Q. Magazine

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The inaugural issue

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THE NEW ERA OF *Property*

CEO & co-founder of CrowdProperty, **Mike Bristow** shares some insight into an industry set to be worth $900 billion in five years

Our last thought piece for Qandor, *The Edge of The Crowd* explained why peer-to-peer lending exists and is growing so rapidly (spoiler alert: because everyone wins. In this article we apply the principle to property, to make it real for us all.

There's a shaving razor company, Harry's, which claims it started because the founders couldn't find a good quality razor for a decent price. The existing ones were expensive and really not that good for the price paid, they say.

We at **CrowdProperty** know how the razor guys feel, as our founders had the same experience within small and medium sized (SME) housing development – our background. Six years ago, CrowdProperty's founders, with 75 years of investing and developing experience between them, came together because they personally felt that the funding market for SME developers was broken; capital was not getting to those developers who need it most and could use it best – small and mid-sized developers building out smaller parcels of land. Remarkably, that hasn't changed and traditional sources of lending have only retracted further from the SME developer market, resulting in even poorer service, if any at all. Alternative finance platforms have stepped in, the best of whom are relentlessly focusing on building the best lenders in the market to serve borrowers better than ever with efficient, purpose-built, customer- ▶

Finance

focused propositions (irrespective of the source of their capital).

Anyone working in property development hears the same complaints from their peers: not onaly about the difficulty in getting the capital, but the impossibility of speaking to anyone who makes the decision; slow, bureaucratic processes; far too much paperwork, most of it apparently pointless... the list goes on, unfortunately.

This, in a situation where the UK suffers from a chronic shortage of housing supply. According to Parliament, the number of new homes needed in this country is as much as 340,000 each year, with the total housing stock in 2017/18 increasing by around 222,000 homes. The share of large builders went up, which by definition means larger sites are getting built out, so smaller developers unlocking smaller parcels of land are not only key to maintaining current underwhelming levels, but crucial if we're to get anywhere near 340,000. This potential cannot be unlocked without appropriate funding and we had seen and still see too little of that provision, however, from the banks. What's more, this is not only restricting the number of homes that are built, but also spend in the economy on materials, labour and services, which the UK could do with a bit more of at the moment.

You can see banks' point: they do pretty much the same amount of due-diligence work for a £1m loan as for a £50m one. When you have a back office as costly to maintain, dated systems/processes, and are as nimble as a brontosaurus, smaller loans become an unattractive proposition. Add to that the fact that banks are constrained by regulators as to the degree of risk they can carry on their loan books, with SME property development bearing down on balance sheet Risk Weighted Assets calculations and Capital Adequacy Ratios, and their reluctance is somewhat easier to understand – and harder to overcome.

Individuals looking to make productive use of their capital are little better served. Cash is at negative real rates, as are government bonds. UK corporate bonds are just about keeping up. The attractions of alternative yield-generating asset classes, such as property, are therefore obvious.

But here, returns can be thinly spread. When investing through conventional channels, though yields may be greater, there are many interested parties wanting to take their share of the pie: financial advisers, general funds, ▶

specialist funds, banks, property lenders and brokers, may all stand between those lending the capital and the developer. They each need to cover (mostly inefficient) fixed cost bases and, quite reasonably, make a profit in our market economy. A broker alone can take 1% in fees from the developer and between 1 and 3% from the lender.

There was clearly a need for something like CrowdProperty: a marketplace offering a better deal to both borrowers and lenders. That is what we have been doing for the past six years – fulfilling that need by building a platform that connects developers with lenders directly, efficiently (through tech) and effectively (through expertise), without all the costly middlemen in between.

However, it's important to emphasise that this is not just a well-designed piece of technology. CrowdProperty is run for property developers and investors, by experts in property development and investment. We built it because we saw the need for it, and we continually research the marketplace, making sure we address the evolving market needs and – importantly – evolving risks. We've been there and done that many times through many cycles – we know the risks involved and how to mitigate them.

Because we live this market, we have built what is now the largest specialist property project peer-to-peer lending platform in the UK, with institutional backing proving the efficacy of the model. That doesn't happen solely because of the concept, the business model nor the plentiful capital (all of which help) but because it's solving the fundamental pains associated with funding that have constrained SME developers for decades, by those who have been developing property for decades. It's not about 'going to a peer-to-peer lender or a crowdfunder' – it's about going to a fundamentally better lender for your development project.

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