Opportunities in challenging times.

Together Property Market Report.

Insights into the property market 2023 and beyond.

Executive Summary.

There's no denying that the last few years have been challenging. The pandemic, the war in Ukraine, a cost of living crisis and a controversial budget all created the perfect economic storm; one that UK businesses and consumers have found themselves caught in the middle of.

There are currently around 5.6 million SMEs in the UK, making up around 99.9% of the UK's business population and 52% of the UK's annual economic turnover (£2.3 trillion[i]). They're of significant importance and their challenges need to be understood if commercial property investors are to respond in a meaningful way.

The increased cost of living, coupled with the rising interest rates has plunged consumers into a period of uncertainty and disruption as they navigate through 2023.

With this in mind, Together conducted a series of research studies of both SMEs and consumers to gain a better understanding of their ambitions both now and in the future and to create an insightful look into the property market; helping our customers understand the potential impacts on commercial and residential property markets in the coming year, and beyond.

Together's experts paired the results of the research with in-depth analysis and market knowledge to give an insight into both the macro-economic environment and the resulting property trends, to help inform SMEs and consumers to weather whatever challenges the 2023 property market may face, and to help spot the opportunities these turbulent times could present.

Contents.

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- **Ryan Etchells**
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Who is Together?

We're Together - the market leading property finance experts with a common sense approach to lending.

We support individuals, businesses and property professionals to realise their ambitions by making finance work for them. Over the last 50 years, we've offered a range of mortgage and secured loan products to individuals and businesses who are typically underserved by mainstream lenders.

Our customers are central to everything we do and we work hard to support them to turn challenges into opportunities which make their property ambitions a reality. We're proud of our sustainability strategy which has very clear targets for how we support our planet, our communities, our customers and our colleagues. And we're determined that together, our impact is greater.

How our research was conducted.

This report is compiled using independent research, research from our industry partners, and other available open sources.

SME research was commissioned by Together and conducted independently by Opinium Research in October 2022. The research was conducted with business leaders from 300 UK SMEs (6-250 employees) to understand the sentiment, confidence and outlook of SMEs in the UK when considering business investment (including green investment) at that point in time, and in the future.

Personal Finance market sizing research was commissioned by Together and conducted independently by Opinium Research in June 2022, to look at the changing nature of mortgage requirements. The research questioned 7,000 UK adults.

Social Housing research was conducted by Inside Housing in association with Together between November and December 2022, to understand how social landlords are accessing finance to build new, affordable homes in the community. 80 respondents were surveyed, with 1,195 votes collected via LinkedIn polls.

Green Mortgage research was commissioned by Together and conducted by Mustard Research in November 2022 to understand how to support homeowners and landlords through EPC changes. 60 participants were surveyed.

Intermediary research was conducted by Together in January 2023 to 40 existing broker partners, to understand their expectations of the specialist lending market for 2023.

Second charge mortgage research commissioned by Together and conducted by Opinium Research in January 2023 among 2,000 UK adults.

With special thanks to our valued partners and customers:

Will Lewis MRICS, Co-Founder, OBI

Will Lewis is founder of OBI, a real estate firm that advises on investment and leasing transactions. OBI were responsible for 48% of the total space leased in Manchester city centre during 2022.

Stephen Todd MRICS, Chief Commercial Officer & Co-Founder of VAS Group

Stephen has held senior positions in large international property advisory companies carrying out UK and pan European loan security and portfolio valuations for clients including two of the largest European Industrial portfolios. Having also worked for one of the UK's largest specialist lenders, Stephen has unique experience in carrying out valuation reviews and providing lending advice in all property types and sectors, helping identify property specific valuation and lending risks.

Dan Crossley MRICS, Principal, Capital Markets Group Asset Management Funding & Joint Venture, Avison Young

Prior to WHR becoming part of Avison Young, Dan was one of its original founding partners back in 2004. With nearly 20 years of capital markets experience and over 23 years in the commercial real estate industry he has been involved in some of the regions high profile investment transactions working with an eclectic mix of investment clients. Dan's clients range from indigenous high net worth investors and property developers through to international funds and overseas investors, who have benefitted from his expert local knowledge of the region.

Nathan Priestley, Founder and CEO of Priestley Homes

Nathan is the Founder and CEO of Priestley Homes, as well as the other companies within the wider Priestley Group. Starting his property and consultancy career at just 19 years old, firstly in agency and then as a consultant and project manager, Nathan soon found success and a thirst for progression and excellence. Following four successful years in the industry, Nathan then decided to start the first company within Priestley Group in 2010. He continued to strive for betterment, which resulted in exponential growth and the 40+ companies contained within the group today, including Priestley Homes which is the 'crown jewel' of the group. Acquiring and developing sites across the UK including residential, offices, industrial, student and more.

Together have been a key partner for Priestley Homes, providing funding for nearly £100m of development GDV to date, as well as term loans within our investments division.

Bryan Baxter, Director of Auction House East Anglia/UK

Bryan has been in the property industry for over 40 years, establishing himself as a leading property auctioneer and was a founding director of the national property auction franchise operation 'Auction House' which now has over 20 branches throughout the UK and is responsible for selling nearly a fifth of all unconditional lots sold by live, live stream and digital portal auctions.

Bryan has a wealth of knowledge in all aspects of land and property sales and has advised many business on establishing or growing their property auction businesses.

Chris Thompson, Founder/Director, Citu

Chris is the Founder of the property developer Citu and is one of the driving forces in creating sustainable design and placemaking. Through progressive, sustainable and inspiring places and communities, and the delivery of exemplar and exciting developments, his expertise lies in combining great design, innovation and cutting-edge technology to create modern, aesthetically beautiful homes that make it easy for you to reduce your carbon footprint and help accelerate the transition to zero-carbon cities.

William Davies MRICS, Partner, Student & Residential Valuation, Allsop

Will is a Partner in the Residential Valuation team where he is responsible for undertaking valuations, winning new business and growing the valuation client base.

Allsop is a solely UK focused real estate investment, auction and professional service business and their core business is based on a close working relationship between its commercial and residential teams. They are well recognised advisers and valuers to lenders, financial institutions, property companies, private individuals, funds, and the public sector.

Jo Breeden, Crystal

Crystal Specialist Finance are one of the UK's leading Specialist Finance Distributors, providing Commercial Finance, Bridging Loans, Second Charge Loans, Development Finance and Specialist Residential & Buy to Let Mortgages.

Since he joined the business in 2010, Jo has overseen a huge restructuring of Crystal, and the business continues to grow following a recent rebranding and relocation. Crystal's goal is to provide simple solutions to even the most complex financial problems, working with brokers to find the very best product available for clients.

Dr. John Glen, Economist and Visiting Fellow, Cranfield School of Management

Dr. John Glen was a senior lecturer in Economics and latterly Director of the Centre for Customised Executive Education CCED at Cranfield School of Management in the UK. After 18 years at Cranfield John retired from the School at the end of September 2017 and is now a visiting fellow at Cranfield. John also holds visiting lecturer posts at the University of Tilburg (Netherlands) University of Antwerp, Stuttgart University and the University of Stellenbosch (South Africa). John published a number of academic papers on the UK residential property market and has written a number of commissioned reports for UK banks and credit card providers.

Rob Jupp, Group CEO, The Brightstar Group

Rob sits at the helm as CEO of the Brightstar Group – the UK's largest specialist distributor of UK-based, secured property debt. Rob has worked in the UK specialist lending market for over 30 years. He is a regular panellist and keynote speaker as well as being a much-respected media commentator. Brightstar are the leading provider of bespoke finance for Residential and BTL Mortgages, Second Charge Mortgages, Short-Term Lending/Bridging Finance, Commercial Finance, Development Finance, and unsecured loans; serving brokers, networks, clubs and clients alike.

Foreword.

Customer focus, flexibility and pragmatism are key in 2023

2022 and the beginning of 2023 has been challenging for our customers. This has been a time where we have seen people, businesses and our economy face significant challenges and as a lender, we're resolute in our commitment to engage and support our customers through the economic climate.

Over the past year, the SME and consumer markets faced a number of additional challenges and whilst the Covid-19 pandemic appears to have passed, the effects of this period are still evident. The post-Covid world created a rapid period of growth across the economy and the property market.

There continues to be challenges in global supply chains which resulted in higher than expected inflation, coupled with market uncertainty. The current trend towards a higher interest rate environment has led to a strain on existing levels of affordability coupled with the challenge of higher inflation.

While some inflationary pressures should ease as demand patterns normalise and new supply comes on line, the period of uncertainty is apparent across both the SME and consumer markets.

This report highlights the impact on all aspects of the property market, including our own business, our people, our customers and our operations – alongside the impact on society itself. The Covid and post-Covid impact has accelerated new ways of working and the need to focus on new ways to support customers in today's world.

There is a growing sense of the importance of social responsibility and the shift in consumer behaviour reflected through a sustainability lens.

There is an obvious pause in appetite from both consumers and businesses and the next financial quarter in 2023 will see the impact of government and Bank of England measures once again.

With the support of valued industry partners, Together's experienced colleagues and our research partners, this report provides valuable insights and opinion into the current and future state of the property market.

While the results highlight a challenging landscape, there are in fact significant opportunities across the property markets and specialist lending sector, for businesses that focus on customer outcomes, and a pragmatic and flexible approach to decision making.

Chris Baguley

Chris Baguley

MD Corporate, Together

SME Investment: Reflections and Outlook.

2022 in numbers:

A year of caution, cut backs and putting plans on ice.

Times are tough for SMEs, and in 2022, caution was key. Our research revealed that:

9/10

SMEs have been forced to take action to protect their business from the effects of the economic crisis

50%

of SMEs are pessimistic as a result of the uncertain UK economy

37%

of SMEs are concerned about rising fuel costs

34%

of SMEs are worried about the price of raw material, labour and transport

18%

of SMEs are worried they won't be able to access the finance they need to grow

While these figures paint a gloomy picture of 2022, businesses across the UK, although concerned, still have confidence that we will return to sunnier times. This mindset will play an essential part in improving the future economic landscape.

30%

of SMEs delayed expanding their workforce

14%

of SMEs delayed plans to expand their property portfolio

29%

of SMEs built up cash reserves as a contingency

£710,000

What the average SME had planned to invest in 2022 which was cut to £565,000 as businesses rushed to protect themselves.

1 in 5

of SMEs delayed moving to larger premises

The future in numbers:

Optimism is still high, despite challenging times ahead.

While the UK economic outlook is expected to remain uncertain until at least the end of 2024, our research revealed that:

While Covid and the current economic crisis have fundamentally changed how we live and work, these changes do provide opportunities for investors to make changes too.

Our research shows that while the next 12 to 24 months will still be challenging for SMEs, there is significant appetite for expansion and growth when the time is right. For the commercial property investor, forewarned really is forearmed.

9/10

SMEs are keen to increase investment once uncertainty eases

50%

of SMEs see business optimism increasing for 2024, with 7 per cent expecting it to increase substantially

37%

of SMEs want to expand their workforce

29%

of SMEs want to make general investments

20%

of SMEs want to expand their premises

73%

of SMEs plan to invest in making their business more energy efficient

26%

of SMEs want to work with angel investors

27%

of SMEs would look to development finance to fund their growth ambitions

24%

of SMEs will look to take out commercial mortgages

10%

of SMEs will consider short-term bridging loans

Future business investment: A bounce back is coming.

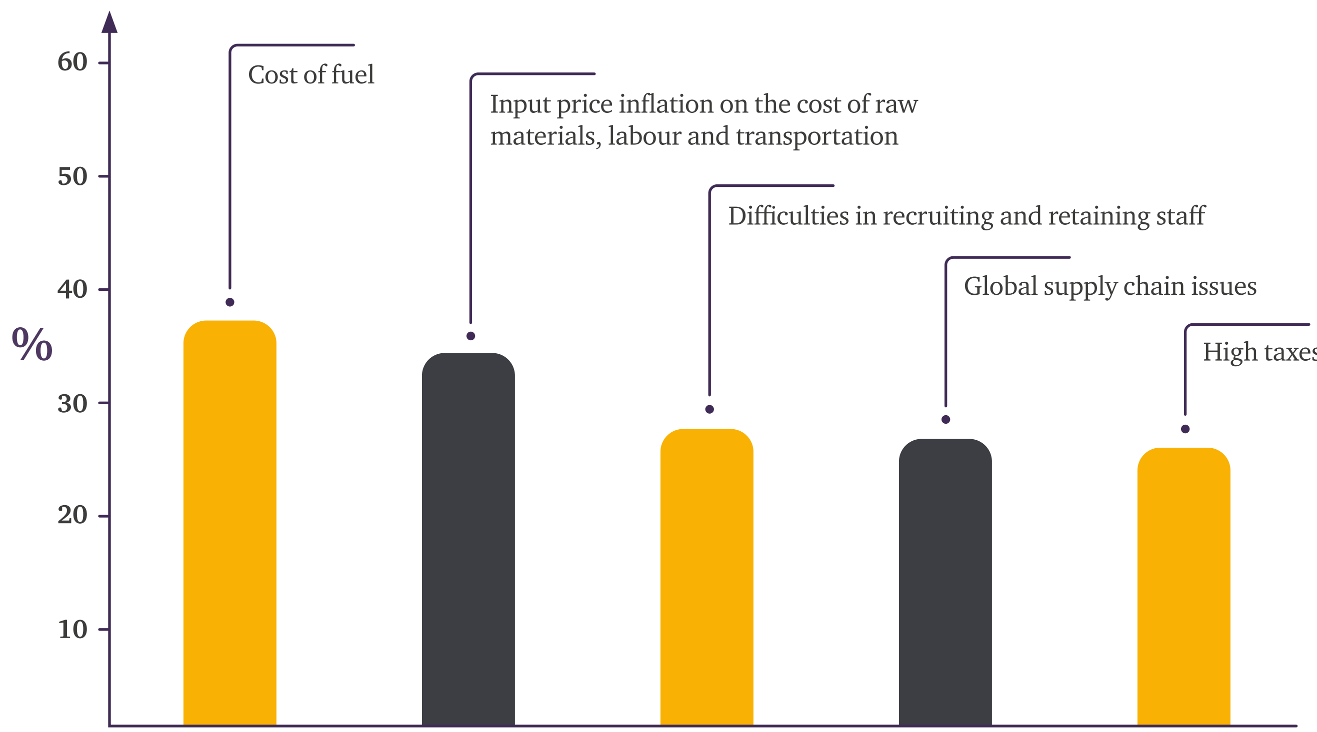
As the economic crisis deepens, SME leaders are taking an ever-tighter hold on the purse strings to keep their business on track. Our research revealed that while the average business had planned to invest £710,000 over the last year, the actual spend was more like £565,000, as businesses wait to see what the future holds for rising costs, and what impact short-term challenges might have on their long-term growth plans.

