PROPERTY INVESTOR NEWS
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Tech Vision and Property Funding

Editor **Richard Bowser** talks with Mike Bristow

With large-scale vaccinations to prevent Covid-19 now underway at last in the UK, the news that tech visionary Elon Musk, CEO at Tesla, is now the world's richest man may surprise some people as we look to emerge towards a post-pandemic world later this year.

Those who can recall the boom era of information technology in the late nineties, when dot com companies sold for absurdly high valuations, may not be so surprised, but Mr Musk's automotive company has only just made its first annual trading profit. And yet, the company's share price is now seven times greater than it was a year ago, clear testament to investors' faith that Musk's vision will result in a profit bonanza and big dividends for shareholders in the upcoming years.

My investor interview this month is with Micheal (Mike) Bristow who can also be described as a tech visionary as he was instrumental in founding the alternative finance lender Crowd Property. The company was acknowledged by Deloitte as being one of the 50 fastest growing technology companies across all UK business sectors.

Those who have met Mike will readily acknowledge his dynamism and enthusiastic approach and he is never slow to highlight Crowd Property's rapid growth pathway but my first question to him was: tell me a little about the man behind the brand and your background?

"I started my first business when I was at University of Birmingham," said Mike. "It was a student-facing entertainment company which grew to a £500k turnover, trading throughout the UK, before being sold shortly after finishing university. I did a quant-heavy degree (first class Masters in Mechanical Engineering) and have always had a passion for analytical rigour.

I then spent 18 years as a strategy consultant, advising leading international companies and private equity funds on M&A and corporate strategy across many sectors. I've invested in property since 2002 and in property technology businesses pretty much from when the term 'proptech' was coined, as I saw the potential that technology had in the world's largest asset class from personal experience.

"Alongside direct investment in early stage Proptech businesses, I also invested in Pi Labs (Europe's first and most prolific venture capital fund investing exclusively in early-stage ventures in proptech) Funds I & II and I now sit on the Investment Committee for Fund III. I'm also a member of the 'E100 Club', London Business School's captive angel network (where I did my MBA).

"These roles keep me right at the forefront of tech development in the real estate sector and wider. From large-cap private equity right through to seed-stage venture capital and advising many businesses for years, I have a huge amount of diverse experience on identifying, delivering and realising strategic growth from deep analytics, which I'm leveraging in spades building the company.

"Crowd Property was set up in 2013 because we personally felt the pain of raising finance for our property projects through decades of investing in, and developing, property ourselves. The three founders of the company have many years of experience of property investing and developing between us, meaning exceptional expertise in exactly the asset class we're lending against.

"As such we set ourselves the challenge of building the best SME property development lender in the market, better serving the customer needs that we intimately knew of."

As those who were active in property development during 2008-9 will quickly testify, many lenders in the property sector did not react well towards their customers during the Great Financial Crisis and many development projects failed as a result with a subsequent loss of skilled labour. I asked Mike about this and what SME developers are facing these days.

"Traditional sources of finance have failed many quality property professionals looking to undertake quality property projects for years," he replied. "Large housebuilders feel this pain less but there are a finite number of large sites in this country to develop. Therefore, SME housebuilders are critically important but housing output from this segment fell from one third of UK (construction) output in 2008 to just 10% by 2017.

"As a country, we need to unlock the power of entrepreneurial SME developers. Whilst Government initiatives around planning and taxation help, by far the biggest barrier is funding, according to 42% of respondents from our own SME developer survey last year (which was the largest ever undertaken amongst this community). This is exactly where our deep expertise lies, where our focus has always been, and where there's greatest pain in the market. Our core approach is to work in partnership with borrowers by adding value throughout their projects, and therefore deliver a better deal for all – our borrowers, our lenders, the undersupplied housing market and the total spend in the UK economy.

"Having now lent £107m and paid back over £56m, with a 100% capital and interest payback track record, CrowdProperty is now the UK's leading specialist property project online lending platform - a fintech / proptech online-lending innovator."

What do you look for when assessing investment opportunities? - "Our focus is on funding quality property projects being undertaken by quality property professionals serving domestic undersupplied demand in liquid markets throughout the UK (including Scotland and Northern Ireland) at mainstream, affordable price points, where there is enduring demand.

"Our relentless focus on this long-term virtuous circle means that being funded by us is a badge of honour – validation that the project has passed the scrutiny of our deep property expertise, which validates that it's a great project, relative to the billions of pounds worth of projects that we have assessed.

