2024/25 ANNUAL REAL ESTATE FUNDING REPORT

Arc&Co.

OVERVIEW

TOTAL LENDING

£690M

Growth of 108% YoY

NUMBER OF DEALS

218

Average loan amount up from £2.3m to £3.1m YoY; £8m for commercial and development

LENDERS USED

87

We have a true whole-of-market operation, exploring the best options for every deal

NEW VS EXISTING

47% / 53%

Existing business up 21% YoY

FOREWORD

Andrew Robinson
CEO

We have experienced exceptional YoY growth at Arc & Co., with the total amount of lending arranged more than doubling from £332m to £690m. The number of deals and average deal size increased significantly, reflecting a more confident market.

In particular, the mid-market segment — loans between £10 million and £30 million — emerged as a core growth driver.

The year's largest deal reached £60 million, compared to £24.8million in the previous year, underscoring the uptick in high-value transactions.

Commercial finance volumes doubled, supported primarily by high street and international banks ramping up appetite to rival alternative funds.

This surge was attributed to significantly increased liquidity, reduced rates, and heightened confidence that asset values have bottomed in certain sectors.

The commercial refinance market, which had been stagnant since 2022, came alive as new bank products became available, improving deal viability and allowing clients to refinance and recycle capital. An example of this product evolution is how banks are adapting to the change in tenant trends and corresponding lease lengths and structures.

Development finance almost tripled over the year, largely driven by operational living sectors — such as purpose-built student accommodation (PBSA), co-living, and senior living — rather than traditional build-to-sell schemes, which have struggled amid a cooling residential sales market and the introduction of legislation such as the Building Safety Act.

The number of deals for equity release jumped tenfold YoY, becoming a critical enabler for acquisitions and expansion across sectors.

Buy-to-let activity shifted towards refinancing, as high rental prices allowed developers and landlords to retain units rather than sell. We are witnessing a generational move towards housing options that are affordable, flexible, and come with amenities that are attractive to younger people.

The office sector stood out with resilient demand for best-in-class space in major cities like London, Birmingham, Manchester, and Bristol. Meanwhile, tertiary office stock in secondary locations saw valuations fall by up to 50% from peak levels, creating acquisition opportunities for investors seeking repositioning plays.

This strong performance was not purely market driven. It was achieved through the team's structuring expertise, the use of innovative financing strategies, and a sharp focus on emerging opportunities, all set against a backdrop of evolving market dynamics and cautious investor sentiment.

OUTLOOK

Edward Horn-Smith
Managing Director

Over the past year, the lending market has undergone not just expansion but a profound sectoral shift, with both opportunities and challenges emerging. One of the most striking trends was the sharp increase in available liquidity: within commercial funding, some banks raised maximum LTVs from around 50% to as high as 75%, driven by stronger balance sheets and the need to deploy surplus deposits.

This shift led to more competitive borrowing conditions, reduced margins, and increased acquisition and refinancing activity across the board.

We expect banks will continue to ramp up the deployment of capital by offering higher LTVs, relaxing ICRs, and reviewing loan covenants to encourage borrowing. This will result in private funds seeking alternative routes to market.

The marked increase in equity release transactions is a key factor for developers and asset owners seeking to unlock capital. This freed-up equity allows for reinvestment into acquisitions, particularly in the operational living sector, where institutional and private equity appetite is intensifying. Best-in-class PBSA, co-living, and office assets were the standout beneficiaries, supported by stabilising values and a perception of strong long-term fundamentals.

However, the market's success masks underlying challenges. The residential mortgage market contracted sharply, reflecting sluggish sales and buyer hesitation. Land markets remained thin, and developers increasingly faced a binary choice: sell at a discount or develop and operate assets themselves. Mixed-use schemes, combining office, residential, and retail elements, became an attractive risk-hedging strategy.

