

Vibrant mezzanine finance market needed to deliver new homes

/ Isla MacFarlane

Sam Le Pard, co-founder at real estate capital advisory firm, LEXI Finance, explains why a vibrant mezzanine finance market will be essential if developers are to deliver the homes we need.

In the development finance space, we're seeing a resurgence in appetite from mezzanine lenders looking to support developers. These lenders are often backed by high-net-worth individuals, wealthy family offices or sophisticated professionals looking to generate double-digit returns on their capital.

The rejuvenated interest is largely due to the greater market certainty we're experiencing compared to this time last year. Fortunately for our sector, the government have provided vast sways of support to developers and investors who will ultimately deliver on their housing targets.

This is a good thing for developers and for meeting the country's housing challenge.

Whilst the Stamp Duty holiday and central government support has motivated buyers and driven prices, it has also further highlighted the chronic undersupply of homes being built.

With the addition of 95% mortgages and a Prime Minister obsessed with home ownership, it seems likely that demand will continue to surge, as buyers look to climb on, and up, the property ladder. The ONS predicts the UK population will grow by 3 million by 2028, and so the need for new homes will only increase.

To tackle the housing shortage, it is essential that we unlock suitable parcels of land for home building.

Development opportunities come in all shapes and sizes; however larger developers such as the PLCs require a minimum number of plots per scheme. Therefore, the onus will fall to SME developers to build out millions of smaller plots of houses, take on regeneration projects, make the most of city-centre in-fill sites and undertake commercial-to-residential conversions.

To build these plots, SME developers require access to structured finance at competitive rates and appropriate leverage points.





Developers rely on equity from a limited number of sources so working with a mezzanine provider allows their finite resource to be applied across multiple sites. It is not without its risks as increased leverage could increase the stress on a project should it not perform to the business plan. However, when structured correctly, it is an invaluable tool.

Sensible use of mezzanine finance opens increased development opportunities. Therefore, in theory, mezzanine should drive a developer's ROI and allow them to apply their equity across a number of development opportunities. The result is more homes and a significant contribution to tackling the housing shortage.

Since Q1 2021, appetite to place mezzanine has grown and we have seen competition return, giving developers access to cheaper capital at higher leverage, which can in turn increase the viability of smaller sites.

To meet the government's housing target of 300,000 homes per year, we need to be able to arrange flexible finance to support the development of high-quality housing. Mezzanine finance can help plug that gap for the country and can lead to more competitive returns for SME developers. Of course, this will depend on the circumstances and a debt advisory can play a key role in connecting parties and structuring finance to provide suitable solutions to deliver more homes.

Read the article [here](#).

