

UK bridging market survey

June 2024

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An aerial photograph of a long, curved cable-stayed bridge spanning across a vast body of water. The bridge features a series of tall, blue, A-frame pylons supporting the roadway with cables. The scene is captured during a sunset or sunrise, with a warm, golden-orange glow on the horizon and soft light reflecting on the water's surface. The sky is filled with wispy clouds, and distant landmasses are visible on the horizon.

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Introduction

Overview



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Welcome to the seventh UK bridging market study from the EY Financial Services Strategy & Transactions 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 February 2024 and March 2024, resulting in responses from 39 UK bridging finance lenders and brokers. Of the survey's participants, 28 lenders provided detail regarding the size of their loan book, with these lenders having a combined disclosed book size of c.£6bn.

In this year's survey, we included new questions around the upcoming UK general election, and extension rates. We also accumulated time series data on new questions from last year's survey.

Our 2024 survey reveals positive market growth sentiment, with 67% of respondents expecting growth in annual originations. Market participant's views of macro uncertainty has also reduced since the 2023 survey. However, the sector remains watchful in a higher interest rate environment, and the path of interest rates, loan performance and foreclosure activity were all areas of increased focus for our survey participants in 2024.

Technology came through as a strong theme in the 2024 survey, with 80% of respondents seeing it as a strategic objective for them in 2024, significantly up from 2023 (58%), with increasing automation cited as a key objective of this investment. This fits into a broader trend we see across the property lending and specialty finance sectors, as the market seeks to leverage technology to automate significant elements of the customer journey, leaving firms to apply expert judgement in the most value-adding areas.

The majority of respondents will look to raise or refinance debt capital over the next 12 months as part of their capital and growth strategy, with 28% of participants citing inorganic growth via M&A activity among their objectives.

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 expect consolidation, investor exits, and a desire from existing lenders to diversify their product proposition to be drivers of future M&A activity.

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 2024 UK bridging finance market survey, coupled with a retrospective view of our own experience in the past 12 months and also commented on the impacts expected driven by the 2024 macroeconomic outlook.

- ▶ **Market growth:** The 2024 survey reflects improved sentiment vs 2023 of market growth (p.8), with 2023 outperforming expectations at the time of last year's survey. The market continues to present the opportunity for well funded players with strong origination platforms to grow.
- ▶ **Macro environment:** Understandably, rising interest rates have been a focus for the market over the last 12 months (p.8), with variable rate products becoming increasingly prevalent in response (p.14). In the context of interest rates reaching a likely plateau and falling inflation, macroeconomic uncertainty has become perceived as less of a challenge to the market (p.19). However, there are several indications that the market remains cautious. The proportion of respondents expecting the macro environment to significantly support the bridging market has reduced (p.29) and the market is focusing on the importance of loan performance (p.18) and foreclosure (p.8).
- ▶ **A positive outlook:** Despite the challenges above, the majority believe that the current 2024 macroeconomic environment will have a positive impact on

- ▶ the UK bridging market as the sector continues to offer an attractive form of short-term debt.
- ▶ **Competitive dynamics:** Increased competition was a theme in both 2023 and 2024, reflective of the market environment, which has included increased focus on the bridging market by certain challenger banks.
- ▶ **Product diversification:** There has been a meaningful increase in firms seeking to diversify their product range (from 49% to 70% (p.24), as participants seek to diversify sources of growth and bring different maturity and funding profiles into their businesses, often allowing them to take advantage of opportunities they are seeing through customer and broker relationships.
- ▶ **Strategic objectives:** There has been a notable increase in the proportion of players citing obtaining equity capital as a challenge for 2024. Smaller players are considering strategic options, including consolidation, to better position themselves in the current environment and capture growth. Capital actions remain a priority, with 64% of respondents looking to raise or refinance debt capital and 38% seeking to raise equity. 28% of firms reported seeking inorganic growth via M&A this year. There continues to be demand for strong origination platforms that can deploy capital into assets with attractive risk adjusted returns, along with continued demand for product diversification, will likely play a role in future M&A in the sector.

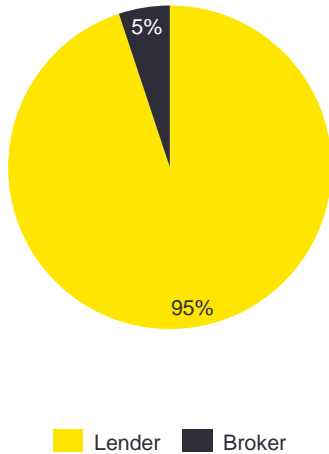
Other key survey findings

- ▶ **Technology penetration** – 80% of respondents stated that technology investment was a strategic investment area. Technology-driven solutions are increasingly critical across the bridging market, aiding faster loan approvals, better risk management and improved loan underwriting through data-driven decision-making. A clear, outcome-focused technology strategy is key, particularly for those firms seeking growth investment.
- ▶ **Borrower reasons** – Refurbishment remains the most popular reason for borrowers to obtain a bridging loan, which has been consistent since 2021. Auction sales are increasingly popular in the current property climate as property owners look for fast, simple ways to sell their assets. This coincides with the rise in demand for bridging loans, which offer the speed and certainty of funds required in the purchase of an auction property.
- ▶ **Extension fees** – Our survey looked at extension fees for the first time, as these have increasingly become a feature of some bridging lenders' unit economics. 57% of respondents reported that extension fee rates over the past 12 months were within the range of 1% - 2%. Extension rates of 2-3% were considered the second most prevalent rate.
- ▶ **General election** – In this year's survey, we added a new question to gather participant's view on the upcoming UK general election on the sector. 24% of respondents believed that the UK general election will bring a positive impact to the sector, whilst 39% of respondents took the view that that it will have a negative impact. A significant minority (37%) were of the view that the election would not impact the market one way or the other, potentially reflecting the perception of the relative narrowness of the differences between the main political parties' policy offerings.
- ▶ **ESG strategy** – Technology investment and product diversification have become higher priorities than green finance initiatives in the near-term for many firms. However, sustainability remains a strategic imperative for the longer-term, with most firms planning to implement or continue an ESG strategy.

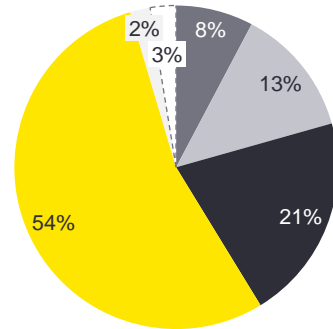
1. Introduction

Our survey participants are mainly lenders with a combined loan book size of more than £6bn

Lenders versus brokers



Geographical distribution of respondents



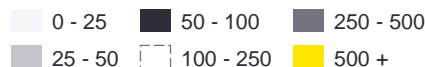
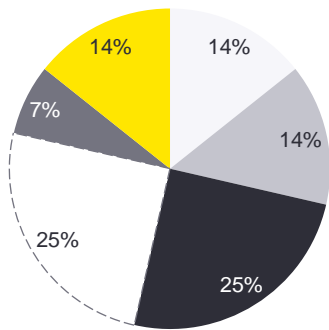
Overview and geographical location of respondents

- ▶ We have collected feedback from 39 participants in this year's UK bridging market survey. The majority of respondents (95%) are lenders.
- ▶ 54% of respondents are based in London, whilst 21% are in the South of England.

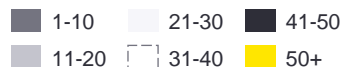
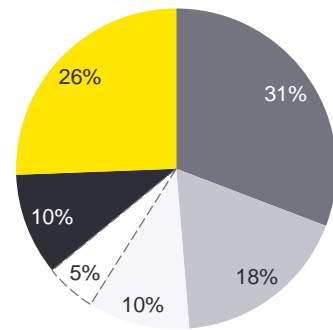
Loan book size

- ▶ The combined loan book size disclosed by respondents (lenders) through the survey amounted to c.£5.9bn (versus £5.7bn in 2023), with an average loan book size of c.£210m. Including respondents who did not disclose this information, based on publicly available information, we estimate the total loan book size of participants was above £6.6bn.
- ▶ The bottom left chart shows the loan book size of lenders that provided loan book information distributed by size banding. The survey represents views from lenders across two spectrum of loan book sizes.

Bridging loan book size (£m)*



Employee headcount of respondents



Note:
 1. *Based on 28 lenders who disclosed their book sizes
 2. Totals may not add to 100% due to rounding



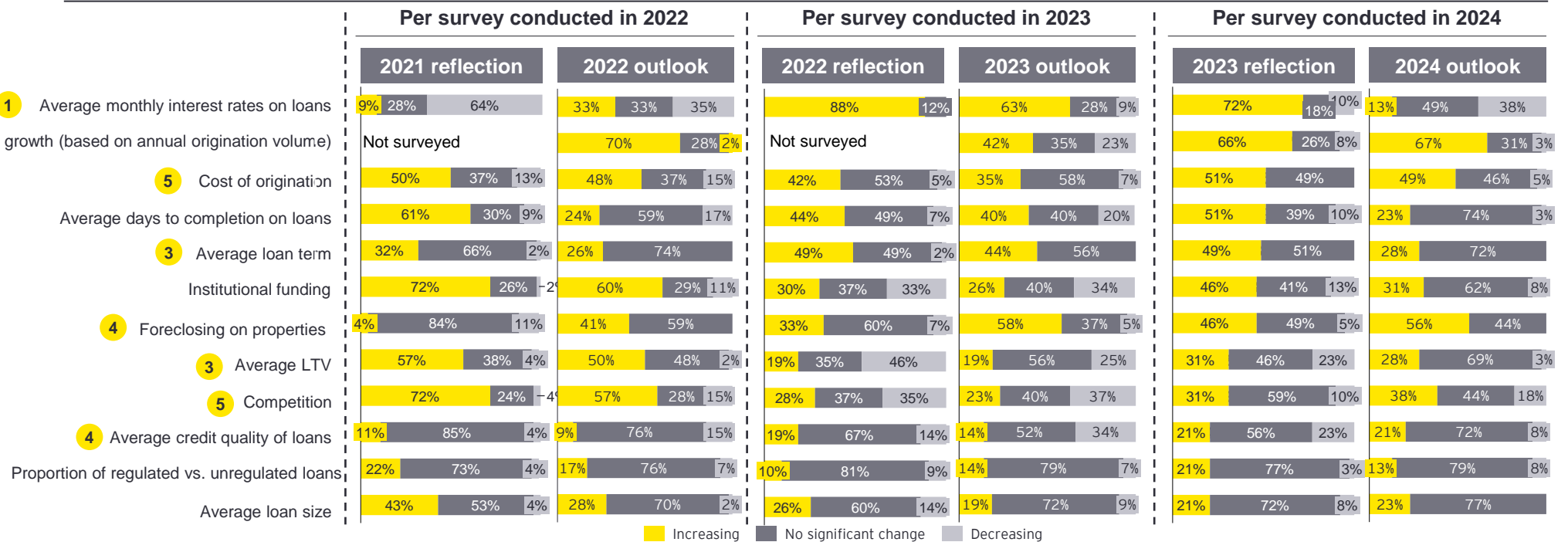
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UK bridging market characteristics

2. UK bridging market characteristics

Our 2024 survey reveals positive market growth sentiment, an increase in interest rates and no material shift in key product terms in 2023.