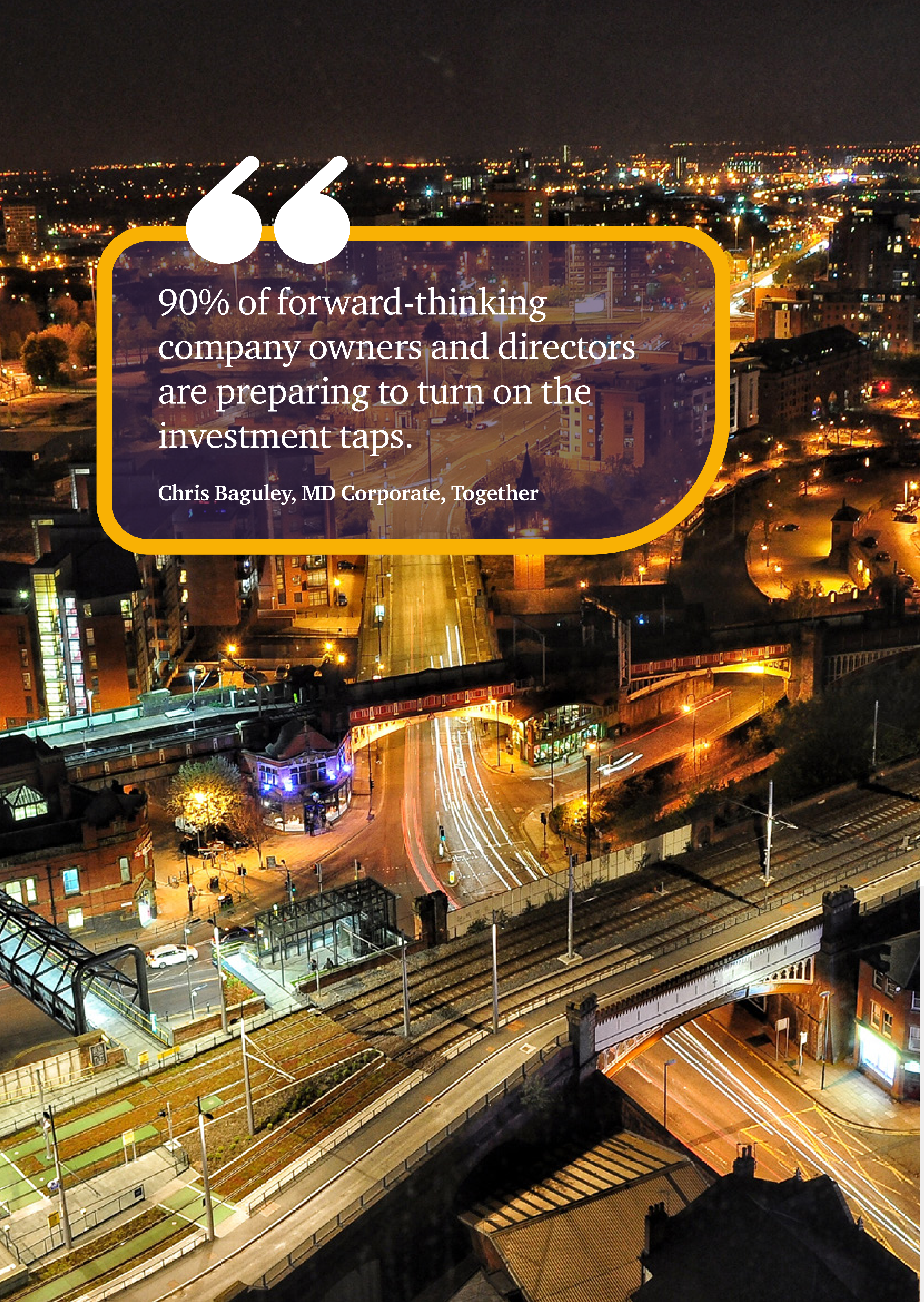
Nearly a third (30%) have delayed expanding their workforce, 29% have built up cash reserves as a contingency and 26% have reduced their staff headcount or are not replacing workers who've left.

However, research also shows that SMEs are increasingly optimistic and have a real appetite for investment projects in light of leading economists' predictions that the UK economy will grow, albeit slowly, from 2024 onwards[ii]. Bank of England interest rates are likely to top out at 4.5% this year, before stabilising from there; businesses are still awarding pay rises at an average of 6.5%, and while a recession is still possible, it looks like unemployment rates will remain at a low on a par with all-time lows in the 1970s.[iii]

So while in the short-term, SMEs are being cautious, the ambition that makes them such a vital part of the UK economy is still there, ready to be harnessed when the time is right.

Rising costs concerning businesses most



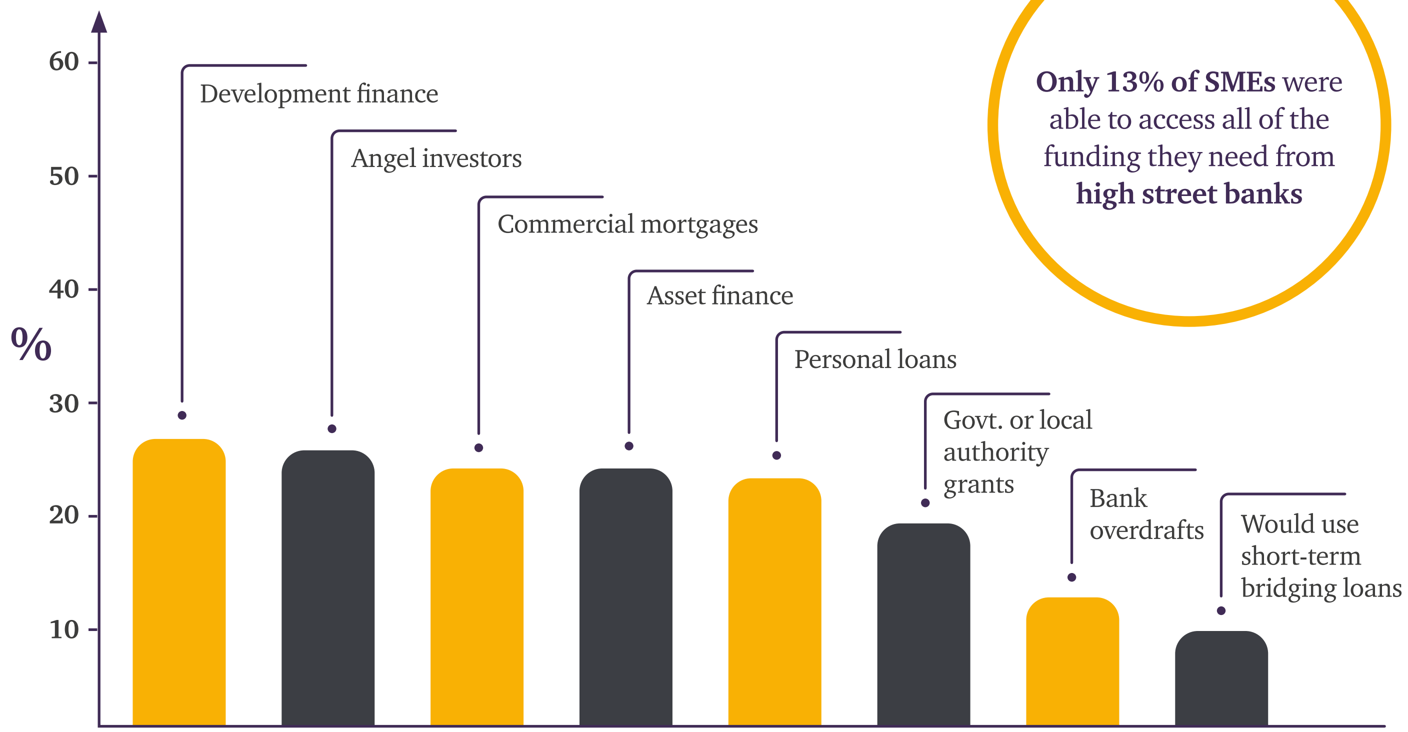


90% of forward-thinking company owners and directors are preparing to turn on the investment taps.

Chris Baguley, MD Corporate, Together

How SMEs plan to finance their future ambitions.

When the time is right, 37% of SMEs want to expand their workforces, 29% plan to increase general investment and 20% want to extend their premises, and they'll fund it with:



Only 13% of SMEs were able to access all of the funding they need from **high street banks**

"While the situation may seem difficult right now, there's still clearly investment happening – albeit not as much as planned. SMEs still have confidence in the future and understand that investment opportunities still need to be taken to support growth. Experts suggest that this will be towards the end of 2024 – so now is the time to begin making plans for the future.

Business leaders are clearly deeply concerned about the day-to-day running of their companies in the short-term. However, 90% of forward-thinking company owners and directors are preparing to turn on the investment taps, assuming economic uncertainty over the UK economy eases in two years as predicted."

Chris Baguley, MD Corporate, Together

The Commercial Property Market.

Five changes that shaped the commercial property market in 2022.

While times have been tough for SMEs over the course of the last three years, some trends have resulted in new opportunities and approaches in the commercial property market. And while some of these trends have been driven by Covid and a more cautious approach to investing, the drivers behind these trends are unlikely to go away any time soon, meaning opportunities still exist for astute well-informed investors.

Trend #1: Hybrid working

Covid forced a seismic shift in the way many businesses viewed their physical space, with many workers preferring to retain some element of home working post-pandemic. This has led to real fluctuation in the Grade A office market, and a concern over the value and ultimately the demand of office space both now and in the future.

However, property firm Savills say continued uncertainty and increased construction materials costs meant fewer new developments than expected were completed in 2022 - and that this trend may continue right through to 2025 - meaning the demand for existing high quality rental property could remain stable, and even grow, while developers rebuild their confidence in new builds.[iv]

84% of workers forced to work from home during the pandemic would **prefer to continue with hybrid working.**[v]

Trend #2: Property acquisitions

Despite the move away from traditional office space, businesses have still been looking to expand and improve their space, in response to consumer trends, many of which were a direct result of how Covid changed their customers' habits.

While office space was less desirable, commercial property to service consumers' changing behaviours has seen a significant increase in demand, as many business look to grow their distribution, logistics and large warehousing portfolio to help them service the e-commerce market.

The vacancy rate for 100,000 sq. ft+ was a **historic low of 3.1%** in Q3 2022.[iv]

Trend #3: Varied portfolios

In uncertain times, a diverse portfolio can help investors weather the storm, particularly if the focus is on long-term value rather than short-term gain. Together are currently seeing customers seeking opportunities across a variety of asset classes and property types, including retail, semi-commercial and more unusual asset types, where there is a strong strategy to create long-term value.

These customers have significant levels of liquidity and often are seeking low levels of gearing and opportunities where a lender needs to take a long-term commercial view and understand the strong strategy that sits behind some of these acquisitions.

Trend #4: Planning for net zero

While 2050 may seem some way off, there's no doubt that the Government's net zero deadline has had a major impact on SME investment plans.

Investors are already starting to see the on-costs of increasing their properties' energy efficiency, with commercial buildings to be let to tenants expected to have an Energy Performance Certificate (EPC) rating of at least Grade E by April this year, to a Grade B by 2030.

However, for those able to invest, the returns may not be 27 years away, with more and more firms with physical bases choosing more sustainable property as part of their brand promise.

Small businesses are responsible for **more than 50%** of all UK greenhouse gas emissions.[vii]

Trend #5: Watching and waiting

While overall the appetite to make quick deals has eroded over the last few months, as clients wait to see what impact high interest rates, inflation and general affordability will have in 2023, there are benefits to being cautious.

Those prepared to hold off until the economic impact of the later part of 2022 has played out stand to reap the benefits of decisions made by those who took risks, from reduced rents on office space and industrial units to an increased choice of property for sale on the open market and at auction, as other investors look to claw back what they might have lost.

Britain is the only G7 country with a **GDP below its pre-pandemic level,** with a **gradual economic recovery** not expected until the **middle of 2024.**[viii]

Opportunities in challenging times in the commercial property market.

They say forewarned is forearmed, and in an uncertain economic environment, having all the information at hand to make informed decisions is key.

And while much of the insight from our research into SME investments may seem bleak, there is definite optimism and opportunities to take advantage of.

Offices.

Caution over new developments could increase demand for quality space.

While remote and hybrid work options have exploded post-Covid, office space is still a solid investment for many. From city centre spaces to out of town offices, SMEs – particularly professional services, financial services and creative industries – still need quality space to accommodate staff, whatever their working patterns.

However, the transition period between Covid and the new normal has resulted in a more cautious approach for those looking to develop new spaces, meaning a much lower completion rate on new builds than expected. Take up rates of office space in the big nine (Birmingham, Manchester, Liverpool, Leeds, Newcastle, Bristol, Cardiff, Glasgow and Edinburgh) remained at below 10-year average levels in 2022, and for the ninth quarter since Q4 2019, however, availability fell for the first time since the onset of the pandemic in Q3 2022, dropping by 7%[ix], showing many firms are returning to physical space.

And while developers hold off on new builds until the impact of the economic crisis is clearer – and more businesses have settled on their new ways of working – there is still demand for quality office space, with the right offices able to demand a premium.

Office space performance across the big nine in 2022.

While overall, take up of office space across the big nine cities outside of London remained at below 10-year average levels in 2022[ix], Bristol, Cardiff and Newcastle saw some improvements. The most active UK city for new office space development is Glasgow with 1.1million sq. ft. under construction, with 97% already let.

Prime **city centre yields** range from 4.75% in Edinburgh and Manchester to 6.50% in Newcastle.

Avison Young's prime office yield across the Big Nine moved out by 25 basis points to **5.53% from 5.28% in Q2 of 2022**, the **highest level seen since 2016**.

Partner Insights - OBI.

Manchester city centre

Manchester city centre has always offered a broad range of workplace solutions, in a variety of buildings, with diverse designs and specifications.

