EXPERT Q&A

*Bridge lending is continuing to gain momentum as borrowers look to find flexible solutions in a challenged market, says Mark Posniak, managing director in the bridging group at Arrow Global*

# Building bridges

**Q What is driving growth and investor appetite in bridge lending within private credit in the UK and Europe?**

Several factors continue to fuel the growth of bridge lending in private credit. One of the primary drivers is the compelling combination of relatively high returns and low risk, supported by the tangibility of real estate assets. Investors are particularly drawn to predictable cashflows and strong collateral, especially in sectors such as residential living. In both the UK and Europe, a fundamental undersupply of housing further underpins this demand.

At the same time, stricter banking regulations are creating opportunities for alternative lenders to fill the gap left by traditional banks. Banks face limitations in providing short-term, flexible financing solutions, enabling bridge lenders to step in. There is significant demand for speed and flexibility in residential short-term bridge financing across Europe, as investors and developers often need rapid access to capital for time-sensitive opportunities. Bridge lenders are uniquely positioned to meet this need with their adaptability.

From an investor perspective, both institutional and private investors are increasingly seeking to diversify their portfolios. Bridge lending offers exposure to the real estate market without the need for direct property ownership. Consequently, there is robust interest from large institutional investors and smaller private investors, on both the funding and borrowing sides.

Apart from a brief slowdown during the covid pandemic, the market for bridge lending has been growing steadily for more than a decade. In the UK alone, the bridge financing market is valued at more than £10 billion ($12.5 billion; €12 billion), according to data from Mintel.

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**Q How does bridge lending address liquidity challenges for borrowers during periods of market volatility?**

Bridge lending stands out during periods of market volatility by offering fast, flexible financing when traditional lenders are constrained by uncertainty. Bridge lenders typically have the capital readily available to deliver timely and tailored solutions. In economically stressed markets, where banks face

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increased pressure, borrowers seek alternatives that avoid long-term commitment and enable them to bridge short-term gaps and get from point A to point B.

Many of these borrowers are sophisticated investors managing complex portfolios, who require liquidity injections to facilitate transactions or sales. Bridge lenders can act quickly, often providing financing within three to five weeks – timelines that banks might stretch to several months. These borrowers are frequently asset-rich but cash-limited, requiring a swift and practical solution.

In addition, as interest rates begin to ease, borrowers remain focused on enhancing yield. They are leveraging properties for conversions or refurbishments to increase value, and bridge lenders are uniquely positioned to support these projects with the agility and financing required.

### Q Why are investors gravitating towards residential-backed transactions?

Investors are increasingly interested in residential-backed transactions due to their superior liquidity compared with other asset classes. Our primary focus is on asset-backed transactions in the living sector, which can include auction purchases requiring completion within 28 days, refurbishments and conversions, or providing bridge financing at the end of a development loan to give borrowers greater flexibility in exiting their development facility on their own terms.

This flexibility is particularly appealing to borrowers who recognise that now may not be the ideal time to sell. For instance, a developer under pressure to repay a development loan might be forced to sell the first few units of a project at a reduced price, risking the profitability of the entire scheme. Bridge financing offers these borrowers the breathing room needed to sell at optimal market conditions, often at a lower cost than extending the original development loan.

Similarly, bridge lending is well suited for conversions, such as transforming office spaces into residential units, or for portfolio restructurings. Borrowers managing large portfolios may face covenant breaches or require flexibility to rework certain assets – challenges that traditional facilities often cannot address. Bridge lenders step in to provide both liquidity and flexibility, enabling borrowers to enhance their portfolios by refinancing some assets and selling others.

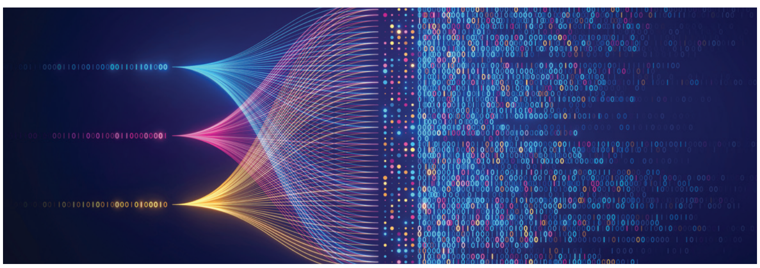
One recent example of our work in this space is a developer exit loan we completed in the UK. We provided £3.1 million to refinance an existing development loan, enabling the borrower to sell four newly developed houses and

### Q What role is technology, such as data analytics and artificial intelligence, playing in bridge lending?

In today's market, any business attempting to enter the space without leveraging AI or data analytics is unlikely to succeed. The integration of technology has revolutionised the way bridge lenders originate, underwrite, execute, monitor loans and predict risk.

