

NEW YEAR FUNDING REPORT JULY TO DECEMBER 2025 REVIEW

Arc&Co.

OVERVIEW

July to December 2025 Review

TOTAL LENDING
£278M

Up 26% compared to H2 2024

LENDERS USED
52

A whole-of-market approach, with
one lender used for every two deals

NUMBER OF DEALS
110

Tracking c.10% higher YoY

NEW VS EXISTING
50% / 50%

A balanced mix demonstrates both business
growth and strong client retention

FOREWORD



Andrew Robinson
CEO

The most recent six-month period demonstrates a market that is both highly active and structurally resilient, underpinned by strong liquidity, a widening lender base, and improving confidence across development and investment activity.

Deal completions remained robust, with 110 transactions completed in the period, representing a higher run-rate than the prior full year.

This momentum has been achieved despite ongoing planning and regulatory delays, indicating that underlying demand for debt finance remains strong. Importantly, lender spread has continued to broaden, with approximately one lender now being utilised for every two transactions. This diversity reflects the depth of capital available in the market and reinforces the growing importance of experienced advisory input as lender choice, structure, and execution become more complex.

Client composition remains balanced, with an approximately equal split between new and existing clients. This reflects both strong client retention and successful business development activity, supported by continued investment in CRM, data management, and marketing and communication channels. The result is a healthy pipeline that combines recurring relationships with demonstrable growth.

Bridging finance continues to account for a significant proportion of activity (c.33%), though its function has evolved materially. Whereas bridging has historically been used primarily to extend exits or manage refinancing risk, it is now increasingly deployed at the entry point of transactions.

Borrowers are using short-term finance to acquire assets, fund planning gain, and cover the significant upfront costs associated with Gateway 2 approvals. While total lending volumes in the period were lower than the annualised view, this reflects timing rather than demand, as larger transactions—particularly in PBSA, offices, hotels, and serviced accommodation—were delayed while progressing through Gateway 2.

Encouragingly, Gateway 2 approval timelines have improved materially following increased government resourcing, falling from c.12 months to nearer 12–16 weeks in some cases. This reporting period therefore captures the transition phase rather than the outcome, with funding for larger schemes expected to be secured in 2026. Larger facilities for income producing assets such as office, hotel and PBSA projects are notably less in H2 2025, but are expected to come through by mid-2026.

Geographically, lending activity has become more evenly distributed. While London remains a key market, its proportional share has reduced as activity in the South East, Midlands, South West, and Scotland has increased. This reflects both deliberate regional origination efforts and improving viability across a broader range of locations, enhancing overall portfolio resilience.

OUTLOOK



Edward Horn-Smith
Managing Director

Looking ahead, liquidity in the debt market is expected to remain elevated, driven by UK banks and international debt funds seeking to deploy capital. This competitive environment is likely to continue compressing margins while simultaneously pushing leverage availability higher for well-structured transactions. As a result, debt is once again being used proactively as a tool to enhance returns rather than defensively to manage risk.

New acquisitions are expected to increase in sectors where values have rebased, particularly land and development opportunities where pricing expectations have realigned with deliverable outcomes. In this context, both landowners and incumbent lenders are showing greater realism, facilitating transactions that were previously stalled. This recalibration is expected to unlock dormant sites and support a rise in development starts.

Debt is increasingly being applied strategically across both value-add projects and commercial income-producing assets. In development scenarios, leverage is being used selectively to enhance equity performance, while in stabilised assets, cheaper and more flexible debt is supporting yield enhancement, portfolio optimisation, and improved cash flow.

Refinancing activity is also shifting in character. Rather than being driven by necessity or maturity pressure, refinancing is increasingly motivated by cost savings and equity release. Borrowers are refinancing earlier to take advantage of competitive pricing, release capital for reinvestment, and strengthen balance sheets. This trend is particularly evident across income-producing assets, where lower interest costs directly support operational performance and growth.

