

**2019 CONTINUES TO THRIVE
WITH GROSS ANNUAL
LENDING OF £5.6BN**



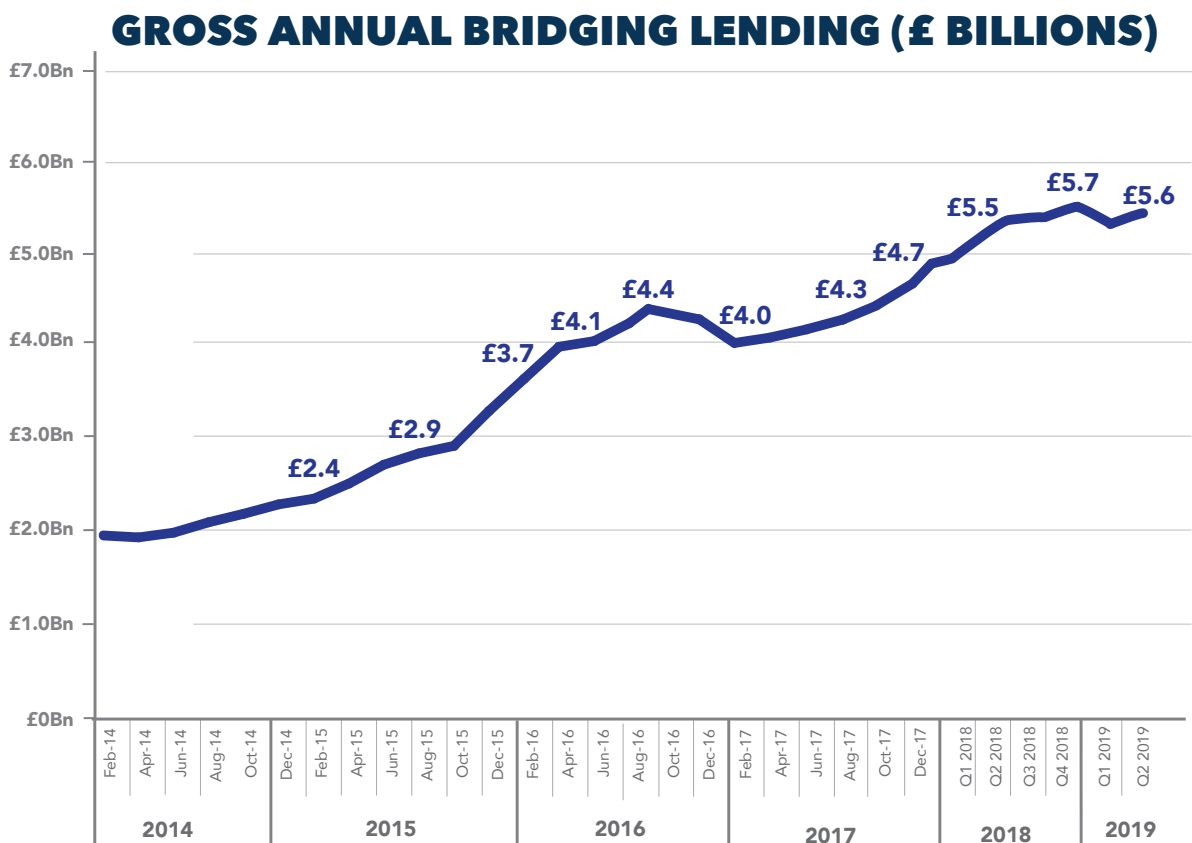
GROSS BRIDGING LENDING INCREASES



HIGHEST COMPLETION LEVELS

- GROSS ANNUALISED BRIDGING LENDING REACHED £5.6BN FOR Q2 2019
- EXIT STRATEGIES IN BRIDGING NO LONGER RELYING ON SALE OF PROPERTY - SEE ANALYSIS OF REDEMPTION METHODS
- INCREASING PROFESSIONALISM OF SECTOR FUELING CONTINUED STRONG PERFORMANCE

The latest edition of the West One Loans Bridging Index shows that gross annual bridging lending increased to £5.6bn for the second quarter of 2019, a modest increase on the previous quarter and the third highest on record. These top three peaks in annual lending have all occurred in the last four quarters, showing the strength and resilience of the market against the continuing uncertainty in the property market.



