Could investing in bridging loans help tackle the UK housing crisis?

Blog

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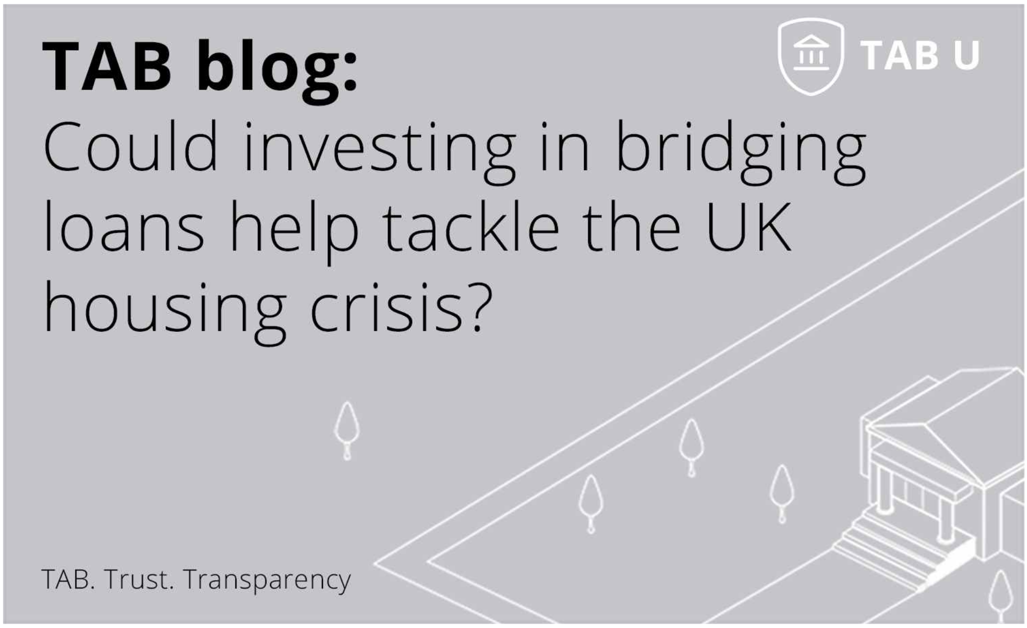

The housing crisis started in the early 1980s and has been exacerbated over the years as house prices, relative to income, have continued to climb. While it seems that there are new build developments popping up nationwide, the issue is that – for many – property prices are unfeasible.

In a 2017 whitepaper, the government revealed that the country needs 225,000 to 275,000 new properties built annually. However, this is falling flat at around 160,000. While this is considerably better than none, with the average house price eight times that of the average UK salary, many feel there is no hope.

The question is, could you invest in loans that could potentially positively impact the housing shortage and lack of affordable homes?

Empty properties in the UK

It is estimated that there are 210,000 empty homes in the UK. They do not have occupants, and many are in a derelict state. That's 210,000 homes that could be renovated and sold to create affordable housing.

City planning rules

Back in 2020, rules changed regarding building in cities. Housing Secretary at the time, Robert Jenrick, revealed that homeowners in cities and town centres would be able to add an additional two storeys to their properties. This could be to facilitate their own growing households or to create new homes. It was stated that there would be a fast-track approval process for applications of this nature but that the impact on neighbours and the appearance of any upward extension would be taken into consideration. It is believed that this will help ease the pressure to build on green belt land and deliver more homes in populated areas, without the red tape.

Funding access for SME developers

The UK is fortunate to have a talented and experienced pool of small and medium-sized housebuilders and developers. In the years leading up to the 2008 financial crisis, their contribution to UK housing was integral. However, after the recession, the number of registered developers in operation has declined. This was a result of mainstream lenders gatekeeping capital and introducing stringent lending measures. Both homebuyers and developers seeking a traditional loan were not deemed eligible or the process was extremely lengthy.

Are bridging loans the answer?

As you have read, there are opportunities to increase the number of homes in the UK. However, a lack of direction and difficulty accessing capital from mainstream lenders has set developers back. At this point in time, it is critical for the UK to utilise available resources to tackle the shortage of homes. SME developers (of which there are approximately 2,000 in the UK), could be part of the solution. It has been proposed that if the number of developers was to reach 2007 levels, that 25,000 extra homes could be built per year.

The government has promised to allocate around £1 billion to Housing England to fund the projects of small developers. However, it is important that finance can be accessed outside of the traditional routes.

Bridging loans and development finance has been a popular source of capital for developers and construction companies. The flexibility of bridging lenders and bespoke finance they can arrange allows developers of all sorts to have the potential to secure finance.

By investing in bridging loans, you can offer SME developers quick access to credit with the potential to increase the building of new homes across the UK. Investors can choose the loans that suit their investment profile and receive monthly interest payments and your capital is returned when the loan term ends.

Recent projects where investments into bridging loans have allowed the development of new property are projects like 1714 - Braunton, Devon. The client needed a land with planning bridging loan. They needed additional time to secure development finance and finalise their contract with the local housing association. The land has planning for houses and apartments and is on a site in Devon.

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