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 Interest rate expectation:** Interest rate expectations in 2024 materialised as indicated by the 2023 survey with 72% of respondents reporting increased rates and 87% of respondents reporting that they expected interest rates to remain the same or lower in 2024. At the time of our survey, the Bank of England base rates in the UK are at 5.25%.
- 2 Market growth:** There is a positive sentiment for market growth as the 2023 reflection of growth (66%) outperformed the 2023 outlook (42%). For 2024, 67% respondents expect growth in annual origination volume against 42% respondents expecting an increase in market growth in the prior survey.
- 3 Product terms:** Average loan terms were expected to remain stable (72% of respondents expect no significant change in 2024), taking expectations back towards where they were in 2022 outlook. There has been an increase in participants who cited that LTVs have increased in the 2023 reflection (31%), versus 19% in the 2023 outlook,

indicating a potential reform towards the 2023 outlook.

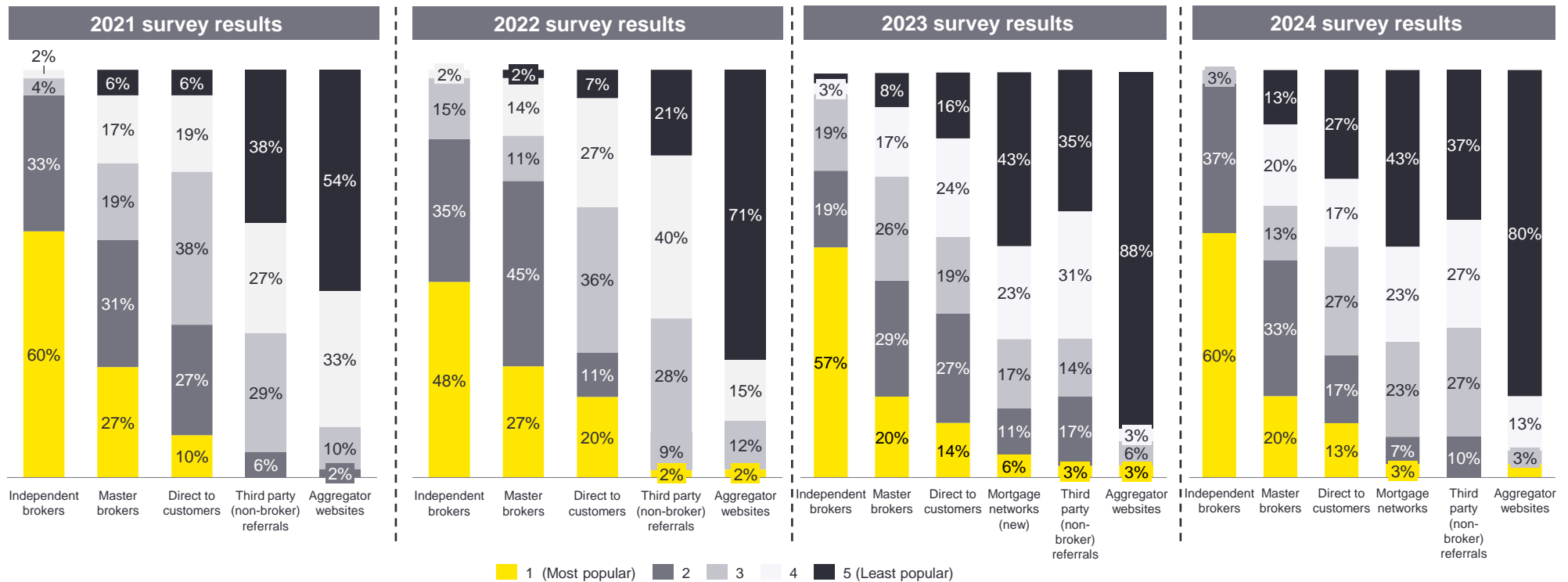
- 4 Increased foreclosure expectations:** Foreclosures in 2023 (46%) reported an increasing trend (33% in the previous survey). There were 56% of participants that cited that they expect to see foreclosures increasing in 2024. Respondents views on the average underlying credit quality of loans were broadly unchanged, suggesting that whilst macro circumstances may result in a rise in foreclosures in 2024, participants do not expect a sharp deterioration in the credit quality of underlying customers.
- 5** Other significant shifts were around **cost of origination** which have increase in 2023, versus a stable 2023 outlook. 49% of respondents believe this will continue to increase over 2024. Competition is also expected to increase in 2024 vs the 2023 position with 38% of respondents expecting an increase in competition vs 23% in the 2023 outlook.

Note: Totals may not add to 100% due to rounding

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 60% of respondents (lenders) identifying “independent brokers” as the most important channel (a total of 100% giving an importance rating of 3 or above). This has been consistent across prior year surveys.
- ▶ Master brokers are the overall second most important origination channel in 2024. This is relatively consistent with the 2023 survey. There were 53% of respondents that selected master brokers within the two most important choices, increasing from 49% in 2023.
- ▶ Conversely, the “direct to customer” channel was identified by respondents as marginally less important to lenders in this year’s survey continuing a trend observed since 2021. The proportion of respondents who ranked this option as one of their top two origination channels was the lowest across the last four historical years.
- ▶ Consistent with prior years, “aggregator websites” remains the least important channel, as confirmed by 80% of respondents in this year’s survey.

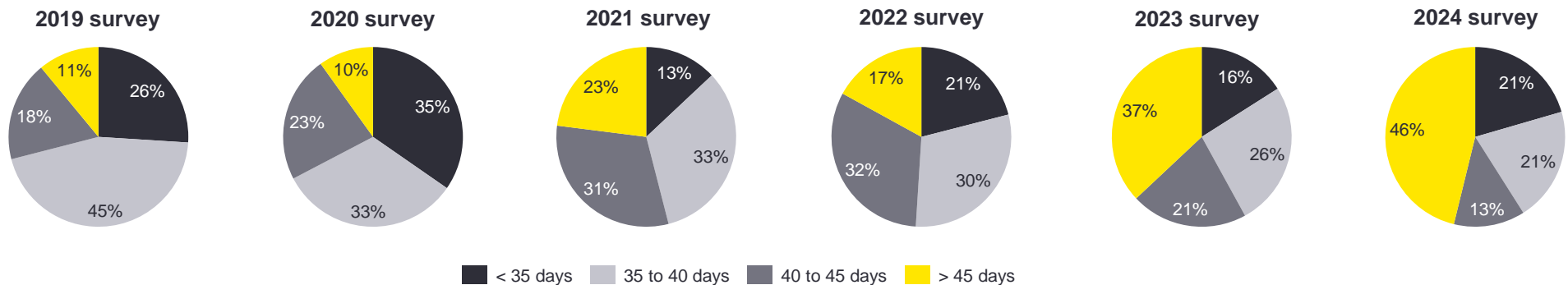
Note:
 1. In the prior year survey, we have introduced “mortgage networks” as an additional option and the rank 5 and rank 6 have been combined as least popular across all years
 2. Totals may not add to 100% due to rounding

2. UK bridging market characteristics

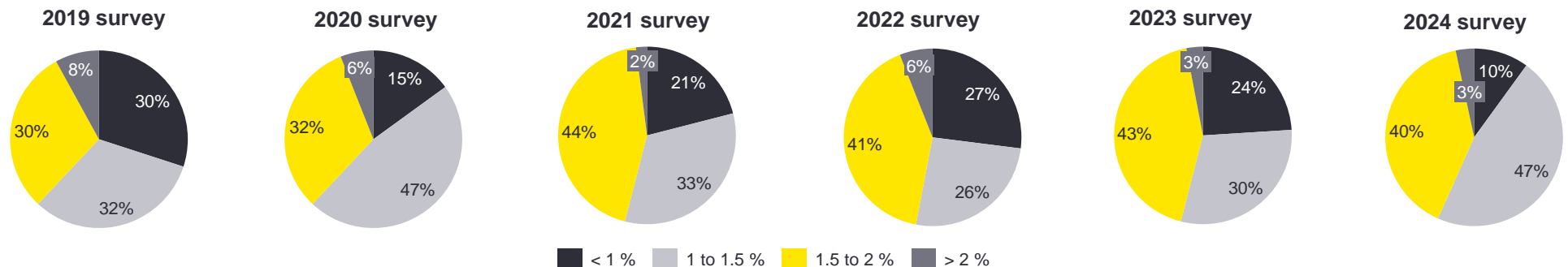
The average days taken to complete on loans and the costs of origination have increased over the past 12 months

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



Average monthly costs of origination over the past 12 months



► **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 and appears to have further increased in the 2024 survey. 46% of respondents reported completion times of more than 45 days to complete a loan (2023: 37%, 2022: 17%, 2021: 23%, 2020: 10%).

