00;00;03;28 - 00;00;24;22
HOST
Welcome to the people Property Place podcast with me. Your host, Matthew Watts, founder and managing director of Rockbourne. This is a podcast where I share the stories, views, opinions and career journeys of the movers and shakers, innovators and leaders in the real estate industry.

00;00;24;25 - 00;00;58;19
HOST
Welcome to the People Property Place podcast. Today we are joined by Rod Lockhart, CEO of Lend Invest plc, LLC. Listed Lend invest is the UK’s leading fintech platform focused on mortgages. They offer residential buy to let short term and development mortgages to intermediaries, landlords, developers and homeowners. Rod joined Lend invest in 2015 to lead the businesses, capital markets and Fund management division.

00;00;58;22 - 00;01;37;18
HOST
Within that time, rod has overseen Lend invests AUM growth from 100,000,002 over 3 billion and manage the launch of its listed retail bond and are members program. Rod became CEO of Lend Invest in January 2020. Rod is a chartered surveyor with over 20 years experience in property and property finance. He was previously Senior Director and a board member of the Investment Advisory Committee for CBRE, advising UK and global institutional clients, managing a range of property and property debt portfolios.

00;01;37;18 - 00;01;40;29
HOST
And it gives me great pleasure that he’s here today. So rod, welcome to the podcast.

00;01;41;00 - 00;01;42;20
GUEST
Thank you for having me. It’s great to be on.

00;01;42;22 - 00;02;03;00
HOST
Not at all. Well, look, it’s a slightly different parts of the real estate world that we’re going to explore today. And I’m really intrigued to unpack that and and see where that kind of fits into this fascinating real estate investment management ecosystem. But before we we get on to that, a place that I always like to start these conversations is how and why did you get into real estate?

00;02;03;03 - 00;02;26;12
GUEST
Well, I think it’s unusual. I actually studied real estate investment finance at university, so ended up doing what I did at university. But I guess probably the bigger question is how I got to studying, deciding to study real estate. At university itself. So my dad was an architect. A bit of a boring, boring answer, really. But I spent my childhood traipsing around, looking at building sites and seeing what what schemes he was.

00;02;26;12 - 00;02;32;24
GUEST
He was working on and got really into property. I think when I was growing up, I just thought I would always be a property developer.

00;02;32;26 - 00;02;33;10
HOST
Really?

00;02;33;13 - 00;02;34;17

GUEST
Yeah, I think so.

00;02;34;19 - 00;02;37;13
HOST
Is that because I guess he’s working on all those projects? Exactly.

00;02;37;13 - 00;02;49;01
GUEST
Working on projects the whole time? It just it’s a really interesting I think it’s the cross between creativity and, you know, at the same time, finance and, and funding that was the I guess the bit that was interesting to me.

00;02;49;04 - 00;03;12;08
HOST
It’s interesting, quite a few people have been on this podcast. Their route into property is through architecture. Yeah. And they like the design aspect and having kind of pursued architecture, realize that actually they want to be more on the capital allocation or the development side at a young age. Did you know enough about the real estate world to try and work out which part you liked and which part you didn’t?

00;03;12;09 - 00;03;18;26
GUEST
Yeah, I think it’s clearly seen what an architect does. It probably felt like that was probably a bit too much like hard work.

00;03;18;28 - 00;03;22;03
HOST
Or study. Study for seven years. Exactly.

00;03;22;05 - 00;03;29;09
GUEST
Study for a long time. And, you know, it looked like the property developers were getting paid more. So maybe focus on that instead.

00;03;29;11 - 00;03;30;14
HOST
So you went to Redding.

00;03;30;14 - 00;03;51;13
GUEST
So I went to Redding, as lots of surveyors do, studied investment and finance in property. So I guess I was always very focused more on the investment and finance side, which is fairly apt given I’ve ended up, in property finance. And from there, as lots of people do, went and did a grad scheme at CBRE and I really went from there.

00;03;51;16 - 00;03;55;16
HOST
Were you? What kind of kid were you growing up? You make sport I.

00;03;55;16 - 00;04;11;11
GUEST
Love sport, that was that was it I think academic came, academics came second. So I loved, loved, you wouldn’t believe it now, but sprinting, running, athletics and then played a lot of rugby. So that was most of my childhood was doing sport and then focusing on the hockey.

00;04;11;16 - 00;04;15;03
HOST
And from an academic perspective. So an academic perspective.

00;04;15;07 - 00;04;24;12
GUEST
I guess I’m probably not surprising given, what I do now is better on, numerical stuff. So maths and sciences and things like that really.

00;04;24;15 - 00;04;33;01
HOST
And so that really informed your, your kind of choice or your course degree. And then kind of the role that you went into. Exactly. Yeah.

00;04;33;03 - 00;04;47;26
GUEST
And I think I, I was sort of went off and studied something that’s quite focused. They, it was in doing that course that just really got into it and was pleased with the career choice had made and was really focused on, on building a career in that area, really.

00;04;47;28 - 00;04;56;03
HOST
Did you do some kind of like, interns or did you do some work experience at that time to kind of get a bit of a flavor and, you know, work out or confirm if that is the route you want to?

00;04;56;03 - 00;05;21;15
GUEST
Definitely. So I worked at different surveying firms and holidays, but I think I think one of the areas that particularly, I guess, inspired me for a day or two a week, I work for one of our lecturers, guy called Andrew Baum, who lots of people in the real estate industry will know. Yeah. And, and they had set up various businesses at the time, and I worked for him 1 or 2 days a week on those, I guess, startup businesses.

00;05;21;18 - 00;05;39;08
GUEST
But I think it was then him and his passion for Proptech before Proptech was even even a thing. He was, you know, building software and using software and data to, I guess, really innovate in the real estate industry. And I think, you know, probably that that that got me hooked, was hooked, hooked on the data and software side.

00;05;39;10 - 00;05;43;02
GUEST
Long before I actually ended up, in a, in a, in a fintech business.

00;05;43;02 - 00;05;44;11
HOST
So he was a lecturer.

00;05;44;13 - 00;05;45;16
GUEST
He was a lecturer. Reddit.

00;05;45;16 - 00;05;58;01
HOST

So how did you kind of out of all your cohort start working with him just for someone? I'm just thinking of someone who's like, maybe out of reading a Brooks in Nottingham somewhere else. Yeah. Who goes, how can I kind of get a march? And maybe my colleagues, I'm like, well, I think.

00;05;58;01 - 00;06;09;23
GUEST
I at the time, I, I mean, first of all, I wanted to work, so I needed to work, needed the money. So I was looking for work, looking for, you know, to, to find someone to do something for day week, and I guess so.

00;06;09;24 - 00;06;10;23
HOST
I was on the course. I was.

00;06;10;23 - 00;06;31;13
GUEST
Pretty good. So, you know, by that point realized that. But years of working on or looking around building sites sort of helped combined with maths. So I could, I could do the course pretty easily. So I think, you know, it felt like I was good at it. And I think that probably helped him choose me to help him work, work with that business.