"We always wanted an expert sounding board for our projects when we were developing. That's exactly what we offer – we'll give developers a view on their prospective projects, because we've built the technology, expertise and reference data to do that efficiently. We'll give a view on every application and help property professionals pick the most fruitful projects they find. This is critically important with projects – they take significant time to deliver and our commitment is to help ensure that projects that will return on that time and effort are undertaken. Quite simply, it's what we would have found so helpful ourselves.

"We work directly with developers (who can apply for finance in just 5 minutes at www.crowdproperty.com / apply) and look at each and every project in great detail with expert eyes and mountains of data / analytics. If it's a 'no', we'll provide a helpful 'no' with feedback – if you've found one project, you'll find another, and let us help you find a project that will get you the returns you deserve. We've often advised on restructuring a deal, or where it might be in your best interests to delay a transaction / project commencement – this is the power of property finance delivered by property people."

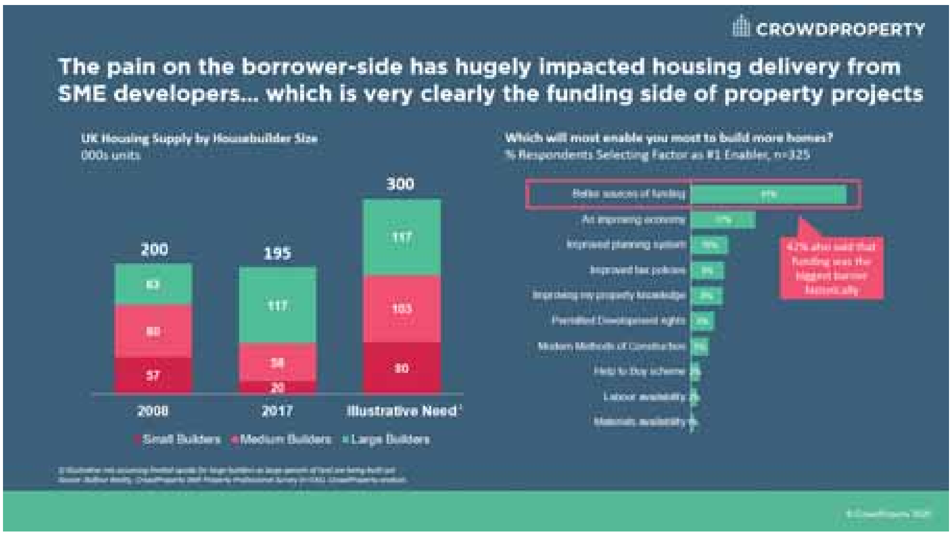
How has Covid impacted lending to developers of late and why has CP continued to grow? - "We've set most of our funding records since the first lockdown – funding over 80 projects since then, each in an average of less than one minute on the platform, with three in as little as 12 seconds. All this is also attracting more institutional sources of capital, which will be one driver of further growth (and providing the comfort for many investors that we've gone through months of institutional-grade due diligence many times), with those institutions only looking to work with the proven, highest quality players.

"Most development lenders in the market are exposed with single sources of capital and they were the first to shut up shop as Covid-19 set in. Even those with multiple sources were exposed as those sources had exactly the same underpinning exposures to equity market volatility and lending attitudes.

"We've been open for business throughout these tougher times, supporting existing and new borrowers, and picking up the pieces for many who have had agreed funding lines cut, even part way through projects. We scrutinise projects carefully and advise where we believe that it's in the developer's best interests to delay a transaction / project commencement, but we will progress all good applications, fund as necessary and work closely together with borrowers through these times.

"Throughout the pandemic, we have been working closely on a one-to-one basis with developers – whether advising on practical ways to mitigate risks to progression or striking new terms for existing loans that have either ended or are about to end, giving property professionals the comfort that they have new / extended loans, getting them off penalty positions, giving them plenty of exit runway, which they can repay early at no cost, and protecting their legal position. We have seen many applications from property professionals who have been faced with penalty fees and rates where lockdown has caused delays on site or in exiting through sale or refinance.

"Proactive developers have approached CrowdProperty for our 'Development Exit Finance' and 'Development Finish & Exit Finance' products to give themselves time to exit without the excessive penalty fees and rates that plague the development finance and bridging sectors. These ▶



products are designed to help bridge the period between finishing (or almost finishing) a development project, releasing the commitments of an expiring development finance loan and providing breathing space to achieve the most successful exit for the project.

