BLEND BROKER SENTIMENT SURVEY

Q4 2022

BLEND

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FOREWORD

Earlier this year, we launched our Blend Broker Sentiment Survey, a quarterly survey that aims to take the pulse of the housing market by gathering the thoughts of finance intermediaries to assess where the market is and try to predict where it might be heading. Back in August when we published our inaugural Q3 Blend Broker Sentiment Survey, tightening credit was a recurrent theme running through the answers we received. The second edition of this survey comes at a time of unprecedented economic uncertainty and financial volatility, the consequences of which are being felt most severely by many in the housing market. Three weeks ago, the Chancellor's mini-budget sent UK government bonds plunging and forced the Bank of England to step in to prevent chaotic drops in gilts prices from stinging pension funds and threatening financial stability. Unfortunately, the move has sent shockwaves through the housing market, to the point that an initial stamp duty cut seems to have been completely offset by the large number of lender withdrawals from the mortgage market. The responses to our survey were compiled between 13 and 30 September, therefore encompassing the period immediately before and after the mini-budget announcement. So, while we are not surprised to see an expected tightening to credit conditions, it is interesting to see respondents' expectations of a long and protracted credit tightening rather than a short and swift inverted-V interest rate hike.

One of the most interesting trends we see through the responses to this survey is the increasing appetite for non-bank lenders. Not only are brokers planning to put through an increased amount of business to non-bank lenders in absolute terms, but also compared to their responses to our Q3 survey, we see an increased appetite for non-bank lenders. Emerging from the ashes of the Global Financial Crisis of 2008-09, non-bank lenders have risen to fill a funding gap left by banks in providing credit to select segments of the economy such as property developers. As described in our recent *Blend In Focus* (link), regulations and risk-weighted asset capital requirements such as those imposed by the Basel Committee on Bank Supervision in the aftermath of the financial crisis have caused traditional commercial banks to rein in their appetite for deploying some types of credit such as real estate development finance. The rise of non-bank lenders gained momentum during the Covid-19 crisis as these lenders were able to step in and support many SME property developers throughout the pandemic. According to the Finance & Leasing Association, approximately 36% of the £15.9bn lent to SMEs in the UK in 2020 came from non-bank providers and we believe this trend will continue.

Over the next pages, we publish the results of our Q4 Blend Broker Sentiment Survey aimed at shedding light on the current market sentiment and its possible future direction. I would like to thank all our customers and partners for taking the time to respond to this survey and for sharing the invaluable views that have helped create this report. Responses for our next Blend Broker Sentiment Survey will be collected throughout December and the report will be published in January 2023. If you would like to partner with us or contribute with commentaries to our next report, please contact a member of our team.

"Regulated non-bank lenders are playing an increasingly important role in the real estate development finance economy by providing funding where banks are less keen, even in the current environment."

David Alcock

Managing Director

David Alcock
Managing Director

BLEND

SUMMARY:

- **Tightening credit:** An overwhelming 94% of brokers surveyed throughout September expect credit conditions to be tighter over the next 12 months. When we asked the same question back in July, 80% of brokers said they expected credit conditions to tighten over the next 12 months. So, the broker community is feeling noticeably more bearish about the credit outlook.

- **Looking for the smart lender:** Two in three brokers surveyed (65%) said that the main reason they would use a non-bank lender vs a bank lender is a greater understanding of development finance from the non-bank lenders.

- **UK economic headwinds:** Nearly 60% of respondents said they would describe the outlook for the UK economy going into Q4 as negative. This is slightly higher than in Q3. When we asked brokers this same question in July, they were more enthusiastic. Back then only 45% said they would describe the outlook for the UK economy going into Q3 as negative and an overwhelming 70% described the outlook for their business as positive over the summer.

- **Increasingly turning to non-bank lenders:** 53% of brokers surveyed throughout September said they were planning to increase the amount of business they put through to non-bank lenders in Q4 compared to Q3. In recent months, brokers have been increasingly turning to non-bank lenders to secure finance for their clients, citing higher gearing, quicker response times and higher understanding of development finance being the key reasons for this. When we asked brokers back in July how much business they were planning to put through to non-bank lenders in Q3, 40% said they were planning to increase the amount in Q3.