00;06;31;20 - 00;06;31;27
HOST
And.

00;06;31;27 - 00;06;32;20
GUEST
It's a great time.

00;06;32;20 - 00;06;44;21
HOST
So that was kind of an entry into going, how can we leverage technology? That's an antiquated. Yeah. Old school not back maybe backwards or lagged kind of industry.

00;06;44;23 - 00;07;04;19
GUEST
Definitely. And you know it people you know and and the Andrew Band will know that he's always been at the forefront of thinking about technology and different areas back in. And at that point he had two, two products. One was called Up Rent, which is sort of helping pricing, pricing short term leases. So it's quite, I guess, quite a complicated model.

00;07;04;19 - 00;07;09;26
GUEST
And I spent my days testing it and then eventually trying to sell it.

00;07;09;29 - 00;07;13;09
HOST
And so did that help get your role at CBRE?

00;07;13;13 - 00;07;33;22
GUEST
I guess so, you know, given I had some industry experience. But I guess in going back to CBRE, it's very much into the traditional surveying route. And I think that was quite a conscious decision at that point that, you know, I'd spent three years studying this course and, you know, maybe I should, go to a firm that would allow me to do my PC and support me through that process.

00;07;33;24 - 00;07;43;29
GUEST
So I joined CBRE to, you know, to do the, I guess, chartered surveyor scheme to start with. So it’s very traditional, having gone from something quite proptech into back into the traditional world really.

00;07;44;05 - 00;07;49;13
HOST
And was that just, you know, traditional rotations and what kind of rotations did you.

00;07;49;18 - 00;08;21;05
GUEST
Yeah. So the first one I had was public sector development. So I did public sector development for a period and that was compulsory purchase. It was all very technical, quite complicated at it, but I guess got me started, then got into valuations and worked on lots of different, big valuation projects at CBRE had, you know, some of the biggest mandates I worked on valuing things like Canary Wharf, worked on valuing land when they were buying land for the Olympics, which is quite exciting, quite cool to be involved in, in, in something like that is trying.

00;08;21;05 - 00;08;21;18
HOST
To price.

00;08;21;18 - 00;08;22;02
GUEST
Something.

00;08;22;09 - 00;08;23;05
HOST
Value. Well, it’s.

00;08;23;05 - 00;08;40;21
GUEST
More than that. So they were having to compulsory purchase that. I think it’s a London development agency having to compulsory purchase land for the Olympics. And they need the valuations in order to base the valuations for those purchase prices. So I guess one of the ways that I learned how to do valuation.

00;08;40;27 - 00;08;43;21
HOST
And with that was on both a residential and commercial basis or.

00;08;43;21 - 00;09;00;03
GUEST
Almost all commercial really. I it’s mainly the if you think back to the, that part of London was mainly sort of scrub land, industrial land, waste storage, all sorts of weird and wonderful things on that. On the land that eventually became, the Olympic Stadium.

00;09;00;03 - 00;09;09;04
HOST
So you had to work out what’s fair market value for X. Yeah. And then, that was your kind of instruction. Yeah. So it was public sector development valuation.

00;09;09;10 - 00;09;36;09
GUEST

And, and then I got into real estate finance and, funding. So, it's probably early 2000 at 23, 2004, CBRE set up what is now called its Capital Advisors division, which I guess is was back then real estate corporate finance division would like finance team. So I think it did all the sort of weird and wonderful things that, that, normal work that surveyors do.

00;09;36;10 - 00;09;51;21
GUEST
Clearly investment and finance related. So we did things like, Celanese backs joint ventures, joint venture structuring, raising money into property funds. Just got involved with a whole raft of different investment and finance things related to property.

00;09;51;23 - 00;09;55;19
HOST
And is that that kind of the team you always you were like, yeah.

00;09;55;21 - 00;10;13;03
GUEST
It was a team that was being set up at the time. So it's being founded and I guess I got lucky because I was the sort of junior graduate who joined this team of probably the most senior people across the rest of CBRE that were being sort of, forged together to try and set up this, this team.

00;10;13;05 - 00;10;37;12
GUEST
And I guess the opportunity for me and the exciting thing at the time was being able to work across with all these brilliant people across a really wide range of projects. So it was a really good time. It whilst I was in a massive organization, it was, I guess, my first foray into what felt like a startup. You know, we were literally starting from scratch, trying to work out what the revenue model would be, what would make sense.

00;10;37;12 - 00;10;51;26
GUEST
And, you know, how we get mix between retained and, and agency income. And it was I guess it was quite an exciting time. And clearly at a time when the market was booming just before the, before the crash in sort of A7, I mean, A9.

00;10;52;01 - 00;11;06;02
HOST
And was becoming just a bit more sophisticated generally because you talking like structuring, raising capital, you know, it sounds like it's kind of moved away from, you know, valuation, property management, landlord and tenant leasing and being a bit kind of fag packet analysis. It becomes a little bit more.

00;11;06;04 - 00;11;23;08
GUEST
Exactly. That's what the team was really set up to do. Is I at a time you think rates had just been formed and there were all these things going on in the in the property market, and a lot of us funds coming over and applying more financial technology to the to what, in the UK in a fairly traditional space.

00;11;23;10 - 00;11;46;09
GUEST
And I guess the team was set up to try and exploit that. Try and find its way in in that sort of more financial world. And I guess given that study, investment, finance, university, you know, what I was more interested in increasingly through time that financing side. And, you know, it's great to have that opportunity to work in what felt like really a startup business within a huge institution at that time.

00;11;46;09 - 00;11;48;20
HOST
So you qualified and then sat in that team? Yeah.

00;11;48;21 - 00;11;51;08
GUEST
Qualified in a state in that time like a surveyor.

00;11;51;15 - 00;11;53;16
HOST
But was it you more of like an analyst?

00;11;53;16 - 00;12;20;03
GUEST
Much more of an analyst. So I spent lots of days building Excel models and doing that really hard graft that analysts have today. But you know, as a surveyor still got to go and see property, which is always great fun. It’s part of the job really. So so it had that nice mix of of still feeling like a real estate role but being much more financial and, you know, cut the hard yards, having to spend 20 hour days building spreadsheets to tight deadlines and all that sort of stuff.

00;12;20;10 - 00;12;24;11
HOST
And was that a both on a debt and an equity basis? Yeah. It was. So pre.

00;12;24;11 - 00;12;47;27
GUEST
Financial crisis, it was mainly equity and joint ventures. And then it was really post financial crisis that got really involved on the debt side because what happened was Clay the bank. So basically failed and needed restructuring. So I got involved with some of the bank advisory work to help them, restructure all the bad books and advise on different assets there.

00;12;47;27 - 00;13;10;13
GUEST
But I guess quite quickly got fascinated in who was going to replace the banks, because it’s pretty clear that the banks weren’t coming back to to lend significant amounts of money back into the commercial real estate space so quickly. So, you know, got got got into, you know, where what where were the other pots of capital who might actually lend against property going forward?

