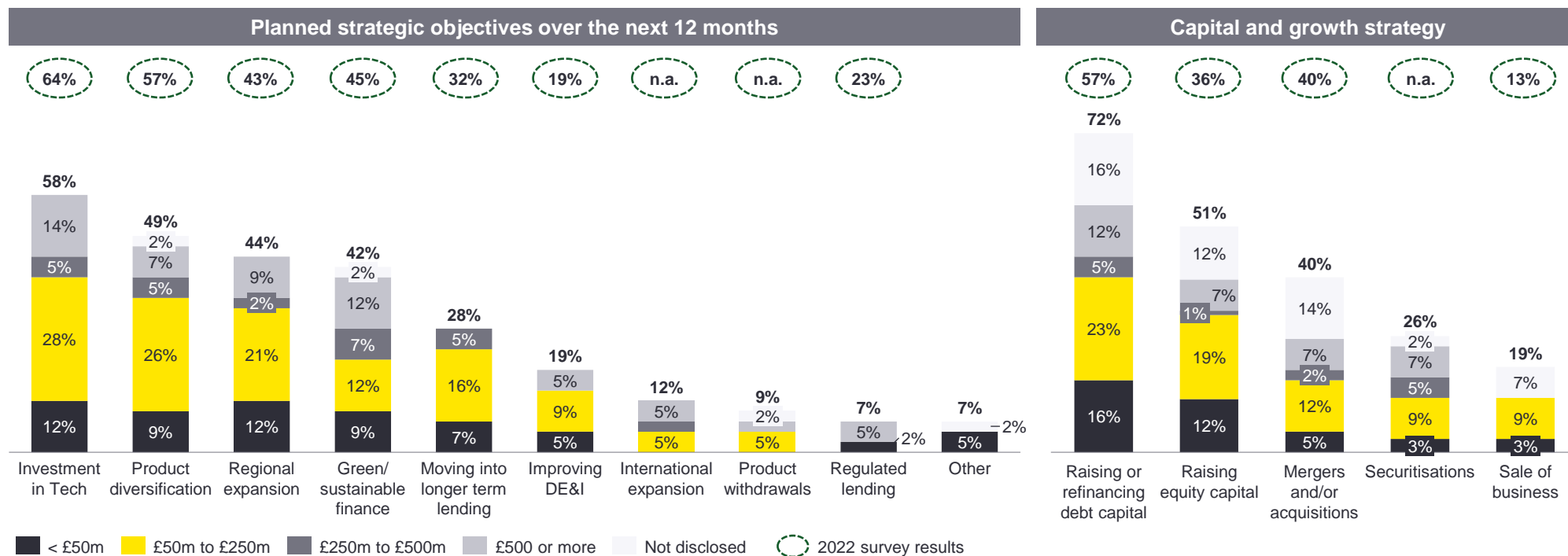
Note to chart: Respondents rated each capability with a score of 1 (most important) to 5 (least important) and therefore can score more than one capability at each rating — e.g., a respondent could choose both “strong origination capabilities” and “speed of execution” as being “1 — most important”.

Note: The previous survey totals may not add to 100% due to rounding

4. Strategy in the UK Bridging Market

58% of respondents selected investment in technology as a planned strategic objective over the next 12 months; 72% said that they would look to raising or refinancing debt capital

Q 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)

