

# **LendInvest: Autumn Statement Submission**

**Date of Submission: 17 November 2016**

## **Who is LendInvest?**

Lending since 2008, LendInvest is the UK's leading online mortgage lender, lending bridging and development finance to property investors and small-scale house-builders. With an eight-year track record of lending specialist finance products, LendInvest now has an estimated 10-12% market share of the short-term mortgage market and a growing suite of products designed to fill the gaps where traditional lenders are under-serving borrowers in the property finance space.

In addition to improving access to mortgage finance for creditworthy borrowers, LendInvest is leading the market in extending access to mortgages as an investable asset class for a wider range of investors.

A fundamental tenet of our business strategy is diversification of funding, believing as we do that a healthy and proportionate mix of funding sources is critical to maintaining a stable lending environment throughout the economic cycle. For this reason, we develop a number of successful access points for investors to invest in property loans; currently we offer an online investment platform, two discretionary funds managed in London and Luxembourg and four dedicated funding lines from UK and international institutions.

We strive to become the leading non-bank provider of property finance in the UK. To date we have enabled investors to invest over £775 million in loans to property professionals who have bought, built or renovated more than 2,600 properties, worth over £1.3 billion in over 200 UK parliamentary constituencies.

## **A maturing FinTech company**

LendInvest was incubated out of an existing and offline property finance business, Montello Finance. As such, we are often referred to as being a financial services business first, and a technology business second - a description we are proud to endorse. With a track record of prudent lending underpinning our business, we are developing technology that will bring the UK's £1.3 trillion mortgage lending market online, significantly improving the customer experience and stimulating market competition.

As the UK FinTech market expands, we place a lot of value in our ability to build a sustainable business that has delivered value to shareholders for three consecutive years and is delivering real economic impact by offering attractive investment opportunities in a consistently low-yield environment, and putting more homes on streets.

LendInvest considers that as the UK FinTech community expands, expectations of investors and stakeholders will grow in regard to the feasibility of FinTech businesses to withstand external, long-term economic pressures while protecting their customers. It is our view that government should encourage maturing FinTech companies to put front and centre their focus on sustainability, stability and productivity, by supporting their positive impact on the wider economy and helping to nurture them through their development into established, mainstream businesses.

## **Industrial Strategy**

The Government's Industrial Strategy is an opportunity to harness the benefits made possible by financial technology to address challenges in the economy. By setting out a strategy for technology and digital to contribute to long-term economic growth in the UK, the Government should encourage more sustainable, responsible FinTechs to deliver products and services to improve UK productivity and the experience of customers beyond that offered now.

LendInvest supports property professionals to increase the supply of housing, by extending the availability of finance to those underserved by traditional lenders. We believe that industrial policy must account for the critical role of SME

housing developers in putting more homes on British streets and the importance of the private rented sector in improving housing stock.

The Autumn Statement is an opportunity for government to set out its vision for a modern industrial strategy that balances investment in Britain's infrastructure with a commitment to supporting the digital economy to provide innovative solutions to market challenges like the housing crisis.

The measures we encourage government to explore are listed below:

## Addressing the housing crisis

LendInvest welcomes the cross-government commitment to addressing the shortage of housing supply in the UK - an issue of immense complexity that requires a coordinated approach by government and industry.

We champion SME developers, the number of whom has been in drastic decline in recent years, and if continued, will undoubtedly affect the UK's housebuilding output. Back in 1988, the number of small builders (defined as those building 100 units or fewer) stood at 12,200 in the UK. That had fallen to 5,700 by 2006, and then just 2,400 by 2014. This 80% slump has been to the detriment of both the industry and the nation at large. It is commonly recognised now that relying on the larger housebuilders to increase housing supply has proven ineffective.

LendInvest believes there is a trio of access points which require coordinated action by industry and government to improve the capacity of SME developers to contribute to their fullest potential and put more homes on British streets: access to land, finance and skills.

We encourage the Chancellor of the Exchequer to use the Autumn Statement to invigorate the housebuilding sector by addressing each of these access points with appropriate measures.

### **1. Support the role of alternative finance providers in disseminating funds to housebuilders**

LendInvest welcomes announcements by government to launch a £3bn Home Building Fund. However, we are concerned that a fund of this scale, which is three times the size of the largest UK private sector fund of its type, may pose difficulties for the Homes and Communities Agency who are designated to disseminate the capital.

We believe that government could partner with financial services firms, who have the suitable expertise to determine which businesses are likely to be good prospects. The Government is well placed to mandate state-backed funding schemes that enable lenders to offer more capital to businesses. LendInvest sees this as an essential area for exploration by the Government.

### **2. Put the Government's weight behind industry initiatives to improve skills in the sector**

A number of prospective developers are unable to access finance because they lack sufficient, relevant experience to satisfy lenders of their ability to complete projects on time and on budget. In order to get Britain building again, the skills gap must be addressed, enabling aspiring property professionals to get projects off the ground with the financial support they require.