00;13;10;13 - 00;13;12;29
GUEST
And I guess that’s how I got onto the debt side, really, is.

00;13;12;29 - 00;13;20;08
HOST
That they kind of the emergence of challenger banks or brands or debt from. So it was more private equity business. Yeah.

00;13;20;08 - 00;13;48;26
GUEST
So there was a combination. I mean, one of our big clients at that point was the European Investment Bank. So you know, in terms of post financial crisis, the, the, the first people coming back to public sector money. So we set up a number of funds, to, across the country, to deploy basically government and, European money into property, commercial property lending in, in different parts of the country to encourage economic activity, economic growth.

00;13;48;26 - 00;14;15;01
GUEST
So that was, I think, probably the first area that kicked off. And then it became funds quite quickly. I guess at the time, people like the the return on property debt compared to what they thought was a risky position in property equity. And so the institution started looking towards property debt as, as a way of moving out of their real estate exposures into something, I guess, that they thought would be less risky and high yielding.

00;14;15;03 - 00;14;20;21
GUEST
And so, you know, advised all sorts of institutions on, I guess, setting themselves up as lenders. Really?

00;14;20;23 - 00;14;43;13
HOST
Yeah. Can you just for someone listening to this who maybe doesn’t have a background in real estate or worked in it so much, can you just paint a little bit of context around what happened at the time, in terms of some of these banks getting burned, overexposed assets going onto their books, receivership and like what that, that pivot and that, that change actually meant.

00;14;43;19 - 00;14;49;19
HOST
And then as a, as an advisor, what were you actually doing and what does putting joint ventures together kind of. Yeah.

00;14;49;21 - 00;15;18;15
GUEST
So I think, in terms of the market at that time going into in 2005, six beginning of 2007, that was really freely available. So you could borrow off high street banks, major global global banks, global investment banks at really high loan to values. You know, in some cases you could borrow more than the purchase price. And as senior debt you know this wasn’t mezzanine finance going in to support the purchases.

00;15;18;16 - 00;15;40;05
GUEST
You’re just borrowing from from a bank at senior debt levels. So debt was really freely available, and it was really freely available because everyone thought that they changed the world creating and using and basically CMBS commercial risk, commercial mortgage backed securities. And, you know, suddenly that was going to create cheaper debt and everything would become self-fulfilling.

00;15;40;07 - 00;15;45;11
HOST
We get I think we’re going to unpack this jargon is a conversation. Yeah. But we’ll come back to that.

00;15;45;17 - 00;16;07;15
GUEST
So the bit to to think about is debt was really freely available. So borrowers did what borrowers do, which is borrow as much as they possibly can. And that helped to fuel the price appreciation that you saw 3005 2006. So because there was debt so freely available, values went up, more people competed harder for the real estate that was available.

00;16;07;17 - 00;16;26;08
GUEST
And, you know, ultimately they that came crashing down and started prices started coming off in 2007, but really started feeling it in 2008 and 2009 when, you know, we had things like Lehman crisis, Lee Lehman failure, but, you know, big banks failing.

00;16;26;08 - 00;16;27;26
HOST
So overexposed, so very.

00;16;27;27 - 00;16;53;27
GUEST
Overexposed, not just to commercial real estate real estate, but but overexposed over all over, over. Kids had too much debt themselves. But in the commercial real estate space, they just lent too much against properties that were falling in value. So values fell, you know, in some cases 3,040%, if not more. And if the banks borrowed, you know, lent 100% of the original value that they were immediately exposed.

00;16;53;29 - 00;17;21;29
GUEST
So it’s a it was an interesting time. The banks quite quickly realized that they had major issues on their balance sheet with these, commercial loan, positions, and I think probably differently to, to previous crisis, the way that they decided to, to, to deal with it was to split themselves into bad banks and good banks, and the good banks could carry on doing some, some lending and being useful for businesses going forward.

00;17;21;29 - 00;17;29;19
GUEST
And the bad banks were there to sort of manage the the legacy loan positions. And a lot of them, those positions were sold.

00;17;29;21 - 00;17;37;20
HOST
Yeah. So they were grouped together because they just, you know, on a single basis, they were kind of like packaged up together. And, and so they’re quite often they were in portfolios already.

00;17;37;20 - 00;17;58;24
GUEST
Because they were being grouped into portfolios to be securitized, which is the CMBS thing. So but they, they were, you know, in portfolios and they were sold to the likes of Blackstone and all the big private credit groups that that came in and bought up huge amounts of debt from banks. It probably started around 2009, ten, 1112.

00;17;58;29 - 00;18;16;24
HOST
So someone listening to this and you, you’ll be able to help me out here in terms of the numbers, but. Well, let’s work with 100 million pounds. We can work on that because then it’s easier for someone borrows 100 million pounds to buy an asset at 100 million pounds. A year or so later, that asset is now worth 60 million pounds.

00;18;16;26 - 00;18;31;00
HOST
They owe the bank that they borrowed the money 100 mil. Yep. They’re not able to do it. They can’t sell the property, or if they can’t sell the property, they’ve got to make up the 40 million pound deficit. They don’t have the equity in their their back pocket or their investors to be able to front it. That’s right.

00;18;31;01 - 00;19;01;11
HOST
The bank goes we’re going to call in the loan because you’ve breached the loan to value ratio. Yeah. And they’re doing that on multiple different property, multiple different businesses they’ve bought back or they’ve got the keys back. They’ve given back this. All these properties. Can you just talk about why they want to get them off their books. Or does that process of, you know, recapitalizing refinancing, packaging

it up and trying to to claw back their capital that they've lent?

00;19;01;11 - 00;19;20;27
GUEST
Essentially, yes. So I think a real estate was just one small part of the bigger problem that the banks faced. But I think when people, when shareholders and lenders to banks looked in on banks at the time, they couldn't really work out what they did. So they had the rivets and all sorts of instruments that no one could really understand.

00;19;21;03 - 00;19;49;19
GUEST
And the banks themselves were so indebted that they had so much debt that they were really hard to work out what the value of these banks was and whether or not actually they were even solvent. So what they needed to do was to try and get rid of all the bad assets to one, see what was then left over, but also allow them to forge new banks, create new banks, create new balance sheets to to to get off and carry on lending because lending is critical.

00;19;49;19 - 00;20;14;15
GUEST
But for the economy to keep going without banks lending and all of this grinds to a halt. And so they needed to find a way that allowed banks to continue lending in some way, being useful to the economy, but at the same time, ring fencing where where they believed all the problems were. I think eventually to get back to the position of really understanding what the bank was, how do you value it, how do you understand it?

00;20;14;17 - 00;20;39;23
GUEST
And clearly, the one thing that that did change post financial crisis was regulation. And the banks have been regulated, you know, hugely since since that point. And I guess the for us, my business and what we do now, it was that regulation and that tightening of regulation around banks that created an opportunity for Non-Banks and other lenders to come to, to come into this life and plug that gap.

