

BLEND PROPERTY PULSE

NOVEMBER 2022

BLEND

TABLE OF CONTENTS

Three Property Market Highlights3

Three Construction and Funding Highlights4

Three Stats to Look Smart in Front of Your Clients4

Blend Development Finance Deal of the Month5

THREE PROPERTY MARKET HIGHLIGHTS

01

Where from here? It truly is too early to predict the direction of the property market over the next few months, but one thing is clear: there are bright spots and there are opportunities. Zoopla believes that mortgage rates will move back towards 4% by the end of 2023, house prices will decline by 5% and we will see a modest decline in sales volumes from 1.3m to 1mⁱ. Natwest predicts prices will fall by 7% next yearⁱⁱ while Lloyds Group puts the decline at 8%ⁱⁱⁱ. Despite the expected widespread slowdown, we believe that mature areas with good transport links will remain resilient, while saturated areas with stock oversupply will suffer. The reality is that the UK suffers from a structural undersupply of housing and the current tightening of credit supply will only worsen that lack of supply in the medium to long term.

02

Rents hit record highs. According to Rightmove, the average monthly rent in Great Britain was £1,162 by the end of September, up 11% in a year and 3.2% since the beginning of summer^{iv}. Newbury in the Southeast saw the largest increase, 22.2% YoY, while Manchester (20.5%), Cardiff (19.6%) and Edinburgh (18.0%) are all among cities where rents have increased most. One of the main reasons for this increase is the inability of supply to keep up with demand. Demand from renters is up by 20% so far this year compared to the same period in 2021. According to LonRes (Figure 1), the average discount to asking rent in London turned positive in September for the first time since their records began in 2005. This means that tenants paid on average 0.6% more than the asking rent when agreeing a new tenancy during September. According to David Alcock, MD at Blend: "It is a real challenge for renters at the moment and we expect this situation to deteriorate as the increase in interest rates means that many prospective buyers will postpone their decisions to purchase properties and rent instead. Furthermore, we expect non-professional landlords or those with one or a handful of BTLs will likely sell because the financials no longer stack up, thus exasperating the situation further".

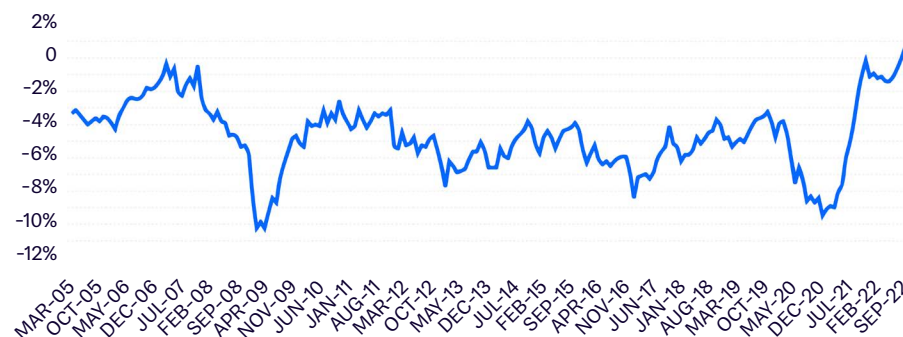
03

The London prime market feels the pain. Last week LonRes provided an indication of what we have been hearing around the slowdown in property transactions since the mini-Budget^v. According to their Autumn Prime London Market Report, the number of property sales falling through rose by 88% during the final week of September compared with last year, the number of price reductions spiked by 7.6% and the number of properties withdrawn jumped by 48%. That said, the Pound's recent weakness is likely to help support the prime London market. Average prime London achieved prices per square foot in September were just below their previous 2014/15 peak (4%). However, prices were 35% lower when converted into US Dollar and 22% below their peak when converted to Euros. That is a substantial discount.



