

Looking forward

Positive outlook



Vic Jannels,
CEO, ASTL

The latest sentiment survey conducted among Association of Short Term Lenders (ASTL) members paints a positive picture for the outlook of the bridging market. Conducted shortly after the Budget in March, it found 87% of the bridging lenders that responded think the turnover of their business will grow in the next six months and 77% expect the turnover of the bridging sector to increase. This compares very positively to when we last conducted the survey in July 2020, when 41% of respondents anticipated the turnover of their business would shrink in the following six months, and 36% predicted the turnover of the bridging sector to fall.

We now know that in the second half of 2020, the bridging market, and the property market as a whole, defied many expectations and delivered a very strong period of activity and positive results. This activity has continued into 2021, which is reflected by some of the biggest challenges that lenders say they are facing in the current environment. The biggest challenge, cited by 37% of respondents, is delays in the conveyancing process, while 17% said that it was simply keeping up with demand and 10% said it was processing cases with social distancing and remote working. However, despite the mood of optimism around new business, there remain reasons to be cautious. One in five (20%) lenders said that managing customers in default remains one of the biggest challenges, while 10% cited enforcement in the current environment.

The original end of the stamp duty holiday, which was scheduled for the end of March, would have certainly contributed to delays in the conveyancing process. So, we asked our members whether they were concerned that the extension to the window will simply create another cliff-edge at the end of June and then again at the end of September. A third of respondents (33%) said they were concerned that this would be the case, although the majority (43%) said it wasn't a concern for them. Aside from property transactions, many lenders expect to see an increase in applications for bridging finance for business purpose in the coming months with 57% of respondents think the end of Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) will prompt an increase in applications for business purpose loans.

This positive outlook demonstrated by ASTL lenders in the latest sentiment survey demonstrates the resilience and flexibility of the bridging market. In the months since we last ran the research, our members have continued to adapt to the changing environment to meet the evolving needs of customers, and they have come through a challenging time in a strong position. They have good reason to be confident about the future and this is good news for brokers and their clients, who can continue to rely on a competitive bridging market to deliver fast, flexible short-term finance for a wide range of circumstances.

LINK: www.theastl.org

Equity finance

Boosting expansion plans



Mike Owen, Group
Investment Director,
Development Bank
of Wales

More than 12 months since the first wave of Coronavirus cases prompted the nationwide shutdown of our economy in Wales and across the UK and there are finally some green shoots of recovery. The key priority for Welsh businesses in 2021 (over and above survival...) is to rebuild and focus on creating a viable future in a rapidly changing environment. Funders are certainly going to have to be flexible as access to finance is critical if businesses are going to be equipped for the road ahead.

Wales has made good use of UK Government support over the last year or so and we were particularly pleased when the Welsh Government announced an additional £270 million for our Wales Flexible Investment Fund in March this year, bringing the total invested through this fund to £500 million by 2030. Boosting the fund and allowing repayment terms of up to 15 years will improve the supply of long-term, flexible debt and equity finance, and help more firms to grow and expand in Wales.

The option of equity finance is important. Much of the support available during the pandemic has been in the form of debt, which means that some businesses looking to grow are already highly leveraged with little scope to take on additional debt to fund the growth. Typically there are no repayment obligations, freeing up cash for businesses, which can accelerate the growth. In fact, Wales saw an increase in appetite for equity finance during 2020, with an impressive 77 equity deals totalling £78.6 million happening in Wales. Interestingly, the total volume of equity deals is increasing but the value decreasing, which indicates lower entry levels for seed investment. More established businesses are also beginning to understand that choosing equity alongside debt can boost their chances of success and help drive a step-change, irrespective of sector or size. Equity can also help to accelerate growth without the pressure of servicing the interest and/or capital from cash flow.

A great example is enterprise blockchain technology group Finboot. The team secured a £2.4 million equity finance from investors earlier this year including ourselves, the multi-energy company Repsol, through its private equity investment fund Repsol Corporate Venturing, and New Look Founder Tom Singh, who was the company's original Lead Investor in 2018. Having now relocated to Cardiff, the company will become part of Wales' growing blockchain community. It's a win-win all round.

The availability of the right finance package plus our 'can-do' approach has helped many Welsh businesses to survive and grow over the last year. As one of the top three institutional tech investors in the UK, we're encouraging economic success and driving prosperity across Wales; working together with Welsh Government and Welsh businesses to rebuild our economy and nurture the green shoots of recovery.

LINK: www.developmentbank.wales/equity

“Does Size Matter?”

SME lenders set to gain



Colin Sanders,
CEO, Tuscan
Capital

I feel confident stating that smaller-scale bridging lenders enjoy certain advantages over their larger peers. Chief among these is a nimble approach to decision-making that can provide brokers with reliable lending terms within short timeframes. For instance, at Tuscan Capital, and in common with other similar-sized firms, we do not use credit committees. Instead, we are able to make decisions on the spot and without day-to-day oversight from our funding partners. This enables us to deliver quick and certain decisions. It also allows us to take a bespoke approach whereby we evaluate each enquiry on its individual merits – an attribute that is particularly important when presented with complex cases, such as those involving multiple securities and/or offshore special purpose vehicles (SPVs). While larger lenders often find such propositions daunting, specialist players will take care to evaluate fully the nuances to reach a fair decision.

