Property Week

FEEDBACK

Dynamic UK alternative debt market is growing

By Daniel Austin Fri 15 October 2021

Editor: In the article ‘Debt funding for property deals fell 15% year on year in 2020’, AEW appears to include alternative lenders in its data, given its conclusion: “We don’t expect the current cycle of cost-driven inflation to be long-lasting…allowing banks and other non-bank lenders to start lending less conservatively.”

Bank lending for UK development fell from £23.9bn in 2008 to £14bn in 2017 and AEW’s figures prove further decline. This has created the non-bank-lending market, as SME developers’ financing requirements have far exceeded available financing – and with 300,000 new UK homes per year required, the gap is getting bigger.

Meanwhile, disposals from closed open-ended property funds are bringing ample opportunities, alongside distressed retail assets as a result of the ecommerce boom and high street failures.

Also, liquidity in the private debt market has increased since Covid as it is not publicly traded so is less affected by pandemic volatility. While yields on cash remain at or near zero, opportunistic capital is seeking higher, risk-adjusted returns, and secured lending against fixed assets at circa 8% is very attractive.

Perhaps AEW's figures are distorted by European lending, but the more dynamic UK alternative lending market is experiencing significantly increased deal flow.

Long-term success, however, will depend on lenders' abilities to structure deals that can withstand market volatility. Underwriting sectors such as BTR and at different stages in the development lifecycle, for example pre-planning, requires agility, innovation and a bespoke approach alongside thorough market due diligence and commercial nous.

At ASK, our total lending has reached over £500m and we aim to close a further £250m of funding before the end of the year. We see this as a growth sector where the pandemic's effects have increased lending opportunities and property debt investment appetite.

Daniel Austin, chief executive and co-founder, ASK Partners