THE 2007 GLOBAL FINANCIAL CRISIS TEN YEARS ON: A DECADE OF GROWTH FOR UK PROPERTY AND BRIDGING

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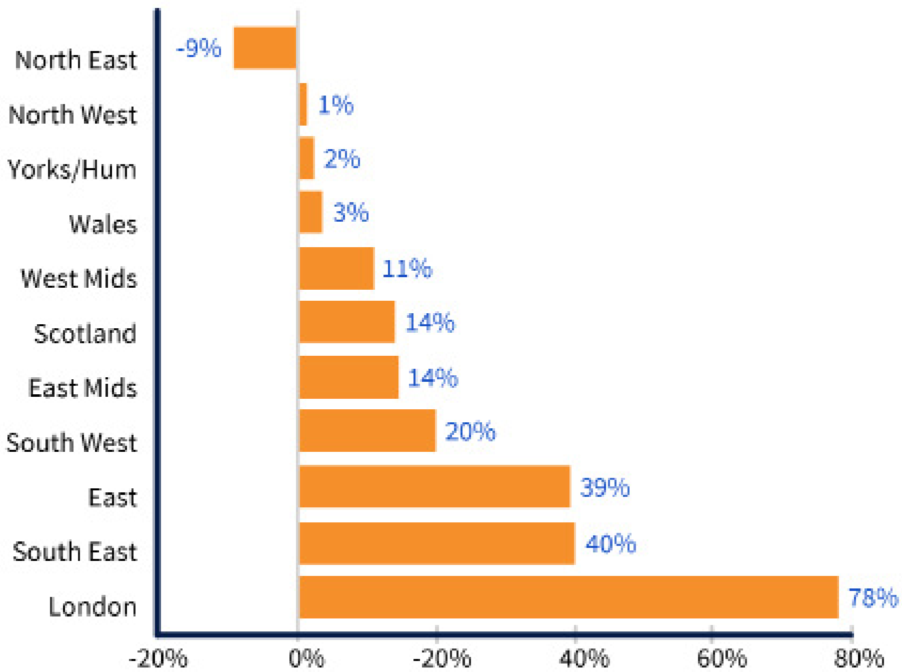
In the immediate aftermath of the 2007 global financial crisis, some speculators became pessimistic towards the ability of the UK property market to fully recover. Banks became risk averse, with mortgage lending in particular showing signs of slowing down as stricter regulations were implemented for lenders seeking to approve potential borrowers. Figures from the Council of Mortgage Lenders (CML) in 2009 showed that mortgage lending to property investors had declined by as much as 43% after the initial shock had settled in throughout the previous year.

As a consequence, alternative lenders were poised to seize a new role in providing specialist finance to investors, particularly within the property sector. With real estate prices having fallen by 16.2% in the space of a single year in 2008, many savvy investors spotted a buyers' market and sought out new investment opportunities, such as those available at auction or via probate. In the shadow of challenging times, new refurbishment and restoration projects went underway financed by increasingly popular bridging loans.

A Swift Return to Growth

Ten years on from the onset of the financial crisis and subsequent recession, investing in property once again holds its position as a vital component of economic life in the UK. Following the initial dip when many economies around the world faltered, today the total value of the nation's housing stock stands at a record £6.79 trillion. According to the latest industry data, the average British home has risen in value by 18% over the past decade, with London continuing to lead market growth – average prices for a house in the capital has jumped 78% over the past decade.