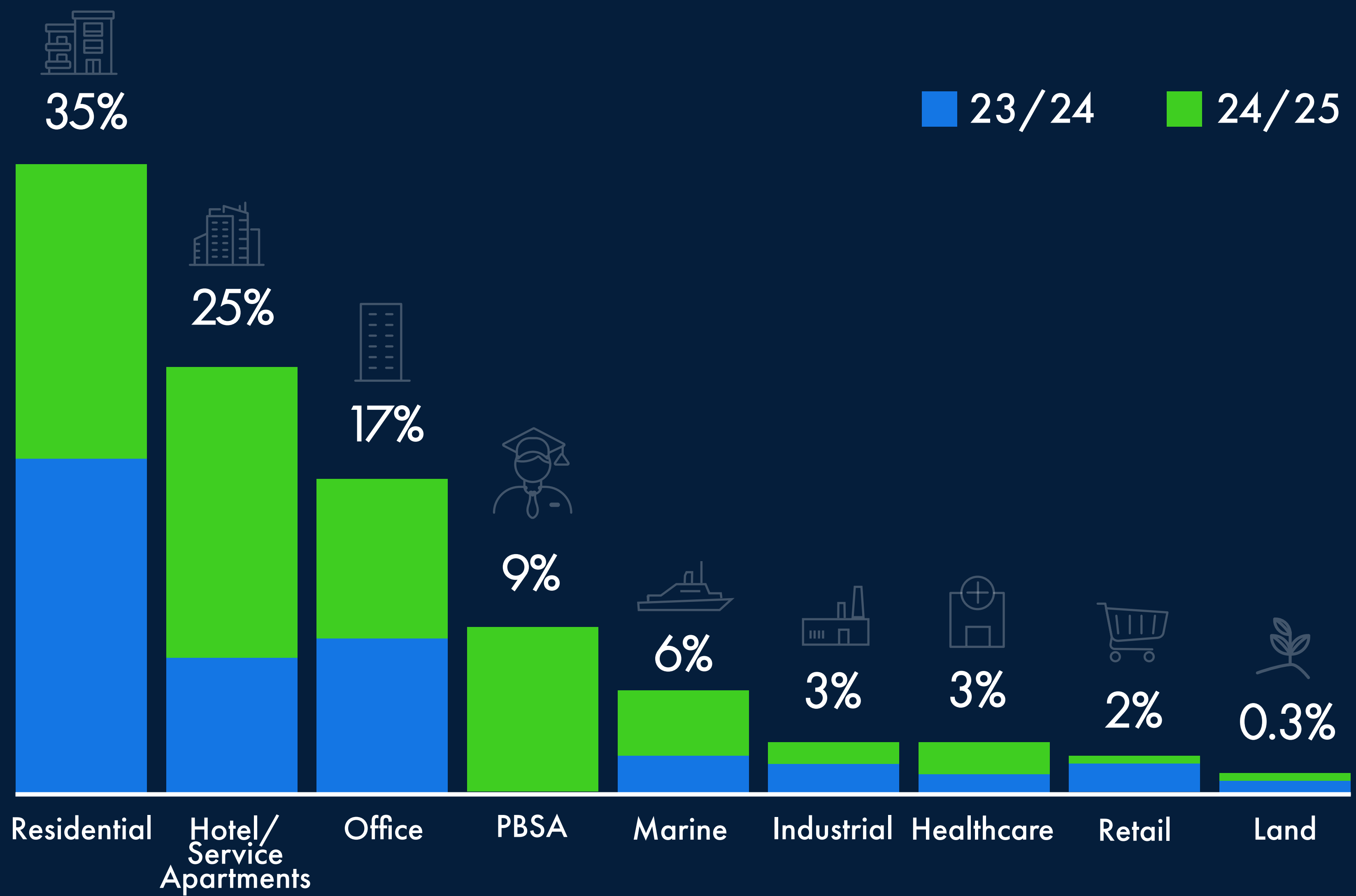
As developers and lenders become more familiar with building and safety controls that came into force over the past year, we anticipate that transactions and project progress will become more fluid in the coming months.

Proposals aimed at making the mortgage lending process more consumer friendly are underway, including access to better rates and expanded leverage options for homeowners. This should result in a stimulated first-time buyer market and overall more streamlined mortgage lending experience.

Looking forward, macroeconomic and political risks continue to loom. Anti-business policies, uncertainty around potential wealth taxes and the exodus of high-net-worth individuals are reshaping the investment landscape, particularly in prime London markets.

Internally, Arc & Co.'s success has been grounded in strong team execution, technology adoption, and the ability to handle complex, multi-layered transactions. As banks continue to ease lending restrictions — including recently scrapped caps on high-LTV exposures — the market outlook remains promising but demands careful navigation to manage valuation risks, evolving investor sentiment, and macro-level uncertainties.