77% **Percentage of brokers expecting credit conditions to tighten in Q4**

94% **Percentage of brokers expecting credit conditions to tighten over the next 12 months**

53% **Percentage of brokers who expect to put through more business to non-bank lenders in Q4 vs Q3**

> *Though times call for through the cycle lenders and many brokers say the main reason they would use non-bank lenders vs a bank is a greater understanding of development finance from non-bank lenders."*

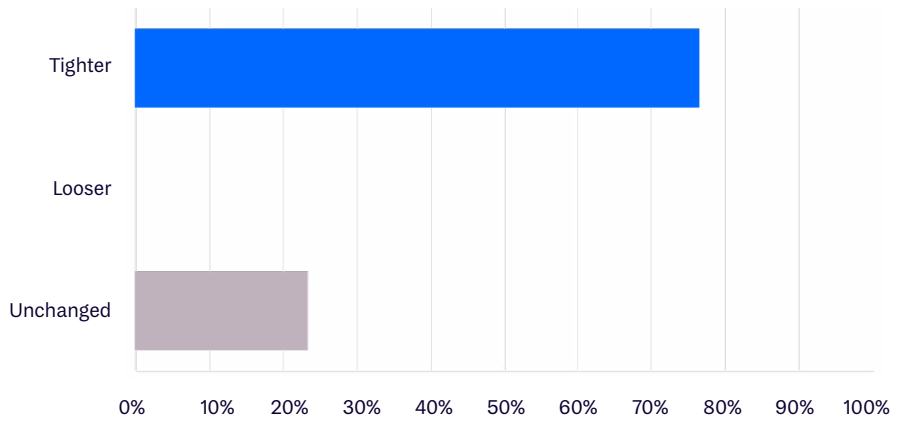
TIGHTENING CREDIT AND GROWING ECONOMIC HEADWINDS

The responses to our Q4 Blend Broker Sentiment Survey were compiled throughout September. Therefore, they do reflect the market reactions to the Chancellor's mini-budget announcement when almost 1,000 mortgage deals got pulled in a matter of days as panic gripped the UK housing market . Consequently, it would not be surprising to see the market expect short-term tighter credit conditions, but what is really interesting is the market's expectation of tight credit conditions to last for longer. Indeed, an overwhelming 94% of brokers surveyed said they expected credit conditions to be tighter over the next 12 months, a much larger proportion than when we asked the same question in July. Back then, 80% of brokers said they expected credit conditions to tighten over the next 12 months and now that percentage has skyrocketed as the broker community is feeling noticeably more bearish. But the sentiment echoed in the current survey is reflective of a housing market where more than 40% of mortgages were withdrawn as lenders struggled to price products amid financial uncertainty .

In line with these concerns, brokers remain anxious about the near-term outlook for the UK economy. Nearly 60% said they would describe the UK economic outlook going into Q4 as negative; when we asked brokers this same question in July, only 45% said they would describe the UK economic outlook as negative and a crushing 70% described the outlook for their business as positive over the summer. Even before the mini-budget sent shock waves across through financial markets, UK consumer confidence had tumbled to a new all-time low in September reflecting deep concerns about personal finances and the economy over the next 12 months. The GfK Consumer Confidence Index – published on 23 September, the same day as the mini-budget announcement – came in at -49, a record low .

> *Even after the dust settles, it won't be business as usual for lenders who will need to sit back and rethink their lending strategy, particularly around the types of schemes they are willing to back.*

Figure 1: How do you expect credit conditions from lenders to change over the next 12 months



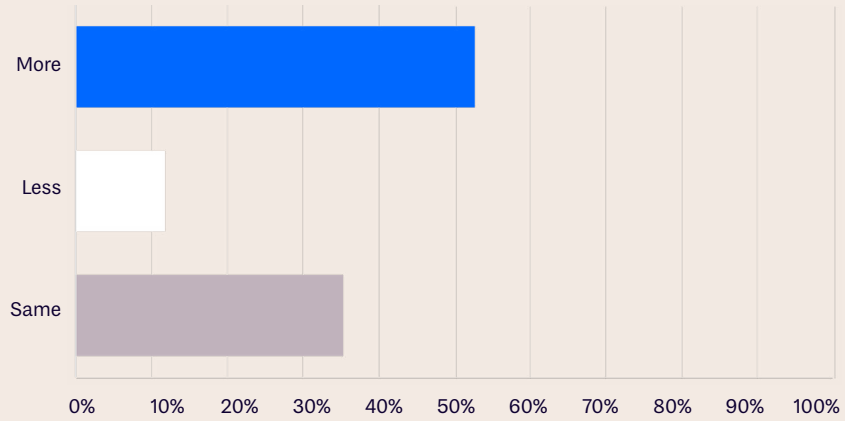
"Here at Finanze, we are definitely feeling the impact of credit tightening and have been for a few quarters now however it has become exponentially more noticeable in the last 2 weeks with many popular lenders pulling out of the lending market entirely and those staying in the market have greatly increased their rates making them unaffordable to some. The best way we can support our clients is to keep them up to date with what is happening, make them aware of the changes and any further changes we expect. We are recommending clients lock in rates for 5+ years as we expect rates will not return to normal within the next 5 years and this will save the clients from any financial hardship had they instead taken a 2-year fixed period and then been unable to refinance in 2 years due to the increasing rates and credit tightening. We also offer advice on bridging and development financing and here is where we need to be extra diligent in these times, we always make sure the client has a firm exit prepared to come off their bridge at the end of its term whether that be by sale of the property refinance or another method. Now more than ever that exit has to be airtight, if the planned exit is a refinance but due to the circumstances there is only 1 lender able to offer the exit we have to make the client aware of this because that lender may not be available in 12 months' time or if they are they may no longer be offering that product. We would want to side a wide variety of lenders and products available for the client to refinance onto the exit of their bridge so we can feel confident that in 12 months there will still be options available."