Average Change in House Prices across the UK between 2007 and 2017



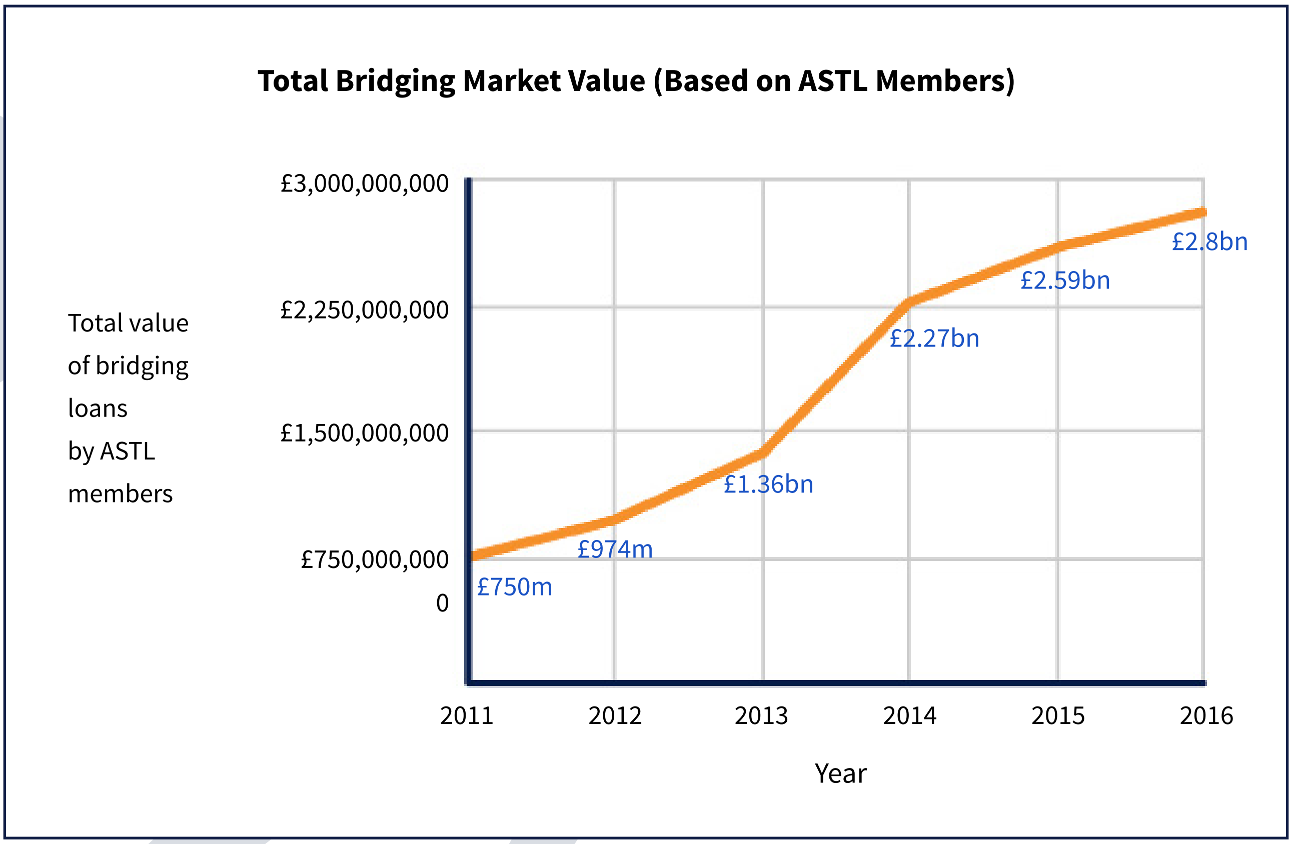
Source: Savills Research using HM Land Registry and Registers of Scotland

Despite a number of notable political and economic headwinds over the period, the property market has proven to be a vibrant hub for both domestic and international investors. Critical to this has been the role of the rapidly-rising bridging sector in providing investors with access to the swift and efficient finance that is essential to capitalising on short-term investment opportunities.

The Role of Bridging

For investors seeking to refurbish and restore residential real estate and bring new properties onto the market, bridging has proven to be an increasingly popular option – the latest Bridging Trends figures suggest that such projects are now the largest segment of UK bridging loans, representing 27% of all lending.

Overall the sector has grown exponentially in recent years. In 2011, the UK's bridging industry was worth £750 million – it is now valued at around £4 billion. According to the latest industry figures, the Association of Short Term Lenders (ASTL) has recorded a 123% annual increase in applications since Q1 2016. Furthermore, over the first three months of 2017 the amount of loans written was 11.4% higher than the same quarter last year, and the size of the overall loan book was up 45% on the March 2016



Approaching Brexit

The historic performance of the property market in supporting nationwide economic growth in times of political uncertainty should provide a cause for optimism in the years ahead. Since the EU referendum on 23 June 2016, new vibrancy has been highlighted both in the capital, in boroughs such as Hackney and Redbridge, and in regional markets across the UK such as Birmingham and Manchester – which continue to provide significant opportunities for the nation's real estate investors.

In the 12 months following the Brexit vote, average UK property values rose by 5.1%, reaching £226,185, supported by strong growth in regional cities. In hindsight, fears surrounding the impact of the EU referendum result on the market have not demonstrably dampened sentiment thus far. In London, a number of boroughs have seen rising investment as a result of high demand and the impact of new infrastructure projects including Crossrail. Among the nation's rising regional success stories, real estate price growth in Birmingham averaged as high as 7.6% over the course of the year, with Manchester witnessing a 6.9% increase.

Inevitable uncertainty lies ahead as Brexit negotiations continue and the UK formalises the terms of its departure from the EU. However, the continued strength of the real estate sector in the decade since the 2007 global financial crisis – and again in the aftermath of last year's EU referendum – presents a positive indication of the market's resilience and attractiveness during periods of significant transition.

Challenges and Opportunities Ahead

Over the past ten years, the UK property market has witnessed considerable growth, supported in significant part by an increasingly prominent bridging sector. The challenge remains for the real estate sector to ensure that property buyers are able to access suitable finance to implement their investment strategies.

Awareness and education of bridging loans will form an important part of this, enabling investors and homebuyers to understand the full range of finance options available to them. Moreover, the Government must remain committed to supporting the full scope of property buyers, not only through its flagship Help to Buy initiative and targets for new-build homes, but also in supporting those considering renovation and refurbishment projects or buy to let opportunities. These are vital investment projects that not only bring additional homes back onto the market in a desirable condition, but also ensure movement and fluidity in the industry as a whole.

At MFS, we remain committed to support a range of property investment projects across the UK by way of tailored bridging finance.

Contact an MFS adviser to find out how we can support your property investment strategy.

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