

BLEND PROPERTY PULSE

OCTOBER 2022

BLEND

TABLE OF CONTENTS

Three Property Market Highlights3

Three Construction and Funding Highlights4

Three Stats to Look Smart in Front of Your Clients4

Three Development Finance Deal Highlights5

THREE PROPERTY MARKET HIGHLIGHTS

01

Stamp duty cut welcomed, but where was the boost to housing supply?

Last month's Property Market Pulse described how the housing market looked increasingly likely to tip into a downturn. Of course, that was before the government announced a stamp duty cut raising the threshold at which the tax falls due to £250,000 from £125,000 previously and increasing the threshold for first-time buyers from £300,000 to £425,000. Although we welcome the measure and believe it will support house prices and boost activity, it does nothing to support the supply side of an unbalanced market with a large undersupply of houses.

02

Stamp duty boost to prices will be selective and localised. Even though house price increase was widespread during the previous stamp duty holiday and all UK regions except London saw double-digit growth, Northern Ireland, Wales, and the Northeast saw the biggest increases. Those three regions saw growth levels that were over three times bigger than the price growth over the previous 2 years (Figure 1). This time round, we believe that mature areas with good transport links will benefit most, while saturated areas with a stock oversupply will lag behind.

03

Who will benefit from the stamp duty cut? The question of who will benefit most from the stamp duty cut is a hotly debated topic, but there are clear differences between the current stamp duty cut and the previous one. Back in 2020, UK households' saving ratios had rocketed to 23.9%, a record high since the start of the data in 1963. Now, those saving ratios have fallen to just over 6% (Figure 2) and the debt-to-income ratio stands at 131.3%. With UK household debt expected to rise as a result of the cost-of-living crisis, it is hard to imagine the same level of frenzy buying activity now compared to two years ago. We believe this time round activity will be more geographically concentrated and driven by investor demand instead of first-time buyers or families who will likely remain cautious before committing to a big-ticket purchase.

99 *The 2020-2021 stamp duty cut created a frenzy buying activity. But we are in a different market now and we expect activity to remain more muted.*



Figure 1: Prices soared during the previous stamp duty cut
UK regional house price increase between Q2 2020 and Q3 2021

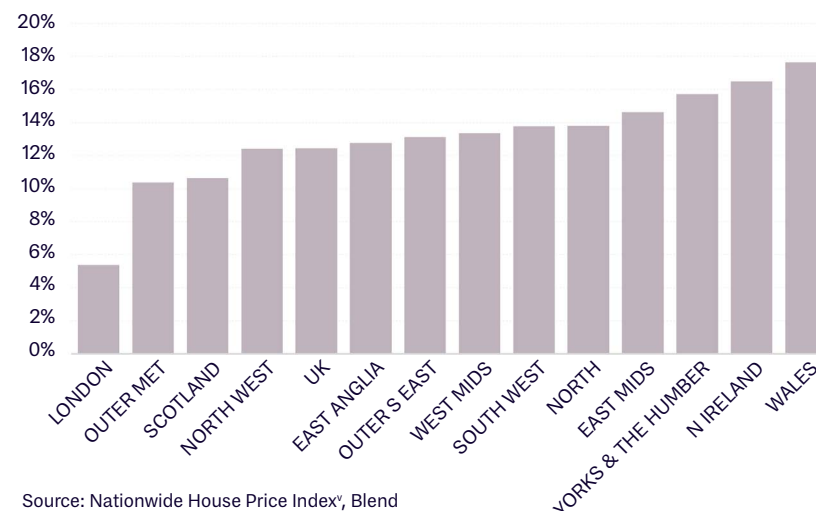
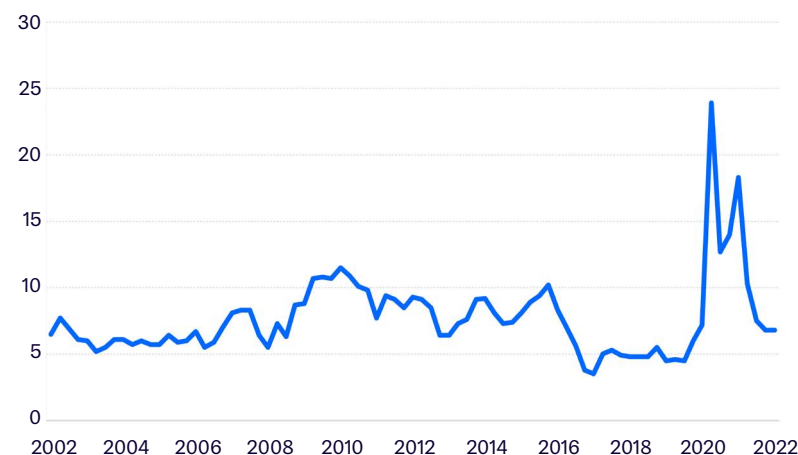


Figure 2: Household's saving ratios have fallen sharply
Households' saving ratio (per cent)



THREE CONSTRUCTION AND FUNDING HIGHLIGHTS

01

Contractors are starting to set aside loss provisions. Last month we talked about insolvency risks affecting the UK construction industry. We are now starting to hear about some contractors setting aside provisions for expected losses. For example, we recently heard that Bouygues UK had earmarked nearly £4.3m for provisions on expected loss-making contracts. Last month Robert Woodhead, an East Midlands-based contractor was placed into voluntary liquidation citing market conditions and the impact of rapid price increases throughout the supply chain. This is surely a space we will be watching carefully over the next few months.