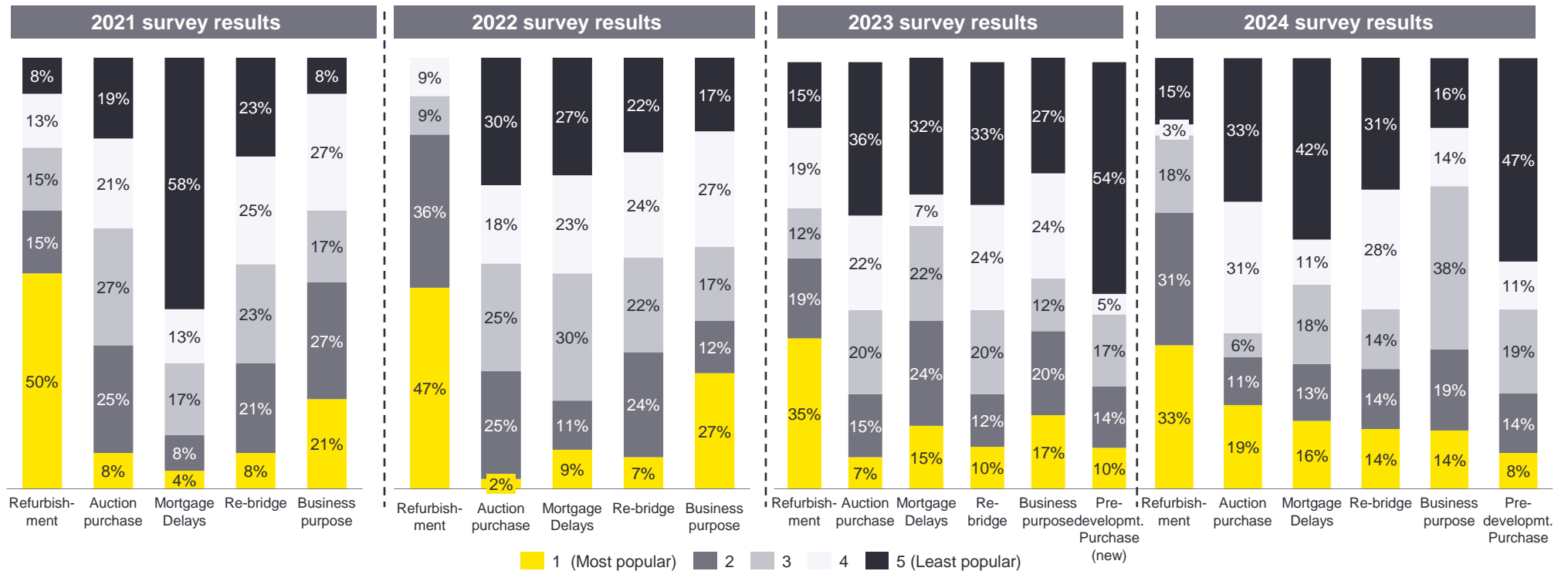
► **Origination costs** for a large majority of respondents fell within the range of 1% to 2%. Whilst the proportion of participants reporting originations costs over 1.5% decreased in 2024, there was a notable shift in the proportion reporting origination costs of 1-1.5% costs, away from below 1%. Noting that costs of origination in the lower range have increased over the past 12 months (i.e. a reduction seen in the <1% category and an increase in the 1%-1.5% category).

Note: 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, whilst auction purchases have increased as a reason borrowers obtain loans in our 2024 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 the main reason borrowers obtain a bridging loan, this trend has been consistent throughout prior years.
- ▶ **Auction purchase:** Bridging loans have increased in this year's survey, as 30% of respondents ranked this as their top two reason for obtaining a bridging loan (versus 22% in 2023). Auction sales are increasingly popular in the current property climate as property owners look for fast, simple ways to sell their assets. This coincides with the rise in demand for bridging loans, which offer the speed and certainty of funds required in the purchase of an auction property.
- ▶ **Pre-development purchase:** The 2024 survey showed that 22% of respondents rated pre-development purchase as the first or second most popular reason for customers' taking bridging loans as against 24% in the prior survey.
- ▶ Bridging loans taken up due to **"mortgage delays"** have decreased in this year's survey, as 29% of respondents ranked this option as one of their top two reasons for borrowing, compared to 39% in 2023. This is in line with mortgage approvals recovering to pre-pandemic levels. According to the Bank of England, there were 32% more mortgage approvals in Q1 2024 versus a year earlier.

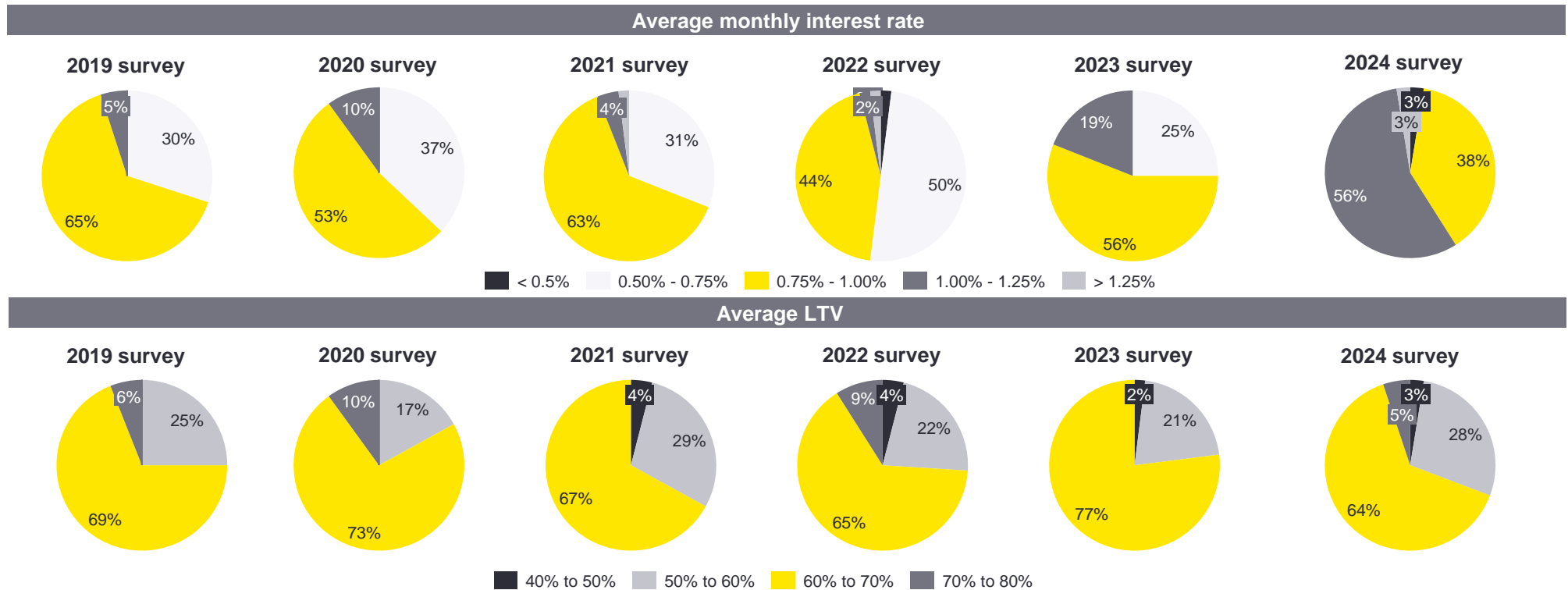
Note: Totals may not add to 100% due to rounding



2. UK bridging market characteristics

Average monthly interest rates rose sharply versus 2023, accompanied by a slight reduction in average LTVs

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?



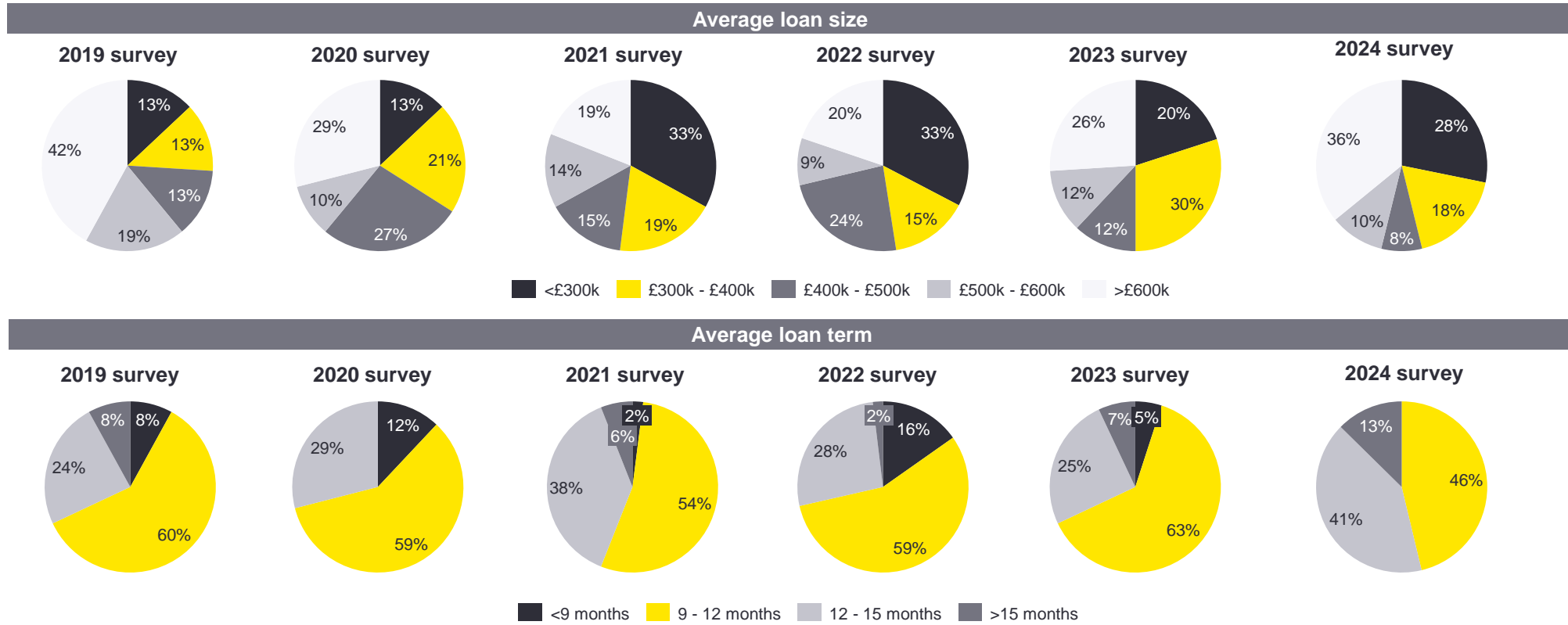
- ▶ **Interest rates:** Overall, there has been a marked increase in the average monthly interest rates on bridging loans in the last 12 months, driven by increased base rates and indicating that the sector continues to be successfully passing on rate rises to customers.
- ▶ The majority of respondents (56%) cited that the “average monthly interest rate” for bridging loans over the past 12 months was between 1.00%-1.25%. This is an increase compared to the majority range of 0.75%-1.00% selected in the 2023 survey.
- ▶ The proportion of respondents that selected the 1.00%-1.25% pricing range has also increased from 19% in last year’s survey to 56% this year. Few responses (3%) 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 (64%) cited “average LTV” to be “60%-70%”, a range 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.

Note: Totals may not add to 100% due to rounding

2. UK bridging market characteristics

Average loan sizes and loan terms have both increased in the 2024 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?



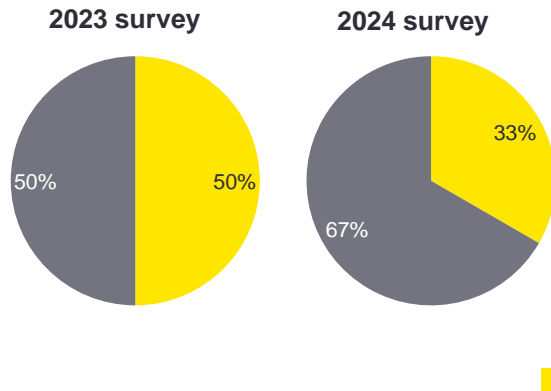
- ▶ **Average loan size:** Increased, as 36% of respondent cited that the average loan size is greater than £600k, an increase from 26% who selected this option in 2023 (20% in 2022). Given LTVs have declined, this is indicative of bridging loans being used for more valuable property (either due to mix and/or inflationary effects).
- ▶ **Average loan term:** The majority of respondents (46%) view the “average loan term” to be between 9-12 months.
- ▶ There were 41% of respondents who reported that the “average loan term” was between 12 – 15 months (against 25% in the previous year), indicating the average loan term has notably increased since the last survey.