Industry is responding to this challenge by developing programmes to help professionals transition to property development. An example is the LendInvest Property Development Academy, which launched in Autumn 2016 with the support of ten industry organisations and content designed by University of Reading.

The free to attend Academy's first course was ten times oversubscribed within a month of launching, pointing to a genuine appetite for education and support from developers. With government support and endorsement, we can expect to see the rapid proliferation of such academies and similar initiatives throughout the country, adding value in every region where the housing shortage abounds.

### **3. Introduce measures to improve SMEs' access to land for development**

Government should prioritise SMEs when selling public land to rebalance the shortfall of smaller developers, who are better incentivised to complete on land swiftly. This will quickly and meaningfully contribute to meeting government housebuilding targets.

## **Incentivising investment in the private rented sector**

The Housing Minister has made positive steps in highlighting the valuable role of the private rented sector in the UK. If government seeks to support all tenures, it must address challenges faced by professional landlords.

### **Incentivise investment in property by addressing the impact of:**

#### **A, Stamp Duty Land Tax on the market**

The property market is seeing a slowdown, in part due to the Stamp Duty changes coming into effect earlier this year. With the vote to leave the European Union, many forecast that the property market may endure a prolonged slowdown in 2017. In order to incentivise investment in property, particularly for SME developers, the Government should revise down Stamp Duty to make property investment a more affordable endeavour.

Smaller developers and professional landlords are impacted by this constraining levy, which inhibits the construction of additional housing stock, ultimately passing cost of slowing supply on to purchasers.

#### **B, Section 24 of the Finance Act (2015) on private landlords**

Many in the property and housing industry, including the National Landlords Association, RICS and the Residential Landlords Association are calling on government to address the changes to finance cost relief. In its current form, the policy imposes a greater tax burden on private landlords by effectively taxing turnover from rental income, rather than profit.

An increasingly complex tax system in the private rented sector could negatively impact on business decisions as the yield from rental investment is constrained for private landlords who are pushed into higher tax brackets in virtue of their turnover, rather than profit. LendInvest encourages government to review the system with a view to incentivising investment in this type of tenure.

#### **C, The constrained funding environment for Buy to Let developers**

Development funders often require evidence of pre-sales to Buy to Let landlords before they support the funding of a new development scheme. This negatively impacts upon many SME developers' ability to obtain finance for speculative schemes and ultimately reduces the supply of new builds. Stamp Duty combined with lending criteria that requires evidence of pre-sales has a limiting effect on developers' ability to get schemes off the ground. The Government should address these constraints.

## Encouraging productivity in the FinTech sector

The Government has invested heavily in its ambition to create a hub of excellence in the UK for technology start-ups and businesses using technology to transform established industries. The Treasury has played a key role in positioning the UK as the global FinTech capital and a hub for investment and innovation over the last parliament. However, conditions are changing in the market, with investment in UK FinTech by venture capital firms falling by 33% in H1 2016<sup>1</sup>.

As the Government's industrial strategy seeks to improve productivity across the UK, the financial services sector, and FinTech particularly, will remain an integral force in driving economic growth. Increasingly, those FinTechs who demonstrate scalability, sustainability and delivery of growth should be supported to strengthen the UK's role as a global centre for innovation in financial services.

The Autumn Statement provides the Chancellor an opportunity to galvanise support behind maturing scale-ups in FinTech.

### **1. Campaign on diversification in finance, highlighting the important role of alternative finance companies**

Technology-enabled companies like LendInvest are opening up new sources of finance for property developers, ultimately increasing productivity in construction and development. With the support of government, digital tools for accessing and acquiring finance would enter the mainstream. FinTech has largely focused on the low-hanging fruit in financial services: payments, account management and money transfers. As businesses use technology to improve services and products in harder to reach areas such as mortgages and insurance, it is essential that the government plays a role in supporting consumers to make decisions about their financial futures. This must include awareness of new products and services available, offered externally of the mainstream financial services providers.

### **2. Ensure regulation keeps pace with digital and consumer innovation**

The UK is home to the most progressive financial services regulators who have developed a global reputation for supporting competition and development of new products through the Regulatory Sandbox and Innovation Hub. The FCA is continually working on positioning itself to have a forward-looking approach to devising regulatory regimes for emerging products, markets and services.

Innovate Finance called in particular for government to support the FCA, PRA and Bank of England to invest further resources to enhance technological understanding from within. LendInvest endorses measures action of this kind to ensure that regulatory frameworks are developed with innovation in mind.

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<sup>1</sup> <http://new.innovatefinance.com/wp-content/uploads/2016/09/Innovate-Finance-Autumn-Statement-October-2016-1.pdf>