BLEND PROPERTY PULSE

SEPTEMBER 2022

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THREE PROPERTY MARKET HIGHLIGHTS

01 **The housing market looks increasingly likely to tip into a downturn.** We believe, as many in the market do, that an imminent house price correction is increasingly likely. Several estate agents are reporting a slowdown in enquiries and have indicated that rising interest rates are already cooling the market (Figure 1). Amid UK households' expectations of ongoing interest rate hikes (Figure 2), the simple question many buyers are asking themselves is whether right now is a good time to commit to a big-ticket purchase such as a house. Anecdotally, estate agent Winkworth reported a 40% sales decline in the first half of the year.

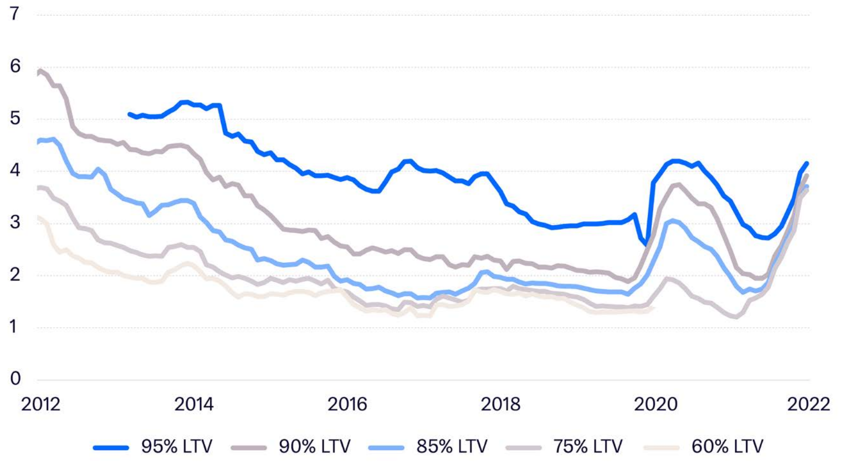
02 **Prospective home buyers are hitting the brake.** £78 billion of new mortgages were advanced in Q2 2022, down by 12.6% from Q2 2021 even though house prices were around 10% higher this year. First-time buyers are being even more cautious when it comes to buying: the £17 billion in mortgages advanced to first-time buyers in Q2 2022 was down by 21% from Q2 last year .

03 **The price correction will be highly localised.** Not everything is gloom and doom. We expect the current slowdown in the housing market to be sharp, short-lived and localised. Areas that have seen an oversupply of stock build up and become saturated will see the largest correction, while other mature areas with good transport links will ride out the bumps better. As always, prime London will remain an outlier driven by a completely different set of factors. Right now, this market traditionally driven by international capital flows will likely benefit from a weaker Pound and run to safety in the face of ongoing geopolitical risks on the global stage. Cities such as Manchester, Leeds and Birmingham have strongly benefitted from large firms relocating outside London and students staying in them after graduation to work in the expanding number of regional growth hubs, especially within the technology sector. Other cities such as Bristol and Bath have benefitted from the influx of second-home buyers. The big question remains whether those cities will be able to maintain their recent growth.

> *In some regions, the market has been inflated too quickly too heavily. Those are the areas likely to see the sharpest correction over the next few months.*

21% **YoY decline in mortgage advances to first time buyers in Q2 2022**

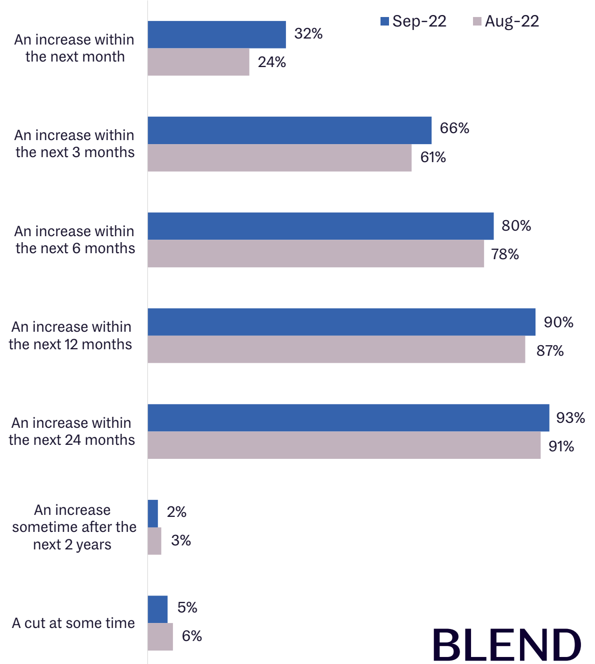
Figure 1: Mortgage rates have risen sharply