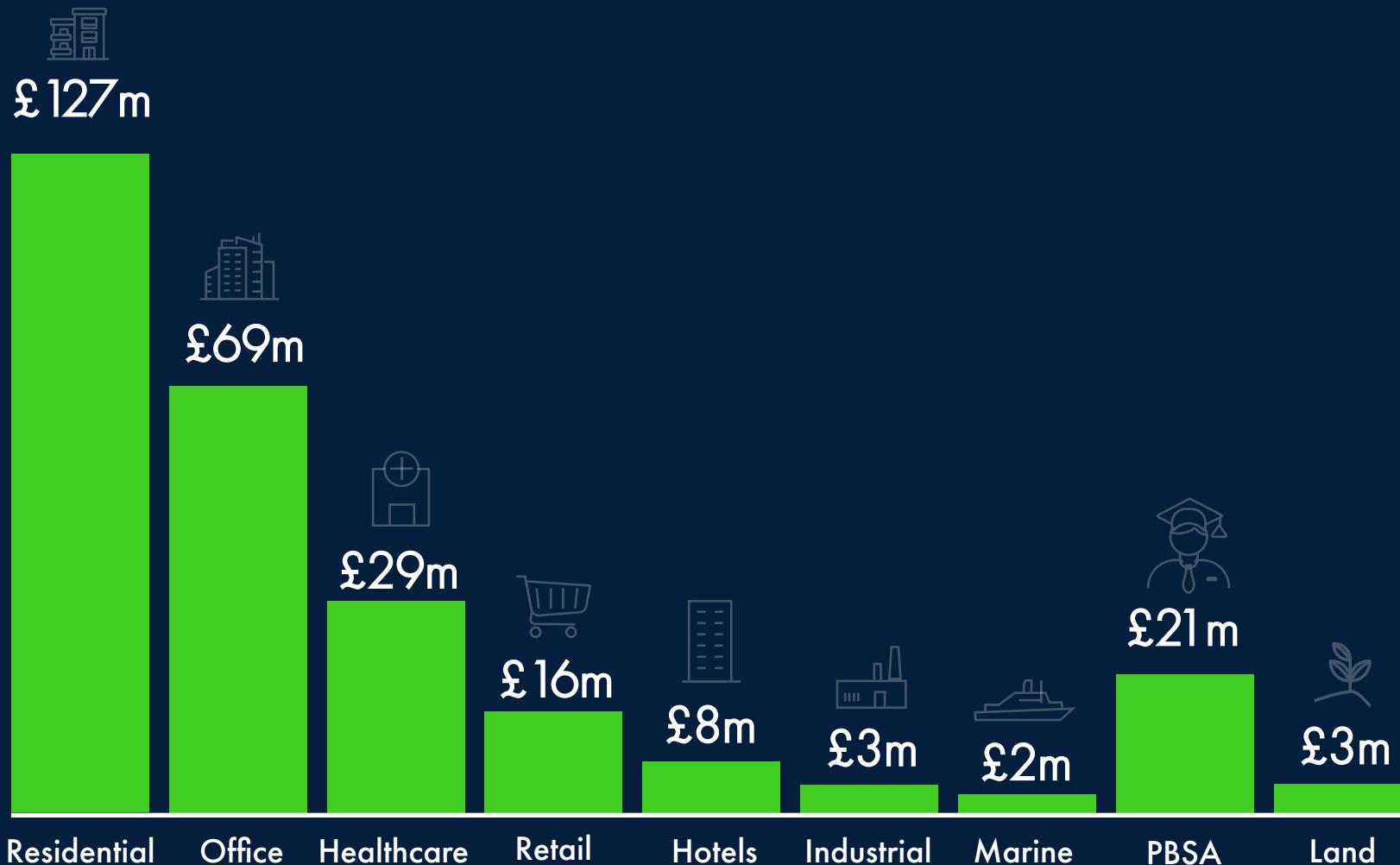
Arc & Co. was acquired by FRP in November, a development that has undoubtedly drawn additional attention to the brand. Inbound enquiries indicate early signs of a new kind of client because of our extended restructuring, asset management and corporate finance capabilities through FRP, with several live deals due to complete in the coming months.