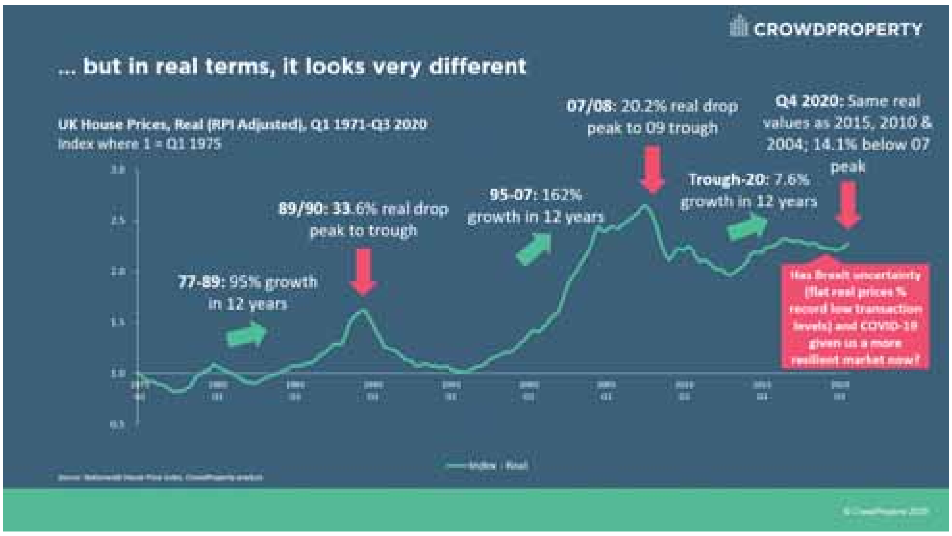
"We pride ourselves on building long-term relationships with our borrowers, changing the transactional, hidden-fees, the 'milk this loan' game that plagues the property project lending market. That's fundamentally why our borrowers keep returning to fund their next project with us – we're a true, long-term funding partner and become a valued part of their team, adding value throughout their projects.

"Never has it been more important (and advantageous) to work with a lender who understands your property vision and needs – delivering speed, ease, certainty and transparency of funding for property projects. We believe that CrowdProperty is a true partner throughout a project and through a developer's property journey – never before has a lender made it into developers' power teams as a partner for life."

How do you see this year unfolding with SME development and where are the opportunities/risks? - "In terms of the housing market, we look at the market in a deconstructed way given what we have seen in the past. Firstly, we think about whether there is a correction waiting to happen given the recent market growth. Next, we think about the outlook for supply and demand. Thirdly, we carefully watch all activity indicators and finally we ensure that our focus, lending criteria and security are appropriate to uphold the high-quality lending we offer.

"We believe that any shock via Covid will not lead to a correction of excessive growth that has been long-awaited. In the above chart, showing the Nationwide House Price Index since 1975, you can see that both 89/90 and 07/08 experienced long periods of housing market growth before economic shocks drove double-digit percentage declines, taking years to recover. At first glance, one might think the signs are here again.

"But this is where it is critical to separate real from nominal growth. In other words, let's take the effects of inflation out of the nominal (unadjusted for inflation) data. In the chart, the green line shows the Nationwide House Price Index in nominal terms, whereas the pink line shows it in real terms, adjusted for inflation (RPI-adjusted). This reflects the real value growth in UK housing. Clearly on the above chart, it's difficult to see the movements (although interesting to note the extent of the difference), so below shows just the Nationwide House Price Index in real terms.



"This shows a very different story to the nominal picture – average values today are 14% below the 2007 peak, have been pretty much flat since early 2015 and are currently at the same real value as in 2015, 2010 and 2004. This is a very different context to the extended periods of high growth in values that led into the 89/90 and 08/09 market falls.

"The balance of supply and demand for housing is again very different to 08/09. Back then, many needed to sell (including banks who adopted wholesale repossess and sell policies) and very few could buy given the protracted state of the debt markets (which was the underlying shock) or were prepared to buy (due to long-term prospects of the debt markets holding back recovery).

"There's a great deal of discussion in the media about the outlook for the property market. 2020 saw an unexpected mini-boom - dramatic rises in house prices due to high levels of buyer demand and a shortage of homes, changing consumer preferences with buyers leaving cities for the countryside, and an increased number of completions which is expected to continue until the stamp duty holiday ends on 1 April. However, with a third lockdown underway and the economic impact of Brexit to play out, there is some uncertainty as to how long this market confidence will last.