Bridge lenders now utilise a wide array of data sets across every stage of the lending process including origination, underwriting, valuation and ongoing monitoring. Borrowers and their assets are continuously tracked through proprietary tools that provide detailed profiling. Operating without these tools would be like trying to steer a ship without a captain, leaving lenders ill-equipped to navigate the complexities of modern lending.

Alternative lenders, and bridge lenders in particular, benefit from the best of both worlds. They combine traditional underwriting expertise – which is essential for recognising that no two deals are alike – with advanced AI and technology. This strategic use of technology optimises precious human hours, allowing teams to focus their expertise on the most critical aspects of each transaction.



a large barn conversion. The properties had a 180-day marketing value of £5.4 million, resulting in a conservative loan-to-value (LTV) ratio of 57 percent for a 12-month term.

This deal, originated by Maslow Capital – our UK real estate debt finance business – demonstrates the strength of bridge lending. We have a clear line of sight on how the loan will be repaid through the sale of highly liquid residential assets, supported by a prudent LTV approach.

**Q How has the shift from traditional bank lending to private credit shaped the opportunity set?**

The restrictions faced by traditional banks, along with the rigid frameworks within which they must operate, have fuelled the growth of the alternative financing space for many years. This trend is particularly pronounced in the current market, where interest rates are decreasing, yet capital adequacy requirements continue to constrain banks' ability to lend – even to high-quality borrowers.

These borrowers are often sophisticated, with strong track records, but they may fall slightly outside traditional banks' criteria. This could be due to borrowing through company structures to optimise tax positions or seeking slightly higher leverage than banks are willing to provide. In such cases, alternative lenders with greater flexibility are better positioned to meet their needs, which is why banks are steadily losing market share across Europe.

A key differentiator for us is our local presence in the jurisdictions where we operate. We offer local origination, credit expertise and servicing, which provide deep insights into the property markets, regulatory frameworks and tax structures in each region. This on-the-ground understanding enables us to help investors deploy capital more securely and effectively, ensuring their investments are tailored to local conditions.

**Q How can private credit managers most effectively identify and originate granular bridge lending opportunities?**

Attempting to operate in this space without the relevant track record and on-the-ground expertise is a recipe for failure. Building a pan-European bridge lending business cannot be done effectively from a single hub like London. The key to originating high-quality transactions lies in having local teams with hands-on experience in originating, underwriting and redeeming similar loans.

While anyone can lend, the most successful originators are those with a track record of executing hundreds of transactions and consistently achieving strong performance. In a crowded and competitive market, success relies on cultivating enduring relationships with repeat borrowers, originators and partners who trust your ability to deliver.

The core of success is understanding both the borrower and the asset and knowing how to add value to every transaction. This insight comes only through time, experience, and relationships built over decades in local markets. Proximity to the market facilitates the most effective due diligence, as local teams with deep knowledge of the key players can assess opportunities far more effectively than distant operators.

**Q What types of operational practices and underwriting strategies can managers use to keep loss rates down?**

Loss rates in this market are exceptionally low, and at Maslow, this holds especially true. In bridge lending, risk mitigation starts with maintaining average loan-to-value (LTV) ratios of 60-65 percent or less. We also lend against the 180-day marketing value of the asset rather than its open market value, ensuring a more accurate reflection of the asset's liquidity.

Effective underwriting is another critical factor. We utilise advanced systems and technology to monitor both borrowers and assets throughout the loan lifecycle. Equally important is our collaboration with trusted partners to value assets accurately. We work with tightly-controlled, locally-managed partners whose performance is consistently measured, and all our advisers bring a proven track record of success.

**Q Finally, how can lenders incorporate ESG considerations into bridge lending strategies?**

Any lender that fails to embed ESG considerations into their investment principles and operational strategies is unlikely to succeed, particularly in European markets, where ESG is central to every transaction. We now integrate ESG criteria into every loan we originate. For example, with an Article 8 fund, each loan must be scrutinised and monitored for its environmental impact.

In the UK, energy efficiency in some properties is among the poorest in Europe, presenting significant opportunities for alternative lenders with an ESG focus to improve project efficiency. We are currently seeing a surge in refurbishment projects aimed at enhancing energy performance. From a social perspective, the creation of more affordable housing is another priority embedded in every loan we provide, aligning our lending activity with broader societal goals. ■

> *"Bridge lending offers exposure to the real estate market without the need for direct property ownership"*