Source: Bank of England[vi], Blend

Figure 2: UK households report most hawkish interest rate expectations on record

S&P Global UK Household Interest Rate Expectations Index



Source: S&P Global[vii], Blend

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THREE CONSTRUCTION AND FUNDING HIGHLIGHTS

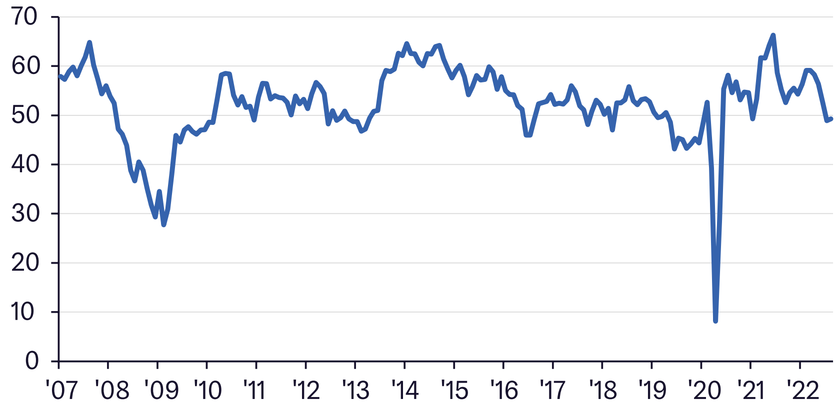
01 **UK construction activity continues to decline.** The S&P Construction PMI reveals that UK construction activity dipped again in August amid cost pressures and economic headwinds. We at Blend offer fixed-rate lending facilities and have always done so, but our conversations with property developers reveal that housebuilders are feeling the pain of rising interest rates. It is not only the burden of higher interest rates, but the uncertainty of how high they are likely to go. There is simply a lot of uncertainty around how lenders, particularly banks, will address the rise in SVR and Sonia-linked facilities. As a result, a range of indicators are pointing to more weakness ahead in construction activity. For example, construction firms are scaling back their input buying for the first time since the start of the pandemic, reflecting fears of a slowdown.

02 **Non-bank lenders are filling the funding gap.** Banks and building societies wrote the smallest volume of residential mortgages since 2016 while other lenders including non-bank lenders have been steadily growing their share of the residential mortgage market over the past few years. In Q2 2022, non-bank lenders accounted for 11% of the residential mortgage market. In the current environment, this is not surprising as borrowers move to alternative providers, who regularly work on a relationship basis and whose source of capital is often more flexible. It is worth remembering that rate rises are a completely new issue for a whole generation of property developers who have never had to worry about rates. Even more senior property developers haven't had to worry about rising rates for about 15 years, giving this issue a whole new dimension.

03 **Insolvency risk threatens UK construction industry.** We believe that increased insolvency could rival softening demand and rising inflation as the main threat to the construction industry. As build costs have increased, risk allowances have inflated just as credit availability and affordability have fallen. Fixed-price contracts are under immense pressure and the net effect is putting heightened stress on contractors. This is already evident and is particularly the case for the larger contactors as opposed to the smaller contractors used by SME housebuilders who are able to manage their supply chain logistics and costs more efficiently.