Institutional players scale gives them greater access to a deeper funding pool, including retail deposits and generous Government schemes, which gives them an advantage on price. Larger firms also enjoy greater structural ‘buffer’ protections allowing them to weather unforeseen storms. But size doesn’t always determine a better outcome for the customer. The larger the lender, the more formulaic and rigid their approach to lending is likely to be. When processing large volumes of perfectly compliant cases, this works well. But for customers whose circumstances are less than perfect, not always so.

In many ways, what has come out of the pandemic has been positive for the future of SME lenders in particular and for the bridging sector in general. The smaller players have become more efficient through better and smarter use of technology, and they have learnt how to continue functioning throughout a real-life disaster-recovery scenario. Also, and having had time to re-evaluate their business models during lockdowns, they have redefined their strategies and operating methods to make them more efficient in a post-pandemic environment.

Competition is the key element that keeps commercial markets sharp. Conversely, monopolies and cartels are usually detrimental to innovation, progress, pricing, efficiency and customer outcomes. Smaller-scale lenders might not always be able to compete with the big players on price. But what they may lack in financial firepower is more than compensated for in energy, personalised communications and an ability to deliver binding decisions rapidly and without undue fuss. The big players unquestionably fulfil a vital role in the bridging market. Their scale and robustness bring vital liquidity, security and reputational benefits to the sector. But bridging would be poorer and less progressive without the entrepreneurial skills, flair, flexibility and genuine passion of the SME lender.

LINK: www.tuscancapital.co.uk/

Commercial view

Keeping deals flowing



Mike Davies,
Head of Business
Development, YBS
Com Mortgages

It goes without saying that COVID-19 has accelerated change across the commercial property sector. Working from home has become the norm, and we can expect that Zoom and Teams will continue to be commonplace format for meetings. Other structural changes in the economy are going to continue to affect lending criteria for some time. Retail and hospitality businesses are still closed at the time of writing. Government support is still readily available for furloughed staff and the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) are supporting closed businesses. When this support comes to an end and businesses reopen, there will be a readjustment in the economy. Until then lenders will rightly be prudent in setting lending criteria.

Equally, there are business sectors where lockdown conditions are favourable for new lending. Two examples are the UK staycation sector and semi-commercial properties, essential retail and takeaway businesses in particular. Business conditions in both sectors are attractive for investors and if lenders can match these market needs, it will assist individual businesses growth and derive a benefit for the wider economy. Here at YBS Commercial, we have met this need with the launch of some new products designed to fit market need. Our new Holiday Let and Semi Commercial buy-to-let products required some adjustments to credit policy to meet borrower needs. By retaining flexibility in our approach to the development of these products, both policy and process elements match current market dynamics.

Not all lenders have responded to changes in market forces with new product launches. However, policy adjustments have been necessary for all lenders who have continued to support businesses through lockdown. Property valuations, for example, have been impacted by the physical challenges of being able to visit locations and gain access to properties. How lenders address challenges such as this will determine how well they are able to continue meeting customer needs and supporting economic recovery post-lockdown. Waiting for a full valuation to be complete before making an offer of finance can cause delay and uncertainty for borrowers, as well as placing strain on valuers having to work in difficult conditions. Providing offers of finance subject to valuation, commissioning valuations earlier in the lending process and the use of panel managers are ways that deals can progress, providing borrowers with a degree of certainty about the outcome and maintaining risk criteria.

It is outside the scope of this article to fully explore what lenders can do to help maintain deal flow. But lenders who can make the most positive impact in supporting economic recovery are those who are focused on borrower needs and creative in their approach to policy and process.

LINK: www.ybs.co.uk/commercial/index.html

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Learning from mistakes



Ian Cass,
Managing Director,
Forum of Private
Business

Government actions during the pandemic

As we start to see the light at the end of the tunnel, the Forum of Private Businesses will be focussing all our resources in supporting small business to get back on their feet and in giving help and advice to the many whose businesses will have failed.

In the same way that we and many of our members will have learnt important lessons in the last year and applied them to our businesses, it is important that the Government does the same!

The spring Budget contained some measures that will help business, like the extension of furlough, VAT and rates holidays, and the inclusion of 600,000 businesses who were set up in 2019, but it did not help the nearly two million businesses that have been excluded and the regulated pub company tenants who have seen grants come in, then go straight out of the door to pay rent to their pub company owners.

The Government has, I am sure, been doing its best in the situation, so it seems unnecessarily negative to criticise, but must accept that mistakes will have been made in the last year and need to learn from them.

The reason human beings have done so well as a species is because we adapt to different environments and to changing circumstances.

With the COVID-19 pandemic, we have entered a new era. So, the Government must do what we as human beings are best at, analysing and questioning what we did right, what we did wrong and what we could have done better, not in order to apportion blame, which is a worthless process, they need to do it to learn and apply what they learn!

Arnold Schwarzenegger of all people put it best when he said, "some things are too important to be left to Government", who very often take a short-term view, particularly when politicians, if they are put under pressure and in danger of losing their jobs, start to discard principles like a balloonist discharges ballast.

The Government needs to carry out a full and detailed evaluation of its actions and decisions to find out what worked, what did not work and how we can make things better going forward, so we are better prepared for the next time.

This is to ensure we spend our resources in terms of time and money in an efficient way, cause the least damage to the economy and save lives. It's time to take a long-term view and make sure we learn from this experience and if Government is not prepared to do it, it needs to put something in place that will, for the benefit of all our futures.

LINK: www.fpb.org