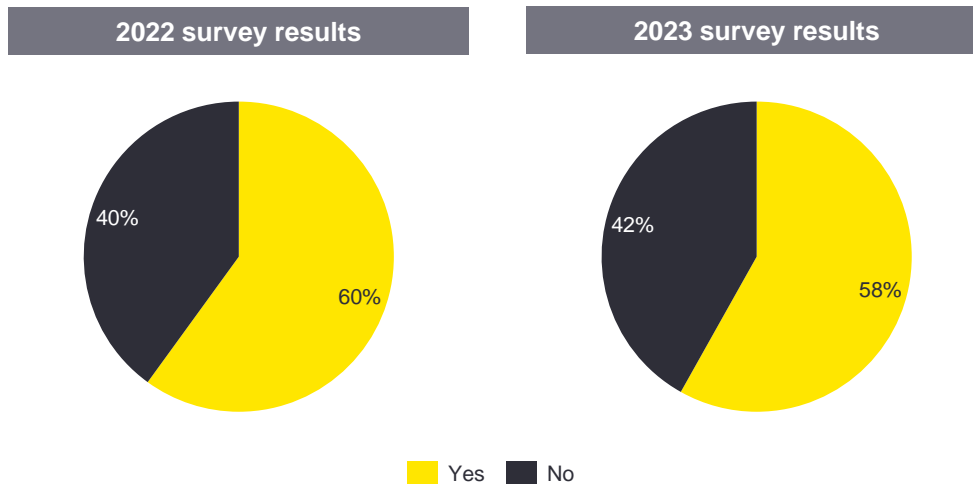


- ▶ **Investment in technology, product diversification and regional expansion** have been selected as the top three strategic objectives over the next 12 months by respondents. These factors were most commonly cited amongst the relatively smaller players in the market (<£250m loan book).
- ▶ 42% are considering **"green finance"** as one of their strategic options, which aligns to 58% of respondents planning to implement an ESG strategy in their business over the next 12 months (see next page).
- ▶ Other responses received from participants on planned strategic objectives included **"focusing on products brought to market over the last year"**, **"permanent capital"**, and **"rebate of fees upon successful completion"**.
- ▶ To fund growth and planned strategic objectives, 72% of respondents stated that they would look to **raise or refinance debt capital** over the next 12 months, 51% of respondents stated that they would **raise capital via equity issuance** and 26% to **raise funding via securitisations** of loans.
- ▶ 40% of respondents are considering **M&A activity** and 19% are thinking about **selling their business**. Whilst M&A activity in both the bridging and wider property finance space have been impacted by macro events for both sellers' views on timing and purchasers' views on valuation. We still expect a number of transactions to complete this year, focused on the larger more institutionalised platforms, where there is less purchaser risk in relation to credit performance and growth projections.

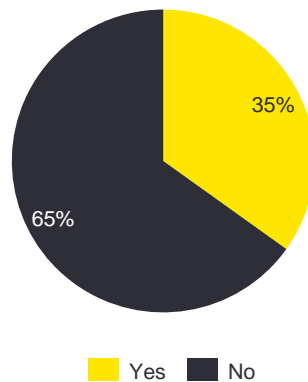
4. Strategy in the UK Bridging Market

A significant proportion of respondents plan to launch green finance products alongside other green finance tools

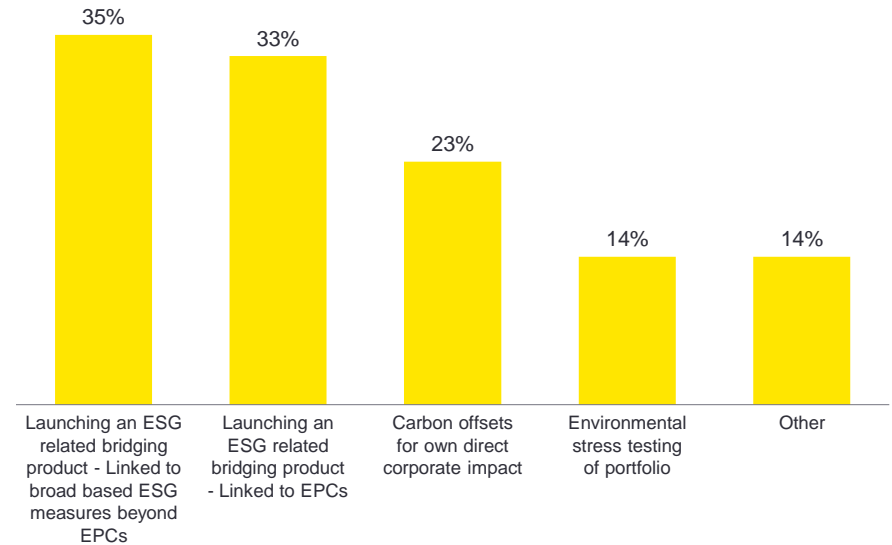
Q Is your business planning to implement an ESG strategy over the next 12 months?



Q Do you plan to take part in lobbying activities to influence governments and policymaking for the property market/finance industry in 2023?