ASSET TYPES Represented as % of total annual lending arranged

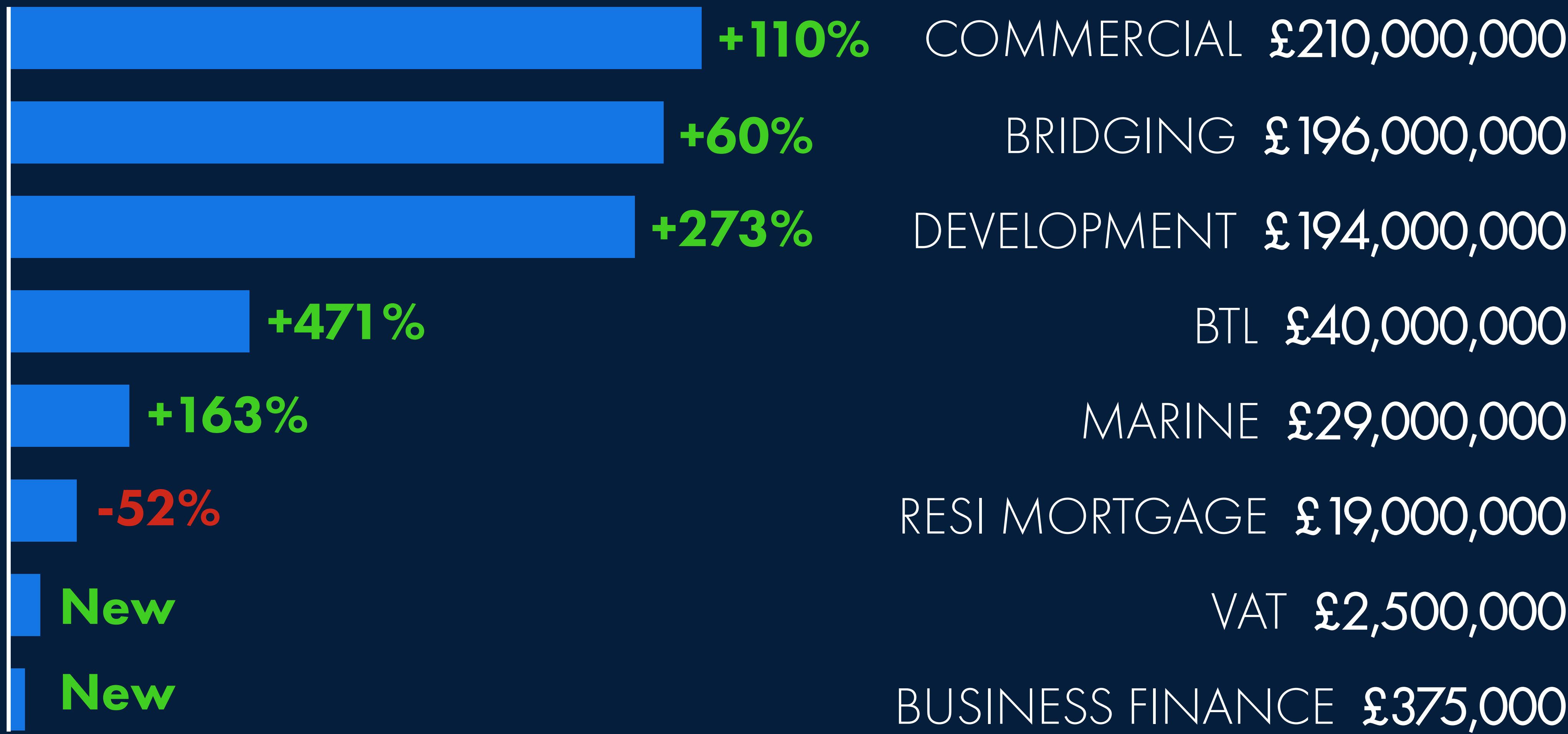


We advised on 15 office deals, totalling £118m. There is thriving demand for best-in-class offices, resulting in a significant increase in funding requirements for acquisitions, uplifts and asset management strategies.

Although our total residential loan amount increased, it represented 34% of overall lending vs 48% in 2023/4, illustrating the pulling back in favour of other asset classes by both lenders and borrowers.

As demand continues to outstrip supply for student housing, PBSA activity grew as investors are drawn to this stable yield generating sector.

LOAN TYPES Percentages show YoY change in loan volume



Specifically, the appetite of the banks is driving the uptick in commercial lending, with products and rates markedly improved YoY.

Developers pivoting to the operating living sector have boosted development figures, as well as pressure on land owners to build out to realise their equity.

Increase in BTL is fuelled by developers becoming accidental landlords, as well as rental yield growth improving refinancing options.

FINANCE TYPE BY NO. OF DEALS

	23/24	24/25
Senior	99%	95%
Mezz and Equity	1%	5%

Stablising values have improved appetite from preferred equity providers, resulting in an increase of availability of mezzanine and second charge options.