Note: Totals may not add to 100% due to rounding

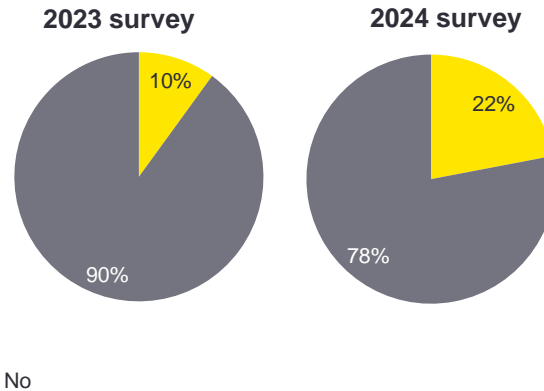
2. UK bridging market characteristics

Variable interest is a prevalent feature in the market; default interest rates were higher than in 2023

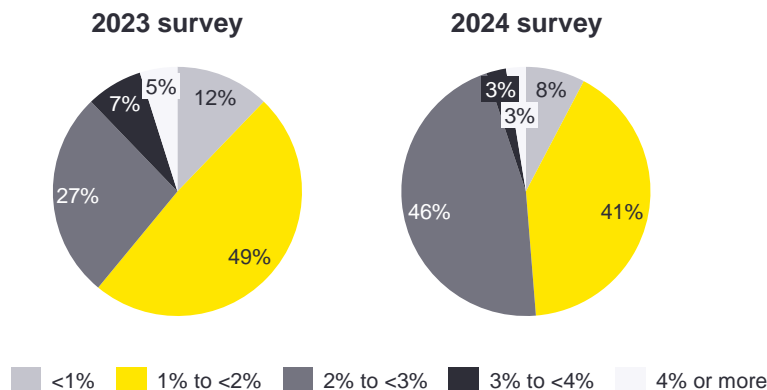
Q Have you introduced variable rates over the past 12 months?



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



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

- ▶ 33% of respondents reported that their businesses have introduced variable interest rates over the last 12 month period. This is incremental to respondents who had already introduced variable interest rates in the past 12 months.
- ▶ Only 22% of respondents who have not introduced variable rates over the last 12 months reported that they intend to introduce variable rate products over next 12 months.

Default interest

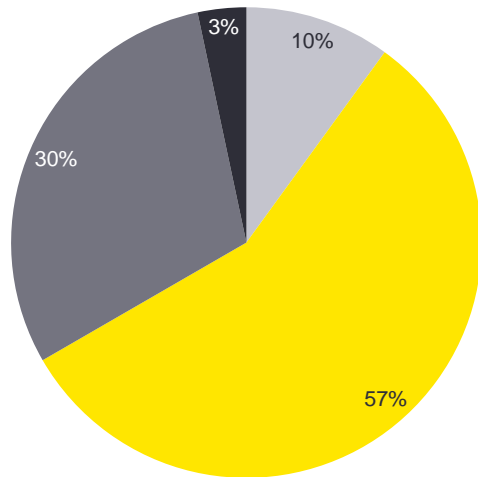
- ▶ 46% of respondents cited that the average monthly default interest rate applied to loans that go over term was between 2% to 3%, followed by 41% of respondents that selected the range of 1% to 2%.
- ▶ Default interest rates in excess of 3% are relatively uncommon, with 6% of respondents responding in this range in the survey.

Note: Totals may not add to 100% due to rounding

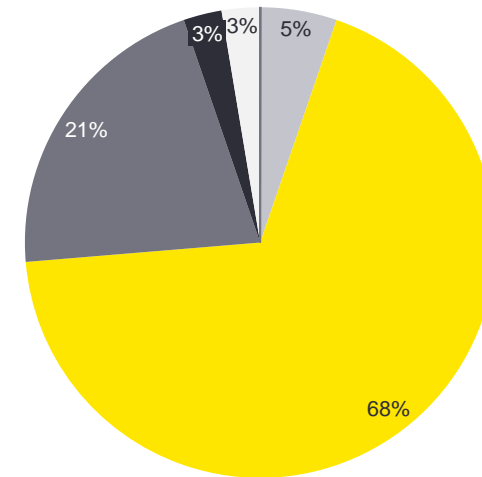
2. UK bridging market characteristics

57% respondents (over past 12 months) and 68% (over next 12 months) have reported extension fees in the range of 1% – 2%

Q Which of the options below, in your opinion, best describes the average extension fee rate over the past 12 months in the UK bridging finance market?



Q Which of the options below, in your opinion, best describes the average extension fee rate over the next 12 months in the UK bridging finance market?



■ < 1.0% ■ 1.0% to <2.0% ■ 2.0% to <3.0% ■ 3.0% to <4.0% ■ 4.0% to <5.0%

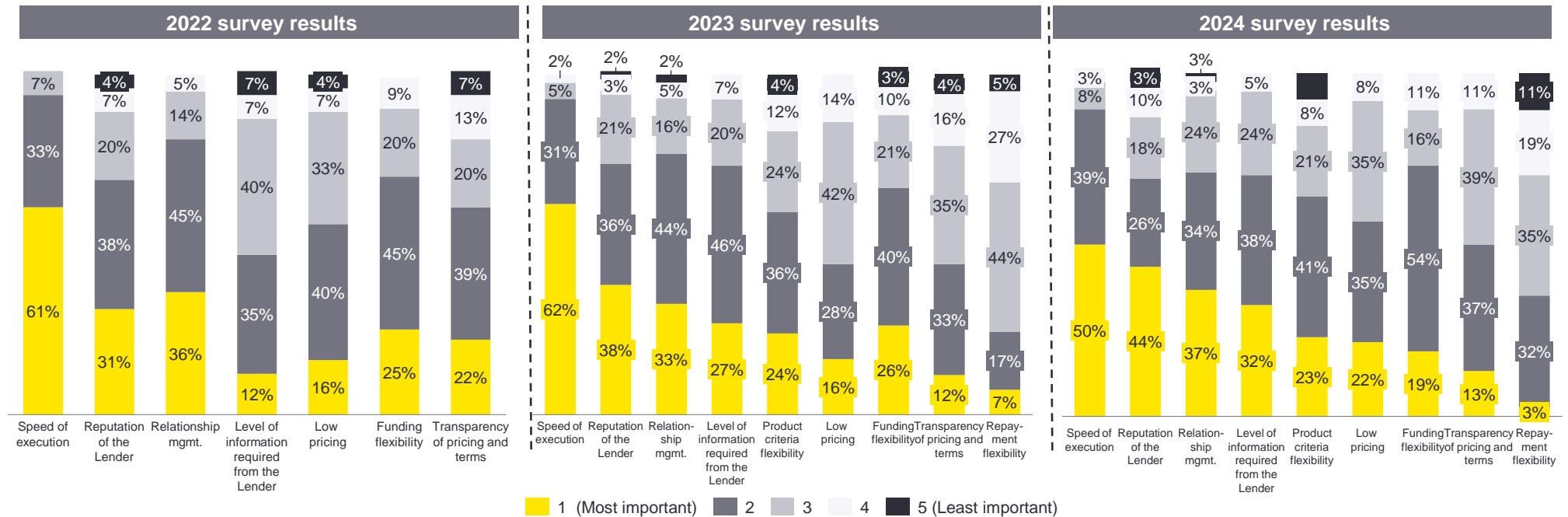
- ▶ In this year's survey, we asked a new question on the range of extension fee rates.
- ▶ There were 57% of respondents who reported that extension fee rate over the past 12 months was within the range of 1% - 2%. A majority of 68% believe that this will be the average extension fee rate over the next 12 months. Extension rates of 2-3% were considered the second most prevalent rate.
- ▶ A small minority (3% of respondents) reported that they expect the average extension fee rate to be in the range of 4% - 5% in the next 12 months.

Note: Totals may not add to 100% due to rounding

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)



- ▶ A majority (50%) of respondents cited “**speed of execution**” as a most important consideration when choosing a bridging lender, slightly below the 2023 and 2022 survey results.
- ▶ There were 44% of respondents that cited “**reputation of the lender**” as a most important consideration, ranking second highest in terms of most important scores in this year’s survey after “speed of execution” and up for the second year running. This is potentially a disadvantage to the newer players in the UK bridging market with more limited track records.
- ▶ However, respondents’ top two choices in aggregate, “**Funding flexibility**” (73%) and “**relationship management**” (71%) continue to outweigh “reputation of the lender” (69%), signalling that these remain important factors in customer borrowing decisions.
- ▶ 32% of respondents cited “**level of information required from the lender**” as the most important consideration when choosing a bridging lender, significantly increased from the 2023 (27%) and 2022 (12%) survey results, indicating an increase in the importance to customers of the ease of the application process.

Note:
 1. 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”.
 2. Totals may not add to 100% due to rounding

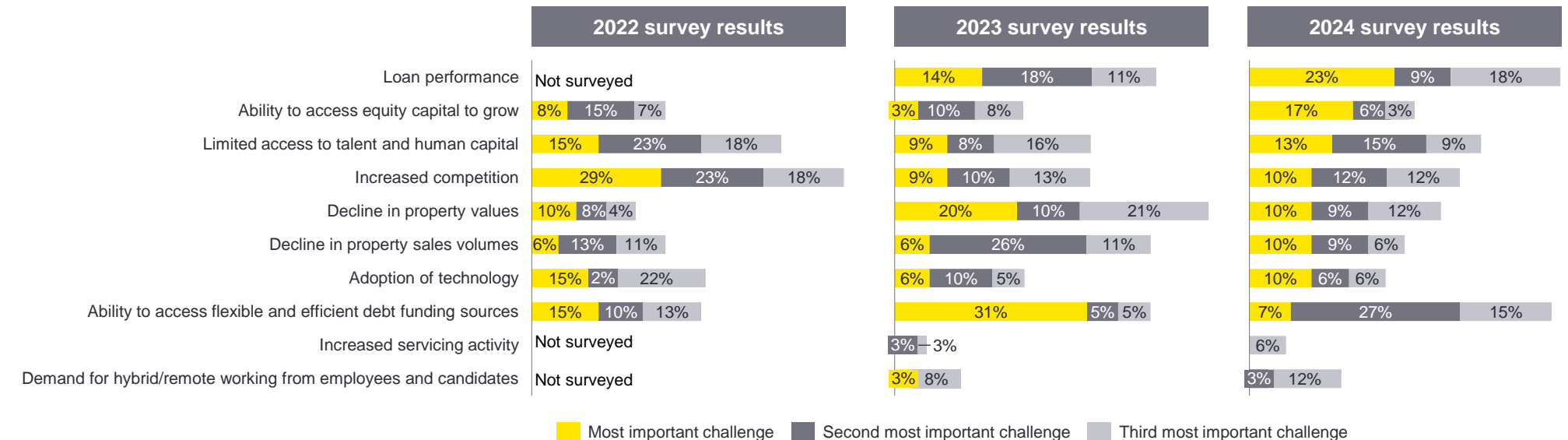
3

UK bridging market challenges

3. UK bridging market challenges

Loan performance and the ability to access equity capital to grow were cited as the most important challenges to bridging lenders in 2024

Q What do you see as the **3 biggest challenges for your business** in 2024?
(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)



- ▶ **“Loan performance”** was selected as the most important challenge for individual lenders in 2024, supplanting **“Ability to access flexible and efficient debt funding sources”** in last year’s survey. The latter is still viewed as an important challenge although this has mostly fallen into the second most critical since the 2023 survey.
- ▶ 17% of respondents cited **“ability to access equity capital to grow”** as the most important challenge after loan performance, a significant increase versus 3% in the prior survey. The demand for growth capital has increased as lenders adapt to the challenges posed by a higher interest rate environment and competition between lenders remains robust.

