Ashbridge
PARTNERS

INSIGHTS

Our independent perspective into the finance market for land owners, entrepreneurs, family businesses, private residential and real estate owners.

A year of incredible change

During the last twelve months we have seen incredible change; at the beginning of last September Queen Elizabeth was still on the throne, Boris Johnson was Prime Minister and Nadhim Zahawi was Chancellor. I don't think any of us could have foreseen the twists and turns that followed.

At the beginning of 2022, the Bank of England (BoE) base rate was still only 0.25% having been below 1.00% for the previous 13 years, and it seemed that the 'free money party' was set to continue. However, the impact of an unexpected war in Ukraine and post pandemic supply issues, brought inflation to all of our attention with a bang.

Central banks across the world moved slowly to address the inflation issue. At first it was suggested that this was 'transitory', but by 1st September 2022 inflation stood at 10.1%. With the BoE base rate still at only 1.75%, the Monetary Policy Committee had a lot of ground to make up.

Move forward a whole year and here we are in September 2023 burdened with a BoE base rate of 5.25%. Thankfully the inflation rate is forecast to fall to 5.00% during the next quarter.

This seismic change over a short period of time, has caused many businesses and households some financial pain and hardship. At Ashbridge Partners we saw the impact first hand, as we guide our clients through these challenging times.

Impact on businesses, people and the finance market

Families, individuals and businesses alike are having to reassess and restructure their cash bases, to adapt to the dramatic change of environment. Here are some examples of the impacts we are seeing:

- Those businesses with bank loans may need to reduce their debt or restructure their loans, in order to achieve affordability. The impact upon highly leveraged property businesses may be more extreme, possibly resulting in asset sales.

The same rules apply for individual households where a mortgage repayment term may need to be extended, or other assets such as a second home or stock market funds may have to be sold.

- Banks are in business to lend money, but the heightened interest rates are making it increasingly hard to obtain formal credit sanction, even in cases that would have sailed through only 18 months ago.

For example, we have clients who were enjoying variable pay rates of 2.00% but are now struggling with the same deal at 7.00%. This means a £5m loan that was costing £100k per annum in interest, is now costing £350k. The solution is typically a combination of restructuring the debt alongside asset sales.

Lenders are encouraging some clients to refinance their borrowing elsewhere, in other words, they are unable to provide the funding that has previously been enjoyed. This is unavoidable and we have seen an increase in the number of client referrals received from banks.

A time of new opportunities

The good news is that there are always two sides to every story. History tells us that change provides opportunities for those who are willing to engage with it. Here are some of the opportunities that we are seeing:

- Quality assets are becoming available for sale that would otherwise not have been offered. Those with the financial backing to act are able to capitalise on the market driven turmoil.
- Zombie businesses can no longer support their debt costs, so must either liquidate or be sold to competitors. This opens up markets and produces golden opportunities for other businesses.
- Some clients locked into long term fixed deals at historically low rates, for example 3.00% for 20 years. In the event that a client wishes to repay these monies and break the fix, they may be offered a substantial sum to give it up, subject to the specific terms of the loan and the lender. One of our clients is proposing to cash in their low-rate fix, to generate more equity in their business, which will help to fund their next growth phase.

Our predictions

Making predictions regarding the BoE's base rate is anyone's guess, quite frankly nobody knows. The markets think that rates will reduce back towards 4.00% within the next two years, but this view has changed constantly over recent months, so it should not be relied upon. However, we believe we are able to provide some more insightful predictions, which are as follows:

Interest Margin Compression
As mentioned earlier, banks need to lend money in order to receive interest income, which in turn helps them to pay their depositors. We know that gaining credit sanction for some business propositions has become much harder, meanwhile individuals and businesses are being incentivised to pay down more expensive debt, with a net result that banks will inevitably be chasing a smaller pool of business.

One route to attracting lending business is to reduce the interest margins. In a higher interest rate environment, banks are now making more money than they were when the base rate was below 1.00%. This is because the differential between the rate they pay on cash deposits and what they receive from lending is greater. (Consider current accounts that pay zero or very little interest).