TRENDS IN THE BRIDGING MARKET

It has been a consistent theme over recent years - this Bridging Index included – that the bridging sector has been the beneficiary of increasing ‘professionalism’ from both lenders and borrowers.

This continued growing professionalism is becoming a self-fulfilling prophecy, with both borrower and lender spurring each other on to new high levels of service which is helping to keep the market performing strongly.

This has shone through in the last three to six months more than ever. At West One Loans, we’re seeing more experienced and larger businesses turning to specialist finance than ever before – demanding higher standards as they do. And they’re turning to bridging for three main reasons:

1. Property market volatility

It has been well documented, but the impact of legislation and other market factors has made the property market a tough place in which to thrive. The stricter Prudential Regulation Authority rules around rental coverage stress tests, and the additional tests for portfolio landlords, have made it tougher to borrow from the high street and private banks, so more borrowers are looking to bridging finance to take advantage of an opportunity.

2. Bridging finance is often ‘opportunity’ finance

Bridging is ideally suited to helping borrowers take advantage of an opportunity where quick, certain finance is required. Property professionals are able to spot these opportunities better than most, so it is natural that these borrowers are turning to specialist finance.

3. Lenders are meeting the demands of professional borrowers

Lenders have reacted and become more professional, too. Fees are stable and more transparent, as are interest rates. Bridging, as a £5bn market, is tried and tested and better understood by borrowers. Lenders have now completed thousands of loans and know how to compete in the market.

Despite the price premium that bridging finance has compared to the high street and private banks, we’re seeing these clients trade profit for the certainty of finance that specialist lenders can provide.

HOW EXIT STRATEGIES ARE EVOLVING

Another recurring discussion point from this Index is that the success of bridging is predicated on a thriving property market, and that property transaction numbers are a key indicator of a healthy bridging sector because ‘sale of property’ is the main exit strategy for repaying the bridge.

It is becoming clear, however, that this is no longer the sole or main performance indicator. Analysis of the redemption methods of our loans has shown a shift from ‘sale’ as the main exit, to ‘refinance’.

For the first half of 2018, refinance had already become

the main method of redemption, with 51.7% of loan exits being the transfer of debt into a different form of finance. Over the same period in 2019, this rose to 59.1%, while property sale dropped from 28.5% to 26.2%.

Developers and property owners using a bridge are finding it harder to make the sale, or perhaps more pertinently, make the sale at the price they want to achieve.

With the buy-to-let mortgage market thriving with new and competitive products (earlier this year MoneyFacts reported the highest number of buy-to-let products available since 2007) – we’re seeing an increasing number of borrowers opt to keep hold of their property and add it to their portfolio.

This is borne out in other ways, too:

- The average value of landlords’ investment property at an all time high, generally, despite a slight dip against the peak in Q3 2018.
- The number of landlords with between six and 20 properties is rising while those with between three and five are falling.

This trend is helping fuel the increase in bridge-to-let mortgages – a bridge with a built in exit of refinance onto a buy-to-let mortgage – and further demonstrates how exits are changing for borrowers.

WIDER PROPERTY MARKET ANALYSIS

After reporting relatively strong numbers in our Q1 Index for seasonally adjusted residential property transactions, hovering around 100,000 per month, the second quarter hasn’t fared quite so well.

The provisional seasonally adjusted UK property transaction count for June 2019 was just 84,490, the lowest number in the last 12 months. This equates to a decrease of 9.6% between May 2019 and June 2019 and is 16.5% lower than June 2018.

Again, the message seems to be that despite the property market not performing strongly from a transaction perspective, the bridging sector clearly remains buoyant. Particularly when you consider the increase in refinancing onto longer term mortgages, as discussed above.

Although transactions aren’t high, there is still a strong demand for property development. After all, house builders still need to build houses.

Research from Hardman & Co states that “In Q1 of 2019, the stock market value of the UK Housebuilding Sector rose 18.1% or £5.7bn. By comparison, in calendar 2018, it declined 27% or £11.8bn” [1]

Encouraging noises for the bridging and development finance sector.

[1] <https://www.hardmanandco.com/wp-content/uploads/2019/04/Housing-book-April-2019.pdf>

BRIDGING INTEREST RATES

Our analysis shows that interest rates continue to be competitive in the bridging sector. As a specialist source of finance, it shows how far the industry has come that pricing is almost in line with the high street.