OBI Property have seen the Manchester office market continue to move forward, retaining its status as the most active regional city outside of London in terms of take up, with the highest 5 yearly averages of all 'big' regional cities.

"2022 was a year where several larger occupiers completed their internal workplace studies following the pandemic. There was certainly a return to confidence in how much space businesses required, and a progression of relocations that had previously been placed on hold.

Whilst we expect a challenging start to 2023, we anticipate a year that will offer opportunity and that will steadily improve as buyer and seller aspirations begin to align. We are confident of further rental growth as occupiers continue to cherry pick the premium space available in the market which will put an upward pressure on city centre headline rents."

Will Lewis, Co-Founder OBI

236 leasing transactions were completed in 2022, a **24% uplift** in comparison to 2021.

A total of **1,192,569 sq ft** of leasehold workspace was transacted in Manchester city centre in 2022, a **17% uplift** when compared to 2021.

Source: OBI Market Report 2022

Retail and industrial.

Changing consumer behaviour presents challenges and opportunities.

While Covid proved to be the final nail in the coffin for some brands with physical stores, the outlook for retail in 2023 isn't purely a digital one. And while the cost of living crisis is undoubtedly having an impact on consumer spending habits, retailers are still seeing reasonable footfall and regular – if more considered – buying patterns.

On the high street, buyers of retail investments continue to be predominantly private and comparatively unconcerned about risk, with the option to convert property to other uses should retail not work out. And with yields varying from 10% for town centre schemes, 9.75% for community and convenience schemes and 13% for secondary schemes, there's still money to be made[x].

Smaller chains are still looking to expand despite the economic challenges, as consumer sentiment towards smaller brands and local enterprises continues to grow, and shoppers make more strategic purposes to make their discretionary spending go further.

There are shifts in the retail market as consumers' habits change which have a knock-on effect on industrial property. While major brands and SMEs may be more cautious about committing to expensive high street store fronts, demand for commercial property to service consumers' changing behaviours has seen a significant increase in demand in space suitable for distribution, logistics and warehousing to help them service the e-commerce market.

The vacancy rate for retail warehouses has fallen over the last year, from 6.1% to 5%. Between the start of 2022 and up to the beginning of November 2022, there have been 906 new openings, which is in excess of the ten-year average of 855[x].

Between the start of 2022 and up to the beginning of November 2022, there have been **906 new openings**, which is in excess of the ten-year average of 855[xi].

Due to occupier demand and rental growth, the industrial property sector accounted for 27% of all investment into UK real estate in 2022, much higher than the long term. The main hurdle for occupiers and investors being a lack of supply.

Three retail and leisure spaces ripe for reinvention.

Changing consumer behaviour across retail and leisure could sound the death knell for spaces that were once central to our weekends. And while savvy investors may not want to take them on in their current form, there are some that could be ripe for reinvention:

1. Cinemas

Cinema ticket sales in the UK have been, in recent years, relatively steady before plummeting in 2020. And cinemas haven't bounced back down to, in part, a growth in streaming. Even before the pandemic, Netflix, Amazon Prime and similar services were exploring the idea of streaming new film releases while they're still at the box office – and this only accelerated when stay-at-home orders were in place.

Some cinemas have already fallen victim to this trend – the Showcase Cinema in Gorton, Manchester closed permanently during the first lockdown, and was recently demolished to be replaced by a housing estate and school.

2. Petrol stations

The march towards electrification in the car market could soon spell the end for the local petrol station. Sales of new cars with internal combustion engines will be banned after 2030, so there will be less and less need for physical fuel stations over the next two decades.

Former petrol stations can be tricky securities to secure finance against because, understandably, there is the possibility of ground contamination from fuel. However, the land will likely be well-connected by road, which could be suitable for new commercial developments – such as warehouses, for example.

3. Out-of-town shopping centres

The struggles of retail have been well-reported in the press in recent years, as an oversupply of units has coincided with the growth of online shopping and a cultural shift that emphasises acquiring memories rather than 'stuff'.

Much in the way many department stores are struggling currently, out-of-town shopping centres may face a struggle for relevance at a time when almost any physical item can be bought online.

While some 'anchor' units are already being converted to offer experiences, it's possible that these retail buildings' days are numbered. Conversion to other uses could be on the cards, or perhaps they'll be demolished for more usable brownfield land.

Good neighbours: The benefits of investing outside the big nine.

The big nine aren't the only cities that investors should be focusing on, with a rising number of commercial properties ripe for investment further afield. An example of this is Bradford which could be an area to watch for astute investors looking to get ahead of the curve, having already been named as UK's City of Culture 2025.

Once an industrial powerhouse, Bradford has for many years seen a decline in its fortunes as neighbouring Leeds enjoys an economic and cultural renaissance. But as remote working becomes more commonplace and more businesses make Bradford their base, demand for both residential and commercial property could be on the up.

What makes Bradford a potential target for investors?

1. Investment in regeneration

There is already major regeneration investment taking place, in the residential market and with money being ploughed into the economy, local business and office spaces, retail, transport, and residential – encouraging more people and businesses to make Bradford their home.

The £260 million Broadway Shopping Centre opened in 2015 and is home to over 80 shops and restaurants. And since 2010, total investment in regeneration and infrastructure projects has hit around £1 billion.

2. Affordable property

Bradford is also renowned for its affordable properties. The average price for property in Bradford stood at £153,932 in February 2023, according to Zoopla, 48% lower than England's average which stood at £296,000 in October 2022. For buy-to-let investors, the gross rental yield will be very attractive, too. Attracting students, young professionals and families, some properties in the BD1 area can offer a rental yield between 8-10%, while the national average stands at 3.3%.

3. A thriving local economy

There are over 16,000 companies in Bradford, ranging from small start-ups to nationally recognised brands such as Morrisons, Yorkshire Building Society and Hallmark Cards. A growing economy with an expanding population of businesses and workers demands more offices, houses and shops, and therefore demands investment.

4. A young, well-educated, and fast-growing population

Bradford has a young population – the youngest in the UK in fact. It's growing too, and is set to increase by more than 10% over the next 20 years to 582,900.

Students most often rent apartments in Bradford. This automatically means that a significant student population at the University of Bradford represents a secure rental market for acquisitive investors with a steady stream of tenant demand. Bradford's large and growing young population also makes it home to the workforce of the future.

> It's a unique building that had a great deal of potential after standing neglected for 30 years.
>
> Working with listed buildings can be a challenge, but the result of the restoration of this historic site is a great achievement. We believe Conditioning House sets the standard for other residential developments in Bradford, showcasing the scale of transformation that can be achieved when breathing new life into our heritage buildings.
>
> **Nathan Priestley, CEO of Priestley Homes**

The story of Conditioning House and the impact on Bradford.

Conditioning House was just one cog in the machine that was Industrial Revolution-era Bradford. In 1902, over 300 mills were producing in the city, and the industry employed tens of thousands. The fierce fighting of the war from 1939 led to technological advancements that had applications far beyond the front line. And Conditioning House's role began a long, slow decline.

With its poor reputation, you might not expect the centre of Bradford to be so grand. But the rapid rise of the textile industry in the 19th century packed Bradford with gorgeous gothic revival architecture.

Its equally rapid decline in the 20th century meant that the local council lacked the money for 'utopian' redevelopment schemes that flattened many similar cities in the name of 'progress'.

So, in the noughties, Bradford was one of the best-preserved Victorian cities in Britain. That said, many buildings were unloved and unused, presenting unique opportunities for ambitious investors.

Conditioning House itself was abandoned and sold by the council; the original buyer had plans to turn it into a hotel and conference centre. A subsequent plan would have seen it become a commercial office. It's changed hands multiple times since, with no owner being able to execute their plans.

Grand ambitions in the mid-2000s would have seen the reinstatement of the canal, seeing Conditioning House developed as waterside apartments. That scheme was cancelled after the last global financial crisis.

That ambition speaks of the efforts being made by local leaders to change Bradford's public image. In 2008, the city bid to become the European Capital of Culture – it's been demonstrated that winning can serve as a catalyst for the transformation of a city. It lost to Liverpool.

Nevertheless, there's been over £1bn in investment in the city centre since 2010 and Bradford was gradually becoming the perfect hub for businesses looking for a central location, but wishing to take advantage of the growing remote working culture and shift from the UK's most populous cities.

Fighting back

Bradford was named 'most improved' city to live and work in by PwC in 2019, highlighting jobs and work-life balance in particular. Bradford competed against Luton, Chelmsford, Southampton and others to become the UK's City of Culture for 2025.

Perhaps Bradford's most famous creatives are artist David Hockney, and the playwright/novelist J.B. Priestley, who penned An Inspector Calls.

Today, the Priestley name remains prominent in the city, having also been the name of two former Bradford mayors. Priestley Street is about 200 metres from Conditioning House, while Priestley Homes is helping propel Bradford's renaissance.

Priestley Homes recognised the huge potential in both Bradford and Conditioning House, acquiring the building in 2017. The business has invested millions in regenerating it. Nathan Priestley, the man behind the scheme, remembers Conditioning House in more prosperous times: his grandfather worked there as a driver.

Nathan Priestley
CEO of Priestley Homes

Conditioning House's rebirth is emblematic of Bradford's fight back against de-industrialisation. As we embark on a new path as 'Global Britain', it's a city with all the ingredients to succeed.

Developments.

Volume house-builders practise caution as materials and labour costs soar.

There was a time when every piece of land was prime for development. Land prices were through the roof and developers could expect to sell their whole site of new homes off plan. But despite there still being a housing shortage, the economic crisis and the knock-on effects of world events have meant housing developments aren't the sure-fire winner they might once have been.

Three key drivers of the development slow-down

#1. Demand for land is falling

According to property agents Savils there was 'noticeably less demand' for land in the final three months of 2022[xii] . Prices of green field land fell 2.2%, while urban prices dropped by 1.6%, marking the biggest quarterly falls in land values since 2009.

#2. Materials costs are soaring

Due to supply chain issues following Covid and the conflict in Ukraine, material availability and costs are still challenging for developers. And while supply issues appear to be improving, a survey of 500 builders and tradespeople showed that materials prices are the biggest challenge they anticipate facing this year[xiii].

#3. A shortage of construction workers

There are roughly 244,000 fewer workers in the construction sector than there were three years ago, according to the Office for National Statistics[xiii], partly due to workers returning to the EU after Brexit and experienced tradespeople taking early retirement. This shortage is likely to affect SME builders particularly, as it takes a minimum of three years to train new starters.

But… there are positives

#1. Substantial demand for housing stock

While there are challenges, people still need houses, so there are opportunities for developers who can get their funding right. By developing and selling on in phases, developers can release capital, allowing them to complete their development without having all funding in place from day one, thereby mitigating some risk.

#2. There are still people looking to buy

Caution may be the order of the day for many home buyers, but there are still those eager to secure their own home, with the funds and means to do so. And while developers may not see the levels of extreme demand experienced in some of the recent boom years, it's likely that sales on quality developments will continue steadily.

#3. Investment from overseas

While the UK economy may be in crisis, there are still overseas investors looking to turn a profit from investing in property. According to research by Alliance Fund, investors in the US, Asia and the UAE took a real interest in the UK property market last year[xiv], so there may still be an appetite for overseas businesses to bag a bargain.

"While the landscape may not seem as lucrative for developers right now, there are still opportunities. Developers need to ensure they have a robust budget in place, including a meaningful contingency. And with the right lender partner, success is still very plausible."

Ian Pickering, Head of Development Funding, Together

Residential rentals: Increased demand for rentals across multiple segments.

In any period of economic instability, the residential housing market will undoubtedly experience pressure and 2023 is likely to be no different. Rising interest rates, a potential decrease in property values and the end of the temporary stamp duty break has deterred some would-be buyers, with HMRC reporting 108,960 transactions in December 2022, just 1% less than the same month in 2021 and 3% lower than November 2022[xv].

Buyer demand is also falling, with RICS noting the lowest level of new buyer enquiries since the start of the pandemic. And according to Zoopla, demand fell most rapidly in areas that have seen the greatest price growth over the last two years, such as the South West of England. There is however room for optimism, as a lack of supply of residential housing stock can still create much needed demand in the market.

All this uncertainty does mean an increased need for rental properties, with landlords able to charge a premium for quality properties in the right locations. Asking rents in the UK, excluding Greater London increased by 0.9% in Q4 2022, resulting in a year-on-year increase of 9.7%. London had the highest year-on-year increase (15.7% as at Q4 2022), where the average asking rent is £2,480 per month. (Rightmove).

And while forecasts show rental growth in the UK gradually falling over the next five years from 10% in 2022 to 2.4% in 2026[xvi] - there is still growth, albeit slower. Landlords able to capitalise on the stalling private buyer market, or improve existing properties to meet tenant demand, stand to be able to make real gains.

Rents in the UK, excluding Greater London increased by 0.9% in Q4 2022, resulting in a year-on-year increase of 9.7%. London had the highest year-on-year increase (15.7% as at Q4 2022), where the average asking rent is £2,480 per month (Rightmove).

Prime opportunities for residential landlords in 2023.

Student housing

Over the course of the pandemic, students suffered a major blow not only to their education and social lives, but to their ability to live independently.

But with a record 2,175,835 full-time students studying at UK universities, with the majority now back to on campus teaching, the student housing market is a place of opportunity, with quality private rentals in good locations seeing growing demand.

While student numbers have grown, new student rented property plans were hit hard by Covid, with just 24,612 new beds: a figure only 677 higher than that seen in 2020/21, and one almost 25% lower than the five-year average before the pandemic[xvii].

This, plus HMO landlords retiring from the market has meant rising concern amongst both students and universities about demand outstripping supply, and in some cities has seen students queueing outside letting agents when property lists are released in a bid to secure homes with their friends.

So, investing in new developments, refurbishing existing or opting for HMOs could offer real opportunities moving forward.

In the year to September 2022, **total returns for purpose-built student accommodation (PBSA) was 16.7%, double the returns in 2021**. Larger assets (500 plus beds) reported the highest capital value growth (CBRE).

Partner insights – Allsop.