> *Increased insolvency could rival softening demand and rising inflation as the main threat to the construction industry.*

Figure 3: Construction activity is down for the second month running
S&P Global / CIPS UK Construction PMI

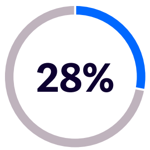


Source: S&P Global[xi], Blend

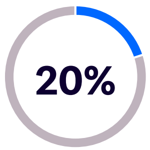
Three Stats to Look Smart In Front of Your Client

Skyrocketing house prices
The increase in the average UK house price since 2019. This is twice the average full-time salary in the UK.

£60,000



Collapse in home ownership
The percentage of Brit 25 to 34-year-olds who own a home is 28%. This compares to 51% just 30 years ago . Home ownership among young British people, especially single, has almost halved since its peak in the 1980s, as the majority of 25 to 34-year-olds don't earn enough and don't have sufficient savings.



Unaffordable rents
The increase in rents within inner London in Q1 2022 was 20%. Rents increased by 10% within outer London over the same period. A shortage of accommodation has resulted in private landlords and agents demanding that applicants bid to secure properties, in some cases pushing rents higher by up to 40%.

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THREE DEVELOPMENT FINANCE DEAL HIGHLIGHTS

01 **£7m affordable housing development in Telford.** Living Space Housing has finalised its latest affordable homes scheme in Aqueduct, Telford for The Wrekin Housing Group. The completed Majestic Way development sitting on a 6.3-acre parcel of land comprises 19 two-bedroom houses, 18 three-bedroom houses, and two two-bedroom bungalows, all of which have parking provisions will be let at an affordable rent of at least 20% below local market rents.

02 **64-unit student accommodation facility in Edinburgh.** Following an appeal, property developer S Harrison, has gained planning permission for a new student accommodation scheme with 64 studio apartments in Edinburgh. Demolition will start this month and the scheme is planned for completion by Q3 2024. As UK universities continue to successfully attract increasing student numbers, we continue to see increased appetite from property developers for student accommodation. At Blend, we recently provided a loan to convert a building into a £1.4m GDV, 20-unit student accommodation facility in Shieldfield, Newcastle.

03 **48-unit affordable housing scheme in Norfolk.** Work has begun on the Saxon Heath estate in Attleborough, Norfolk, to deliver a new scheme consisting of 48 affordable homes, designed by Norfolk County Council owned company Repton Property Developments. All the properties on the site will either be Shared Ownership, or for social rent and the project is set to be completed in Autumn 2023. The Norfolk property market has performed well and is a market where we have funded several recent deals ourselves. For example, we recently funded a scheme to convert a site in Middleton, King's Lynn, Norfolk into four 4-bedroom houses.

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Blend is a specialist development finance lender providing experienced property developers with development finance and bridging loans of up to £10m.

For more information, please visit www.blendnetwork.com or email your funding enquiry to our lending team at enquiries@blendnetwork.com

Your capital is at risk and lending through an electronic platform is not covered by the Financial Services Compensation Scheme.

Past performance is not an indicator of future returns.

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[i] Financial Times, https://on.ft.com/3S3XHuk
[ii] Winkworth Plc Half-year Report, https://bit.ly/3U9CTDj
[iii] Bank of England mortgage lending statistics, https://bit.ly/2Z5JJfU
[iv] Nationwide House Price Index, https://bit.ly/3BihkI8
[v] Bank of England mortgage lending statistics, https://bit.ly/2Z5JJfU
[vi] Bank of England, https://bit.ly/3BdS5qs
[vii] S&P Global UK Household Interest Rate Expectations Index, https://bit.ly/3BEFhL6
[viii] S&P Global / CIPS UK Construction PMI, https://bit.ly/3C5oHVc
[ix] Bank of England mortgage lending statistics, https://bit.ly/2Z5JJfU
[x] UK market intelligence: Evolving risks, evolving solutions, https://bit.ly/3DmdY9R
[xi] S&P Global / CIPS UK Construction PMI, https://bit.ly/3U9RKO5 Non-
[xii] Nationwide House Price Index, https://bit.ly/3RRjp4S
[xiii] This Is Money, https://bit.ly/3ROo2Nd
[xiv] Financial Times, https://on.ft.com/3BMGTm0