From a historic perspective, lending margins were typically much less prior to 2008 than they are today, which also suggests that some compression may be possible. We estimate that the average interest margin for a commercial loan might compress by around 0.50% or more in the coming years, which is not insignificant.

Residential rates go below BoE base rate
For similar reasons to those presented above, the residential mortgage market could produce some two-year products which have a pay rate below the BoE base rate. This was the case from the early 2000s up until 2008, and we believe it can happen again.

Degearing in property investment markets, especially low yielding ones
Those clients with geared property portfolios may need to consider selling some assets, in order to bring their debt burden down, as property rents are unlikely to increase sufficiently to cover the higher interest costs. This process is likely to take a number of years to filter through the market, because many borrowers will remain on historically low fixed rates, which still have several more years to run.

Cash buyers become more prevalent
Over recent years it was common for those discretionary purchasers of property, to choose whether to fund a purchase in cash, or to borrow the money. That was often because the borrowed money might cost between 2.00% and 3.00%, which was a lower cost than the yield they might be making on their invested monies.

In today's market where the same borrowed money might cost between 6.00% and 7.00%, many of those discretionary borrowers may view the debt cost as too high. They will probably now prefer to liquidate other assets in favour of purchasing in cash.

Expansion in specialist lending
An increased percentage of borrowers will find that their current bankers are unable or unwilling to extend their facilities. This is likely to push more borrowers away from the regular high street lenders and towards more specialist lenders. At Ashbridge Partners we have the skills and experience to solve this issue, which may include negotiating with a client's existing lender, presenting a case to the wider market or bringing in a specialist lender, pending a loan restructuring period.

Difficult times create new opportunities

The human race has proved itself to be resilient and able to adapt to changing circumstances and environments since time began. This is exactly what we have seen over the last 12 months; difficult times will always create new opportunities. Our client case studies below demonstrate how some people have been able to turn this change and uncertainty to their advantage. As a full advisory service, we act for clients with their existing banks but also with the wider market, which in many cases turns out to be invaluable.

Now that people and businesses have adjusted to the initial market shock, we are seeing an increasing number of clients approaching us to get on with their plans. For many clients, the key focus of our service is to access and deliver them the best terms in the market, but more and more clients place considerable value on the other aspect of what we offer; sound professional advice, exceptional service, and a caring team to guide them through the process.

Mark Ashbridge, Managing Director

CASE STUDIES

The backdrop of volatile financial markets, geopolitical uncertainty and higher inflation have all contributed to the array of opportunities arising in recent months. We play a critical role in advising clients about what is possible and how to achieve their goals. Here are some examples:

Landed Estates

An existing land owner in the South East was presented with the opportunity to purchase a neighbouring estate, when it came to market last summer. Our initial viability assessment was positive based on a ten-year fixed money cost at circa 4.50%. However, by October the ten-year money rate had risen sharply and our client, although quite advanced in the negotiation process at this point, was questioning the viability of proceeding.

We were able to settle some of their immediate concerns, and our ongoing advice during the negotiations ensured that they could make informed decisions about affordability, risk appetite and their borrowing capability.

Fortunately the purchase did proceed, and our client negotiated an attractive price on both the property and the funding. We delivered on the funding and played a key advisory role in supporting the successful purchase negotiations.

This is a fine example of a progressive business using our skills and experience to help them expand, during a period of volatility and uncertainty. In a more settled market, they may not have been the successful bidder or been able to purchase at the price achieved.

Residential

A young European family living in Chelsea approached us via their property agent. They had an opportunity to purchase the rental property next door, off market, because the current owner was facing financial pressures. This resulted in a very attractive deal being struck.

The clients enjoyed a good relationship with a high street lender but had been extremely dissatisfied with their service on a previous protracted transaction. This time they were seeking a superior level of service and advice, which led them to us.

We presented their case to the market and due to the financial strength of the family involved, we gathered interest from several quality lenders and negotiated market leading bespoke terms for them. This purchase was a one-off opportunity for our clients, and our exceptional advice, dedicated service and recognised position in the banking world, meant that they could take full advantage of this golden opportunity.

Advising upon and raising finance is a complex process and encompasses a myriad of individual tasks. Ashbridge Partners aims to perform each task to the highest standard, adding significant value for our clients, time after time.

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