Imogen Sporle
Head of Property Finance at Finanze

AN INCREASED APPETITE FOR NON-BANK LENDERS

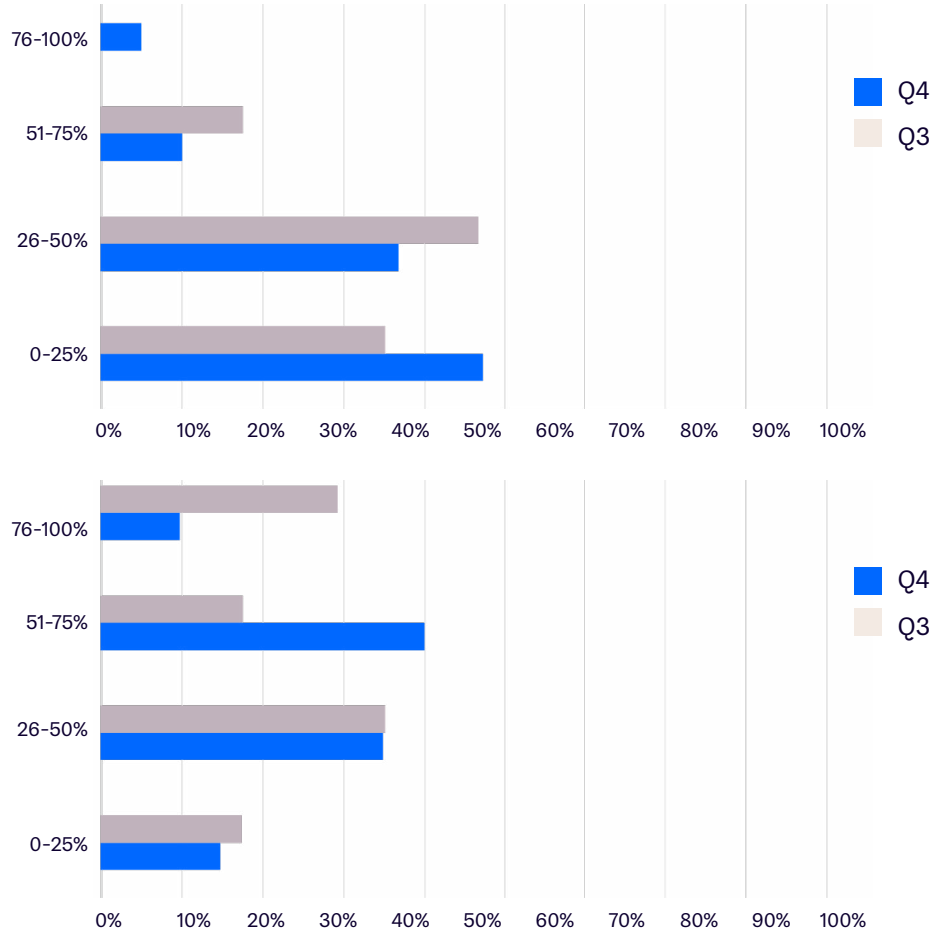
One recurrent theme that comes up in the response to several questions in our survey is the increased appetite from brokers for non-bank lenders. We ask brokers how much of their business they planned to put through to non-bank lenders in the three months compared with the previous three months. 53% of respondents to our Q4 survey said they were planning to increase the volume of loans they put through to non-bank lenders compared with Q3. When we asked the same question back in July, 40% said they planned to put through more business volume to non-bank lenders throughout Q3.

