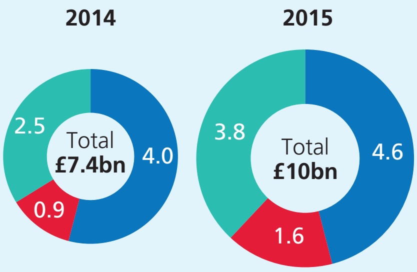
IPF Research Programme 2011–2015

# UK DEVELOPMENT FINANCE UPDATE 2015

## AT A GLANCE

### Increase in Lending




34% ↑

- UK Banks
- Non-UK Banks
- Alternative lenders

### No. £100m+ Loan Providers

| UK Banks | Non-UK Banks | Alternative Lenders |
|---|---|---|
| 5 | 6 | 4 |

### Bank Loan-to-Cost Ratios

**50%-70%**

### Peer-to-Peer Lending

£27m → £87m

Q1 2015 → 2015 Forecast

### Principal Providers of Finance

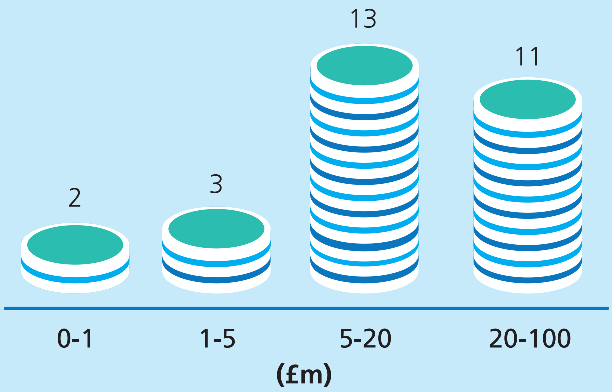
| | |
|---|---|
| Mezzanine Debt | Alternative Lenders |
| Senior Debt | Banks + Alternative Lenders |

### Sources of Finance

Ease of sourcing: HIGH ↕ LOW

| | Debt | Equity |
|---|---|---|
| HIGH | Large Developers with track record | REITS Quoted PropCos |
| | Regional | |
| LOW | Small Developers | |

### Minimum Loan Sizes - No. Lenders (ex P2P)




### Borrowers' Primary Concerns

Rising Build Costs ↑

Shortage of Workforce/Expertise ↓

# KEY TRENDS 2015

- Lenders surveyed increased their annual development lending by over 240% between 2012 and 2014 and, collectively, are aiming to increase their lending by a further 34% in 2015 – from £7.5 billion to nearly £10 billion.
- Non-UK bank lending for development has increased at a far greater rate than UK bank lending, albeit from a much lower base, with those surveyed lending 64% more for development in 2014 than in 2013. In 2015 this group collectively hopes to increase its development lending by 73%.
- Banks still dominate the market for senior lending on pre-let and pre-sold developments, but alternative lending platforms provide much of the speculative funding available. Alternative lenders are also the main source of mezzanine finance and this market is likely to grow as the hunt for yield takes investors further up the risk curve.
- Most UK banks are willing to lend anywhere in the UK, provided it is to the right developer for the right scheme in the right place. Their financing provision may increase by around 13% in 2015. Non-UK banks are more 'London-centric' but the number that will consider financing a deal in the regions has quadrupled since 2014. Alternative lenders formerly focussed on schemes in London and the South East but are now lending in many UK regions. The majority target residential and residential-led mixed use schemes.
- All banks seek developer clients with a depth of experience and outstanding track record. Most are also looking for a long term relationship and cross-selling opportunities. The availability of finance for small developers remains minimal, with only a few UK clearers and alternative lending platforms willing to lend to them.
- Current loan to cost ratios (LTCs) offered by UK and non-UK banks are in the 50%-70% range and average margins lie between 245 and 315 basis points over LIBOR.
- Developers with strong balance sheets and low gearing primarily use corporate or capital market funding rather than development finance. Revolving Credit Facilities are the most frequently mentioned form of bank finance for REITs and non-REIT listed companies. Competition is fierce among lenders to attract this business and RCFs of over £100 million are not uncommon.
- Listed property companies use senior development loans more than REITs, particularly for joint ventures. Their sources of finance are mainly banks but they occasionally finance with alternative lenders. The general availability of debt is perceived to be very good for listed developers, and both unlisted property companies and opportunity funds are also finding little difficulty in obtaining debt finance if they are a large, established developer with a good track record.
- The majority of companies and funds are largely optimistic about the viability of the market for developments and the availability of finance for next 18 months but are concerned by potential overheating, build cost inflation and shortages in skilled personnel.

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