00;20;39;23 - 00;20;39;29
GUEST
Yeah.

00;20;40;00 - 00;20;53;26
HOST
So you touched on Blackstone and other people buying these what are called non-performing loans and NPLs. Why would someone want to buy a non-performing loan and what would their business. How would they monetize a non-performing life for someone listening to this. Yeah.

00;20;54;00 - 00;21;17;04
GUEST
So they're buying the loan on one. The discount to the value of the loan. So that if, if they're oh it's the bank is owed a pound, they might be buying that loan at 50 pay. So I guess there's a, a potential for the loan to go back to its par value. And they can make a great return.

00;21;17;07 - 00;21;40;02
GUEST
Now quite often the real estate would be valued at 60 pays. We talked about so that they wouldn't be able to make the whole 50 pay back, but they might make ten pay back. So they bought these these portfolios of loans at massive discounts to make a return. You know, and the they did hugely well those credit funds out of the banks distress at that point.

00;21;40;02 - 00;22;10;14
GUEST
And I think if you fast forward to today and clearly we're in a challenging market today in from a commercial real estate perspective and this parts of the market that are similarly challenged with falling, falling value is what we're not seeing in the same degree as we did back then. Was banks selling those assets at big discounts. And I think that's because they saw the money that the private credit funds, you know, NPL funds made out of those, those assets.

00;22;10;14 - 00;22;15;01
GUEST
And this time they're not quite so keen to let them go at cheap prices.

00;22;15;01 - 00;22;32;00
HOST
So if they held so if they held onto them for longer, the bank to recoup some of its money. But what it didn't want is it didn't want potentially good or bad assets on its balance sheet. Well, all the other kind of work that was happening. So they wanted to offload it, to liquidate their position, to liquidate the position.

00;22;32;03 - 00;22;39;29
HOST
Yeah. So now we're just seeing a case of it being extending and pretending and just hoping that interest rates will come down further and the market will tick in hopefully.

00;22;40;00 - 00;22;53;26
GUEST
Yeah, I think so. I think there's a bit of extending pretending, but I think there's a bit of just the bank wanting to work out there, work the asset and not wanting to give away that, that upside in the in the way, that way that banks did buy them back then.

00;22;54;00 - 00;23;08;18
HOST
Because banks they did they appoint LP receivers didn't they. So they did have some of that where they may be. Yeah, they sold and some of the other kind of advisory businesses to, to maybe take some of the, some of those assets rather than just offload the whole thing. Yeah.

00;23;08;20 - 00;23;18;13
GUEST
That's right. They did you know, banks did do work outs directly themselves. But I think I guess the scale of the challenge they had was, was so big that they sold portfolios as well.

00;23;18;20 - 00;23;33;03
HOST
So how did your role like change during that period. See you clearly. You know, financially as do you analytical doing numbers. You know doing this kind of structuring and connection and work out type work. How did that your role kind of change over that that period.

00;23;33;06 - 00;23;51;28
GUEST
So so quite before that period it was all about raising new money, doing new ventures, new funding. It was all about new projects and new joint ventures, new funds. So all quite creative. And then clearly all of that work dried up. So, you know, in terms of day to day, what was I doing? I was running a lot of numbers.

00;23;52;00 - 00;24;16;22
GUEST

I was speaking to different funders and different partners and trying to engineer transactions, I guess, as well. But I think what happened, you know, as the financial crisis sort of unraveled with the it was pretty clear that the people owning the real estate at that point were banks. So, you know, the big agencies like CBRE and, and others put teams in front of banks to advise them on, on their assets.

00;24;16;25 - 00;24;24;24
GUEST
And I was part of those teams advising those banks on those assets. And yeah, helping them work through some of the the problems that they had.

00;24;24;27 - 00;24;30;02
HOST
Can you just talk about some of the portfolios of some of the assets and some of the projects that you were working on at that time?

00;24;30;08 - 00;24;46;06
GUEST
Yeah. So lots from everything from student accommodation, portfolios that had failed, which were quite resilient, I guess, to shopping center portfolios that been less, way less resilient. And so it was really quite far.

00;24;46;09 - 00;24;47;02
HOST
For a wide.

00;24;47;06 - 00;24;48;29
GUEST
Range of different types of real estate.

00;24;48;29 - 00;24;54;01
HOST
Institutions, family offices, bridge developers, private equity businesses. Yeah. Underlying it was.

00;24;54;01 - 00;25;26;03
GUEST
Yeah, exactly. A lot of, a lot of property developers had big, property companies, relatively small property companies actually have big portfolios because they could buy these assets with not a huge amount of equity. So, yeah, it was quite a different in the, I guess, different situation to where we are today, where it’s more institutionally held. And also clearly, I think the, the, the big private equity private credit funds did so well through that period that, you know, suddenly they’ve become the biggest owners of real estate in the UK as well.

00;25;26;05 - 00;25;43;04
HOST
So in terms of your role, because you, you kind of went up the ranks, as it were, to as I said in the intro, senior director in the corporate finance division, you said on the board there why why did you decide, to kind of leave in kind of March 15th or so?

00;25;43;06 - 00;26;03;20
GUEST
So two my friends had set up an and invest they had I guess, 2008, 2009 was happening. They could see the opportunity to set up a lending business when no one else really wanted to lend it to property. So that set up this business. They found it really hard, because it’s really hard to raise money into a startup business.

00;26;03;20 - 00;26;34;26
GUEST
And, you know, they were relatively young at the time. So it’s really odd, you know, a couple of youngsters running around the world trying to raise money into property debt funds, which the way that they were trying to do it, but they set up a business, they ground it out for a few years. I advised them as they were setting up the company, and as soon as they were big enough to actually appoint me when I was at CBRE, they did so I was an advisor to them as, when I was working at CBRE, for a few years before, I guess they got sort of a bigger and I could see a

00;26;34;26 - 00;26;56;20
GUEST
real opportunity. So they got fascinated in technology, and it probably goes back to that, years before that interest in technology and how it could be applied to what was, I guess, a fairly antiquated space. So they started building software and property, property space. And it felt like a really exciting time to join, join them on that journey.

00;26;56;20 - 00;27;17;06
GUEST
So I joined invest. It was a company at that point of 30 people, ten of them were software engineering. So that was a bit unusual coming from, I guess quite traditional firm to a company where 10 to 10, ten people out of 30, software engineers with all the quirks and characters that exist in that space and joined a startup.

00;27;17;06 - 00;27;18;28
GUEST
And it was it was, you know, really good.

00;27;18;28 - 00;27;26;09
HOST
Fun going for the big green machine, big global presence to, small. Yeah. Small tech fintech. Yeah.