Overall, the market is entering a phase characterised by abundant liquidity and a return to strategic capital deployment. As larger transactions return to the market and acquisition activity increases, advisory expertise will remain central to navigating lender selection, structuring risk, and unlocking value across the cycle.

ASSET TYPES

Represented as £ value of lending

July to December 2025 Review

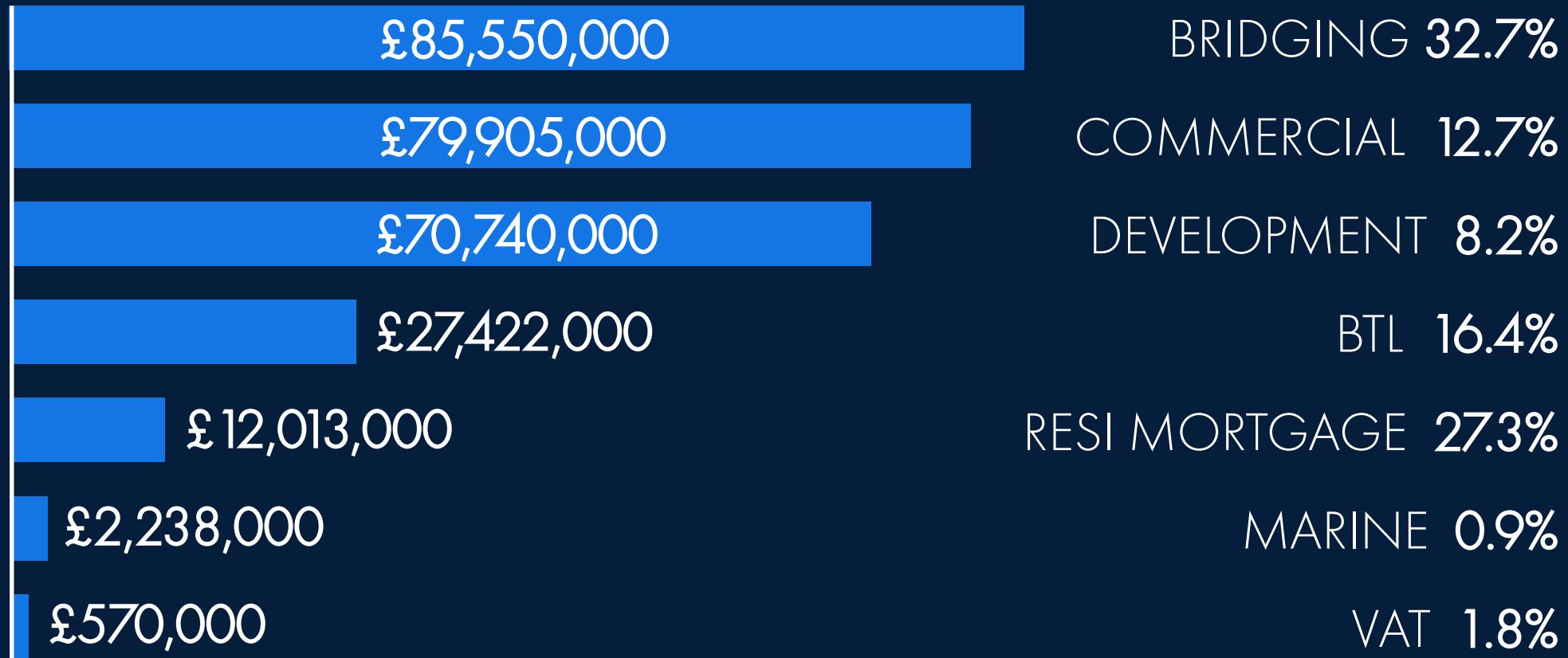


Residential made up the vast majority of our funding for H2 2025, with these more granular facilities averaging £1.5m in loan size. Office, retail and PBSA—typically much larger transactions—were delayed rather than cancelled, and are expected to complete in the coming months. We expect this breakdown to return to a more varied spread by the end of Q2 2026.