- ▶ The focus on challenges imposed by **“limited access to talent and human capital”** and **“Increased competition”** continued in 2024 and have increased versus prior year.
- ▶ Challenges imposed by **“Decline in property values”** and **“Decline in property sales volumes”** appear to be reduced in 2024 versus the prior year, indicating a more stable outlook on the UK property market. This is in line with the average UK house price index being relatively flat over the last six months¹, coupled with a recovery in home purchase mortgage approvals towards pre-pandemic levels².

Note:

1. Source: Landregistry.data.gov.uk

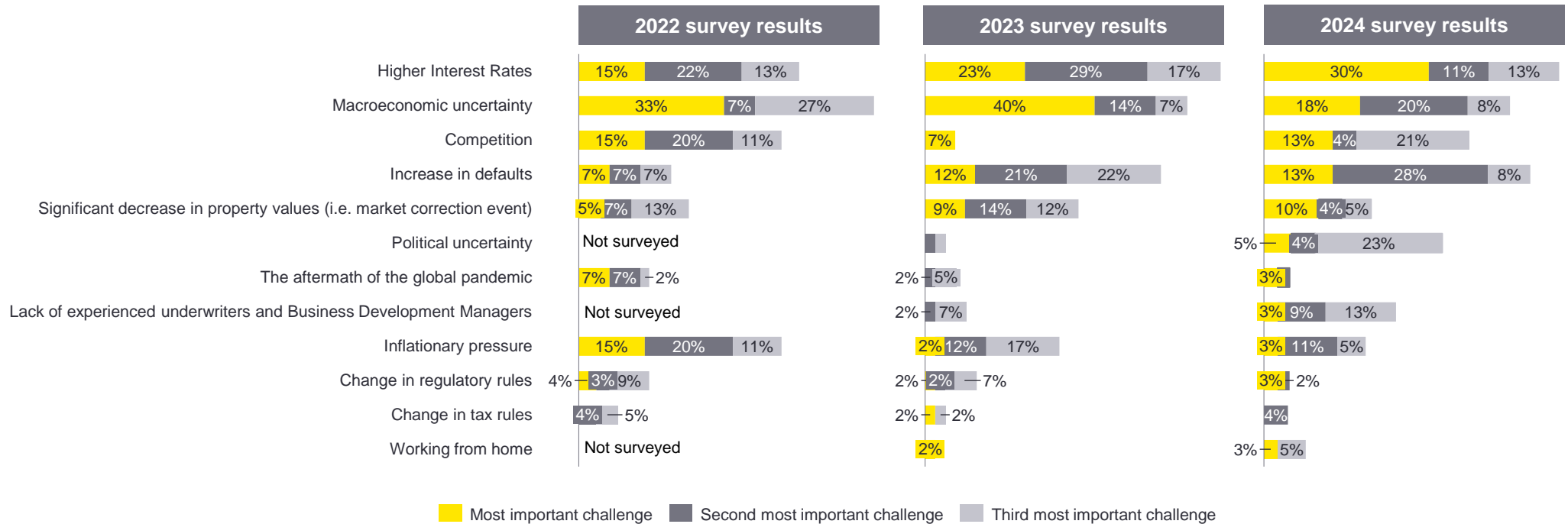
2. Source: from Bank of England

3. Respondents were able to rank the options provided above on a scale of 1-3. For example, 27% of responses ranked “Ability to access flexible and efficient debt funding sources” as the second most important challenge

3. UK bridging market challenges

Higher interest rates, Macroeconomic uncertainty 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 2024?
(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.)



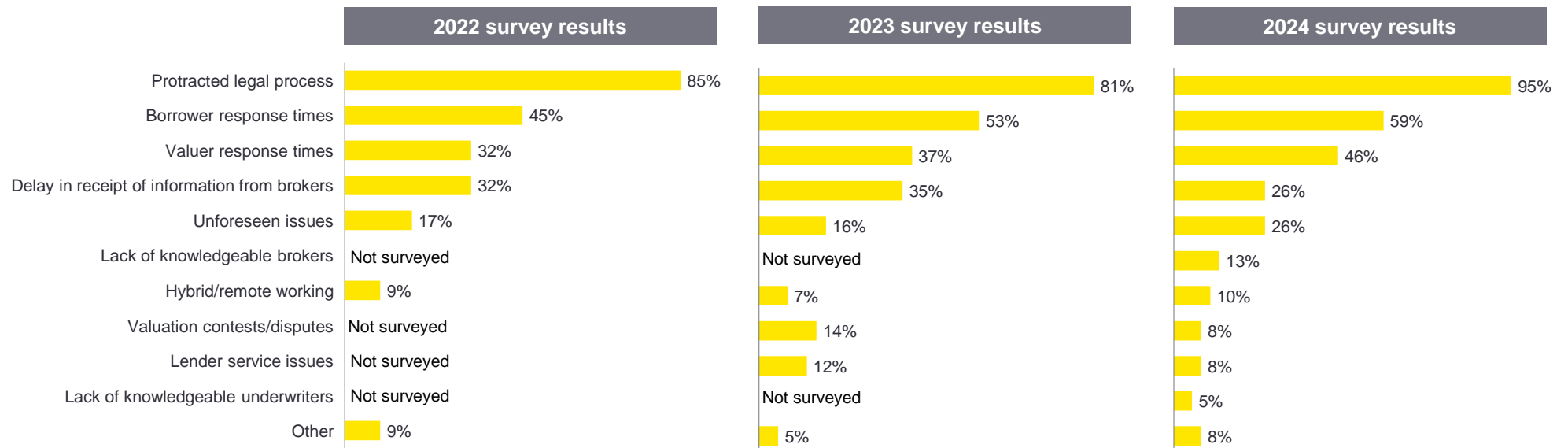
- ▶ **“Higher interest rates (30%)” and “macroeconomic uncertainty (18%)”** remain as the top challenges selected by the most participants in the survey in 2024.
- ▶ An increase in challenges arising from higher interest rates is expected, given the knock-on impact to lender margins, profitability, levels of defaults and loan performance if not carefully managed.
- ▶ Challenges arising from macroeconomic uncertainty are expected to continue, reflecting caution on the outlook for the economy, inflation and interest rates. Defaults were also commonly identified as a 2024 challenge, up from 2023.
- ▶ **“Competition”** within the sector is also increasingly seen as an area of challenge as 38% respondents selected it as one of the top three challenge in 2024 (an increase from 7% in 2023).
- ▶ In addition, there has been an increase in respondents citing **“political uncertainty”** as the third most important challenge, in this year’s survey likely driven by the forthcoming general election.

Note: Respondents were able to rank the options provided above on a scale of 1-3. For example, 30% of responses ranked “higher interest rates” as the most important challenge.

3. UK bridging market challenges

Protracted legal processes and borrower/valuer response times 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)



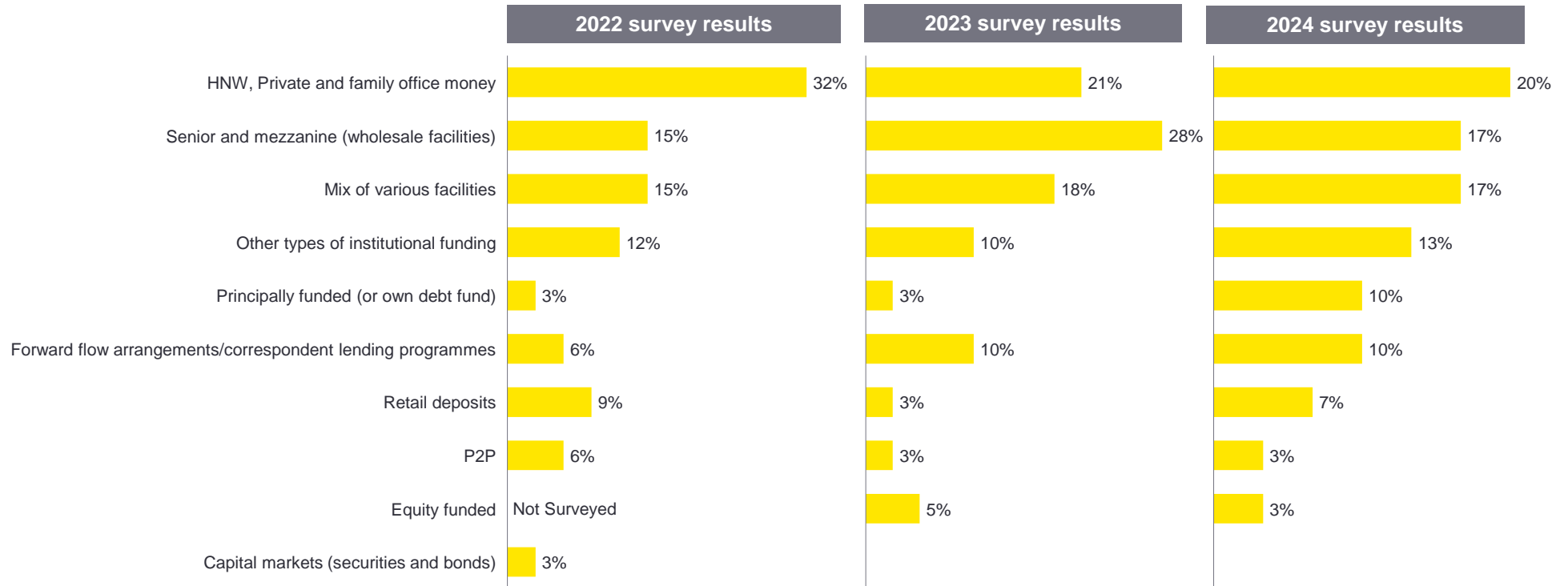
- ▶ The current year trend compared to our prior year surveys largely remain unchanged.
- ▶ An increased proportion of respondents (95%) cited “**protracted legal process**” as one of their top three factors causing operational delays.
- ▶ Other key factors causing delays were borrower and valuer response times and delays in the receipt of information required from brokers and other unforeseen issues.