00;27;26;12 - 00;27;55;08
GUEST
It was an out and out startup, really. The guys had done really well in founding the business and building a brand. But in order to be successful, it needed to grow to many multiples of the size that it was. And, you know, as you pointed out at the beginning, I joined to to run the capital markets and fund management sides to that business, which basically meant run it flying around the world and trying to find investors to invest into funds or separate accounts and give us money to, to lend to UK property.

00;27;55;13 - 00;28;03;06
HOST
So the kind of the challenge they identified was these banks were no longer willing to or wanting to or capable of lending.

00;28;03;06 - 00;28;27;03
GUEST
And particularly by this point, by 2015, it was probably less appetite, more regulation that was constraining them a lot by this point. And they cleared off a lot of the legacy positions on their their balance sheets. They had weathered that, I guess weathered that storm. But what came sort of after that was really tight regulation, which meant that for property development loans, they have to hold a huge amount of capital against those loans.

00;28;27;03 - 00;28;52;23
GUEST
So it’s not efficient for them to provide development loans. So there were large parts of the property

finance space that were being strangled by regulation. And the opportunity really was to set up a lending business that wasn’t constrained by being a bank in that way that could, and better, better returns by not competing with banks and finding opportunities to, to lend.

00;28;52;29 - 00;29;09;22
HOST
And so the loophole was the fact it wasn’t a bank, but it would still have to be regulated of sorts. Yeah, but it would plug that that gap would provide funding solution a funding grant. Yeah. Plug that funding gap. Yeah. Where property developers, investors wouldn’t be able to get from the bank they had to use debt to to make their returns accretive.

00;29;09;28 - 00;29;15;26
HOST
And so they went to lend invest to be able to do that. That’s right. And was it a marketplace at that time or not. Yes. So it was so.

00;29;16;00 - 00;29;29;16
GUEST
When I joined the business, it was sort of the I guess, early stages marketplace. So which guys it started off setting up as a funds business. So they had funds with assets, and investors into those funds holding those assets.

00;29;29;21 - 00;29;33;24
HOST
So typically they would go to investors, they would raise capital and they would then.

00;29;33;27 - 00;29;34;17
GUEST
Deploy.

00;29;34;20 - 00;29;46;00
HOST
They would deploy that into, into into loans, into a particular strategy. So I guess for people who probably aren’t as okay, on the debt side, it’s it’s basically the same as what you do on an equity fund. Exactly. But it’s just wearing a slightly different hat.

00;29;46;00 - 00;29;50;20
GUEST
So doing it for, for property debt, property equity or property for buildings.

00;29;50;20 - 00;30;06;10
HOST
Yeah. And I guess with your property debt that you’re looking at what can go wrong and the downside and you’re like, how can I ensure that my coupon on my return or my kind of fixed income is, is going to be there? Right. That’s rather like, how am I going to smash my business plan out?

00;30;06;11 - 00;30;32;14
GUEST
Because you don’t get you don’t get any value for the upside. So, you know, if the borrower does fantastically well and makes a ton of money on a transaction, that’s great. But as a as a lender, you’re not getting value for that. You only lose when things go wrong. So the trick is making sure you’re not lending against things that go wrong, or you’re lending against things that go wrong so infrequently that it makes sense overall.

00;30;32;16 - 00;30;38;26

GUEST
Because you can’t get additional return, you know, and you get the return you set out to earn.

00;30;38;28 - 00;31;13;16
HOST
Quick one from me. If you haven’t already subscribed or followed this show on the podcast or app where you listen or watch, please do. It takes 10s and helps tremendously. I’ve got really big plans for people Property Plays podcast, and that one small action really, really helps grow the show and the present and enables us to keep doing what we do.

00;31;13;17 - 00;31;29;23
HOST
So if you haven’t already, please follow or like on the platform you watch or listen to. Thanks so much. And so your role is capital markets and fund management. Can you just explain what you, were doing specifically there?

00;31;29;23 - 00;31;57;06
GUEST
Yeah, so I started off on the fund management side. So that was really managing those funds that I just talked about. So what did that mean when one was capital raising. So going off and trying to find investors to invest into the funds and supporting that, that capital raising sales process. And the other one was making sure that we were investing in loans and opportunities that we, you know, felt that we could make the right returns, good risk adjusted returns from.

00;31;57;08 - 00;32;22;25
GUEST
So so that was sort of where I started initially and then quite quickly got into on capital markets side, which for, for us really at that point was raising money from institutional investors. And by this point it was, lots of banks who were wanting to come back into this space. But, you know, in some cases had until the teams, their expertise because they’d been, that they’d gone years before.

00;32;22;28 - 00;32;28;18
GUEST
So it was raising capital from banks and, and running portfolios of loans, loans for them on.

00;32;28;18 - 00;32;34;03
HOST
Behalf of those banks. And does that kind of help you get through the kind of regulatory issues that they faced as well?

00;32;34;03 - 00;32;58;02
GUEST
Or so in some ways it does so that the they can either lend to US lenders or they’re holding a loan as opposed to lending directly themselves, or they can do that in a structured way. So in some ways it can. In other ways it can’t. They just look through directly to the underlying asset. But I think it was more around trying to, you know, I guess access expertise in for for us quite niche areas of property lending.

00;32;58;10 - 00;33;23;14
GUEST
So it might not if you’re a huge bank, if the total opportunity for of type of lending is only 1 billion pounds, there’s no point in building the expertise to exploit that opportunity. If you’re HSBC, for example, it’s just not a big enough opportunity to make sense. But if you can, access that opportunity through a single partner that has all that expertise and do it all for you, then it makes sense.

00;33;23;14 - 00;33;42;28

GUEST
So I that that was sort of one of the areas that we, we raise capital for lending. And then we went on and did as we got bigger and bigger and bigger loan portfolios, we could access the actual capital markets, which I guess is it for for loans. It’s and residential mortgage loans is is the best space.

00;33;43;00 - 00;34;06;06
GUEST
So these, residential mortgage backed securities where effectively take portfolios of loans and you issue notes of bonds off the back of these portfolios of loans and they’re rated by rating agencies. And if you’ve seen make sure you’ve probably seen bits of this process. But you know these exist I mean we issue at least one rmbs every year at just ourselves.

00;34;06;06 - 00;34;29;29
GUEST
It’s a, you know, it’s a big market. And banks and other lenders are constantly selling these bonds into that market. Yeah, but in doing that, what you’re doing is, is taking these property loans which need managing, need grouping, and you’re selling bits of them or bits of risk in those loans to different investors. And those different investors are choosing the bits of risk that they want to they want to own.

00;34;30;01 - 00;34;35;24
GUEST
And it’s a effectively a way of, reducing the cost to, to, to the lender.

00;34;35;27 - 00;34;39;12
HOST
It’s that repo or is that a different terminal. That’s a.

00;34;39;12 - 00;35;11;06
GUEST
Different terminology. So what you if you’re a explain repo as well. But there’s lots of different types of repo. Repo is financing on bonds typically or financing on assets that are of a certain credit quality. And that repo is financing that’s offered by by banks. So we as a lender might take repo financing. So when we issue bonds of these portfolios under post financial crisis rules, we have to retain an interest in those notes.