LOAN TYPES

Percentages are based on number of loans

July to December 2025 Review



Bridging finance remains a significant component of activity, but its use has shifted from refinancing exits to funding acquisitions and value creation. It is also increasingly being used to fund planning risk and Gateway 2 costs, enabling projects to progress.

FINANCE TYPE BY % NO. OF DEALS

July to December 2025 Review

| | |
|-----------------|-----|
| Senior | 98% |
| Mezz and Equity | 2% |

Stretch senior options continue to dominate the market, with lenders preferring to offer the whole loan at higher leverage.

LOAN PURPOSE BY % NO. OF DEALS

| | |
|----------------|-----|
| Re-finance | 46% |
| Purchase | 40% |
| Equity release | 14% |

Purchases are up, driven in part by an increase in development acquisitions, suggesting that landowners are accepting lower, realistic pricing and values are recalibrating.

LOCATION BREAKDOWN

July to December 2025 Review

London
£119,000,000

South East
£78,000,000

Midlands
£53,000,000

South West
£14,000,000

North West
£2,000,000

Monaco
£2,000,000

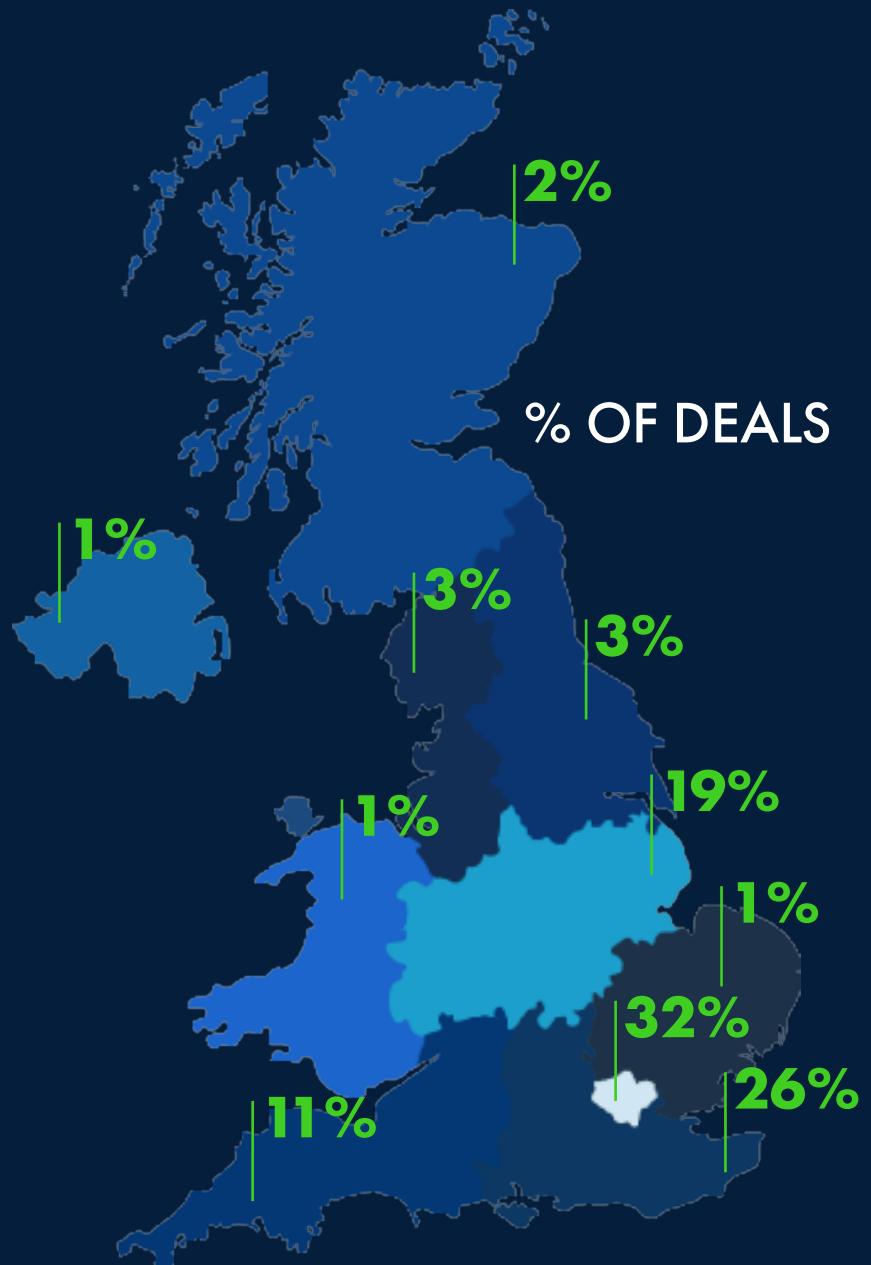
East
£70,000

Scotland
£8,000,000

North East
£570,000

Northern Ireland
£385,000

Wales
£300,000



INSIGHT



UK DEVELOPMENT FINANCE: NAVIGATING 2025'S POLITICAL UNCERTAINTY

Will Powell, Investment Director at Downing

In the UK development market, the latter part of 2025 was dominated by political noise and uncertainty surrounding the November Budget, policy change and potential stimulus for a subdued and challenging housing market. With that said, the headwinds in the general market have by their nature flushed out many of the struggling operators. Deals that are transacting against this backdrop are being delivered by the best in class across the industry. A testament to the resilience of some SME developers in the face of inflationary and regulatory overload.

Development funders have had to react fast to the changing conditions and a number of key players across the market have expanded their offerings to capture deal flow in emerging as well as more established sectors such as BTR, PBSA and Healthcare. Concurrently, deal structures have evolved symptomatically and traditional debt/equity structures in a development deal are less frequent than they used to be.