But this is just representative of how the market has increased its share in the property market, while the high street's has decreased.

Continuity from lenders, and the increasing professionalism of the sector as a whole, is contributing to the stability of the market and interest rates.

The usual factors, such as a stable Bank of England base rate and a competitive marketplace of lenders, only add to the stable rates we are seeing.



INTEREST RATE

0.95%



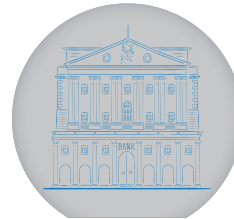
STEPHEN WASSERMAN MANAGING DIRECTOR, WEST ONE LOANS:

"West One has enjoyed a strong first half of the year, which has seen us completing some of our largest loans. Q2 started incredibly well for us as we were able to deliver two record months EBITDA for the lending business in April and May. This has been backed up by strong enquiry levels throughout the quarter, which were higher than we anticipated at the beginning of the year.

With a few well-known lenders leaving the market, perhaps we are benefitting from strong demand shared amongst fewer lenders.

Our average loan size was, naturally, boosted by some larger loans that we were able to complete at the beginning of this quarter, so we did see this fall as the quarter went on – but these look very healthy for us and the industry as a whole, which is positive news.

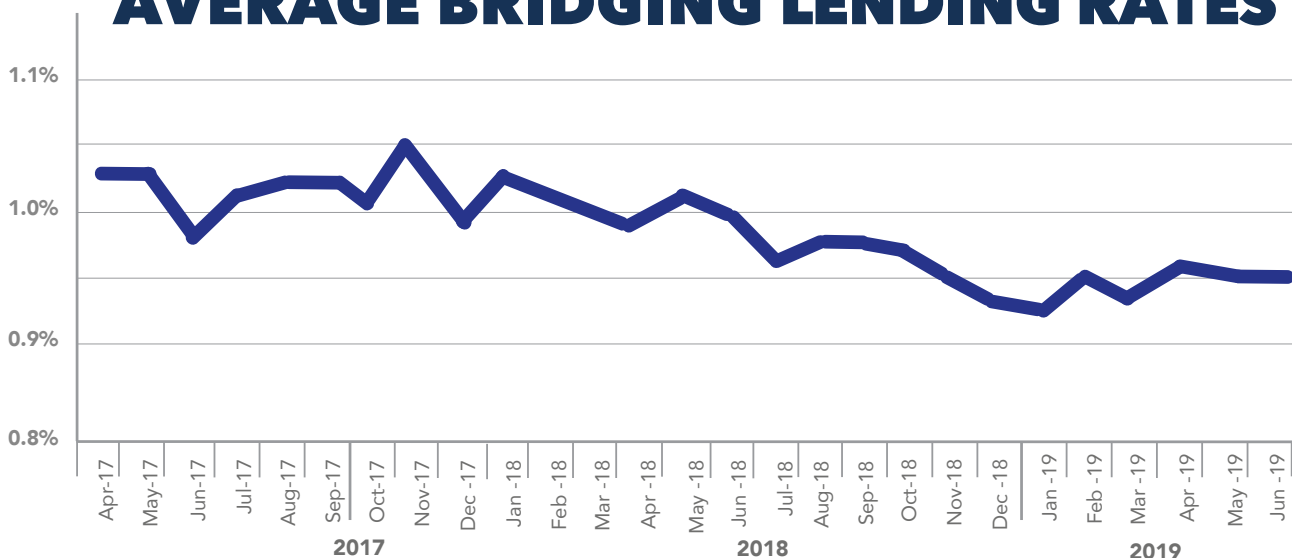
I'm also glad to see it's not been a 'race to the bottom' with rates, seeing a slight increase to 0.95% against the average rate of 0.94% in Q2."



GILT YIELDS AT

0.09%

AVERAGE BRIDGING LENDING RATES



ABOUT BRIDGING INDEX METHODOLOGY

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

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

The commentary provided in this piece are opinions only and should not be depended on as financial advice.

West One Loans is a specialist provider of short-term bridging finance for residential and commercial properties. Established in 2005, the group is now one of the biggest privately funded short-term secured lenders in the UK, having completed deals in excess of £2bn to date.

West One Loan Ltd is a founder member of the Association of Bridging Professionals the Association of Short Term Lenders.

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

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