Urban Exposure freeze adds to cold snap

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Urban Exposure's announcement that it will cease all new lending "for the foreseeable future" is the latest sign of the real estate finance market's slowdown in the face of the coronavirus crisis.

The AIM-listed financier said it has taken the decision "in light of current business conditions, including the market uncertainty created by Covid-19". It will instead focus on managing its existing loans.

Urban Exposure is a distinct case – the company has been undergoing a strategic review following the collapse of a deal to sell its loan book and is still exploring "numerous possibilities" for offloading the loans, which it said could benefit shareholders more than the business holding the loans to maturity.

Nonetheless, market figures speaking with EG said the move is illustrative of a broader malaise to hit the market. At brokerage Liberum Capital, Rahim Karim, a financial services equity analyst who covers stocks including Urban Exposure, said he expects to see loan growth slowing due to a combination of caution on the part of lenders and a lessening of demand.

Instead of writing new business, many property lenders will focus on steering their existing book through the crisis.

"I suspect everyone with an existing loan book will be focused on managing that – there will be a limited trickle of new lending to well-loved and familiar sponsors and existing customers, rather than interest in expanding the loan book," said Peter Cosmetatos, chief executive of CREFC Europe, a trade body for lenders.

"In this environment, it's really difficult to price or value anything, so there are real challenges on new lending. Most of the new lending is likely to be opportunistic, transitional, for repurposing, and there's surely a huge opportunity there. But how much credit is available, when it decides to make itself available, and how that capital is priced, remains to be seen."

Jonathan Vandermolen, founder of agency Vandermolen Real Estate, said lending levels are downbeat. "While everyone says they are lending, they are not – at least not in the way they were, and definitely not the high street banks," he said.

"As for the challengers, anyone who has a banking license reliant on valuations can't lend as the Covid-19 clauses make the valuation not worth the paper they are written on."

Vandermolen added that there is activity from private lenders, but the loan-to-value ratios for development are between 50% and 65% loan-to-value and rates will be 8-15% "due to the risk".

"Most lenders, despite what they say, are very concerned that their loan-to-value ratios are now going to be breached," he said. "Schemes will take longer to build, sales will take longer and while many are happy to extend terms by, say, six months, this will not be interest-free. With most interest on development schemes rolled into the loan, this will cause serious issues going forward."

The recent UK Commercial Real Estate Lending Report from Cass Business School showed a 12% drop in new loan origination during 2019, and author Nicole Lux has predicted a year-long slowdown in deals as the Covid-19 crisis unfolds.

"No one is lending without a good or absolutely necessary reason," Lux said. "Everyone is collecting reserves for impairments and write-downs.

"It is certain that many banks and insurers have ceased lending at least to any new clients, but for the debt funds it depends on their business model. There are some raising capital for potential distressed opportunities."

As for Urban Exposure, which is largely focused on loans for residential development, Lux said: "I guess they don't see the construction industry moving this year."

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LondonMetric completes £120m raise for acquisitions

LondonMetric Property has raised £120m from a share sale, a fifth more than the target it set when the deal was announced.

The company said it had seen an "exceptional level of demand" from new and existing investors, letting it increase the size of the issuance from £100m.

Chief executive Andrew Jones said: "We are extremely grateful to our shareholders and to new investors for their strong support and the exceptional level of demand for this capital raise.

"The funds raised will allow us to execute on our quality pipeline of deals and opportunities as we continue to further strengthen our portfolio's long-term income characteristics."

The company sold 66,666,666 new shares, or 7.9% of its issued share capital prior to the deal, at 180p per share. JP Morgan and Peel Hunt ran the deal.

When the deal was announced earlier in the day, LondonMetric said it expected to spend the proceeds in the next three months. The company is lining up several projects, including the purchase of a £60m portfolio that features a sale-and-leaseback agreement with an online operator. A further £10m is likely to be spent on a London sale-and-leaseback portfolio, while £30m is earmarked for various other purchases.

"These uncertain times are starting to give rise to quality investment opportunities that are seldom available in a normalised market," Jones said. "Through our occupier relationships we have identified some excellent assets, at attractive pricing, which would further strengthen our portfolio's long-term income characteristics. Not only do we expect to see further opportunities arise but also we expect the pitch to be much less crowded than before."