Deferred land considerations, joint venture agreements and compressed equity contributions have all become more common place in SME acquisition strategies and funders have had to redefine what they are comfortable with and what they are not.

Customers value expertise, trust and certainty more than ever. Reputation is paramount and relationship-led partnerships are worth far more than a meagre saving of a few bps on a term sheet. Lending and borrowing money is straightforward business in a frothy market but when the tide is against it, the selection of who to partner with is absolutely critical to continued trading success.

It remains to be seen what 2026 will bring, but, in traditional British fashion, the mantra of 'Keep calm and carry on' seems to ring truer now than ever. With a recent fall in the base rate I would not be surprised to see some cautious optimism in the coming months.

However, meaningful velocity in the market will only come when we see real policy change from Westminster and genuine reform to the standout bottlenecks the market is contending with.

Downing LLP have been well placed for the opportunities that have presented themselves in a complex market of late and our track record remains one of the best and most consistent in the market. With a 40-year trading history, a strong capital base and expertise across all manner of real estate, we remain confident of building a strong and stable book throughout 2026.



FLIGHT TO QUALITY AMONGST BUY-TO-LET INVESTORS

Pankaj Thukral, Chief Lending Officer at GB Bank

Amidst the caution that defined the second half of 2025, there was a notable flight to quality amongst investors – not just in terms of property, but also borrower strategy, with many becoming more selective, and increasingly hands-on in how they approach buy-to-let.

The big story, of course, was the November Budget and the arrival of the so-called mansion tax. It wasn't a surprise, but it did create months of uncertainty before the detail landed. The High Value Council Tax Surcharge kicks in for properties over £2 million, with annual charges ranging from £2,500 to £7,500 depending on value. It's not catastrophic in cash terms, but it adds to the perception that high-end property ownership is being penalised. The psychology matters as much as the pounds and pence, especially around the £2 million threshold, and where we're already seeing some pricing behaviour shift.