02

Construction to avoid a hard-landing recession. Despite the ongoing economic challenges and the cost-of-living crisis, we expect the construction industry to avoid a hard-landing recession and instead to experience an L-shaped prolonged yet less severe downturn. We do believe the increased government borrowing needed to support the measures announced in the Mini Budget last month may likely dent the UK's long-term financial resilience.

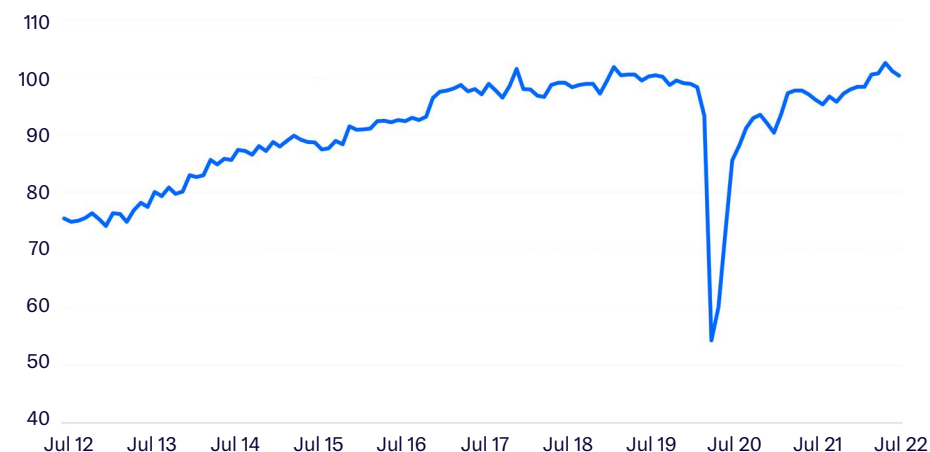
03

UK Construction Week returns this November. The UK Construction Week returns to Birmingham this week with over 600+ exhibitors. The Chancellor's move to slash stamp duty and reform Britain's planning system will likely be hot topics of discussion at this year's show.

99 *We expect the construction industry to experience a prolonged but shallow downturn.*

Figure 3: Monthly construction output decreased in July

UK Construction Output Index



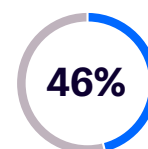
Source: Office for National Statistics^{xi}, Blend

Three Stats to Look Smart In Front of Your Client

↓
-49

Record low UK consumer confidence

The GfK UK Consumer Confidence Index tumbled by 5% to minus 49 in September as households continued to struggle to cope with cost-of-living crisis. There have been new lows in four out of the last five months and September's was the worst Overall Index Score since record began in 1974^x.



Strong momentum for London new homes

According to Knight Frank, the number of prospective buyers registering their interest for new homes in London in the first half of this year was up by 46% compared with the same period last year. The figure is also 83% higher than the five-year average before the pandemic, between 2015 and 2019^{xi}.

Falling Pound

The Pound has been falling and late last month hit its lowest level on record as markets reacted to the UK's biggest tax cuts in 50 years. From a property perspective, a weaker Pound may benefit areas of the market most exposed to the international flow of capital, mainly the prime central London market.

Record low



BLEND

THREE DEVELOPMENT FINANCE DEAL HIGHLIGHTS

01

£3.2m development of 4 houses in Kent. In mid-September, we provided funding to an experienced property developer to refurbish an existing 4-bedroom house and build three new 3-bedroom houses in Appledore, Kent. The total project will be set over nearly 8,000 square feet and add much-needed housing to this pleasant residential part of the southeast. This project is a typical example of our commitment to regional SME property developers.

02

£1.7m development of 4 houses in North Somerset. Last month, we provided funding to an experienced property developer to acquire and redevelop a property into four semi-detached 3-bedroom houses set over nearly 5,000 in Clevedon, North Somerset. This part of the north Somerset coast has been underrated for way too long, and the smart money is exploring the stretch to the north of Taunton including towns and villages such as Clevedon, Portishead, Walton Bay and Watchet that benefit from easy access and good transport links from Bristol.

03

£1.6m development of 2 houses in Worcester. In early-September, we provided funding to an experienced property developer to refurbish an existing 4-bedroom house and build a new 5-bedroom house set over two floors in the plot of land adjacent to it in an attractive and desirable residential area in the south-western suburbs of Worcester. Worcester has long been known as a great place to live and Worcestershire estate agency Nicol & Co recently predicted that prices will rise 6% by the end of this year due to supply and demand imbalances.



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 Government website, <https://bit.ly/3RfajOq>
- ii Nationwide House Price Index, <https://bit.ly/3RRjp4S>
- iii Office for National Statistics, <https://bit.ly/3C6pPlc>
- iv Household debt: key economic indicators, <https://bit.ly/3RmdiVq>
- v Nationwide House Price Index, <https://bit.ly/3RRjp4S>
- vi Office for National Statistics, <https://bit.ly/3C6pPlc>
- vii Construction News, <https://bit.ly/3Snrpui>
- viii Construction Enquirer, <https://bit.ly/3Sfzqlu>
- ix Office for National Statistics, <https://bit.ly/3fdRbmG>
- x GfK, <https://bit.ly/3UCTWOy>
- xi Knight Frank, <https://bit.ly/3UCGw5g>