BLACKFINCH
PROPERTY

FAQs FOR INVESTORS BLACKFINCH PROPERTY

Given the global coronavirus pandemic, we have created a list of questions which investors may be asking currently and given our current thoughts on each. This is to provide a clear understanding of what position their investments are in. It is also to highlight the perceived risks, the actions we are taking to mitigate these and to explain what protections we already have or are putting in place.

1. WHAT HAPPENS TO DEVELOPMENT SITES IF CONSTRUCTION COMPANIES OR PROPERTY DEVELOPERS GO OUT OF BUSINESS DUE TO FINANCIAL DIFFICULTY (I.E. AS IN 2008)?

If developers get into financial difficulty, our first priority is to assist them so they can finish the developments. However, if a property developer was no longer solvent we would use our full suite of security protections, collateral warranties and appointment documents to consider stepping into the developer's position. Suppliers would be obliged to fulfil contracts they had previously agreed to with the developer, or face more formal enforcement. We would also have our expert monitoring surveyors on board. They would be close to all the detail on the construction, helping to ensure that planning, building regulations and new home warranty providers were all updated and complied with.

Further to this, if the borrower was also involved in managing the construction themselves or using their own construction firm, as is sometimes the case, we would still rely on collateral warranties with key sub-contractors. These would include architects, mechanical and electrical consultants, or other key suppliers we deemed fundamental to the build. We would then use our extensive network of professional contacts within the construction industry to appoint new project managers or construction firms to finish the build.

This is something we have done before to exit projects. Blackfinch Property has a highly experienced internal team which has successfully taken over and completed and sold developments. Such direct experience is vital.

2. WHAT WOULD HAPPEN IF CONSTRUCTION SITES ARE FORCED TO CLOSE DOWN?

Currently, a number of our sites have temporarily closed down due to supplier issues. Meanwhile, for other projects, work is continuing on site. Delays are common in property development and we build some contingency into every construction loan for such delays. We also engage specialist monitoring surveyors on every development loan who would advise on progress and compliance of all sites. If sites are closed for a short period of time then this will not have a significant impact on the sites and therefore the loans. If sites are forced to remain closed for a longer period of time then we will consider all options as to how we can help borrowers. In some cases loan extensions may be offered. Our priority is always to ensure that each development is finished so that an exit can occur.

3. WILL LOANS BE OPERATING AS NORMAL WITH LOAN DRAWDOWNS BEING HONOURED TO SUPPORT BORROWERS?

We remain well capitalised and will continue to operate our facilities including loan drawdowns where they continue to meet the loan criteria, which includes monitoring surveyor certificates. As monitoring surveyors may not be able to access sites, we will accept appropriate virtual approval including photographs, facetime/video calls and invoice reviews. The Blackfinch team will continue to process payments quickly.

4. WHAT HAPPENS IF THERE IS A HOUSING MARKET CRASH AND PROPERTY PRICES FALL?

It is too early to say what the impact of the pandemic will be on residential and commercial property prices. We have a well-diversified loan book by both geography and sector, albeit mainly focused upon residential property. Therefore, we have some protection against a particularly negative impact on one segment of the market. We expect that there will be more of an impact on commercial property than residential property. Nevertheless, there is a risk that both sectors of the market may see an impact.

We are pleased to say we have low average gross loan to values across both our asset-backed (59%) and property development (53%) loan books. Therefore, the market would in theory need to drop by over 40% before we get near to taking any losses. Even if this were the case, the loan to values net of interest are lower still. There would be an impact on interest first before any capital was at risk.

Each loan is backed by personal guarantees from the individual behind the borrower (these are usually companies) for both our loan and the build costs. This provides another line of defence before losses would occur. Also, each loan has reliance on a professional indemnity-backed valuation report from a reputable surveyor firm.

As the lending companies are cash backed there is never a need to offload loans at below market rates in order to meet capital adequacy requirements. Therefore we would not be under pressure to enforce the loan and sell at a loss. This is a constraint faced by many banks which can cause heightened losses for them during economic downturns. We would instead explore other asset management strategies to manage the asset through to a successful exit. This might involve leasing the asset out for an underlying income, completing or amending the development, or restructuring the loan.