Q What forms of green finance tools do you plan to implement?



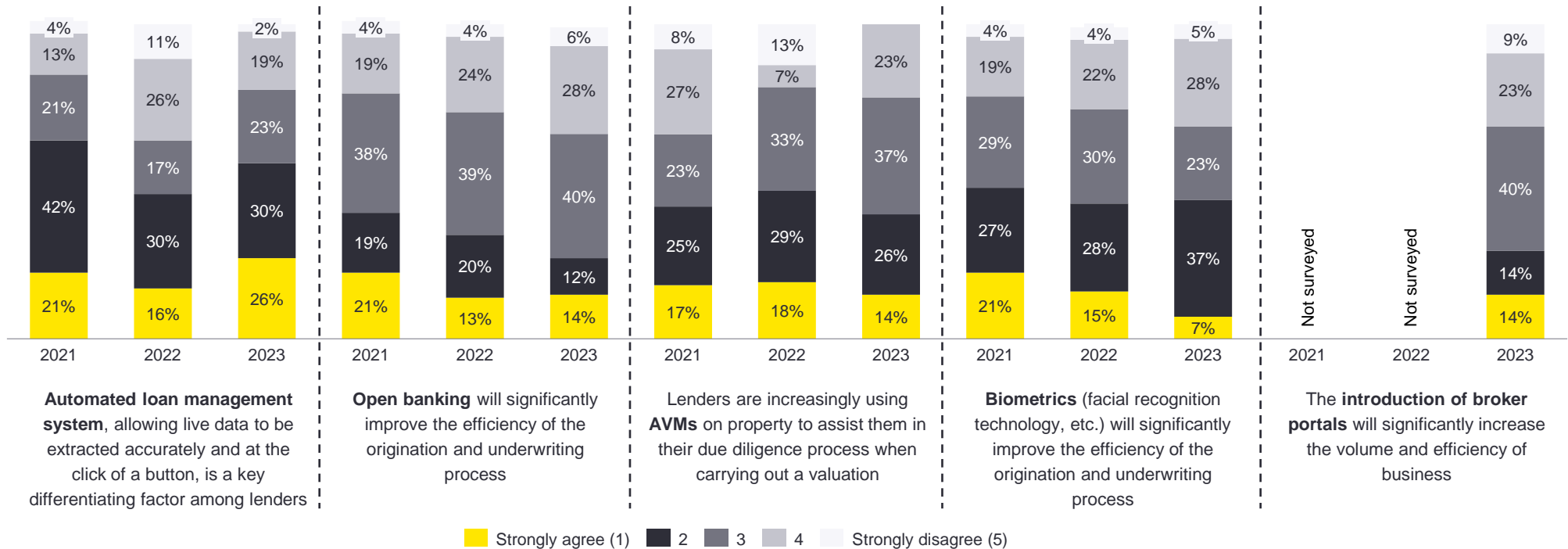
Note: Total percentages in the chart may not add up to 100%, as respondents were able to select more than 1 option

- ▶ The majority of respondents (58%) are planning to implement an ESG strategy over the next 12 months. As noted on the previous page, 42% of respondents are considering green and sustainable finance over the next 12 months.
- ▶ Businesses are starting to gain an edge by offering ESG products in the market, as this could be seen as a differentiator between other players in the market. The survey shows that 14% of respondents plan to implement “environmental stress testing of their portfolios”, we expect this number to rise over the coming 12 months.
- ▶ Respondents are also considering these actions as part of their ESG strategy:
 - ▶ Raising an Article 8 compliant lending fund from institutional investors
 - ▶ Full digitalisation of processes to eliminate the use of paper
 - ▶ Becoming a Certified B-Corporation
 - ▶ Secured funding enabling lenders to reward developers seeking to build or refurbish highly energy efficient properties

4. Strategy in the UK Bridging Market

There is a mixed response around which technology has a greater impact, with most consensus around Automated loan management systems acting as a differentiating factor

Q 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)