- ▶ Several new options were surveyed this year, including “lack of knowledgeable brokers”, “valuation disputes”, “lender service issues” and “lack of knowledgeable underwriters”, none of which identified significant issues in these areas.

3. UK bridging market challenges

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

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



- ▶ Consistent with 2023, 20% of lenders described high-net-worth individuals (HNW), private and family office money as their main sources of funding in 2024.
- ▶ Funding from senior and mezzanine facilities continues to be another main source of funding for lenders, although, lenders who selected this option decreased from 28% (in last year's survey) to 17% this year.
- ▶ There were 17% of lenders which described a mix of various facilities (as listed above) as their funding model, indicating that whilst there is a continuing trend for bridging lenders to secure more institutional debt capital, the sector remains funded by a wide variety of sources.

Note: Totals may not add to 100% due to rounding

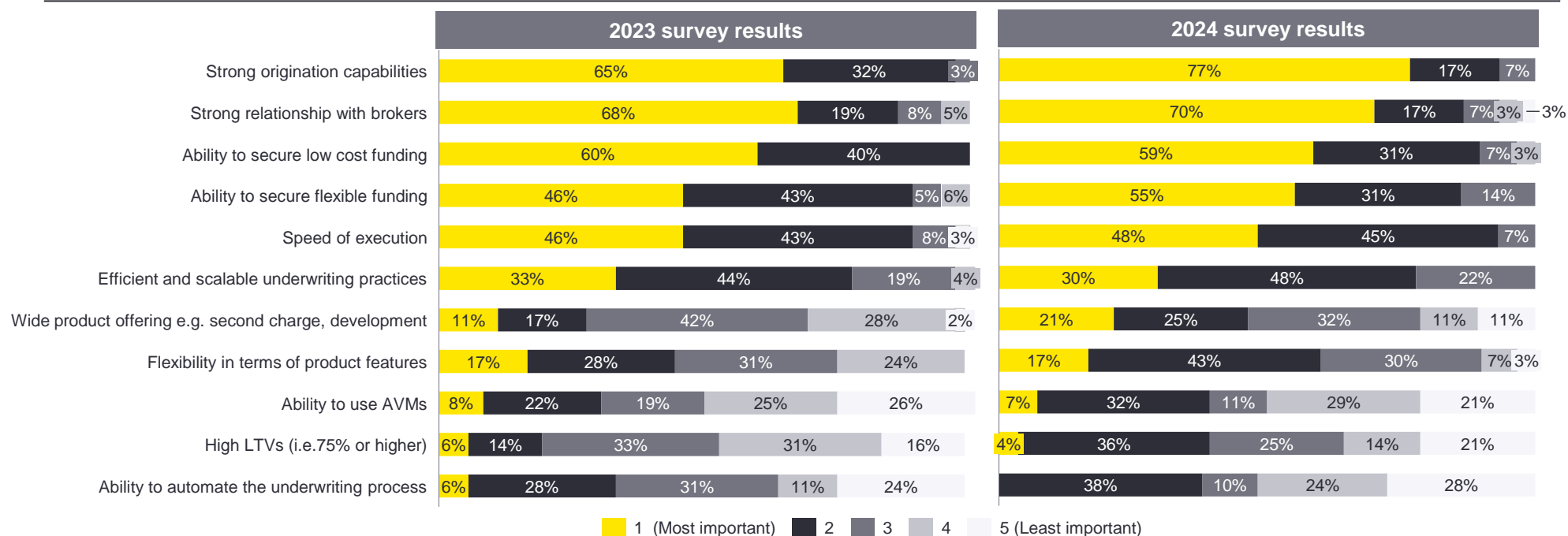
4

Strategy in the UK bridging market

4. Strategy in the UK bridging market

Strong origination capabilities superseded strong relationships with brokers as the most important capability cited by bridging lenders 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 origination capabilities”** and **“strong relationship with brokers”** remain as the top two most important capabilities for a lender to remain successful in the market.
- ▶ **“Ability to secure low cost of funding”** has continued to be selected as the third most important capability in line with last year’s survey, where lower costs of funding supplanting “speed of execution” as a top three capability. Managing the cost of funding has become more important to preserve margins and profitability as interest rates have increased over the last two to three years.
- ▶ Whilst ranked 5th in terms of most important capability, **“Speed of execution”** is deemed important. A 93% of respondents selected this as either their top one

or two most important capability, with the remaining 7% selected this option as their third most important capability.

- ▶ Breadth of product offering was cited more in 2024 as an important factor, indicating that bridging lenders consider offering the right product to the market to capture customer deemed as increasingly important,
- ▶ Only 4% of respondents cited **“High LTVs”** as the most important capability, one of the lowest in the survey. This correlates to participants’ responses that the average LTV observed in the market remains between 60%-70% (see page 12), signalling that high LTVs are neither a desirable nor a differentiating feature, a consistent result in our survey observed since 2019.

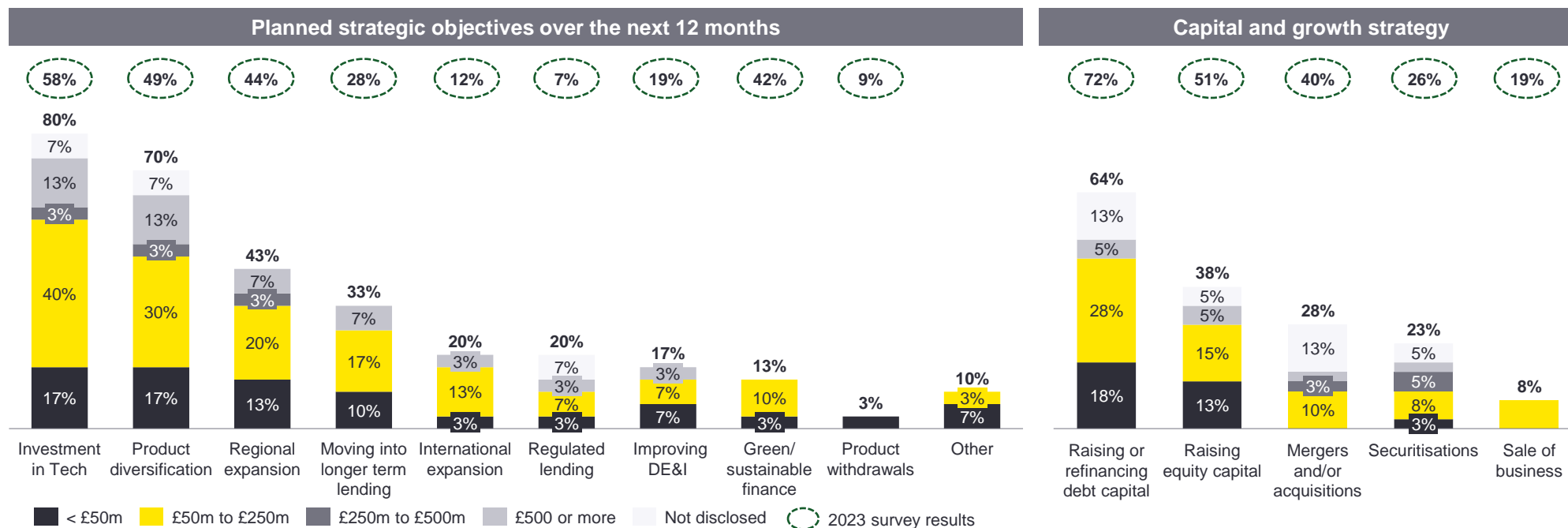
Note:

1. 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”.

4. Strategy in the UK bridging market

80% of respondents selected investment in technology as a planned strategic objective over the next 12 months; significantly up in 2024. Product diversification is an increased priority

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. Respondents selecting “Investment in technology” and “product diversification” have increased significantly since last year. These factors were most commonly cited amongst the relatively smaller players in the market (<£250m loan book).
- ▶ Technology-driven solutions are increasingly critical across the bridging market, aiding faster loan approvals, better risk management and improved loan underwriting through data driven decision-making.
- ▶ Other responses received from participants on planned strategic objectives included launching a HNW investor fund, and additional sales and marketing

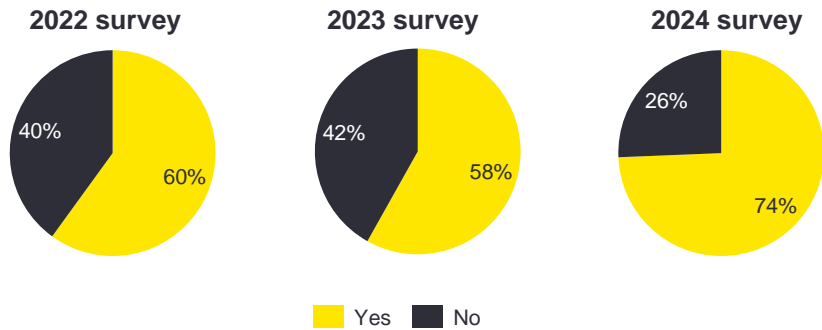
- resources.
- ▶ To fund growth and planned strategic objectives, 64% of respondents stated that they would look to **raise or refinance debt capital** over the next 12 months, 38% of respondents stated that they would **raise capital via equity issuance** and 23% to **raise funding via securitisations** of loans.
- ▶ There were 28% of respondents who are considering **M&A activity**. 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 expect consolidation, investor exits, and a desire from existing lenders to diversify their product proposition to be drivers of future M&A activity.

