PROPERTY INVESTOR NEWS™
www.property-investor-news.com

This article has been reproduced from the July 2022 issue of Property Investor News™.
To Subscribe go to: www.property-investor-news.com or contact us on 020 4537 4111

Financing Developments - The Inside View

Editor **Richard Bowser** talks to Mike Bristow of Crowd Property

Not that many years ago, obtaining finance to initiate a property development project could be a bit of a lottery with some traditional lenders asking potential borrowers to undergo an exhausting, lengthy and quite rigorous application process. Thankfully times have changed as a number of more innovative lenders have emerged and property developers now have more choice and the process often takes less time to achieve a response from many lenders.

I recently met with Mike Bristow, the CEO at Crowd Property, to talk about the development lending market in 2022 and to congratulate him and his team on their recently achieved milestone of having now lent over £500m to fund property development projects, nearly all of which have been in the UK.

"Yes it's an achievement we are understandably proud of," said Mike, "although I was hilariously reminded last week of the phrase 'the first half a billion is the hardest'. Yes these are big numbers which reflect well on our customer-centric approach and which shows that our original aim of building a better lender has been proven to be the right approach. Prior to launching the company back in 2013, my colleagues Andrew Hall and Simon Zutshi felt there was a real opportunity to create a development finance lender that could do better than the service being offered by more traditional providers at that time. In our opinion the financial services sector was not, and generally is still not, the most customer friendly or focused, and that is what led us to launch the business.

I asked Mike to clarify how Crowd Property (CP) sees itself nowadays and how it differs from other lenders in the marketplace. "To be clear we are a specialist property finance provider for property developers and that is the market that we compete in. These days the majority of the funds on our lending platform for property developers come from major global institutions not just from individual lenders through a crowd funded raise. We have a diverse source of capital, which we lend out via a range of products for our developer-borrowers to choose from. Of course we have refined and defined our service throughout the last nine years and we will continue to listen to our customers, and their needs evolve just as they themselves adapt to the ever-changing market conditions."

My next question to Mike was to outline in detail a few examples of how this approach has led them to achieving the levels of success evidenced by the £500m of lending data mentioned earlier. "Our strapline for many years has been 'property finance provided by property people', and not from bankers or former bankers which makes us quite unique. Our success has been achieved through SME property developers using us because we really do get what they are about and understand their 'issues' and inevitable challenges. As the principle directors, we ourselves have done many property deals over the years and are still 'doing deals' as well as assessing and lending on many hundreds of deals through our platform.

"When a developer contacts us, we don't just assess and say yes or no. We look to work with our potential customers so that they can achieve their goals by making suggestions about a deal and how it can be adapted to achieve a successful funding decision from us. This might be about the deal structure or about how it can be adapted better to achieve a positive outcome. Unfortunately, in the property lending sector, repeat business between lenders and developers is quite poor and this is because borrowers have not that often found a lender that they were that satisfied with.

"In an ideal world, a lender would be seen as a respected member of a 'power team' just as the quantity surveyor, architect and project manager are seen as by the developer. In order to achieve that status it has to be a relationship of equals and that is where many old-school lenders fall down with their customer approach. If a developer has a problem, which inevitably occurs with almost any project, they should feel comfortable in discussing the matter with their lender and not being worried at the potential reaction. From our perspective we look upon these situations as a two-way relationship in adding value."

Mike mentioned the use of technology in their business and how it has been used to produce faster and better outcomes for their customers, and he explained more about this. "Yes there is a load of technology in our business but the use of it is key as you can't rely on an algorithm with property development lending. Stuff always goes wrong on every single property project and successful schemes come about by resolving problems along the way and we aim to work as a partner with our developer customers. Effectively being a property developer is about ongoing problem solving with each scheme and the bigger the project the more it becomes a detailed programme management and trouble-shooting exercise."

So how do you as the lender facilitate that with your service offering to customers to help ensure the process is easier? – "Let me give an answer which maybe shows our deep understanding of property development from start to finish. Earlier this year we launched a niche-lending product for those needing finance before planning permission had been achieved.

"Internally, when an application is submitted for that product, we will obviously look closely at the likelihood of success or not with each project in respect of achieving planning permission. Clearly there is more risk attached regarding achieving a positive outcome, with the lottery aspect of gaining success with planning decisions, so we spend most of our time trying to convince developers - who approach us to take that product – that it is not a product that they should be taking. We will say there is clearly risk involved for you as the borrower, and as such, for us as the lender."

That response resulted in my next question to Mike as to whether a better alternative could be suggested to enable developers seeking funding for pre-planning finance to move forward. "Yes, we will look at the deal and offer to help them re-structure the deal - by way of an example – by using an option or a subject to planning (STPP) approach to the vendor."

To be clear to readers, this was not the first dialogue I have had with Mike Bristow in recent years and although he is certainly not shy at plugging his company's positive track record, what he said reinforced the partnership approach that CP aim for with their customers. Of course, the same can be said for many of the property developers that I have met with over the years who are equally not averse to being very positive about their schemes and the 'certainty' of them being a success. Given this I asked how they deal with over-optimism and bullishness, which is often inherent with many entrepreneurial risk-taking developers, and probably with many people who are 'doing' property.

> **"Stuff always goes wrong on every single property project and successful schemes come about by resolving problems along the way"**

"We refer to this internally as 'property entrepreneurs optimism bias' – and looking back at myself doing property projects over some 20 years I can look back and smile at my own somewhat excessive optimism about a particular project. One phrase we hear quite regularly is from developers who say that when they first approach us, they "will be in and out in 12 months or less". Of course, we know that is very unlikely and so we will suggest that is a tad optimistic, even if it is a good project, but that it might be better to take – as an example – a loan for a 16-month period and if you do pay it back earlier after just 12 months then it will not cost you any extra in interest payments.

"We are well aware that is not the approach taken by some other non-bank lenders in the sector who will lend to an overly optimistic borrower on an agreed 12 month timeframe knowing that the likelihood of a default is there from day one. In fact some build their profitability and business planning on the basis that they will get late fees and interest due to the overrun in developers paying back the loans. That is not our approach, to set up a developer for failure. We want a customer experience where a developer says afterwards that we were great, that we checked them at the start, and allowed them to pay back early without penalty etc., and that they want to work with us again."

As we all know, the pandemic has had consequences, which have resulted in rising global inflation, supply chain issues and of late, soaring energy prices due to the war in Ukraine, so I asked Mike how are developers responding.

"What we see right now is broadly speaking nothing new, there is a lot of 'chat' out there about the cost of living crisis, and material cost inflation. The former has been caused by a variety of factors including energy costs as a result of the Ukraine situation, whereas the rise in materials goes back some two years to the early days of Covid. Part of my daily routine now as I fire up my computer first thing is to check where US future timber price movements are at and I never thought I would be saying that a few years ago, but it is a lead indicator of construction activity ahead globally and of scarcity of supply. Currently, timber futures are some 30-40% above where they were pre-pandemic but they have been far higher in the last few years.

"What this means for us in respect of property lending is that we scrutinise applications from potential borrowers, to make sure that their intended pricing to their buyers for completed developments reflects what they will be paying for materials during the construction period, and that their contingency budget is appropriate. We always look at ongoing supply chain issues with all the component parts at a construction site, such as delivery times for bricks, and we discuss these with our developers as they build out their schemes and provide funding. This is an example that we are partners with our developers and we want them to succeed and not fail." PIN