- ▶ There has been an increase in the proportion of respondents (56%) who expressed agreement¹ that having an **automated loan management system** is a key differentiating factor among lenders (compared to 46% in 2022), which may reflect the implementation of this technology still remains a relevant trend in the UK bridging market, particularly among the smaller players.
- ▶ Since 2021, the respondents' strength of agreement around **Open banking** disrupting the sector has been in decline (from 40% in 2021 to 26% in 2023). The majority of respondents are neutral on the sentiment that Open banking will significantly improve efficiencies around origination and underwriting. Although there may still be a role for open banking sourced information to supplement the underwrite, the consensus appears to be that it will facilitate rather than drive the underwrite.
- ▶ The number of respondents who agree that lenders are increasingly using **AVMs** have also reduced (47%: 2021, 40%: 2023). This is consistent with responses elsewhere in the survey, where respondents have selected the use of AVM as a less crucial capability to remain successful in the market. It is also likely that lenders are less reliant on AVMs, and going back to full valuations coming out of the COVID-19 pandemic lockdowns. One respondent observed that for them AVM is "use[d] as a back up [,and] not as a deciding factor".
- ▶ An additional statement around "**Introduction of broker portals having an impact on volumes and efficiencies**" have been introduced in this year's survey. The majority of respondents (40%) remain neutral on this.

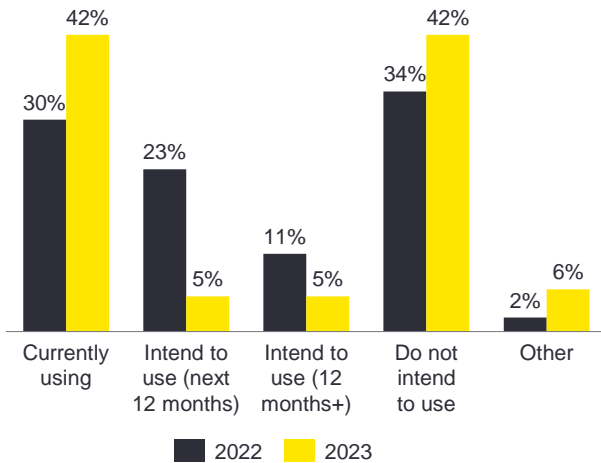
Note: The previous survey totals may not add to 100% due to rounding

¹ Indicates "Strongly agree (1)" and/or "Agree (2)"

4. Strategy in the UK Bridging Market

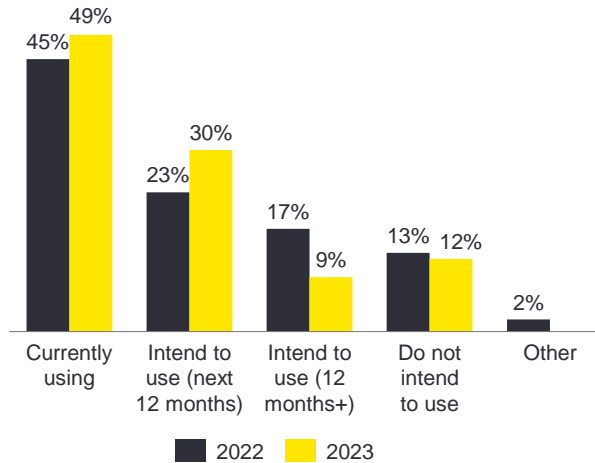
52% of respondents are either currently using AVM technology, or planning to implement this in the future. The majority of respondents are also planning to invest in AML systems

Q Are you planning to, or currently using, AVM technology?



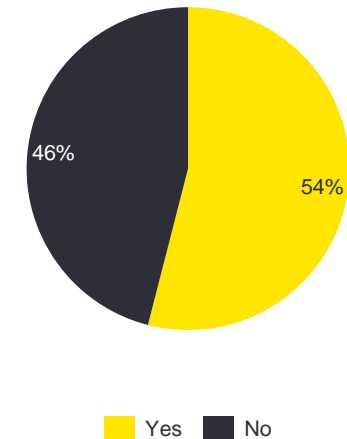
- ▶ AVMs are used to provide estimates of capital or rental value for properties under consideration for funding.
- ▶ 42% of respondents are currently using AVM technology, and increase from 30% in 2022. In 2022, 23% of respondents indicated that intend to use AVM; however the increase in respondents currently using AVMs is only 12% (from 30% in 2022 to 42% in 2023) indicating that adoption rates has been slower. While such systems do have the capacity to be used independently, some respondents noted that they are being used in tandem with on site valuations. One respondent observed that whilst AVMs are used on clients with good profiles and when LTVs are low, a site visit to the property would still be required.
- ▶ In the context of bridging, the use of AVMs could add 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 is that it is not a critical factor for a lender to be successful, which could explain the decrease in respondents intending to use AVMs in the future, given other challenges faced arising from the current macroeconomic environment.