Figure 1: London average discount to asking rent

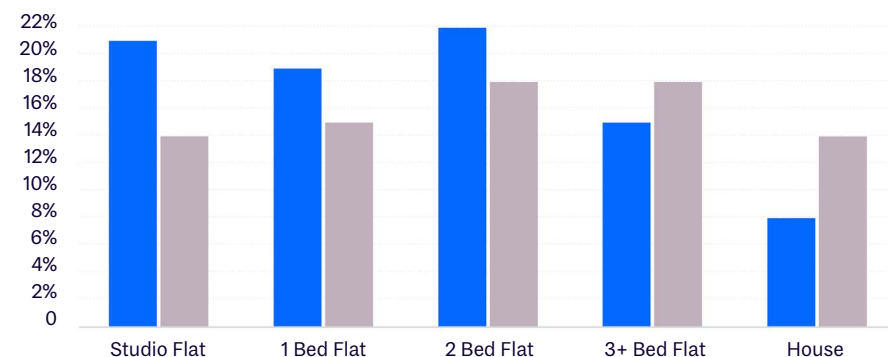
For the first time since LonRes records began (data going back to 2005), the average discount to asking rents turned positive.



Source: LonRes Autumn 2022 Prime London Market Update^{vi}

Figure 2: Change in Rents Per Square Foot by Property Type

Smaller flats have seen the fastest rent rises over the last year, studios up 21%, 1-bed flats up 19% and 2-bed flats up 22%.



Source: LonRes Autumn 2022 Prime London Market Update^{vii}

THREE CONSTRUCTION AND FUNDING HIGHLIGHTS

01

Construction materials prices steady. Following the rapid growth of construction and building material prices, signs of stabilisation are emerging even though it is unlikely that prices will fall in the near future. The BEIS's latest monthly statistics of building materials and components shows a clear reversal in the price growth of some timber products such as imported sawn, planed wood, and imported plywood^{viii}. In July and August, the price of imported sawn or planed wood declined by 6.5% and 6.9% respectively compared to the previous month, reversing an average 3.7% increase over the previous 4 months. A similar trend can be observed in fabricated structural steel products where according to the BEIS price declined by 6.6% in July and August after rising by an average 8.5% over the previous 4 month. However, it is yet too early to call out a slowdown in an aggregated basket of construction and building materials as the price of other components such as insulating materials kept rising.

02

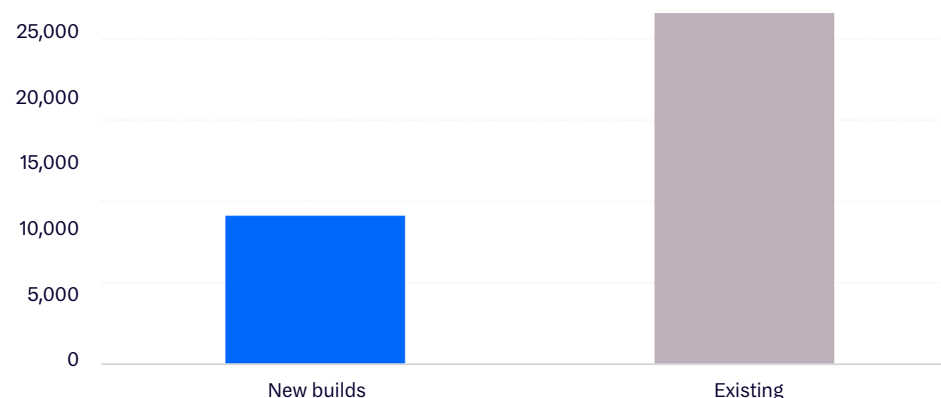
A bright outlook for BTR construction. In new research, the British Property Federation (BPF) and Savills expect the UK Built-To-Rent market to increase five-fold in the next decade from 76,800 to more than 380,000 and believe the sector could be worth £170bn by 2032 driven by UK and overseas institutions. Investec recently announced that it has provided Rothschild Real Estate Investment Management with a 39-month, £19.3 million development loan, to support its construction of a 357-unit BTR scheme in Rugby, Warwickshire.

03

Homebuyers focusing on energy efficiency. According to a new report by the Home Builders Federation (HBF), 1 In 4 buyers now put efficiency as a key consideration when purchasing a house and lenders are urged to support buyers to make environmental and economic choices. The report, titled [Watt A Save](#), finds that new build houses save homeowners £2,600 in annual energy bills. At Blend, we have long been vocal and [written extensively](#) about the role of lenders, particularly specialist non-bank lenders, in the transition to a greener economy.