Figure 2: How much of your business will be put through a non-bank lender inQ4 2022 compared with this quarter?



> *One in three brokers said they planned to put through most of their business to a no-bank lender in Q4.*

We also ask brokers what percentage of their total business they planned to put through a bank vs. a non-bank lender over the next three months. 30% of respondents to our Q4 survey said they were planning to put through 76% to 100% of their total business to non-bank lenders in Q4. In other words, one in three brokers said they planned to put through most of their business to a no-bank lender in Q4. When we asked the same question back in July, only one in ten brokers said they were planning to put through 76% to 100% of their total business to non-bank lenders over the coming three months. On the other hand, one in three brokers surveyed said they would only put through up to a quarter of their business to a bank in Q4 and none said they would put most of their business to a bank in Q4. When we asked the same question back in July, nearly half of brokers said they were planning to put through up to a quarter of their total business to a bank over the coming three months and some even said they planned to put through most of their business to a bank throughout Q3.

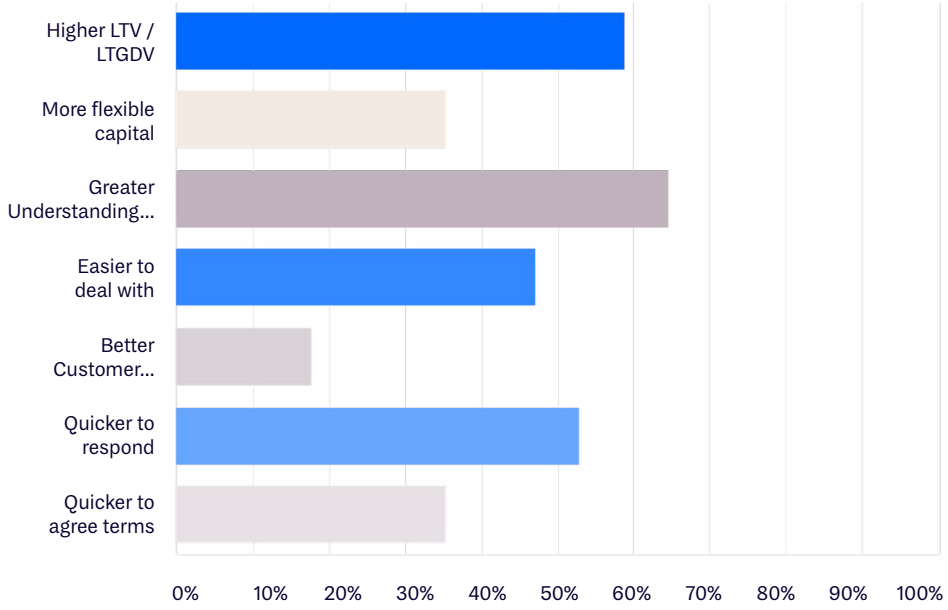


INCREASED FLEXIBILITY AND GREATER UNDERSTANDING

We wanted to understand the reasons why brokers decided to use each type of lenders, so we asked them why they would use a non-bank lender vs. a bank for development finance. Two in three brokers said they used non-bank lenders due to their greater understanding of development finance compared to banks. The other two main reasons cited by brokers were non-bank lenders' ability to provide higher LTV/LTGDV and their greater agility in terms of response time and moving things forward.

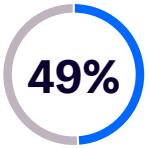
We are undoubtably living through times of unprecedented economic uncertainty and financial volatility, the consequences of which are being felt most severely by many in the housing market. In times like these, property developers need increased support in the form of greater flexibility and more understanding from a lender who can act as a grown-up lending partner rather than just a lender. But unfortunately all those developers who have experienced the "20 weeks to a 'no'" will also know that this situation tends to get exacerbated when the going gets tough, like it is now.

Figure 5: What is the main reason you would use a non-bank lender vs. a banklender for development finance? (Select all that apply)



STRICTER UNDERWRITING

Another interesting insight into brokers' concerns was provided by what they felt were the biggest risks to their business over the next three months. Nearly 60% of respondents said that stricter underwriting was the biggest risk to their business in Q4. Lenders tightening their credit conditions was also another top response provided by those brokers who participated in our survey.



Percentage of brokers who feel stricter underwriting is the biggest risk to their business in Q4

BLEND

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.

BLEND Loan Network Limited is authorised and regulated by the Financial Conduct Authority (Reg No: 913456).

[i] https://bit.ly/3rJ31s1
[ii] https://bit.ly/3C698Lp
[iii] https://bit.ly/3rvHti4