Despite a turbulent end to 2022 there was a total of £7.2bn worth of investment in purpose-built student accommodation (PBSA) last year reflecting a 69% increase from the previous year and a record year of investment. There are a number of key issues which are helping to support increased investment in the sector, including:

- **An increasing student population**. UCAS forecast there could be a million undergraduate applicants by 2026 with the main growth attributed to the growing number of 18-year-olds.
- **Positive rental growth**. In 2022, PBSA rents on average grew by 3.1% whereas HMOs grew by 5.2% year on year.
- **Constrained supply of bedrooms**, albeit this is location specific and varies due to the cyclical nature of supply and demand.
- **The ability to change rents annually**. Allowing investors to offset some of the increasing operational costs.

There continues to be strong rental demand from domestic and international students and the uptake for the 2023/24 academic year looks incredibly strong even at this early stage. In York, for instance, 75% of all PBSA for the 23/24 academic year has already been reserved.

Investors remain attracted by the resilience of student rental income as the market continues to suffer from a structural imbalance in supply and demand, with some places seeing significant rental inflation this year. This trend is likely to continue as the development pipeline is restricted, coupled with increasing student numbers.

Investment in the sector is now varied, with a variety of parties having entered the market over the past few years. Our Student Agency team have seen a particular focus on appetite for Value Add opportunities in prime locations. For example, Allsop acquired **Lillian Penson Hall (image right)** in Paddington in late 2022 for a private client. The opportunity comprised 313 vacant bedrooms and offered the opportunity for a full refurbishment, repositioning and potential to add further bed spaces. The final agreed price was in the region of £79,000,000 which equates to a capital value per bed space of £250,000.

"For us, understanding the macro and micro economic factors impacting a student town or city is imperative when providing advice to clients in the current market. We need to fully understand the uptake of student numbers at the university, if there has been investment there and whether there is an under or over supply of student accommodation. We look at the development pipeline and assess how new stock is being received by the market, focusing on live rental data.

Working closely with our Student Agency team, we see how markets are responding to changes and how investment continues to target the best quality assets and student locations.

We are seeing how the green credentials of buildings are being increasingly focused upon by investors, as ESG becomes ever more important and as operations costs have risen recently. This is not only the case for new development, but also repositioning older buildings, for modern occupation.

Looking forward we expect to see a number of transactions in the student market in 2023 and beyond. Investment for the sector will mirror increasing student numbers in UK Higher Education institutions with an emphasis on quality and desirable locations."

William Davies, Partner – Student & Residential Valuation, Allsop

We see how markets are responding to changes and how investment continues to target the best quality assets and student locations.

William Davies, Partner – Student & Residential Valuation, Allsop

Social housing.

While rising rents are great news for private landlords, the ongoing economic crisis is putting increasing pressure on renters on the lowest incomes.

According to the Office of National Statistics (ONS), just two regions in England have housing that is affordable for local renters on the lowest incomes[xviii]. So, with many households currently facing significant financial instability, the need for purpose-built affordable homes and supported housing has never been more pressing.

Specialist lending offers opportunity for social housing SMEs

More than one million households in England are waiting for social housing, according to government figures, with Shelter estimating that the country is losing more than 15,000 social homes a year after sales and demolition.

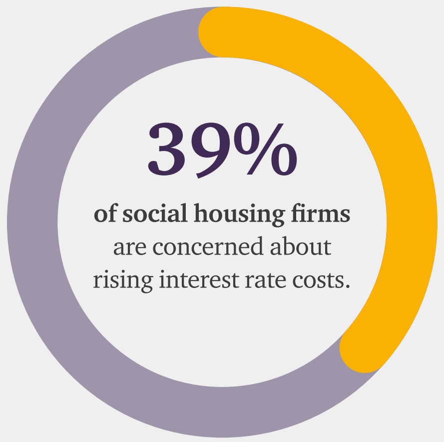
But while social housing is more essential than ever before, many small to medium-sized providers are struggling to secure the finance they need to deliver on demand.

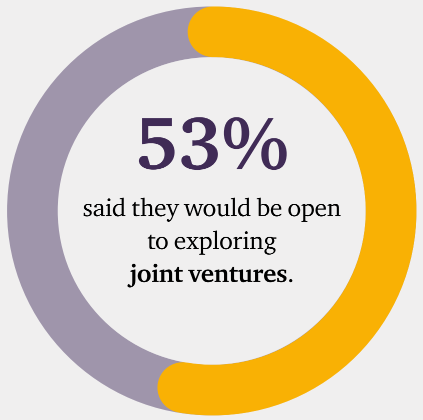
Although the big players in social housing provision generally have their funding covered by major high street and investment banks, small-to-medium housing associations often don't have access to the preferable rates they need.

That can be because some high street banks won't want to provide funds to associations that only want to build a small number of homes, or because lenders don't understand the sector and offer restrictive terms to minimise their risk.

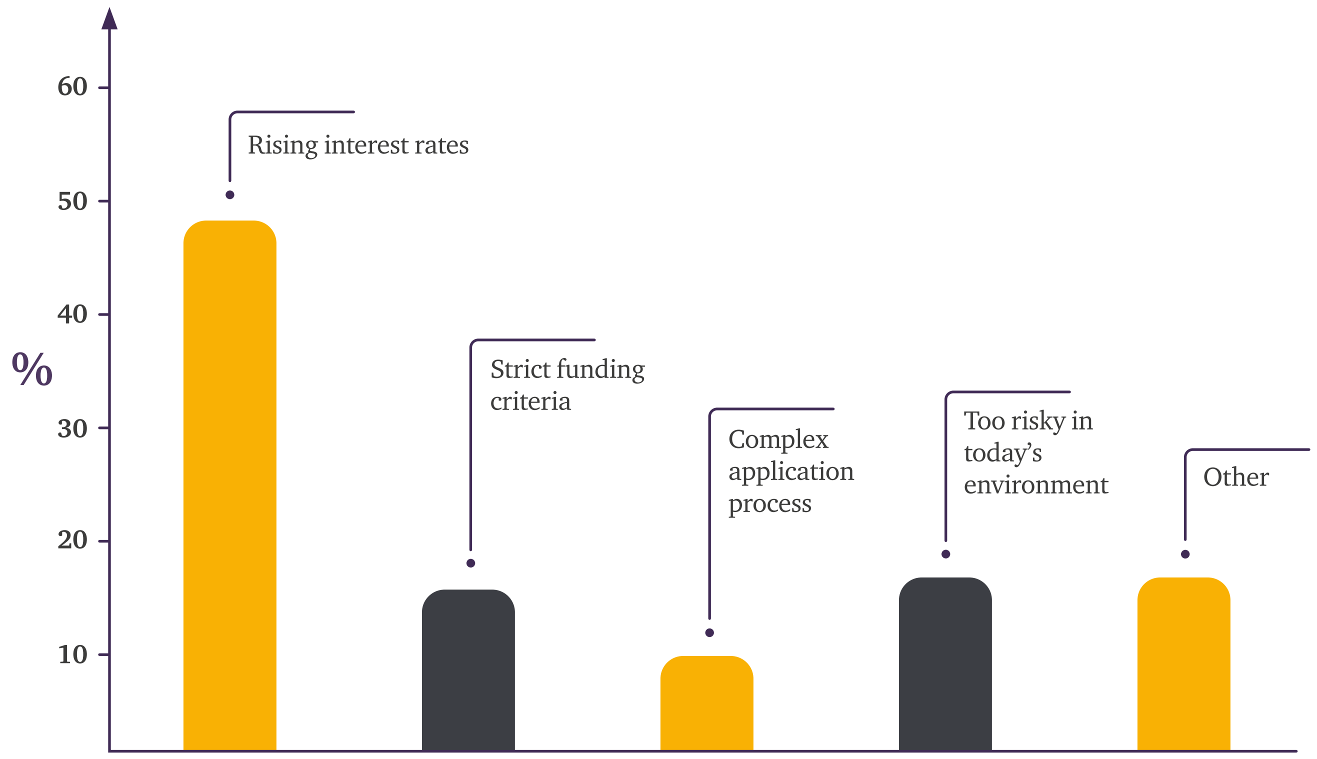
Accessing funding

To find out how registered providers are accessing the funds they need to build more homes and how these projects are prioritised, Inside Housing, in association with Together, conducted a survey of 80 social landlords from across the UK. It revealed that:





What are the main barriers to accessing/applying for funding today?



The survey revealed that rising interest rates and a perception that borrowing for development was too risky in today's environment, were the main barriers to accessing funding, said 61% and 21% respectively.

More than half (53%) said they'd be open to more joint ventures, with for-profit landlords or private developers to enable development. A further 39% said they might be open to this, marking a positive shift in sentiment.

26% of respondents are keen to seek out short-term financing options, with a further 41% saying they might be interested in this.

If lenders can offer the funding needed to deliver new social housing, this could open up a significant opportunity for smaller developers to turn a profit and provide much needed support for a growing segment of society.

"We have seen some examples recently whereby the economic uncertainty has resulted in REIT (real estate investment trust) or investment vehicles deciding not to forward fund some of these developments. People are coming to us looking for short-term funding to get the development off the ground and built, knowing that the REIT or investment vehicle is going to come in and take that once it's done."

Alex Bodie, Head of Social Housing, Together

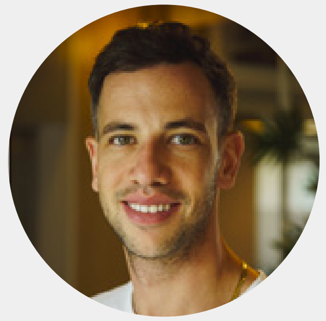
Partner Insights - HSPG.

Support is available for social housing developers with a vision. Together recently partnered with HSPG, one of the UK's leading social impact real estate firms, to deliver 592 units of low-level supported housing for six housing providers across 18 local authorities, providing vital accommodation for those who need it most.

All 592 properties come with a minimum EPC score of C, part of HSPG's commitment to delivering supported housing that's sustainable.

"With households currently facing significant financial instability at the very same moment house prices continue to rise, the need for supported housing has never been more pressing. This transaction goes a long way towards achieving our ultimate goal of helping to solve the UK's homelessness crisis and ensuring the most vulnerable members of our society have access to a home."

Guy Horne, CEO and co-founder at HSPG



Auction.

Market factors present opportunities for landlords and homeowners alike

While no-one wants to capitalise on others' misfortune, the ongoing economic crisis is likely to drive many homeowners, businesses and BTL landlords to consider selling their property at auction, creating some great opportunities for investors ready to start or expand their portfolios, or home buyers looking for a bargain.

Research from EIG showed that in the last quarter of 2022, the number of overall lots offered at auction were up 22% compared to the same period in 2021. Auction catalogues have swelled, with many auctioneers reporting record sized catalogues, or adding additional sale dates to handle the increased sale demand.

"Properties with an existing income and tenants have been performing well, compared to assets that need physical works or improvements which historically have been the best performing assets at auction"

"Vacant commercial properties seem to have fallen down the charts of what is exciting to buy. Exceptions include those commercial properties that have granted planning or permitted development permissions.

"Multi-let residential and commercial properties still seem to be popular, with larger sized developments moving slowly, even though there still seems to be plenty of appetite to build".

Scott Hendry, Together Auction Finance Director

And while auction has traditionally offered opportunities for investors looking to make a profit, the number of auction purchases from private buyers looking for a home they can make their own, does seem to be picking up. TV property shows like the Great House Giveaway are still inspiring first-time investors to try their hand at 'flipping' to turn a quick profit or create a dream home with run down auction properties.

This approach needn't be daunting for buyers without cash in hand however, as lenders specialising in auction finance can provide the short-term funding required within the 28 day auction completion deadlines – something mainstream lenders might struggle to do.

"On the buyer front we have seen the return of the cash rich professional builders and investors who are hoping to buy at reduced prices.

A further hardening of the market is expected in 2023, but as interest rate rises stabilise, a further significant drop in house prices is not expected. The market gets used to the prevailing interest rates fairly quickly, and as this happens confidence will return."

Bryan Baxter, Director of Auction House East Anglia/UK

Changes to rental property EPC rules pose a challenge to buy-to-let landlords.

The Government recently announced changes to the minimum energy standards for rented properties, moving them from an E to a C rating, affecting new tenancies from 2025 and all tenancies from 2028. And if a property is found to fall short of the required rating, landlords could face a fine of up to £30,000.

While the average upgrade bill is an estimated £4,700[xix], there are benefits to making the investment. Making improvements can make your property more appealing to potential tenants and, if you move early and make improvements between tenancies, the disruption to returns in the longer term will be minimised.

Landlord awareness of EPC changes

Research from Together, in partnership with Mustard Research shows that there is a need for awareness and education of EPC rules and the impact on landlords.

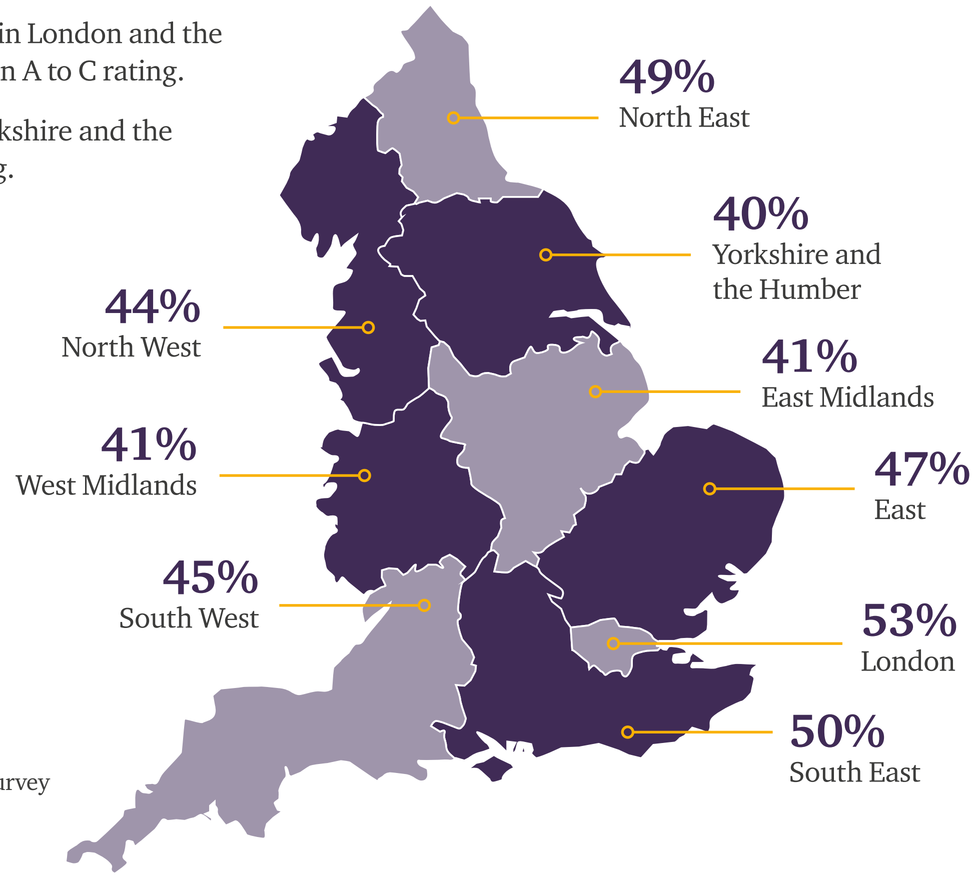
Funding EPC improvements

Short-term funding like a bridging loan or a longer term arrangement such as a second charge loan could prove good choices. Securing a bridging loan against a rental property, or another property in their portfolio, could allow landlords to make the necessary investment. Alternatively, a second charge loan could be more suitable for those content with their current mortgage.