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

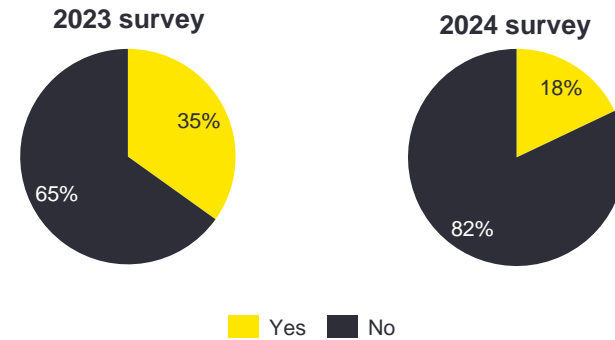
4. Strategy in the UK bridging market

74% of respondents plan to implement an ESG strategy over the next 12 months, an increase from 58% in 2023

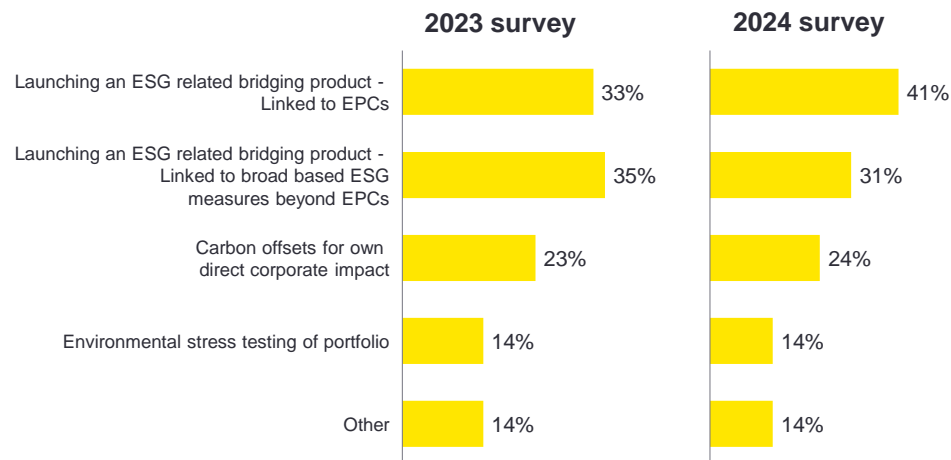
Q Is your business planning to implement an ESG strategy over the next 12 months?



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



Q What forms of green finance tools do you plan to implement?¹



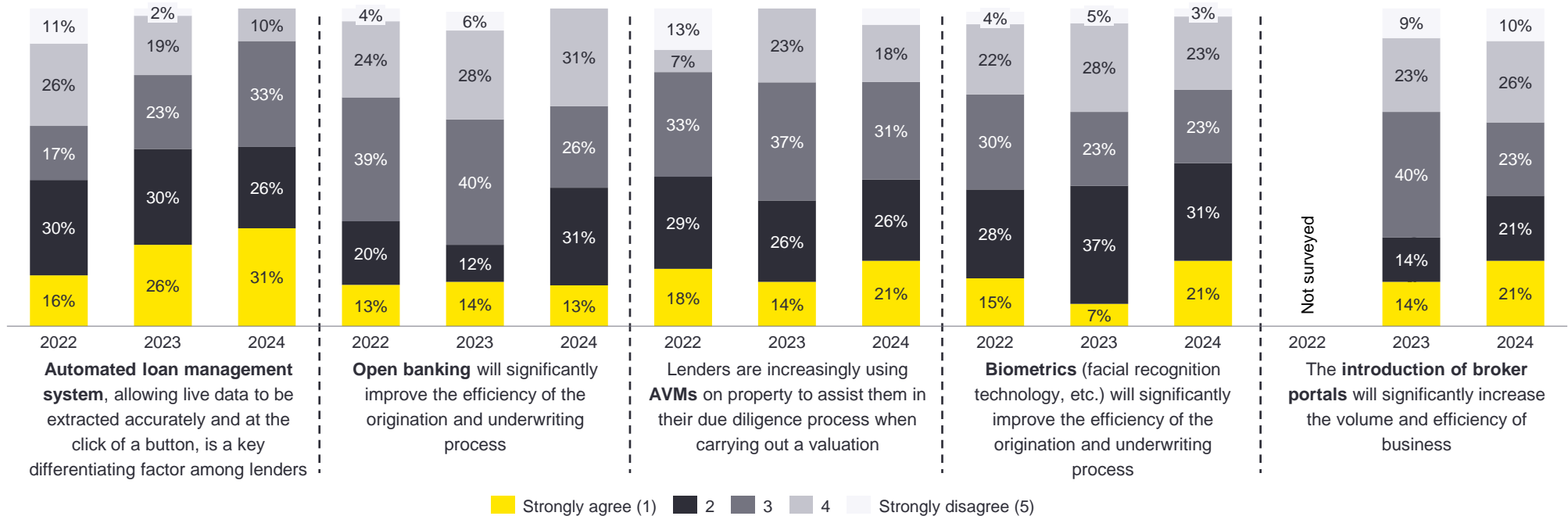
- ▶ Most respondents are planning to implement an ESG strategy over the next 12 months, increasing to 74% in this year's survey (versus 58% in 2023).
- ▶ Whilst the majority of respondents plan to implement an ESG strategy, this could be less of a priority over the next 12 months when competing with other strategic initiatives. The context of the previous question shown on the previous page, only 13% of respondents selected "green and sustainable finance" as a planned strategic objective.
- ▶ However, when asked specifically what form of green financing tools participants intended to implement, most respondents selected "Launching an ESG related bridging product" and "Carbon offsets", consistent with 2023.
- ▶ Respondents are reported considering these actions as part of their ESG strategy:
 - ▶ Raising an Article 8 compliant lending fund from institutional investors (in accordance with the EU's SFDR)
 - ▶ 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

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

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)



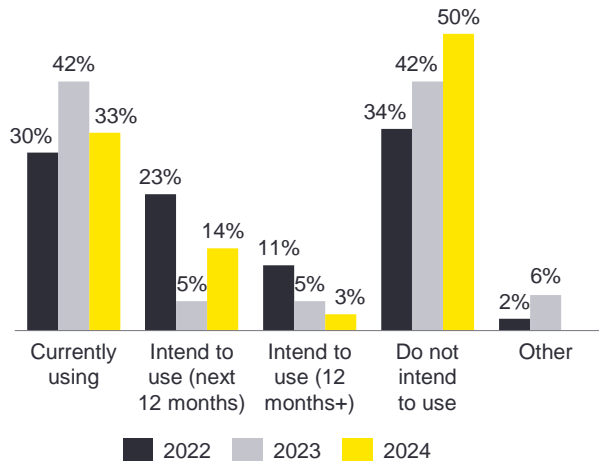
- ▶ In line with the 2023 survey, the proportion of respondents (57%) who expressed agreement¹ that having an **automated loan management system** is a key differentiating factor among lenders, which may reflect the implementation of this technology still remains a relevant trend in the UK bridging market, particularly among the smaller players.
- ▶ In 2024, the respondents' strength of agreement around **Open banking** disrupting the sector has increased after a decline from 2022 in the prior year (from 33% in 2022 to 26% in 2023, increasing back to 44% in 2024). 26% are neutral on the sentiment that Open banking will significantly improve efficiencies around origination and underwriting.
- ▶ The number of respondents who agree that lenders are increasingly using **Automated Valuation Models (AVM)** has remained broadly stable (40%: 2023, 46%: 2024). Our survey also indicates that there are potentially limits on the applicability of the AVMs, see next page.
- ▶ Respondents in agreement of "**Introduction of broker portals having an impact on volumes and efficiencies**" have increased from 28% in 2023 to 42% this year. This is consistent with Respondents view that brokers are the most important distribution channel for bridging loan originations (see page 9).

Notes:
 1. Indicates "Strongly agree (1)" and/or "Agree (2)"
 2. Totals may not add to 100% due to rounding

4. Strategy in the UK bridging market

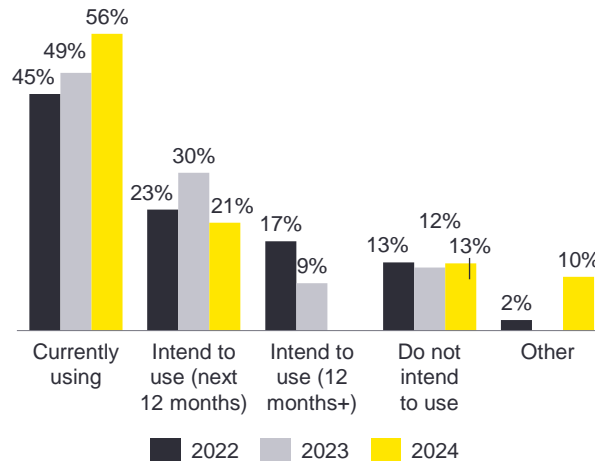
67% of respondents are planning to invest in AML systems, an increase from 54% in prior year indicating the importance of reducing fraud risk within the Sector

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



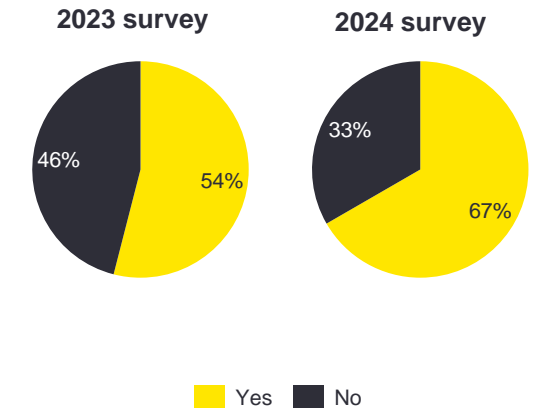
- ▶ AVMs are used to provide estimates of capital or rental value for properties under consideration for funding.
- ▶ 33% of respondents reported currently using AVM technology, a decrease from 42% in 2023. However, respondents that said they intended to use AVMs in the next 12 months have increased from 5% to 14%.
- ▶ 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. Whilst AVMs are of great use, market feedback is that it is not a critical factor for a lender to be successful, as represented by the 50% of 2024 survey participants who have said that they do not intend to use AVMs.
- ▶ One representative commented cited the view that “AVMs are used on certain cases with specific covenants. However, the risk of missing key factors to assets increase massively with an AVM”.

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.
- ▶ Respondents that have adopted this technology and report “currently using” electronic signatures have steadily increased from 45% in 2022 to 56% in 2024, and 21% expected to do so in the next 12 months.
- ▶ This means that there is a possibility that more than 77% of users could be using this technology at the time of the next survey.
- ▶ However, based on previous survey results, we note that the proportion of respondents that intend to use electronic signatures in the next 12 months (23% in 2022 and 30% in 2023) do not directly translate into the increase in “currently using” seen over the years.
- ▶ Whilst there is ambition from lenders to increasingly adopt e-signatures, the adoption rates has been slower. Respondents cited that there is a preference to have documents signed in person.

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



- ▶ In the prior 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.
- ▶ The majority of respondents are looking to invest in enhancing their AML systems over the next 12 months, increasing from 54% in 2023 to 67% in this year’s survey.
- ▶ The importance of AML measures in the sector is clear, and many firms are looking to strengthen these measures to reduce AML and fraud risk.