LOAN PURPOSE BY NO. OF DEALS

	23/24	24/25
Re-finance	56%	52%
Purchase	42%	34%
Equity release	2%	14%

The number of deals for equity release rose ten fold YoY, now representing 14% of the overall deal count. This is a result of higher LTVs enabling the redeployment of cash into other investments.

LOCATION BREAKDOWN

London
£344,000,000

South East
£71,000,000

Midlands
£33,000,000

South West
£66,000,000

North West
£82,000,000

East
£5,000,000

Scotland
£5,000,000

North East
£1,000,000

Northern Ireland
£1,000,000

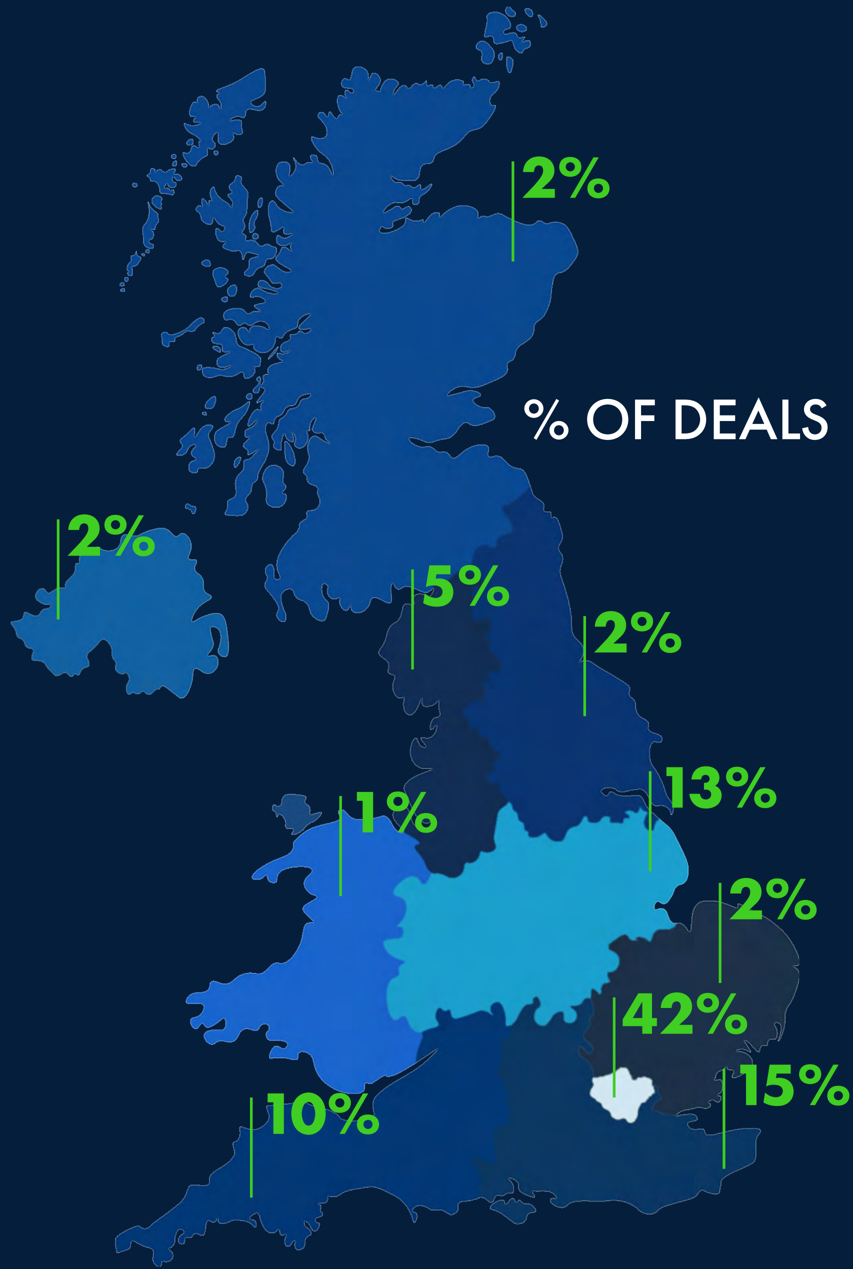
Wales
£13,000,000

UAE
£4,000,000

Germany
£8,000,000

France
£24,000,000

Monaco
£3,000,000



INSIGHT

HODGE

MARKET CONFIDENCE RETURNS AS DEVELOPMENT FINANCE GAINS MOMENTUM

Gareth Davies, Senior Business Development Manager, Real Estate Finance

Where development finance was once dominated by the big clearing banks, the years following the global financial crisis opened opportunity to a wave of new lenders—challenger banks, funds, private institutions and peer-to-peer platforms. With around 900 active lenders now operating in UK Real Estate Finance (Money Age) the market has never been more crowded.