Homes currently rated A to C across England

Some areas are seeing more progression than others:

- Around half of all properties in London and the South East of England have an A to C rating.
- Just 40% of properties in Yorkshire and the Humber have an A to C rating.



Source: Government English Housing Survey Energy Report 2020-21

Commercial property market summary.

"As we move through 2023 into 2024 and the economic impact unfolds further, it'll be an interesting time to see whether investors do decide to take advantage of opportunities and what this will yield. It's clear to see there are opportunities in the Commercial property market, despite the challenging times. And for those looking to invest, it's essential to have the right funding partner who shares their vision.

I feel optimistic that businesses can grow, and Together will continue to support our customers, colleagues and business partners to achieve their ambitions by being by their side and providing strong partnerships, as we have done for the last 50 years. I'm proud of the drive we have to be the best service provider in the specialist lending market, delivering positive customer outcomes now and in the future."

Marc Goldberg, CEO Commercial Finance, Together

Partner Insights - Avison Young.

"The final quarter of 2022 saw shockwaves for commercial property investors, with the mini budget and fluctuating valuations triggering caution and uncertainty across the market.

However, as the dust settles at the start of a new year, we're already seeing the market refreshed with a much more positive sentiment than we had only a few months before. As sellers become more realistic on where prices are now sitting, there are signs of growing interest from buyers looking to re-enter the market again to consider their investment options.

With a prediction of interest rates settling and an acceptance and understanding of what borrowing costs will be, planning ahead feels less volatile, and we expect investors to be more confident to make their move.

January 2023 has already seen industrial lots going to best bids, with top quality assets particularly showing signs of a strong re-base to better than expected values.

Office opportunities that either have a high spec fit outs or are income-producing but capable of being re-positioned are also growing in demand. ESG concerns are of increased importance to investors and tenants alike, with the latter being prepared to commit to strong rental levels for the right ESG/ Fit-out balance.

As buyer confidence gradually returns and hesitation subsides, the second half of the year will hopefully provide market evidence of a re-calibrated but active commercial property market."

Dan Crossley, Principal, Avison Young

Partner Insights - VAS Group.

"As we enter 2023 I think it's fair to say there is nervousness around property values given the turmoil in the financial markets, mortgage markets, inflationary pressures and the cost of living crisis.

The prime property sectors were not immune, and it was the first time I have seen negative forecasts on prime industrial units, as higher interest rates meant reduced returns even for the very best industrial units that yielded c3.5-4% returns. The share price of most listed property companies, REITS and house builders were dented as confidence waned, and investors looked to withdraw cash out of shares and funds held in property.

However, I remain positive and remain convinced that this is an economical issue and not a property issue, nothing like 2008. The UK requires 250,000 new houses a year and we are only capable of building half of that, so I cannot see residential values dropping significantly whilst demand remains high.

The Buy to Let market will remain buoyant as there is huge demand for rental properties as home ownership remains out of reach for many. However, I do believe that we will see a different dynamic of BTL investor as higher interest rates make it harder for some investors to yield returns that they require in the short to medium term. This is likely to be counteracted by an increase in rentals to offset the higher interest rates.

The market for non prime retail and offices, in my opinion, had already began to shift and correct itself. Many secondary offices have been converted into residential uses leaving a lack of supply which should maintain values, with occupiers still requiring smaller, flexible office space (lets face it, most will get bored of working from home full time at some point and want to get out of the house!) There remains opportunities for retail properties for residential conversion, and HMO uses which will remain popular.

There is no doubt that there will be nervousness over the next few months as the country readjusts to higher interest rates, mortgage costs and the cost of living. After numerous consecutive interest rate rises, I imagine that the Bank of England will further raise interest rates above 4% by Q2 2023, when hopefully inflationary pressure will ease. Then, the property market can kick on."

Stephen Todd, Chief Commercial Officer & Co-Founder, VAS Group

The Drive for a More Sustainable Future.

Green investment.

Spend has slowed but sustainability is still high on SME wish lists.

Small businesses account for around half of total greenhouse gas emission from UK businesses[vii], due to the sheer scale of SMEs in operation. But despite the potential positive impact SMEs could have by focusing on making their businesses more sustainable, our research found that only 16% have gone through with plans for energy saving measures.

Two thirds (67%) of SMEs have delayed ‘greening’ plans, including replacing out of date heating, ventilation or air conditioning with more efficient equipment, replacing roof and wall insulation or window upgrades.

One in five (20%) have delayed installing solar panels; 18% have put plans to upgrade lighting to longer-lasting LEDs on ice; and 17% have shelved installing or replacing heating, ventilation and air conditioning with more efficient equipment.

A further 14% have delayed replacing windows and 14% have delayed installing internal or external wall or roof insulation.

But it seems this caution is temporary and greening is still high on SME to do lists. Our research showed that when economic conditions improve, 73% of business leaders expect to increase spend on their company’s energy-saving measures by an average of nearly £225,000.

And with tough targets for businesses under the Government’s net zero plan, ongoing improvements are likely to be a key part of any business strategy for many years to come.

“Net zero carbon and sustainable performance of a building are now the key drivers of occupational and investor demand in the UK. They help attract and retain an increasingly environmentally focused workforce, and secure and retain new and existing customers and investors who are also under scrutiny to audit the environmental performance of their supply and investment pipelines. With ESG credentials being driven equally by landlords and occupiers, the drive for more sustainable buildings must form a key part of any design in the future.”

Will Lewis, Co-Founder OBI

When SMEs start to reinvest in ‘greening’, 24% say they’ll fund it with a **development loan** with 10% opting for **bridging finance.**

Green-rated property attracts an 8 to 18% premium compared to buildings without a BREEAM or NABERS rating.[xx]

Partner Insights: Citu.

Bringing sustainability to city living.

Citu is a purpose led property development company focused on creating low carbon, sustainable places, and has been working with Together to fund its ground-breaking developments for more than 15 years.

Citu recently secured a £20m development finance package for their latest low carbon residential scheme in Leeds. The funding is helping Citu breathe new life into an area of previously disused industrial land along the Leeds and Liverpool canal, driving new ways of urban living and working.

'Stall' is a new community of 51 low carbon, high performance, energy efficient homes which will transform brownfield land close to the historic Kirkstall Abbey, with rail, cycle and walking links direct to Leeds city centre.

"At Citu, we are working to find impactful solutions to the biggest crisis our generation will face - the climate emergency. We are creating places that challenge the status quo and provide people with a happy, healthy place to live while making an impact on their carbon emissions. The energy crisis of the last year has also enhanced demand for energy efficient buildings, both in our residential and commercial offerings.

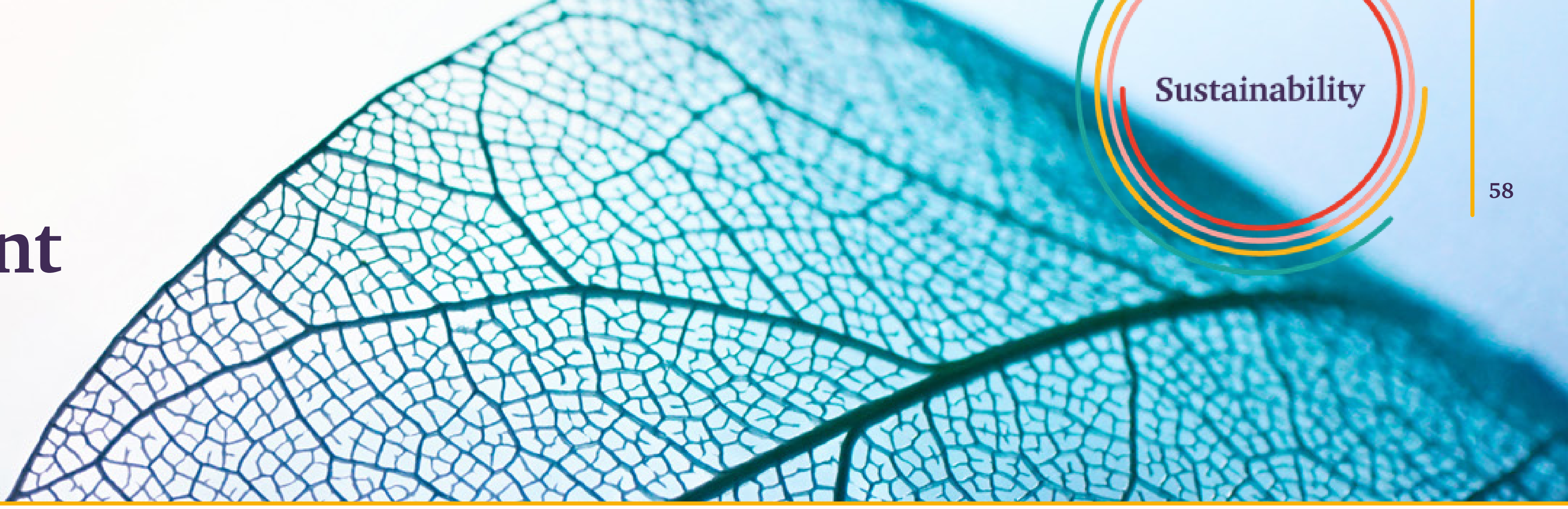
We plan to continue investment into various developments, together with specific R&D channels overlapping carbon and off-site manufacturing.

Working with Together has been crucial for our business. They let us realise our ambitions and support the sustainable projects we're passionate about which is priceless"

Chris Thompson, Founder/Director, Citu

Together’s commitment to sustainability.

Ambition is in our nature and we’ve created ambitious commitments to make sure we can play our part in protecting the future for generations to come.



Our Planet

We take our responsibilities for the planet seriously, and reducing the negative impacts of carrying out our business is in our nature.

Our planet targets

- To reduce our carbon emissions from our own operations by 70% by 2027
- To reduce our direct energy consumption by 50% by 2030
- To be net zero for our own operations by 2030
- To be net zero for our direct and indirect emissions by 2050

Our Planet

Our Communities

We’ll continue to contribute to our local community and inspire our colleagues to play their part in giving back to society. We’re committed to working with innovative property professionals who work to rejuvenate local communities.

Our communities’ targets

- We are committed to donating £1m to community projects in 2023
- 50% of colleague volunteering days to be used annually by 2025
- We will help finance 1,000 affordable properties by 2025
- We will sign the Sustainability Reporting Standard for Social Housing in 2023

Our Communities

Our Customers

We’re committed to helping our customers make energy efficiency improvements to homes.

Our customer targets

- To provide at least one green mortgage product by the end of 2023
- To establish a partnership with an industry specialist by the end of 2023 to link our customers to experts with insight and knowledge to help improve the energy efficiency of their homes

Our Customers

Our colleagues

We value diversity of thinking, ideas, and backgrounds. We believe in investing in our employees so they can realise their potential.

Our colleague targets

- 50% of senior management roles to be filled by women by 2026
- 20% of leadership positions to be filled by colleagues from underrepresented ethnic groups by 2025
- 20% of colleagues to be in the over 55 age bracket by 2026
- To retain silver accreditation for Investors in People and achieve gold accreditation by 2026

Our Colleagues

“Our Sustainability strategy is about common sense - changing the way we operate our business to protect the future of the planet, supporting our communities to thrive, enabling our customers to live more energy efficiently, and focusing on building a diverse and inclusive workforce.”

Paul Moran, Senior Sustainability Officer, Together

The Residential Property Market.

Specialist lending needs on the up.

The need for Specialist lending.

It's not just house prices and buyer demand fluctuating in the residential market, there's been a fundamental shift in how people live their lives in recent times. And those with complex financial and employment situations require more specialist lending support than ever before.

#1. Income and affordability

Life isn't simple these days and neither are our pay packets. Self-employment, part-time hours, being on maternity leave or a zero hours contract often mean traditional borrowing routes aren't available. Specialist lenders can look at individual circumstances to make an informed decision, rather than working to standardised tick boxes and algorithms.

#2. Credit

Whether it's a minor credit blip or a major issue in the past, poor credit is a major barrier to borrowing. Many lenders rely heavily on credit scores to make a decision, rather than working with the individual to understand the issue. Specialist lenders tend to be able to look at the bigger picture and find a solution, rather than relying exclusively on just a credit score.

#3. Buying methods

There are so many ways to get onto the property ladder if you don't have a huge deposit saved, but not all lenders are set up to navigate the complexities of shared ownership, Right to Buy or Help to Buy. Specialist lenders can support these purchases, and can work with buyers to find a solution that doesn't need a huge capital investment from the buyer.

#4. Non-standard properties

Fancy a thatched cottage? Or a timber built home? Looking to purchase the penthouse on the 18th floor? Many lenders will struggle to share the vision. Specialist lenders can often find solutions to help make a non-standard home purchase a reality.

A nationwide study conducted by Together revealed that just over one in two people (53%) already fall into one or more lending criteria classed as 'non-standard' (specialist), and 1 in 4 struggle to get a mortgage.

And of the 7,000 consumers surveyed, 19% said they'd been rejected for a mortgage within the last five years.

The survey also revealed that non-standard employment (income) accounted for 22% of rejected applications, and issues with credit were a factor for 21%. Property choice was also a factor, with 12% facing a 'no' because they wanted to buy a 'non-standard' property – such as one with a thatched roof, and 26% being rejected for being in a 'non-standard' buying situation, such as shared ownership.