"Building and construction has always been sanctioned to continue in the UK throughout Covid-19 if it could be done safely (in every way - on-site, supplies delivery, transport to site etc). The Government has supported this with a number of planning and taxation reforms, including the current consultation, which proposes new permitted development rights for the change of use from Commercial, Business and Service use to residential to create new homes. This has led the construction sector to be one of the few bright spots in the UK economy as housebuilders push ahead with new projects and the outlook for residential housebuilders remains positive, with house building the strongest performing area according to the latest IHS Markit/CIPS UK Construction PMI report."

Should people be focussing less on BTS development with crash/risk potential after April due to the SDLT holiday ending? - "A big change since I started investing in property in 2002 is that the not-so-sophisticated (albeit successful) strategy of 'buy property, let it out, refinance, repeat' that I employed back then doesn't stack up in the same way anymore. Extraordinary profit attracts greater competition (and often taxation) and that requires participants to compete harder, to shift business models and generally to work harder for profit.

"The strategy most preferred by respondents to our survey, with 62% stating they will be doing it 'more' (35%) or 'much more' (27%), is to build/refurb and to keep for long-term rental. We see this as a structural change amongst property investors in the absence of strong capital growth projections – 'buy, add value, refinance, repeat' – the value-add piece enabling the recycling of capital being the change, the consistent piece being the desire to build a long-term portfolio, despite transaction SDLT taxation changes, which when well-structured and cashflowing will also mitigate the impact of Section 24 changes for landlords.

"It all takes better strategic planning now, but the fundamentals of asset ownership for the long-run, taking advantage of asset values being exposed to inflation (especially as post-Covid Governments will be more forgiving on rising inflation to ease debt levels) and with debt values staying nominal, cannot be ignored for wealth creation."

What are your thoughts on Co-Living for SME developers and investors? - "We predict that in 2021, one of the hottest growth products will continue to be for HMOs and Co-Living lending and we do excel at funding this type of project, as many of our founders' projects were HMO builds/conversions. We work in partnership with developers to put together the perfect package, working alongside the team

throughout to help see the project through to completion.

"A great example of a successful co-living scheme funding by CrowdProperty is KHP Group's 30-bed conversion of a dilapidated former chapel in Plymouth, a video case study of which can be seen at www.crowdproperty.com/case-studies.

"The team converted a shell of a building, which wasn't without its challenges into a stunning co-living scheme that set record room rates for the area, which the team are keeping as a great example of the 'buy, add value, refinance, repeat' long-term portfolio growth strategy.

"In fact, as property finance by property people, we have solutions for all property project funding needs, including a 'Special Situations Finance' product where our experts will structure a bespoke lending product for you, no matter how complex the project – we've applied this for example in purchasing a portfolio of single-let houses from a tired landlord, funding rolling HMO refurbs through the portfolio and exiting some to enable the developer to extract all the initial capital injection. HMO/Co-Living can generate cashflow to enable such deals to take place, again raising the importance of a property investor mindset in your lender."

My final question to Mike was about a topic which has been much debated during 2020 and I asked about his views on urbanisation trends and the practicalities for the development of commercial space v cost? - "Urbanisation is a global megatrend, he replied. "Urban dwelling surpassed 50% of the world's population in 2007, a dramatic growth in the last 50 years, and is now at c.55%. This is driven by many factors, not least the gathering for commercial and knowledge sharing reasons. There is no doubt that many have reconsidered priorities since the pandemic began, but this should also be set in the context of historically low transaction volumes since the Brexit referendum and many owner occupiers who might have previously moved are now looking to move to take advantage of SDLT reliefs.

"However, humans are social creatures and also creatures of habit – this is a fundamental need of our species and the increasing desire to reside in urban areas that feature both commercial and social draws will not go away.

"The repurposing of out-dated and unwanted commercial real estate, much of it in town and city centres, presents the opportunity to arbitrage commercial property valuations with residential property valuations. Supported by the relaxation of planning policy, this will enable a new lease of life in the heart of conurbations, supporting remaining commercial assets – be they more office/entertainment offerings rather than necessarily traditional retail. The appearance and character of town/city centres will shift, but the draw to occupy within them will not, validating the planning rationale for managed transition towards centrally located residential property. PIN