00;35;11;06 - 00;35;29;12
GUEST
We can’t get rid of those positions. We have to have an alignment, which is one of the big problems that you remember in the picture. Yeah, you see there’s just a lack of alignment lenders just doing what it wants, dumping the risk. And you can’t you can’t do that nowadays. So the lender has to retain exposure to the notes.

00;35;29;14 - 00;35;44;10
GUEST
But what it can do is retain the notes and then raise financing on the notes. So it can go to a bank and say, look, I’ve got all these Triple-A rated bonds. Can I have some financing on these to operate at A-rated bonds? And that financing is typically what’s called repay.

00;35;44;17 - 00;35;47;04
HOST
And that will enable them to recapitalize loan.

00;35;47;07 - 00;35;50;19
GUEST
Yeah. So make allows you to borrow more and use that money elsewhere.

00;35;50;23 - 00;36;15;16
HOST
Yeah. Just be more efficient with that. Yeah. When you joined the business, as I said in the intro, the kind of the AUM was 100 million. You've helped grow it to over 3 billion. It's probably a good kind of stage because we haven't touched on the difference between like, bridging, senior stretch. You know, there's lots of different, mezz, you know, terminologies that are thrown around in the, in that kind of lending space.

00;36;15;20 - 00;36;28;01
HOST
Yeah. And it's pretty good time to introduce like, the capital stack and what that means as well. Were you focused when you started on a particular part of the capital stack? And I'm assuming you've kind of expanded that as you read? Haven't grown as well. Yeah.

00;36;28;01 - 00;36;51;01
GUEST
So in terms of capital stack, but also the types of lending that we do because they're quite, quite different because we're a non-bank lender, we really it doesn't make sense for us to go off and compete with HSBC, because HSBC's got a lot cheaper capital and a lot bigger business than, than than we will ever be. So it doesn't make sense in despite the fact that we've built it's brilliant.

00;36;51;01 - 00;37;18;17
GUEST
Technology makes us lend a lot with a little bit less friction than than banks. It doesn't actually make sense with the capital that we have to compete directly with these big banks. So what we're looking to do is look for opportunities and niches within the property finance space, where you can make additional returns. You're not competing with that with the the mainstream big banks and the areas of property lending that we see, those opportunities.

00;37;18;19 - 00;37;37;04
GUEST
First of all, and first product we did was bridging finance. So I think of a borrower that goes to an auction and buys a residential property they have to complete on the purchase of that residential property within 30 days. And so if they wanted to get any borrowing against that from mainstream bank, it's unlikely that that would happen within that period.

00;37;37;04 - 00;37;38;06
HOST
Because they just won't chance it.

00;37;38;06 - 00;38;02;22
GUEST
Just to it takes to take some too long. So they could but they could go to come to us and say, can I get some finance in it against this opportunity. So we'll lend them money against the, the that property on a short term basis. The borrower will then typically refurbish the property, put in the kitchen bathroom, tart it up and then put it on onto a buy to let mortgage or sell them, sell the property later.

00;38;02;25 - 00;38;16;17
GUEST
And that short term loan could be anything from three months to a year, depending on on what they're doing with the underlying property. And that's a classic bridging loan. So that's what we started doing because we knew we could earn sort of good returns by doing.

00;38;16;17 - 00;38;18;15

HOST
It because it’s expensive. Money is.

00;38;18;15 - 00;38;38;08
GUEST
Yeah, it is. It is because it’s not a cost of finance borrowers coming to it thinking it’s cost of doing the project. So if you’re if you’re buying something for 100,000 pounds and you’re 20 grand short, you need to borrow the 20 grand, you can’t do the project unless you part of the 20 grand. So if that interest rate is going to be at 12% per annum, it’s not really an interest rate.

00;38;38;08 - 00;38;55;11
GUEST
It’s a cost of doing the project. And actually, if you’re going to spend 50 grand on the property, doing it up, who cares about that? Interest rates are small and it’s worth 300 grand. At the end of the day, it yeah, it’s just the cost of delivering the project. So then people don’t think of it as that interest rate.

00;38;55;11 - 00;39;17;03
GUEST
So that’s why you can earn outsize and good returns in that space. So that’s that’s where we started. And today it’s much more competitive. It’s quite a it’s quite a competitive space. But the way that we compete now is, is using technology. So we’ve automated large parts of that type of lending. So we can process these loans in volume without lots and lots of people.

00;39;17;06 - 00;39;22;20
GUEST
And we can build large portfolios of these loans and diversify the risk across the large portfolios.

00;39;22;22 - 00;39;38;02
HOST
And so you can be much more efficient in terms of how you screen and then price and allocate exactly capital, whereas actually didn’t have the tech, the proprietary technology. And the, the ten software engineers when you first landed. Yeah, they just wouldn’t be able to deal with the sheer kind of admin. Yeah.

00;39;38;02 - 00;39;41;09
GUEST
We just have lots of people. So we could do it. We would have a ton of people, it’s just.

00;39;41;09 - 00;39;42;02
HOST
Which wouldn’t be problem.

00;39;42;02 - 00;40;04;19
GUEST
This brings its own challenges. So so that’s one area. Another area that we saw an opportunity was by select mortgages. And you know I guess banks do buy select mortgages. Yeah. This is why would that create an opportunity for non-bank. Well over the last 510 years, what’s happened is that, we’re seeing less and less amateur buy to let landlords who might have 1 or 2 buy to let properties.

00;40;04;22 - 00;40;28;21
GUEST
And we’re seeing more and more portfolio landlords, people with bigger and bigger portfolios and it guess regulation, whether it’s HMO regulation or other regulation is like driving that change. Tax changes, making it inefficient for people to own buy, to let property. All of that is driving a switch from a amateur landlord to a professional landlord. And we focus on lending to that professional landlord.

00;40;28;24 - 00;40;49;05
GUEST
And the reason banks don’t do that is because we’re lending to companies. So banks, the banks in the mortgage space are good at lending to individuals and credit scorecards, but they’re not very good at lending to companies with all the complexity that companies have, or lending to portfolios of property where you’ve got to value each and every part of the portfolio, not just the one property.

00;40;49;08 - 00;41;10;07
GUEST
So that complexity created the opportunity for a specialist lender in the space. And that’s why we entered the buy to let space another area of lending. We moved into owner occupied mortgages. You think, well, why would a non-bank lender compete in owner occupied mortgages? Well, if you’re a self-employed person, you might have or someone with with multiple jobs.

00;41;10;07 - 00;41;35;29
GUEST
So you could be a doctor that has NHS income or private income or investment income as a specialist lender with these, well, as a mainstream lender, you might lend to that person against one source of income or you might not lend include their bonus. Or, you know, it’s quite difficult for people with complex income to borrow with us, these people, self-employed people, can come to us and we can use things like open banking.