Others were penalised for their personal situation, with 21% unable to secure a mortgage because they're divorced or over 55.

The perceived challenges are great too. 59% of applicants said they found the process challenging, 1 in 6 said it took a toll on their mental health and almost a third who were refused a standard mortgage were left feeling worried about their future.

A change in circumstances.

With the impact of Covid, cost of living and the current economic climate all converging in the last couple of years, it's not just new buyers looking to get on the property ladder or move on that might need specialist lending. Existing homeowners rolling off fixed rates and looking to remortage, may now find themselves needing the services of a specialist lender, due to a change in personal circumstances. Where once they fit the high street criteria, they could now find themselves in a very different position.

High street struggles to serve the gig economy.

The growing 'gig economy' is a lucrative source of income for workers wanting a more flexible career, particularly younger workers. According to Government figures, more than half of the UK's gig population is aged between 18 and 34.

However, despite more people going it alone, the self-employed market remains underserved when it comes to loans and mortgages, with mainstream lending criteria often making it more difficult for self-employed and contract workers to secure finance.

Irregular income, lack of financial history and no guaranteed future earnings as per the PAYE model, are the main reasons self-employed workers are penalised when applying for a mortgage - even if they have extensive experience in their field. Mainstream lenders traditionally want to see proof of a steady income without any fluctuations before giving a "Yes".

They're not alone. Those on fixed term contracts, zero hour's contracts, and those who rely on other sources to top up their income, such as benefits and pensions, or dividends and bonuses also struggle to fit the algorithms and tick boxes set by mainstream lenders.

Ambitious first-time buyers want more than magnolia.

First-time buyers are becoming increasingly savvy about using renovations to get onto the property ladder, and they're willing to get their hands dirty to get what they want, a Together survey revealed.

Of the first-time buyers polled, 83% had renovation ambitions, and 31% said they'd like a 'doer-upper'. 19% said they were very ambitious and are looking for a real project.

Of those surveyed, 96% would need to borrow money to get on the property ladder, but only half felt confident that their mortgage application would be approved.

That was down to concerns about age, worries over credit scores, and apprehensions because of irregular incomes. Each of these concerns affected almost a quarter of the first-time buyers surveyed, yet more than 43% were not aware of specialist lenders who may be able to help them realise their ambitions.

Borrowers scramble to lock in low rates.

While the rocketing of mortgage rates slowed slightly, the impact of rising interest rates on those outside of a fixed rate deal is still significant.

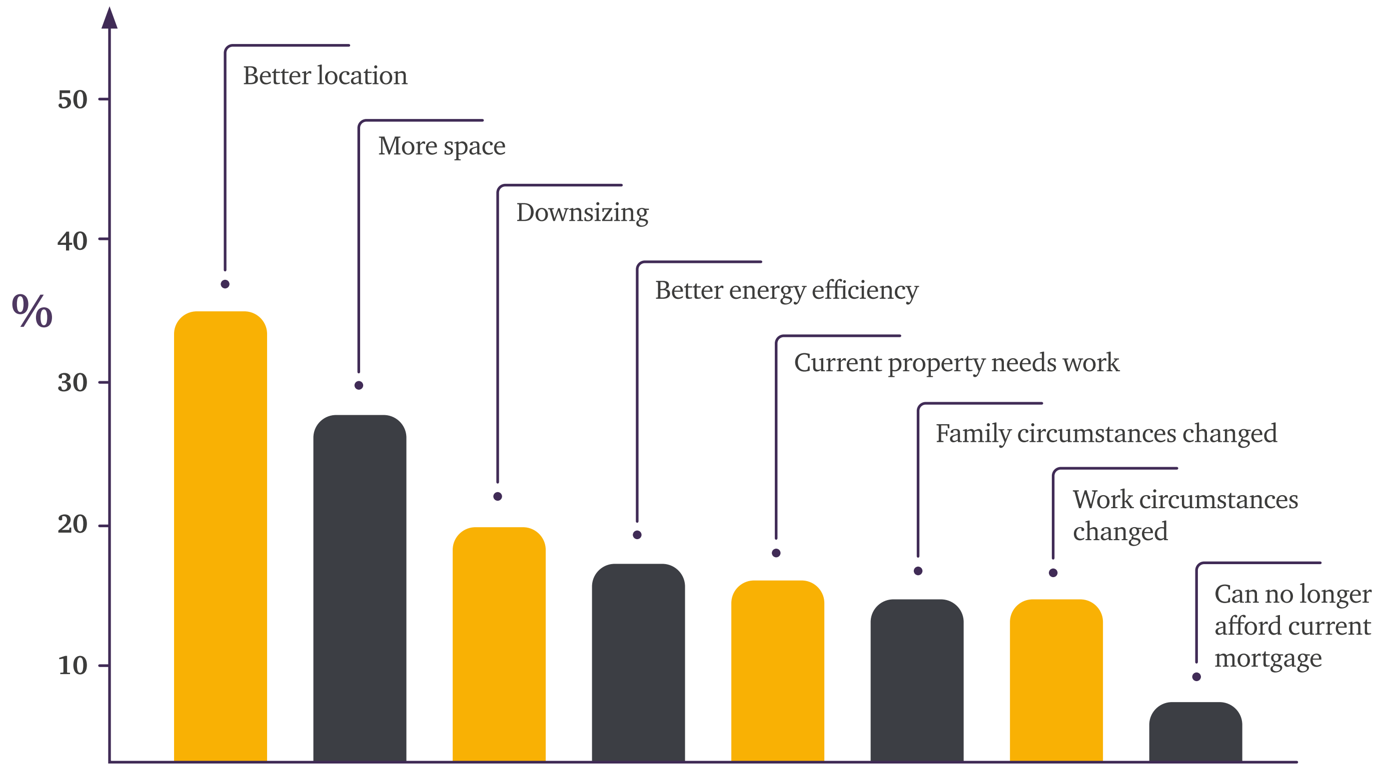
A typical borrower coming off a two-year fix at 2% and facing a new rate of 6% will face extra costs of £400-£500 a month.[xxi] And while lenders continue to nudge down their rates, borrowers are increasingly exploring ways to lessen the impact on their household outgoings.

A quarter of homeowners still set on moving, despite a challenging market.

While fears of price drops and high interest rates are putting off many would-be buyers, many home buyers are refusing to give up on their plans of moving home.

A recent survey from Together asked 2,000 adults about their property plans this year, and of those who owned their own home, 25% planned on moving, despite the uncertain economic climate. That figure rises to 54% of 18-34 year-olds.

For those intent on making a move, the main motivators were:



Patience is a virtue for sellers.

In spring 2022, properties in popular locations were coming on the market and selling within a month, and often above the asking price. In March the average time a house spent on the market was just 31 days.[xxii]

However, by December 2022, that time had increased to 51 days and, according to the estate agent body Propertymark, falling demand for residential property resulted in 72% of properties selling below the original asking price – a figure that's in stark contrast to March 2022, when only 15% of properties sold for less than asking.

That could mean that buyers could have the upper hand, and sellers will have to be patient or be prepared to negotiate. The Zoopla House Price Index[xxiii] found that the average estate agent now has 23 properties for sale - an increase from 14 in early 2022 - and Zoopla advises that sellers will need to be realistic about pricing if they're to secure a sale.

Maintaining the chain.

For sellers in a buyer's market, the practical choice may come down to either accepting a much lower offer, or holding out for the price they want and risk losing their next property. For those sellers, a bridging loan from a specialist lender may be viable option to keep things moving while they negotiate or wait for a sale.

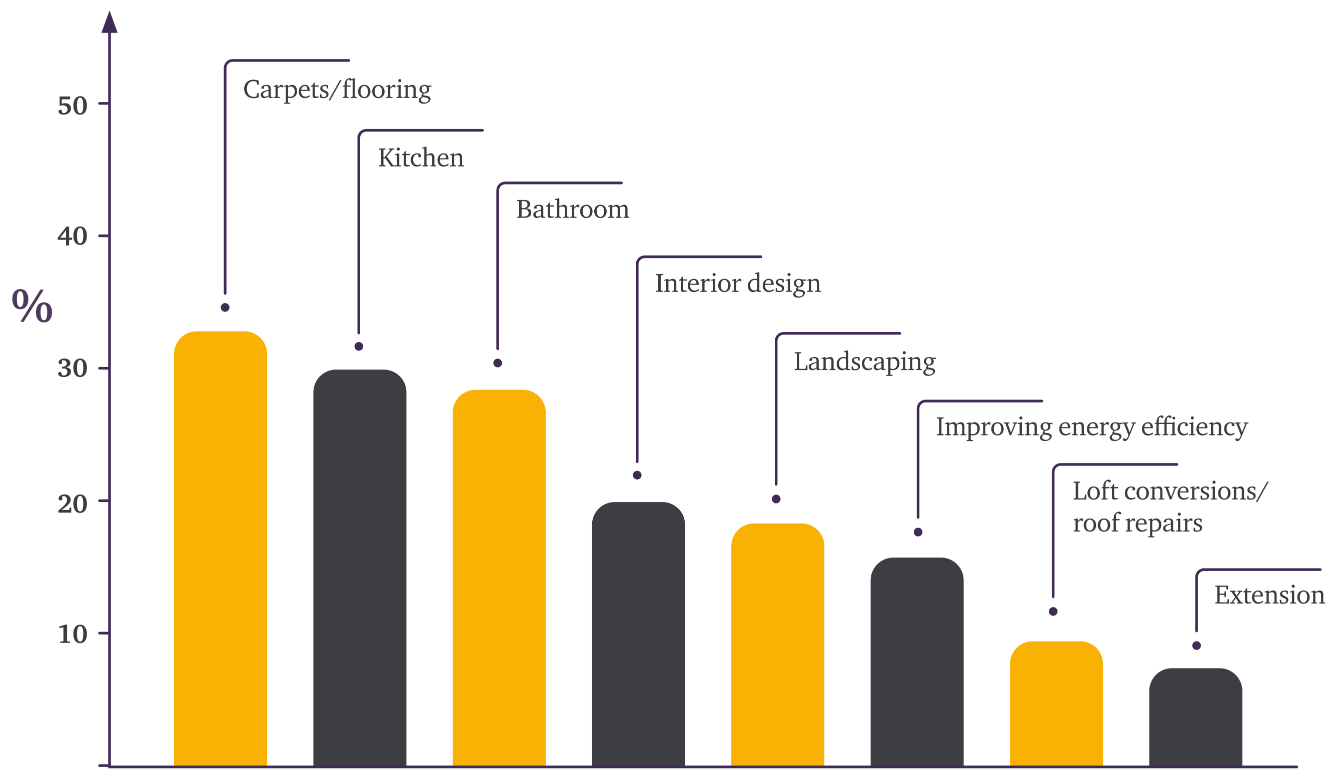
Doing up instead of moving on.

In a tough market, many homeowners are choosing to stay put and make improvements to their current property rather than moving. And post-Covid, in a hybrid working world, making space for a home office and having a property with a garden is high on wish lists.

Sales of garden buildings rocketed by 500% in the first part of 2022, according to DIY site Toolstation[xxiv], with loft conversions seeing a similar boom. So while mortgages for home moves might not be in such demand as seen previously, options to make current homes work smarter look sure to be an area to watch.

A Together home owner survey revealed that, of those homeowners planning to stay put, a whopping 72% of those said they were "happy" with their current home, whilst 10% couldn't find anything better and 9% said they can't afford to move due to cost of living. 9% of those planning to stay put do plan on improving their existing home.

Of those who said they were doing home improvements, they planned to spend their money on:



Those who were planning home improvements planned to fund the work through, personal savings (63%), personal loan (8%) and remortgaging (5%). **14% of those who planned on making home improvements didn't know how they were going to fund them.**

A new wave of second charge borrowing.

For those looking to upgrade their home instead of move, second charge finance can offer a flexible way to release funds for a range of purposes.

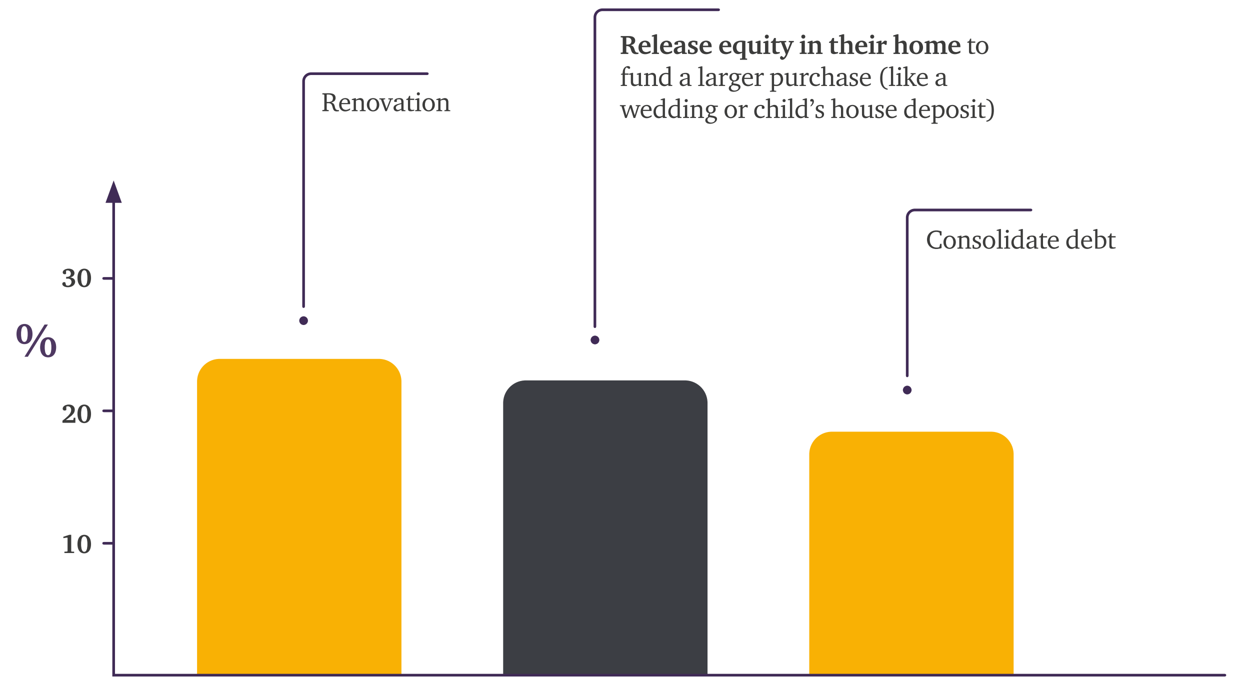
However, the average borrower is mostly unaware or wary of second charge lending, with only 43% of people knowing about second charge mortgages, and of those, 40% saying they wouldn't want to take one.