Figure 3: Total energy use per annum (kWh)

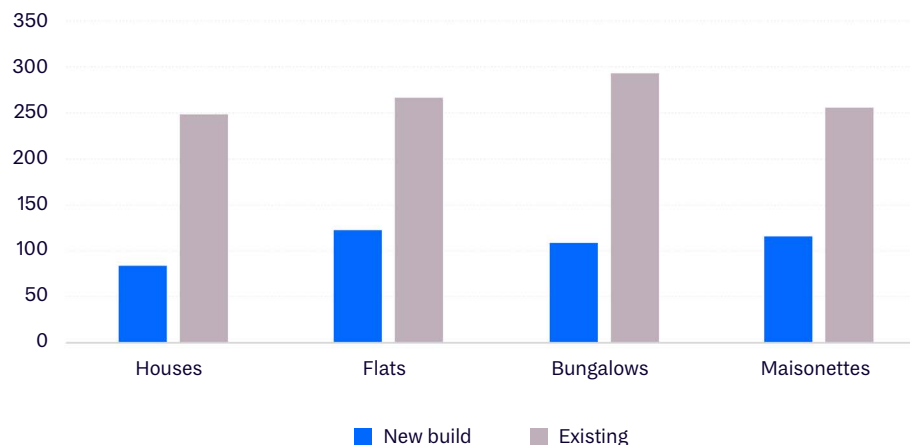
The average new build property uses approximately 9094 kWh a year, as compared to older properties which use an annual average of 21621 kWh



Source: Home Builders Federation 'Watt A Save'^{ix}

Figure 4: Energy use per m2 (kWh)

Across all property types and sizes, new build home energy usage is substantially below existing dwelling energy usage



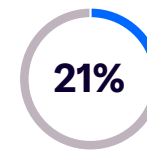
Source: Home Builders Federation 'Watt A Save'^x

99 *Life goes on and the industry continues on, opportunities arise and developers need to be able to have conversation with lenders who can understand, discuss and sometimes positively challenge what is trying to be achieved to find viable solutions - in other words, to talk to lenders who work with them and not against them.*

David Alcock, MD at Blend



Three Stats to Look Smart In Front of Your Client



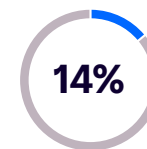
Rents hit record highs

The average rent for studio flats in London has increased by 21% over the past 12 months^{xi}.



Positive Outlook for BTR

Research by the British Property Federation (BPF) and Savills suggests the number of completed BTR homes could increase five-fold by 2032.



Great Momentum for BTR

The BTR sector is growing rapidly with the number of completed BTR homes increasing by 14% year-on-year in Q3 2022.



BLEND DEVELOPMENT FINANCE DEAL OF THE MONTH

Earlier this year, Blend funded a £1.6m GDV scheme consisting of 2 houses in Worcester. The project consisted of refurbishing an existing 4-bedroom detached house and building a new 5-bedroom house set over two floors in the plot of land adjacent to it in the south-western suburbs of Worcester. Works on site for the 9-month construction scheme commenced in August and overall progress to date has been very good with works running to program. Worcester has long been known as a desirable place to live in. According to estate agency Belvoir, Worcester property prices have increased by 6% over the last 12 months and by 22.9% over the past 5 years. This price increase has been even more acute for detached houses, which according to Belvoir have increased by 11.3% over the past 12 months (9.0% for terraced houses, 8.8% for semi-detached houses, and 1.4% for flats)^{xii}.



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

Don't Invest unless you're prepared to lose money. This is a high-risk investment. You may not be able to access your money easily and are unlikely to be protected if something goes wrong. Take 2 mins to learn more.

Past performance is not an indicator of future returns.

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- i Zoopla, What's going to happen to the housing market in 2023? <https://bit.ly/3DQkmWE>
- ii <https://bit.ly/3WiZtdP>
- iii <https://bit.ly/3fiAC9C>
- iv Rightmove, <https://bit.ly/3Dqtrny>
- v LonRes, <https://bit.ly/3gXs7kE>
- vi LonRes, <https://bit.ly/3gXs7kE>
- vii LonRes, <https://bit.ly/3gXs7kE>
- viii BEIS Monthly Statistics of Building Materials and Components, <https://bit.ly/3WcOrad>
- ix Home Builders Federation, Watt A Save, <https://bit.ly/3FyKtmo>
- x Home Builders Federation, Watt A Save, <https://bit.ly/3FyKtmo>
- xi LonRes, <https://bit.ly/3gXs7kE>
- xii Belvoir, <https://bit.ly/3h4qGkc>