00;41;35;29 - 00;41;46;02
GUEST
We use technology to piece all of their income together and provide them mortgages off the back of that, that, that complete picture of their financial, which is their reality.

00;41;46;02 - 00;41;46;22
HOST
Right? Which is.

00;41;46;24 - 00;41;47;28
GUEST
That they.

00;41;47;28 - 00;41;48;16
HOST
Can totally.

00;41;48;16 - 00;42;01;00
GUEST
Borrow more from us now. They pay for it because will will charge more than a high street bank will for a mortgage. But in, in in us analyzing that complexity, we get paid for that.

00;42;01;00 - 00;42;01;19
HOST
There’s value in.

00;42;01;21 - 00;42;02;11
GUEST
Return.

00;42;02;14 - 00;42;16;08
HOST

And for them they're able to access four and a half of whatever the multiple is based on their whole income, rather than on just 25%. Exactly what makes it a creative or it makes, yeah, enables them to buy the house they want to. Yeah.

00;42;16;10 - 00;42;18;18
GUEST
And then the final area that we. Sorry again I'm sorry.

00;42;18;19 - 00;42;34;21
HOST
No, no don't touch it. Because you know I this this world of, real estate finance is vast as is lots of different parts when you get into it. Yeah. And I know this is super simple basic stuff for you, but I know, you know, I've it's taken me a long time to get my head into it, around it.

00;42;34;21 - 00;42;48;01
HOST
And I'm still doing that. And I know that people listening to this from the messages and the DMs I get on LinkedIn will be following this with kind of tenterhooks, trying to understand it, maybe rewind it and listen to it again. Strong piece of it all together. So so the final.

00;42;48;06 - 00;43;15;26
GUEST
Area that we focus on is property development lending and particularly lending to house builders. And these are semi house builders. These you big mainstream house build, these small medium size house builders that are building schemes from 2 or 3 houses, up to 100 apartments or 200 apartments. So smaller projects across the UK and we lend to these borrowers that have certainly found it hard to borrow from high street lenders.

00;43;15;27 - 00;43;36;10
GUEST
I even post financial crisis and, you know, increasingly challenging borrowing from specialist bank lenders as well so borrowers can can come to us and we'll provide them with with development loans basically. And we really focus on that SMP House will bear in trying to unlock more supply of housing and doing a bit to, to to unlock that supply.

00;43;36;13 - 00;43;38;19
HOST
So it's mainly residentially focused.

00;43;38;24 - 00;43;40;07
GUEST
Mainly residential.

00;43;40;09 - 00;43;41;15
HOST
Do some commercial work as well.

00;43;41;15 - 00;43;49;06
GUEST
Yeah we do. And on the development side we funded schemes from student accommodation blocks and press blocks, colleges.

00;43;49;07 - 00;43;51;15
HOST
Still residential, but it's part of Marshall.

00;43;51;18 - 00;44;19;01
GUEST
Exactly what value of their investment, you know, assume that they're going to be valued of as an investment property. So co-living. We've we funded a number of the early, late co-living schemes. We have financed some, some office developments. We've done some life science development funding in Cambridge. So there's there's little pockets of opportunity where we see opportunities to, to lend on the commercial side, but that largely it's been financing, residential.

00;44;19;03 - 00;44;39;00
HOST
So the two parts of your business, one is going out and finding the, the opportunities to lend against, against the for different products that you've kind of cited. Yeah. And then the other part is going and talking to LPs or capital. Yeah. To go give us some cash that we can allocate or this is the strategy whatever bucket you want to get involved with to allocate.

00;44;39;00 - 00;44;50;06
HOST
So you've got exposure to this part of the market. Yeah. And what types of capital do are you talking to outside of the banks, which you kind of alluded to earlier. What's the capital want want in on these types of deals.

00;44;50;06 - 00;45;15;16
GUEST
So so because of the range of different types of lending I've talked about. So I've talked about buy select mortgages where we might be lending at 5% per annum. Should he'd return to bridging loan, we might be lending at 12% per annum. There's a huge risk return trade off between the two. Yeah. So we, we talk to a, we have a huge wide variety of different investors that invest with us a largest single investors, JP Morgan.

00;45;15;16 - 00;45;39;09
GUEST
So we manage a portfolio of nearly 1 billion pounds of buy select loans for JP Morgan. We originate manage those days loans on on their behalf giving them exposure to that type of loan. And then we'll, we'll have private individuals or family offices that might invest into to, to one of our funds and get exposure to. Yeah, in some cases an individual loan.

00;45;39;11 - 00;45;53;15
GUEST
So we have a, self-select platform where, institutional or professional investors can, can access individual loans that are packaged as funds and invest in those individual loans and build their own portfolios of loans as well.

00;45;53;23 - 00;45;54;18
HOST
Stock picking.

00;45;54;23 - 00;46;15;06
GUEST
Yeah. So it's a bit of stock picking. I mean, we tell them that the better to be exposed across the broadest range of loans as possible. Yeah. And yeah I think I three time investors building these these larger larger portfolios. But you know some you know some investors love picking in choosing specific loans to take exposure to.

00;46;15;08 - 00;46;25;28

HOST
So in 2020 your your role evolved from being head of capital markets and fund management to CEO. How did that come around and how did your role kind of materially change.

00;46;26;00 - 00;46;50;07
GUEST
So a big change. So the business was set up by two founders, a guy called Christine Phase and a partner called Ian Thomas. Friends of mine for a long period of time, Christine was the previous CEO and I think sort of, we’ve been talking for a number of probably over a year about me potentially moving into the CEO role and him stepping into a chairman role.

00;46;50;07 - 00;47;11;21
GUEST
I think, there were lots of, lots of parts of the role as CEO that I think he didn’t really want to do a lot of people management side, probably. And, so I think he he felt that he needed his, his role to evolve. And we spoke for at least a year about me stepping into to take over as CEO.

00;47;11;23 - 00;47;19;03
GUEST
And then really, I guess it’s late 2019 that we sort of got that moving and then took over right at the start of 2020.

00;47;19;05 - 00;47;20;08
HOST
Yeah. Hospital pass.

00;47;20;08 - 00;47;22;04
GUEST
Which clearly, you know, he.

00;47;22;04 - 00;47;26;19
HOST
Saw coming right back to 2020. He saw coming. You didn’t.

00;47;26;21 - 00;47;46;06
GUEST
Yeah. So it’s a baptism of fire. You know literally I guess weeks into this big job, suddenly we were telling people that to work from home and, you know, we had no idea what this meant for even, you know, whether we could keep paying people because you got no idea what was what at the time. And, so it was a real baptism of fire.

00;47;46;06 - 00;48;04;07
GUEST
But I think in many ways it was quite helpful because he previous CEO had stayed in business. He remains our chairman even to today, but because he was in that in the business. Tom is an executive chairman. I guess part of the challenge was always going to be how the role will move from me, from him to me.