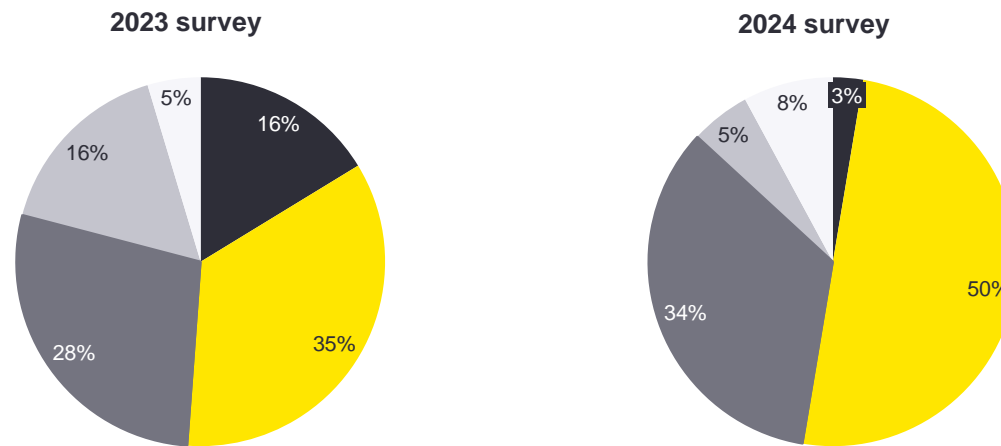
5

Impact of macro-economic outlook 2024

5. Impact of macro-economic outlook 2024

53% of respondents believe that the 2024 macroeconomic environment will have a positive impact on the UK bridging market; the overall impact is deemed more moderate than in 2023

Q Overall, to what extent do you believe the 2024 macro-outlook will impact the bridging finance market?



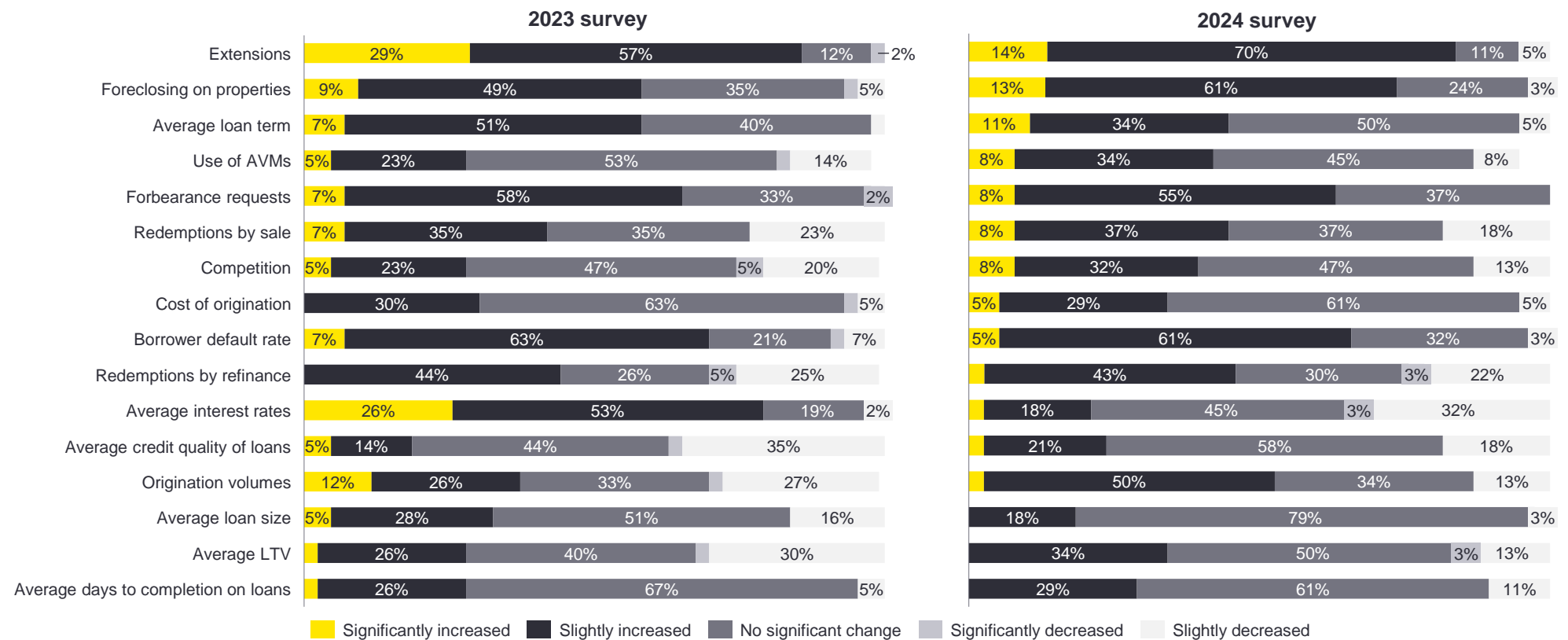
■ Positively – to a large extent ■ Positively – to a moderate extent ■ Negatively – to a moderate extent ■ Negatively – to a large extent ■ No significant impact on the market

- ▶ The majority (53%) of respondents believe that the 2024 macroeconomic environment will have a positive impact on the UK bridging market. Respondent expressed the view that the sector offers an attractive form of short-term debt for borrowers in an uncertain inflationary and interest rate environment.
- ▶ Further, 39% of respondents consider that there will be a negative impact to the sector, with concern expressed over the conflict in Ukraine and the middle east leading to potentially broader macro instability, coupled with uncertainty arising from the upcoming UK and US general elections.
- ▶ On the next page, we explore in more detail, respondents' view on the impact of the 2024 macroeconomic environment on various aspects of bridging finance businesses.

5. Impact of macro-economic outlook 2024

The 2024 macroeconomic environment is anticipated to increase competition and foreclosures, though other risk measures (defaults, credit quality) remain broadly stable since 2023

Q For each factor below, please choose the option that most closely reflects the impact of the 2023 / 2024 macro-outlook

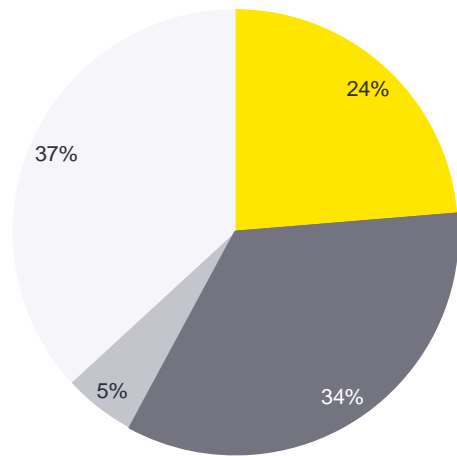


- ▶ The majority of respondents (>50%) expect increases¹ in competition, extensions of loans, foreclosing on properties, forbearance requests, borrower default rate and origination volumes in light of the macroeconomic outlook for 2024.
- ▶ The areas where most respondents do not expect significant change are on the average loan term, costs of origination, average credit quality of loans, average LTV, average days to completion on loans and average loan size.
- ▶ 35% of respondents expect **average interest rates** to decrease whilst 45% of respondents expect no significant changes to current interest rates. This is the opposite from last year where 79% of respondents were still expecting interest rates to increase.

Notes:
 1. Indicates slightly increased and significantly increased".
 2. For "Use of AVM", 2 respondents voted "Not sure" which has not been shown in the 2024 survey chart above.
 3. Totals may not add to 100% due to rounding

There were mixed views from respondents regarding the impact of the upcoming UK general election on the UK Bridging market

Q Overall, to what extent do you believe the upcoming UK general elections will impact the UK bridging finance market?



- Positively – to a large extent
- Positively – to a moderate extent
- Negatively – to a moderate extent
- Negatively – to a large extent
- No significant impact on the market

- ▶ In this year's survey, we have added in a new question to gather participant's view on the upcoming UK general election on the sector. This question was responded to prior to the announcement of the general election on 4 July 2024.
- ▶ There was a mixed view with 24% of respondents believing that the UK general elections will bring a positive impact to the sector, whilst 39% of respondents took the view that that it will have a negative impact.
- ▶ Underpinning the negative views were concerns regarding potential stamp duty changes, and tenancy changes such as to the rules governing evictions in cases of arrears, albeit at the time of the survey party manifestos had not been published.
- ▶ A significant portion (37%) were of the view that the election would not impact the market one way or the other, potentially reflecting the perception of the relative narrowness of the differences between the main political parties' policy offerings.



6

How EY can help

How EY can help

The EY Financial Services Strategy & Transactions team has a strong track record as a trusted financial advisor in the UK bridging finance and wider property lending market.

How EY can help

M&A advisory: Advising shareholders on strategic options

- ▶ For potential buyers of bridging finance lenders or brokers, we can advise on capital structure options through an M&A process.
- ▶ EY was recently appointed as sell-side advisor to a mid-sized specialist bridging and development finance lender. The team completed the transaction, selling the business to a private equity house.
- ▶ EY advised a short-term property lender on consolidating 100% ownership of the company back into the hands of the founders.

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

- ▶ EY has extensive experience of the bridging lending sector, and have 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.
- ▶ Due diligence focuses on the issues that matter most to potential investors, helping identity support for the equity story and enabling transactions.
- ▶ Our market leading bridging lending due diligence experience includes Financial, Credit risk, Tax, Technology and Operations and ESG due diligence.

Commercial due diligence: Buy-side and sell-side transaction support, providing strategic guidance, and driving value creation

- ▶ EY has a dedicated Financial Services Commercial Due Diligence practice with extensive experience in both sell-side and buy-side engagements within specialty finance, including the bridging market.
- ▶ Our team has experience assessing the size of the market and growth drivers, identifying customer key purchase criteria and firm differentiators, evaluating customer behaviour, and assessing business plan feasibility.
- ▶ Our commercial due diligence experience includes assessment of the macro drivers affecting the sector, reviews of the competitive landscape, customer and broker surveys and Commercial Vendor Due Diligence of firms in the sector.

Analysing loan portfolios and policies

- ▶ Using our in-depth sector experience, we provide loan portfolio data tape analysis, and compare data points against other operators.
- ▶ This also extends to reviewing underwriting and collections policies, with a view of advising on developing policies to support with raising equity capital.
- ▶ EY has performed over a dozen reviews of bridging loan datatapes from firms across the scale spectrum, which included both providing insight on the loan portfolio data tape quality, as well as identifying the key trends to support an investment case.

Why EY?

- ▶ We are sector focused, investing time in building sector knowledge and insights on the UK bridging finance market.
- ▶ We hold strong relationships with a broad network of bridging lenders, specialty lenders, banks, and investors.
- ▶ We have first-hand experience of transactions in the bridging market, and market leading specialty finance transactions experience.
- ▶ We take a broad view, with a combined proposition across M&A, Financial, Commercial, Credit, Technology & Operations, Analytics and Modelling services.
- ▶ We are highly experienced on advising on complex solutions.
- ▶ We work with the full range of bridging and property lenders, from new players to the largest firms in the market and tailor our support to our client's needs.
- ▶ We remain fully independent, confirming our advice has no lending, transactional or product bias.

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