Despite that, demand hasn't disappeared. It's just become more considered. More landlords in the prime bracket are looking for opportunities to create value—whether through repositioning assets, securing higher-yielding units, or moving into regional markets where the numbers stack up better.

We've seen particular interest in large loans for prime properties outside London, where yields tend to hold firmer and there's less tax drag.

Product-wise, bridging has played an important role – providing a funding solution to enable investors to act quickly and structure debt in a way that supports long-term plans. We've seen a growing number of seasoned investors use bridging tactically to secure high-value properties at speed, refinance out once planning or refurbishment work is done, and then transition into more traditional buy-to-let facilities for the longer term.

Looking to 2026, I'm quietly optimistic. The worst of the rate shock appears to be behind us, inflation is cooling, and we're likely to see a gradual return to more predictable conditions. According to Savills, prime central London may dip slightly next year, but regional prime markets look more stable – and in some cases, poised for recovery. That aligns with what we're seeing on the ground.

There are of course headwinds and this isn't a market for the faint-hearted. But it's definitely one for the well-prepared. The days of easy money from buy-to-let may be behind us, but there's still strong opportunity for investors who take a strategic view and work with the right partners. At GB Bank, we're backing experience, quality, and long-term thinking. In a market that rewards patience and precision, that's where we see the value.



BRIDGING MOMENTUM IN A MARKET SHORT ON GROWTH

Sammi Gilbank, Regional Account Manager at Castle Trust Bank

The second half of 2025 was shaped as much by politics as by market conditions. The late November Budget had been flagged well in advance and created a long period of hesitation across the property market. Many buyers and sellers chose to wait rather than act, unsure what changes might be announced around tax and property ownership. That pause arguably held back activity through the summer and early autumn, particularly amongst investors who value certainty before committing capital.

When the Budget was finally delivered, the response was mixed but measured. Changes affecting landlords and higher-value property were not welcome, but they were broadly expected. More importantly, the announcement brought an end to months of guesswork. Once that uncertainty cleared, sentiment steadied and deals that had been delayed began to move again.

At the same time, signs of a slightly softer rental market have started to emerge. According to the latest HomeLet Rental Index, average UK rents fell to £1,317 in December 2025, down 1.5% on the previous month. Outside London, rents were more stable but still edged down slightly month on month.

Even so, rents remain higher than a year ago, with UK rents up 2.6% annually and London rents up 2.8%. This points to a market that is levelling off rather than falling, with local variation masking a broadly steady picture.

For investors, slower rental growth and rising costs mean returns are under closer scrutiny. As a result, many are no longer relying on passive income alone. Instead, they are looking for ways to create value, whether through refurbishment, conversion, reconfiguration or moving into more complex assets such as HMOs, multi-unit blocks and semi-commercial property.

Product development has reflected this shift, with a focus on practical features that give investors greater certainty and efficiency. At Castle Trust Bank, for example, our drawdown functionality across both light and heavy refurbishment bridging has proven popular and we have made greater use of title insurance and dual legal representation to help shorten timelines and reduce friction.

Set against this backdrop, demand for bridging finance has been strong. While the mainstream mortgage market has remained subdued, short-term lending has continued to support transactions where speed and flexibility are essential. Figures from the Bridging & Development Lenders Association show bridging completions rising to £2.5 billion in the third quarter of 2025, almost 10% higher than the previous quarter and more than 40% up on a year earlier.

Looking ahead to 2026, the outlook feels calmer than it has for some time. Interest rates are expected to ease a little further, inflation is forecast to settle, and transaction levels should continue a gradual recovery. Rental growth may remain modest, but demand for housing still exceeds supply. In that environment, investors who are prepared to take a hands-on approach and create value are likely to remain active. Bridging finance will continue to play an important role, providing the flexibility needed in a more measured and selective market.

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