Q Are you planning to, or currently using, electronic signatures for legal documents?



- ▶ As of September 2019, electronic signatures can be used to execute documents, including where there is a statutory requirement for a signature, with 49% of respondents now using this technology, and 30% 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.
- ▶ From our prior year survey (2022), we noted that whilst 23% of respondents intend to use electronic signatures in the next 12 months, i.e. in 2023, the increase in respondents which are currently using this was only a 4% increase year-on-year. This shows that whilst there is ambition from lenders to adopt e-signatures, this has in practice not materialised.

Q Are you planning to invest to enhance your AML systems over the next 12 months?



- ▶ In the 2023 survey we introduced a question relating to investment in Anti-Money Laundering (AML), as there has been increasingly regulatory focus on this topic across the broader Financial Services sector.
- ▶ More than half of respondents (53%) are looking to invest in enhancing their AML systems over the next 12 months.

5

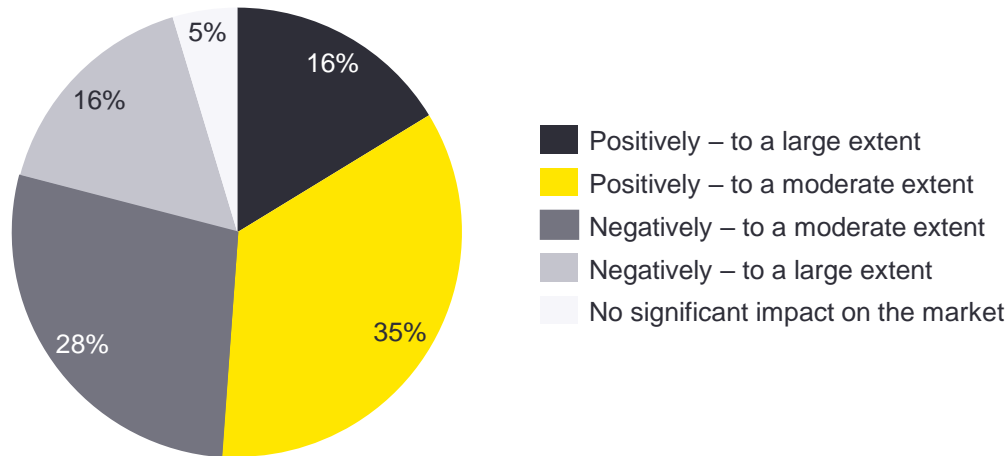
Impact of Macro-economic outlook 2023

5. Impact of Macro-economic outlook 2023

51% of respondents believe that the 2023 macroeconomic environment will have a positive impact on the UK bridging market



Overall, to what extent do you believe the 2023 macro-outlook will impact the bridging finance market?