Since the pandemic, Together has seen a diverse mix of how second charge lending is used, with the economic downturn increasing the demand for debt consolidation. Borrowers are using second charge to:

- Make general home improvements like kitchen extensions
- Create additional living space such as a home office or gym
- Raise finance to help children onto the property ladder
- Release further capital during a fixed-term mortgage
- Consolidate their debts

At Together, we expect the second charge market to grow by 20% over the next two years.

Of those considering second charge lending, they'll use it for:



Residential market summary.

Partner Insights - Economist Dr. John Glen.

“In the UK, demand for home ownership consistently outstrips the supply of housing, meaning that house prices will continue to rise in the next decade irrespective of the economic backdrop. This has not gone unnoticed in Westminster with political parties of all persuasions recognising there is an urgent need to commit to building more houses and ensure that consumers have access to the mortgage funds needed to deliver on the levelling up agenda. But to deliver this change requires innovation. The research shows that 53% of the population currently have ‘non-standard’ profiles. Complex incomes and the emergence of the non-nuclear family mean that in many instances ‘standard’ profiling of mortgage applicants is not appropriate. This has seen the rise of ‘specialist’ mortgage providers who are willing and able to assess the suitability of non-standard applicants.

The UK housing market will grow to £400 bn per year by 2030 if it maintains its trend rate of growth since 2011. Currently specialist lenders account for 2% of total mortgage lending in the UK, which equated to £5 billion of loans in 2021. Given the change in the nature of mortgage applicant we have made the conservative assumption that share increases to 4% by 2030. If that were the case the specialist residential mortgage market would be worth £16 billion a year by 2030. Critically, the existence of ‘specialist lenders’ would allow half a million applicants to be given home loans over the next nine years who would otherwise be denied access to mortgage finance. Specialist lenders are therefore a critical component of levelling up and in furthering the financial inclusiveness agenda as a whole.”

“Whilst there’s no doubt the residential property market has changed, the opportunity for lenders to support ambitious homeowners is clear. The increasing need for specialist lending in the current climate is evident and there’s a clear need for further awareness of the sector for consumers.

While the cost of living and fears around rising interest rates may threaten and cause some homeowners with property ambitions to pause plans, there is clearly still a healthy appetite for new purchases this year.

And, while some may not move into new homes, we are seeing a trend for homeowners planning to spend on home improvements on their current properties, with second charge lending as a viable option to help homeowners improve and add value to their homes.”

Pete Ball, Together CEO of Personal Finance

“There is a real risk of homeowners overlooking the value of second charge mortgages, which can offer a simple route to unlocking further equity to fund renovation projects without them having to resort to unsecured borrowing via a personal loan. There’s also an opportunity for homeowners to maintain their chains using regulated bridging. Second-charge and bridging loans are not widely available through mainstream lenders, and many consumers have never heard of them, so it’s definitely worth potential borrowers speaking to a specialist lender or an adviser who has access to specialist mortgage products like these to find a solution that works for them.”

Alan Davison, Head of Personal Finance Distribution Sales, Together

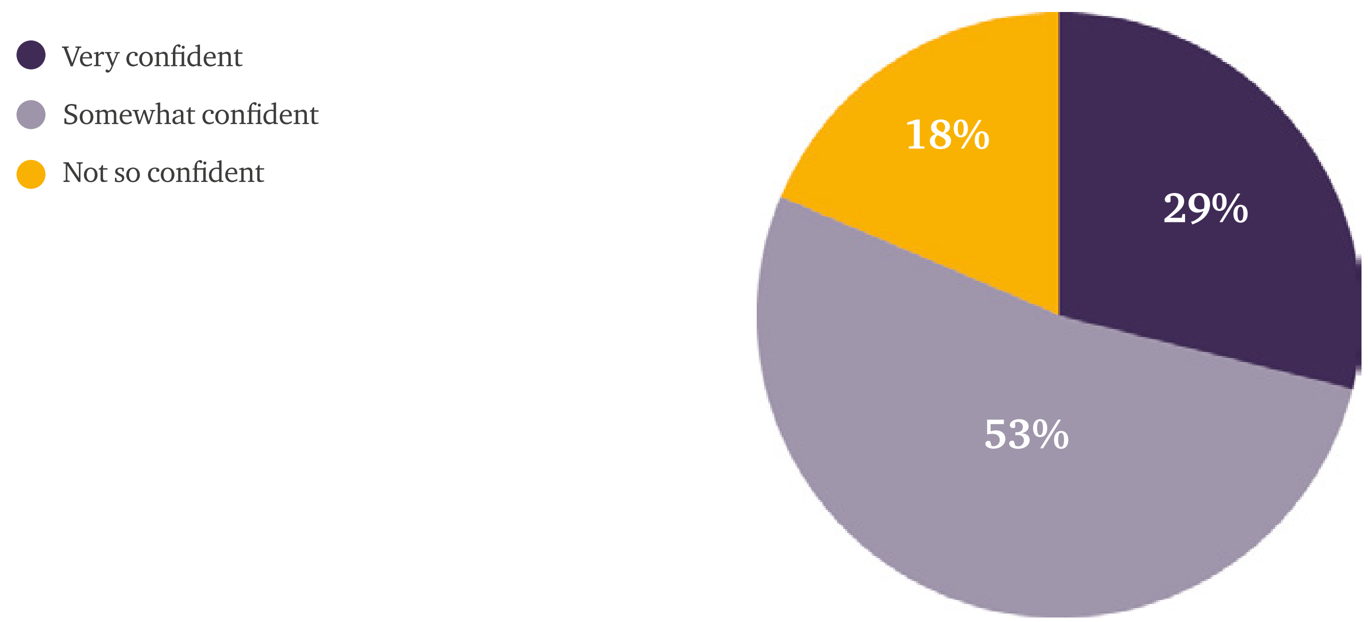
The Intermediary View.

Discover what our intermediary partners are predicting for the specialist lending industry in 2023.

Our valued intermediary partners are incredibly important to Together, so we asked them to share their insights and predictions for the year ahead, including the biggest opportunities for the industry and their businesses, and the potential challenges that borrowers and brokers might face. Despite the challenging times, intermediaries are optimistic in their outlook for 2023. They believe there are significant opportunities now more than ever, including the increasing importance of their role in supporting customers to find the right product to suit their needs.

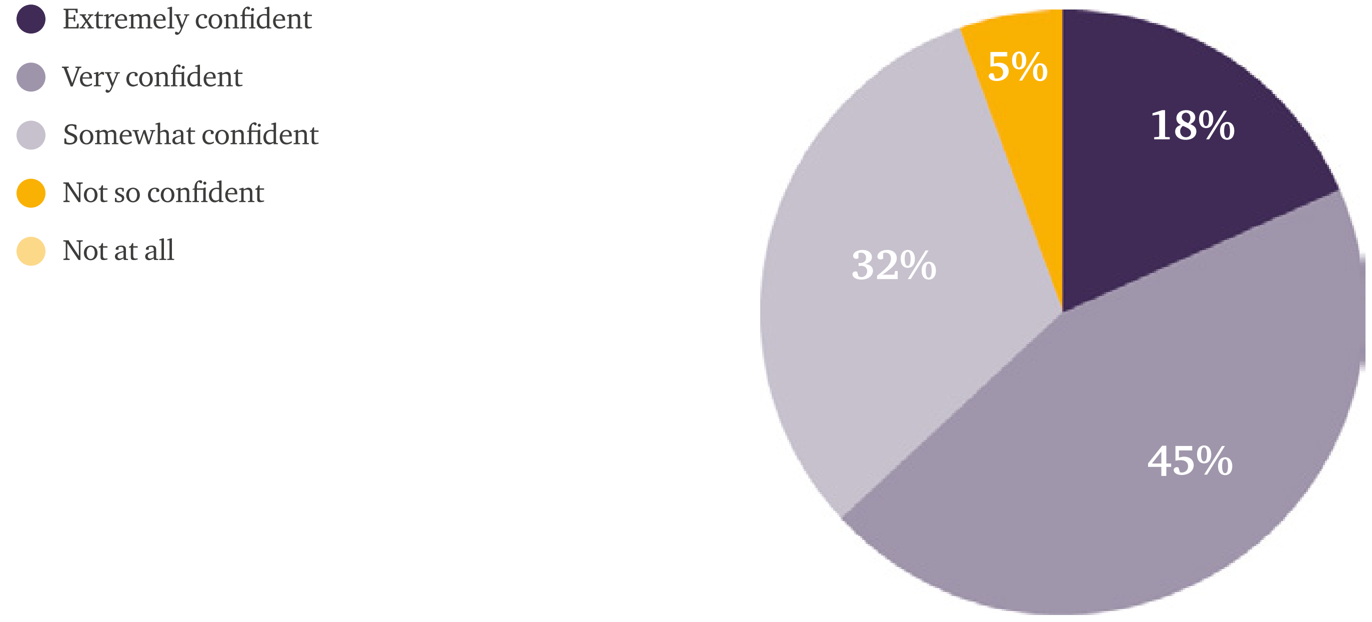
Market outlook over the next 12 months

How confident are you feeling about the market outlook over the next 12 months?



Intermediary business performance for the next 12 months.

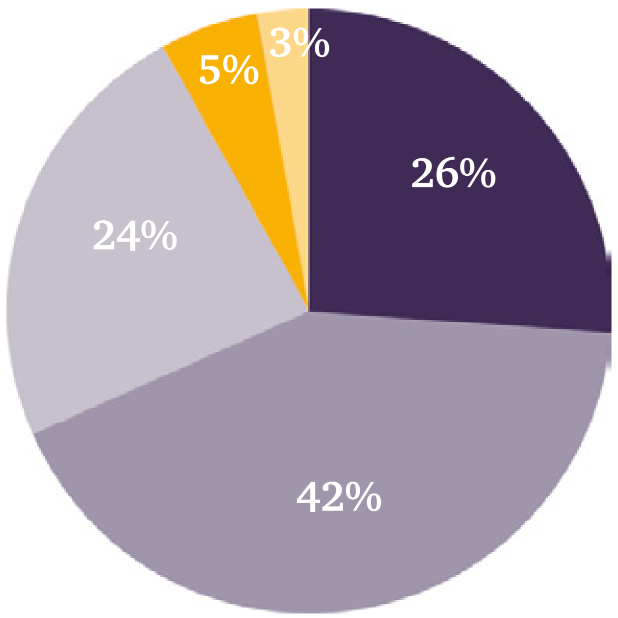
How confident are you feeling about your company's outlook over the next 12 months?



Confidence in the growth of Intermediary businesses.

In 2023, I expect my business to:

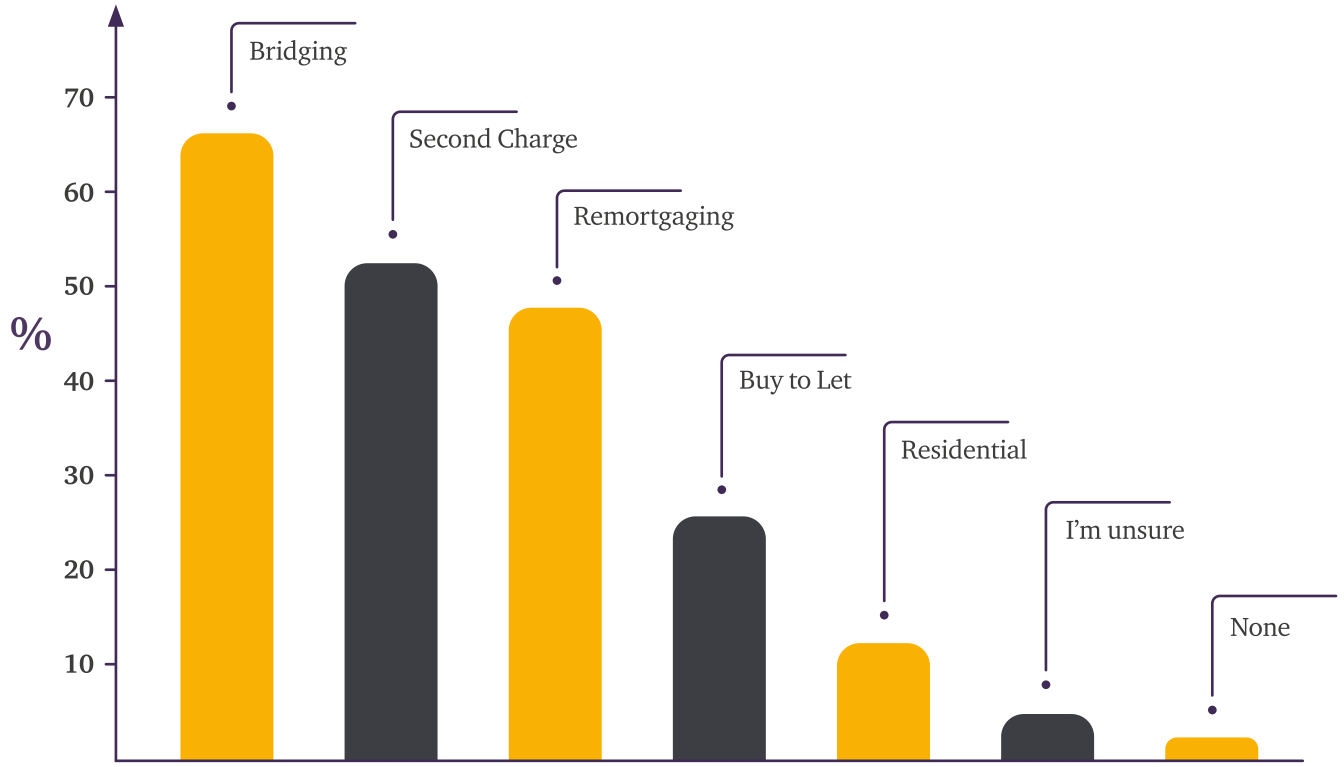
- Grow significantly
- Grow a small amount
- Maintain current levels
- Reduce slightly
- Reduce significantly



68% of intermediaries expect their business to grow this year. With 24% expecting to maintain current levels. This was attributed to the rise in second charge and bridging replacing the traditional "purchase" type transactions. Some intermediaries feel there is still opportunity in commercial term and development finance and SME cash flow opportunities.