After a tough couple of years in the development market, marked by supply chain disruption, inflation and rapidly rising finance and mortgage costs resulting in a slower sales market than seen historically, it would appear that some level of stability is returning.

The ONS reports a 30.8% drop in housing starts since 2019 and planning applications remain low. Yet stabilised inflation, falling mortgage costs and improved material availability are supporting cautious optimism.

While the market remains challenging, developers seem more confident in cost certainty and most importantly, with mortgage rates coming down, there is more optimism in their exit. Hodge is unquestionably seeing an uptick in development finance enquiries but, interestingly, the typical request is now closer to 70% LTGDV than the traditional position of 65%—with the stickiness of some sites and completed units taking longer to sell than originally expected, capital tends to be tied up for longer and we suspect that this is partly the reason why. Funders are always looking to adapt to current market conditions, and this position plays strongly to our advantage as Hodge can offer up to 75% LTGDV where appropriate to do so.

LOOKING AHEAD IN 2025

There is an air of confidence about developers and developments that hasn't been seen for a few years—a renewed energy in the market, particularly in sub-£10m developments. While geo-political uncertainty continues to influence sentiment, developers' resilience is a constant. They continue to find a way.

Pricing and leverage will always be important to developers, yet they become less important if a borrower's confidence in delivery is high. A lender's capability and speed of delivery are now more important than ever to our customers, an area we continue to focus on relentlessly.

While it is undoubted that challenges remain, 2025 could still prove to be a much more active and positive period than any other in the last few years.

At Hodge, we can provide short-term finance, development finance and longer-term funding on completed properties. As such, we're well positioned to provide flexible and tailored finance solutions to support property developers and investors throughout all stages of the property development and investment cycle.

INSIGHT

Glenhawk

THE RISE OF STRUCTURED FINANCE – WHAT IT MEANS FOR REAL ESTATE LENDING

Chris Daly, Managing Director – Structured Real Estate (SRE)
Nick Hilton, Managing Director

The first half of 2025 has further cemented a clear shift in the UK property funding landscape. Whilst Glenhawk's core bridging offering continues to benefit from resilient borrower demand, we're also seeing the emergence—and, in some cases, the rebranding—of 'structured finance' arms across challenger banks and non-bank lenders. On the surface, this signals welcome recognition that many borrowers today require more than just commoditised debt products. But, dig deeper and it becomes apparent that not all structured divisions are created equal.

At Glenhawk, we've built our Structured Real Estate platform around the principle that real estate lending should be driven by fundamental credit analysis—not by arbitrary leverage thresholds, rigid income coverage ratios, or box-ticking criteria. Mainstream and traditional term lenders continue to withdraw from transactions that fall outside their automated underwriting policies.

In doing so, they're leaving experienced borrowers underserved—especially those requiring flexibility, speed, or the ability to navigate complexity that doesn't conform to product sheets.

Many short-term lenders position themselves as "flexible," but are ultimately constrained by their own funding structures. When lenders are dependent on forward-flow arrangements or funder approvals, even modest deal nuances can become sticking points. Glenhawk's institutional capital base provides us with a real advantage here: we are not encumbered by pre-set templates or restrictive mandates. Instead, we retain discretion to structure deals that make sense—commercially and credibly—on a case-by-case basis.

We've seen an increase in demand from professional borrowers who understand the value of real structuring expertise—be it for land with planning risk, transitional assets, or portfolios with varying security and cashflow profiles. We're also seeing more introducers—particularly accountants, wealth managers and family offices—actively seeking partners who can execute with certainty and provide intelligent, reliable feedback on deal viability early in the process.

Looking ahead to the second half of the year, we expect continued divergence in lender appetite. Volatility in capital markets and inflationary pressure on development costs mean that flexibility and speed are more valuable than ever. Lenders who have merely rebranded their offering without rethinking their credit culture are unlikely to meet the market's needs.

By contrast, we're focused on a lending proposition that's grounded in experience, backed by capital, and delivered through genuine structuring capability—an approach that's earning the trust of borrowers and introducers alike. And whilst Glenhawk's SRE and Bridging teams offer distinct propositions, they work hand in hand to deliver a full-spectrum lending solution.

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ENTREPRENEURSHIP
EXCELLENCE

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