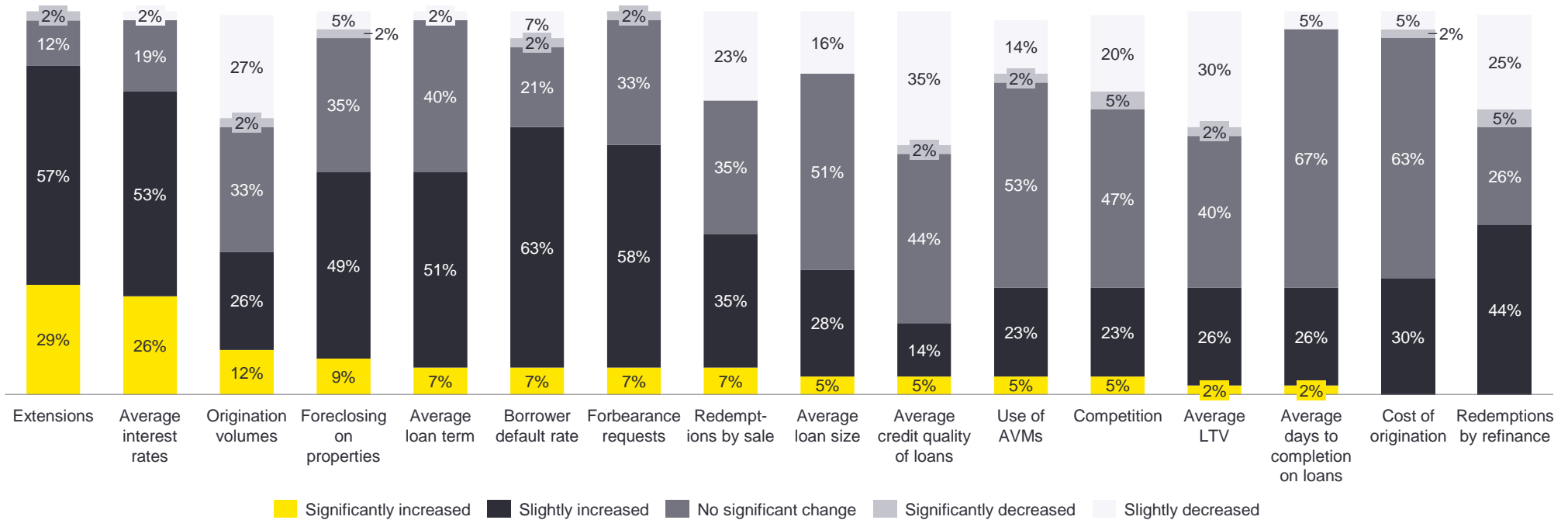


- ▶ 51% of respondents believe that the 2023 macroeconomic environment will have a positive impact on the UK bridging market, driven by opportunities for bridge lenders to fill gaps in the market arising from market uncertainty and challenges around securing term debt in the current interest rate environment.
- ▶ 44% of respondents consider that there will be a negative impact to the sector, one citing higher interest rates as a large paradigm shift to which lenders will need to adapt (consistent with responses to other questions in the survey).
- ▶ On the next page, we explore in more detail, respondents' view on the impact of the 2023 macroeconomic environment on various aspects of bridging finance businesses.

5. Impact of Macro-economic outlook 2023

The 2023 macroeconomic environment is anticipated to significantly increase levels of loan extensions and average interest rates

Q For each factor below, please choose the option that most closely reflects the impact of the 2023 macro-outlook



- ▶ The majority of respondents (>50%) expect increases¹ in extensions of loans, average interest rates, foreclosures on properties, average loan terms, borrower default rates and forbearance requests in light of the macroeconomic outlook for 2023.
- ▶ 26%-29% of respondents cited that there will be significant increases in extensions of loans and average interest rates.
- ▶ More than 25% of respondents are of the view that origination volumes, the average credit quality of loans, average LTVs and redemptions via refinance will decrease.
- ▶ Competition is also expected to decrease, in line with other questions in the survey (see page 17) as the sector focuses on raising rates and seeking the right lending opportunities with the appropriate credit and underwriting conditions.

Note 1: indicates slightly increased and significantly increased.

6

How the EY team can help

6. How the EY team can help

How the EY team can help

With the completion of 16 bridging finance transactions since 2018, 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 completed the transaction, selling the business to a private equity house.

Transactions Diligence: Providing vendors and acquirors on equity transactions with due diligence support

- ▶ The EY team have extensive experience of the bridging lending sector, and has conducted sell-side due diligence (advising vendors) and buy-side due diligence (advising potential acquirors) on over a dozen bridging lenders – from market leading independent bridging lenders with multi-product origination capability, to mid-sized bridging lenders, to banks with bridging loan operations.
- ▶ Our due diligence focuses on the issues that matter most to potential investors, helping identity support for the equity story and enable transactions.
- ▶ Our market leading bridging lending due diligence experience includes Commercial, Financial, Credit risk, Tax, Technology and Operations and ESG due diligence.

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.

6. How the EY team can help

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