Areas for growth.

Which area(s) do you see growing over the next 12 months?



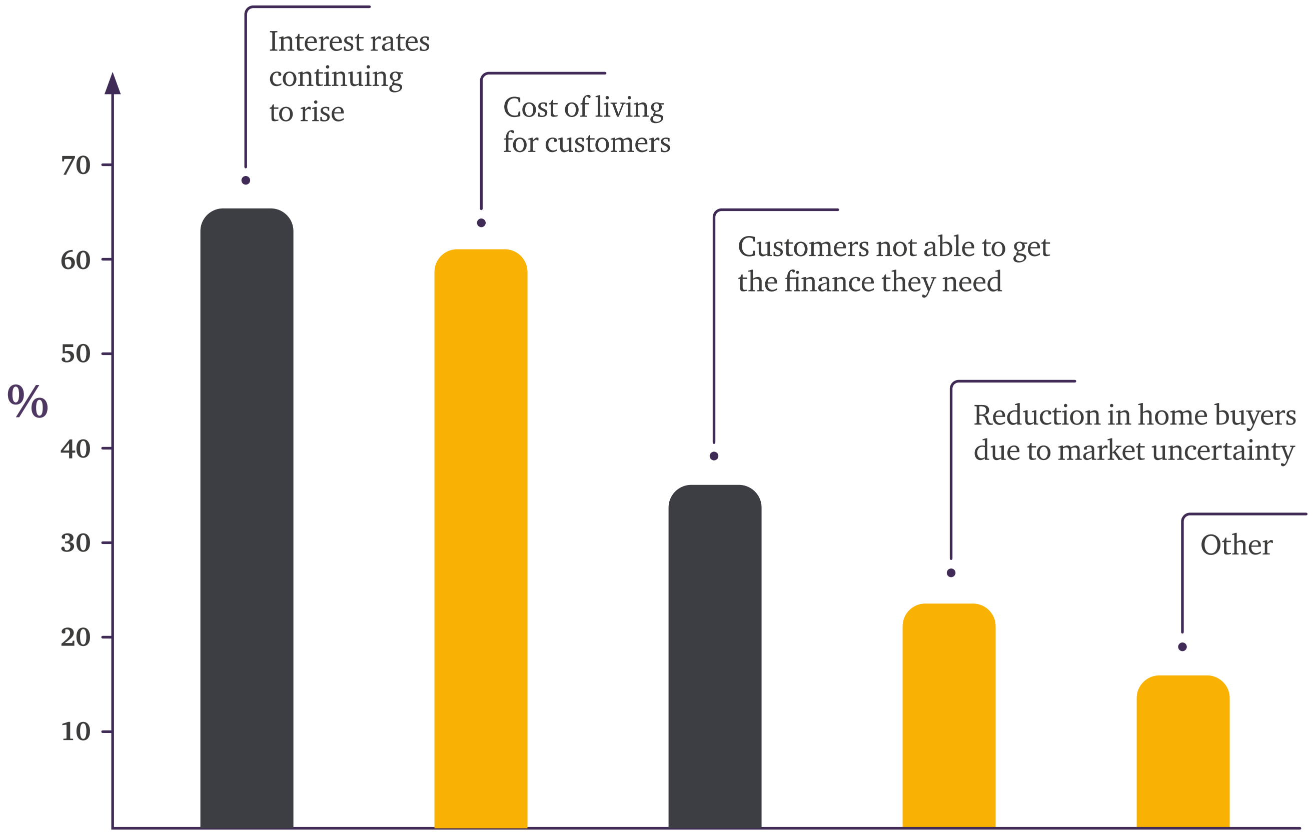
Bridging and second charge, plus remortgaging are the clear growth areas for intermediaries with 66% stating bridging and 53% stating second charge is an opportunity and 48% stating they'll see a growth in remortgages.

What's driving this thinking?

Most intermediaries who responded stated reasons included cost of living, the need for debt consolidation and the increasing costs of mortgages (with some already locked into lower rates) will mean a turn to second charges. Others stated opportunities for landlords and property developers to take advantage of the opportunities through bridging loans; with the increase in BTL mortgage rates meaning investors turn to bridge instead of the BTL mortgages. A number also suggested that the difficult markets may mean homeowners seeking to move taking regulated bridging to break chains and get them moving.

The challenges.

The biggest challenge this year for your business or for customers?



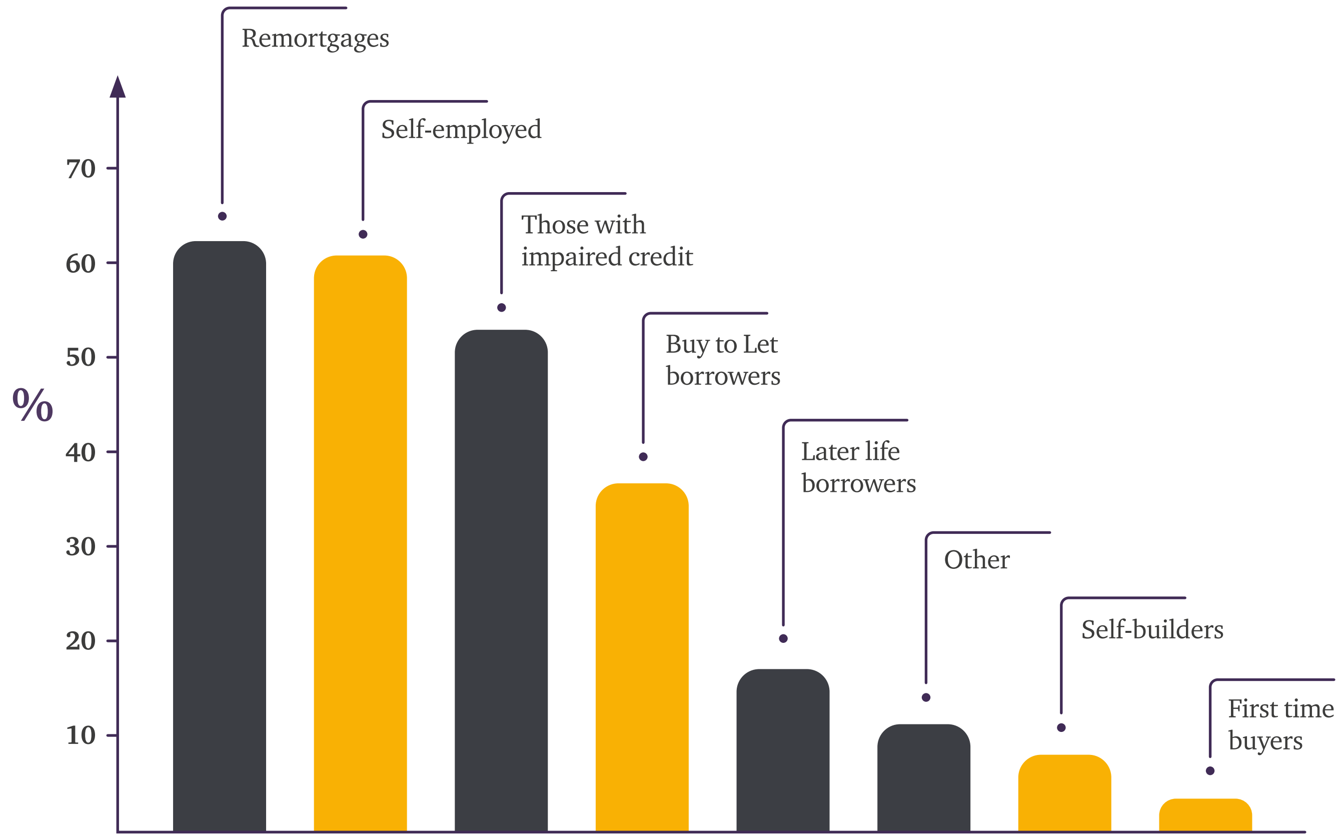
Rising interest rates (66%), cost of living (60%), and customers being unable to get the finance they need due to their circumstances (37%) topped the list of challenges, followed by a reduction in home buyer demand due to market uncertainty (24%) are the top challenges according to intermediaries. A number of brokers also felt that all of these were relevant, and also media speculation and overpriced properties being key drives of consumer behaviour.

Specialist lending on the rise.

Do you predict a rise in customers with specialist lending requirements this year?

97% of our intermediary partners categorically agreed that there will be a rise in specialist lending requirements this year. They see the biggest rise in re-mortgagers (63%), self-employed customers (61%), those with impaired credit (53%) and BTL borrowers (37%) and later life borrowers (18%). Consequently, only 3% see an opportunity for first time buyers.

Which customer type do you expect to see the most business from this year?



Intermediaries summary.

Despite the challenging times, our intermediary partners clearly see the opportunity for specialist lending growth. The expected rise in second charge and bridging brings opportunities for both intermediary businesses and specialist lenders alike, and whilst the market dynamics may be changing, the customer needs are growing.

"More so than ever, the role of the intermediary is going to be incredibly important in supporting customers and helping them find the right product to suit their needs.

As a nation we're currently grappling with the cost of living crisis, rising interest rates, upcoming changes to EPC regulations (for landlords) – the list goes on. Whilst rates are gradually stabilising on the high street, many major lenders have tightened their criteria (preventing countless clients accessing the borrowing they need).

While overall transaction volumes may soften in 2023, the specialist market share is set to grow, as this sector has the ability for a more flexible, individual approach to reviewing applications.

The challenges facing the UK have exposed the 'one-size-fits-all' approach of mainstream lenders, with many credit-worthy, responsible clients struggling to access the finance they need.

This re-emphasises the hugely important role of the mortgage intermediary and packager, and means there are strong opportunities for them to grow their businesses and reach more clients than before."

James Briggs, Head of Intermediary Sales – Personal Finance

Partner Insights - The Brightstar Group.

"2023 will continue to be an interesting and challenging year for the industry, however Together's research shows that we more than ever need to diversify and remain optimistic for our customers.

Client's needs will continue to be more complex and require specialist finance solutions through a variety of channels, including second charge lending, bridging, specialist buy-to-let and commercial.

With second charge being utilised to support customers with the likes of home improvement and debt consolidation, communication is key to supporting customers through this, and even though 2023 will continue to be challenging, we as an industry need to look at how we can create affordable options for clients."

Rob Jupp, Group CEO, The Brightstar Group

Partner Insights - Crystal Specialist Finance.

"2023 will be the year when mortgage brokers must diversify their business models to thrive in the current economic climate. To be successful, they should embrace specialist finance, and this desire to expand into new markets is highlighted by the research from Together.

The move to specialist finance is being driven by a number of factors. Firstly, and foremost, client needs are becoming increasingly complex. For example, more clients will find themselves with mounting debt and in need of solutions for adverse credit. Second charges will be utilised more to borrow without disturbing low-rate fixed term deals in place. More Buy to Let landlords will struggle with stress tests, and more businesses will want to purchase their premises or lever it to support cashflow.

At Crystal we are huge advocates of bridging finance because of both the cost effectiveness and flexibility of the new breed of products available in the market. Again, we see bridging as a huge growth area this year and this is echoed in the research. Bridging really has come of age and it should be key in every broker toolkit.

2023 will undoubtedly be a challenging year for property finance but it's great to see brokers responding positively and understanding that specialist finance can be a solution to navigate the turbulent year ahead."

Jo Breeden, Managing Director, Crystal Specialist Finance

"Whilst 2023 may be a challenging year, economically and politically, it doesn't mean that opportunities will cease. Those wanting to purchase property or secure funding on their existing property will make the necessary adjustments to maximise on new and different opportunities. And bridging finance with its speed and flexibility provides the perfect specialist lending solution.

Lack of housing stock is unlikely to change so, coupled with continued affordability challenges, the use of regulated bridging to fund onward purchases before current homes are sold will remain very feasible in the regulated space.

In the unregulated environment, investors will continue to seek bridging finance as they look to maximise yields on their properties or portfolio's – particularly on HMO and MUB. Refurbishment will continue to be a popular strategy, not only to maximise return on investment, but also to improve properties for the pending EPC regulations coming into effect for landlords from 2025."

Tanya Elmaz, Director of Intermediary Sales – Commercial Finance

Funding the Future: How Together Supports Property Ambitions.

A message from our Group CEO Designate, Gerald Grimes.

"Despite economic uncertainty, it's clear from our research that businesses and individuals are still looking to seize opportunities now and in the future. SMEs are still investing, and are planning on making significant investment when the time and conditions are right and individuals are still creating plans for their dream home, albeit in a different way than the last decade has seen. Giving businesses and individuals access to the right type of finance is essential – now more than ever.

In the current market, many lenders may becoming increasingly cautious, which means that businesses and individuals could struggle to access the right level of funding in the timescales they need. At Together, we take a common-sense approach to lending, with strong funding lines, we help businesses and individuals to achieve their ambitions.

As an experienced lender, we've helped countless customers to grow through turbulent economic climates such as this one. We offer an experienced team and we're by our customer's side from day one.

With nearly 50 years' experience supporting individuals and SMEs, our broad portfolio of mortgages and secured loans, bridging loans, BTL, commercial mortgages and development funding, allows us to provide the right solution for the customers, whatever their situation. We look for ways to say yes and we share our customers' vision.

Our purpose is to help homeowners, landlords and business owners achieve their property ambitions by making finance work for them."

Summary and conclusions.

"It's fair to say that it will be an uncertain year ahead in the property market with almost all of the forecasts pointing towards a very challenging period. However, there are opportunities and specialist lending comes into its own when economic turbulence disrupts established market and customer dynamics. Together have heritage and pedigree lending with vast experience and deep, wide ranging criteria to support customers. Whether that's homeowners and buyers or property investors and developers, we help them realise their property ambitions by making finance work for them. With rising borrowing costs, increasingly flexible incomes, and the fallout from challenging credit conditions, more and more people will find themselves requiring the support of specialist lenders – and Together is incredibly well placed to deliver."

Ryan Etchells, Chief Commercial Officer

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