Any impact on property prices may well be short term. As noted above, once managed through the period, the loans could be successfully exited when the market returns to normal.

5. HOW WILL NEW DEALS BE FOUND IN THIS ENVIRONMENT AND WILL THEY BE RISKIER?

Regarding finding new deals, a number of other lenders are not lending at all, therefore there is less capital in the system for funding new asset-backed and development loans. There will also likely be a lower demand for new loans. However, we expect that there will still be enough assets held with debt to ensure that there are still a significant amount of deals in the market. While we plan to raise additional funds, we anticipate that a number of existing loans may delay slightly in redeeming and will need extending. This will mean that we can afford to be even more selective with the available capital we do have to deploy.

In terms of risk, due to the global pandemic’s impact on the UK currently and the general lockdown, we are factoring in additional stress tests on both bridging and development loans to account for anticipated possible sales and construction delays. In effect, this will reduce our loan to values to allow for this additional contingency. We also have a preference for residential loans due to the underlying demand for housing in the UK which remains in evidence. We will also still consider other more defensive sectors such as student accommodation and healthcare. We deem loans with underlying income, or income potential such as completed developments, lower risk. This is because there is a strong mitigation against default in that there is an underlying income to cover the interest. We will consider other commercial sectors but are less likely to lend against leisure, retail and office at the moment.

6. WHAT WILL HAPPEN IF THERE IS A DELAY IN SALES AND DEVELOPERS CANNOT SELL OR REFINANCE THE HOUSES THEY HAVE BUILT?

If sales of apartments or houses are taking more time than usual, which is what we currently expect in the short term, then we will work with our borrowers to offer extensions. This would allow them more time to sell when the market returns to normal.

If sales are delayed for a protracted period we will explore restructuring loans including introducing more equity, servicing interest, or bringing in subordinated debt. Also, we can look at alternative strategies such as leasing out property or enhancing the value of the assets.

The low average gross loan to values across both our asset-backed (59%) and property development (53%) loan books provide a significant buffer to allow time if required.

7. WILL INVESTMENTS STILL BE EARNING A RETURN WHILE PROJECTS ARE DELAYED?

Yes, the loan book will continue to accrue interest which will increase the net asset value of the companies and therefore the share price. However, as with most lenders currently, and on a case-by-case basis, we may consider borrower requests for adjustments to certain interest-accruing or temporary coupon and repayment moratoria. We do not envisage this having a significant impact on the growth of investments currently. This is due to the low average gross loan to values across both our asset-backed (59%) and property development (53%) loan books leaving plenty of headroom.

As in the normal course of business we may also make prudent provisions against interest accruals to some loans if they are deemed more at risk for any reason. Regarding the impact on the rate of growth, ultimately, once the loan exited successfully, the interest would ‘catch up’.

8. WILL I BE ABLE TO ACCESS MY INVESTMENT IF I WANTED TO WITHDRAW?

Our lending companies are well capitalised and we tend to hold around 10% of assets under management in cash to deal with redemption requests, new deals or other contingencies. We have not seen any unusually large withdrawal requests for either the Adapt IHT Portfolios or the Thrive Corporate Management Service (CMS) and our inflows are still comfortably ahead of our outflows with both services continuing to grow.

Furthermore, Henslow and Lyell, the underlying Adapt IHT Portfolios trading companies that provide the loans, have launched a rights issue. This was decided at the beginning of the year as they aimed to expand and boost their balance sheets to take advantage of opportunities in the market. A key point is that the holdings in Lyell and Henslow are held for the long term i.e. until death and it would defeat the tax planning objective if clients withdrew from the product.

Both the Adapt IHT Portfolios and the Thrive CMS are Blackfinch products which provide the best returns compared to our peers. Therefore we are likely to be the last port of call for anyone wanting funds.

9. WILL THE PANDEMIC AFFECT THE VALUE OF THE CLIENT'S PORTFOLIO?

We have carried out an analysis of all our product loan books and they offer some of the lowest loan to values in the market. The main issue likely to be seen is a delay in borrowers paying back due to delayed constructions, completions and sales. There is a significant value buffer to deal with this across most of the loans in the books.