00;48;04;10 - 00;48;06;12
GUEST
And then Covid hit and they just had to and.

00;48;06;12 - 00;48;07;14
HOST
It’s just no choice.

00;48;07;14 - 00;48;35;20
GUEST
There was no choice. It’s like straight in the deep end. Bang. You got to communicate to everyone, all your stakeholders, people, funders, you’re just in it. And so I think that transition happened a lot quicker than otherwise it probably would have done. Which, you know, ultimately with hindsight, it was a was a good thing. But at the time it felt, as you say, it felt like a I’d take it hospital.

00;48;35;22 - 00;48;53;03
HOST
So how, how long was it? You know what? You’re trying to put out fires and trying to get the lay of the land work out. Actually, what is this new lending world, and how does that look like? How long did it take for a little bit of stability to come through and then maybe start to start pace.

00;48;53;05 - 00;48;54;07
GUEST
How is this sort of. Yeah.

00;48;54;09 - 00;48;59;02
HOST
Yeah. To March 2020, like when did that start kind of picking up and you think actually so so we got.

00;48;59;06 - 00;49;28;11
GUEST
Lucky to start with. So when March 2020 when things started going completely nuts, we were finishing a securitization. So one of those transactions I just talked about and and when a, when a bank or a lender does a securitization, it releases a lot of cash. So we had about £30 million of money riding on this securitization. And we got that securitization closed the day that mortgage payment deferrals came in.

00;49;28;11 - 00;49;51;03
GUEST
So pretty big day, right? The start of the Covid crisis that, I guess was the last securitization transaction that happened for at least six months. I think at the time we managed to close it, which meant that we went into that sort of really dark lockdown period with cash in the bank, and we didn’t know how long that cash would last and, you know the rest of it.

00;49;51;03 - 00;49;53;04
GUEST
But we had cash in from back, which you could stop.

00;49;53;06 - 00;49;55;25
HOST
The money at a place. Much better place than not.

00;49;55;25 - 00;50;13;18
GUEST
Having that cash in the bank. Yeah, but what it meant was we could take a bit more risk than we would have otherwise been able to. So we decided to stay in business. Because we’re a tech business, we can operate. You know, we don’t have, like, centers shutting down and work out how to give people laptops. Everyone was on laptop.

00;50;13;18 - 00;50;16;22
GUEST
They went home. Everything’s cloud based. They operated. It was just.

00;50;16;22 - 00;50;17;18
HOST
Like, you’re just ahead of the curve.

00;50;17;19 - 00;50;37;16
GUEST
It was just seamless. And so we could we could operate. We had all the modern infrastructure that allowed us just to, to get carry on as we were when most institutions had to work that out, when, you know, they worked it out pretty quickly, but they still had to work it all out. But because of that operational advantage and because we had cash in the bank, we took the view that we would stay open for business.

00;50;37;18 - 00;50;47;14
GUEST
Now, we weren’t flooded with business because the property market was shut. You couldn’t even go into a residential property to buy to buy it. You know, it was shut for for three months.

00;50;47;14 - 00;50;49;21
HOST
People couldn’t even get on site. Right? Yeah.

00;50;49;24 - 00;51;10;24
GUEST
Building site shocked. It’s stopped. So, you know, every development loan that we’re funding site stopped. And then slowly people are like, okay, well I might as well turn up and keep the project going. So things sort of slowly came back. But I guess for us, because we stayed open for business, focused on being operational. When the property market did turn back on, we were sort of we’d stolen in March.

00;51;10;24 - 00;51;33;27
GUEST
We were ahead of the competition and that was probably as early as June, July 2020. So it wasn’t, you know, with hindsight, wasn’t that that long. And of course, you then saw what was a massive boom in the residential property market. So you went from completely shut to, you know, booming property market. And because we’d stayed open, we took a big advantage of that position.

00;51;33;28 - 00;51;40;26
GUEST
So our growth sort of from June, July 2020 through to 2021 was just huge.

00;51;40;29 - 00;51;53;04
HOST
Can we just talk about the kind of the lending market as we are today, in middle of May, as it were, how do you kind of see, see the market currently? Where are the opportunities? Where are the challenges?

00;51;53;04 - 00;52;10;07
GUEST
Yeah. So it’s probably give it a bit of context. The last year, two years have been pretty hard work. And you and I think most people who’ve worked in real estate of any type over the last couple of years will probably say it’s been hard work values. Have, you know, been falling in residential space, I guess more muted than commercial property space.

00;52;10;07 - 00;52;20;28
GUEST
But, you know, it’s been hard by select mortgage volumes for 2023, half of what they were the year before. So it’s half the business that everyone goes after wasn’t there.

00;52;21;01 - 00;52;21;24
HOST
Yeah.

00;52;21;26 - 00;52;40;01
GUEST
That's quite a big deal if that if your job is to do that business, half of it's gone. It's you know it's hard work. So the last couple of years have been really, really hard work. The start of this year was actually a lot of activity. So what we saw and people who work in mortgages or property mortgages thinking swap rate.

00;52;40;01 - 00;53;01;16
GUEST
So these are how you fix interest rate for a period. And most mortgages nowadays a five year fixed rate period. So the five year swap rate is like the thing that prices mortgages more than probably anything else. And what we saw at the end of last year was that rate falling mortgage rates coming down beginning of this year, mortgage rates had come down.

00;53;01;16 - 00;53;25;15
GUEST
It was like, okay, there's a a bit more excitement about the market. So January in the first week of January, we took more loan applications in the first few days, came back after Bank holiday than we had in the previous three months. So January started with a bang. And that was, you know, underlying activity in the property market, both purchases as well as remortgaging, refinancing from.

00;53;25;15 - 00;53;26;20
HOST
Sophistic from.

00;53;26;20 - 00;53;29;05
GUEST
Sophisticated investors. You know.

00;53;29;08 - 00;53;34;13
HOST
I don't think I've ever heard a retail investor talk about swap rates. Very nice. You know, I think.

00;53;34;15 - 00;53;43;15
GUEST
The reality is the borrower isn't thinking in swap race, but with person thinking what rates the banks are offering them. But the banks are pricing their products based on the swap rate and the swap rates.

00;53;43;15 - 00;53;47;09
HOST
But the borrowers are looking at the swap rates are as well. Yeah, they are.

00;53;47;09 - 00;53;56;19
GUEST
Increasingly because because they've worked out if they follow this thing called the swap rate, they'll know what's going to happen to mortgage rates before before the banks move the.

00;53;56;19 - 00;54;02;29
HOST
Mortgage rate to other people asking, we're probably the ahead of the curve for more of the institutional

investors rather than the retail investors.

00;54;02;29 - 00;54;30;26
GUEST
Exactly right. Anyway, that year started with loads of activity. What's happened since is, as expectations for the base rate coming down have moved further out. So rates have increased and as sweat rates have increased, mortgage rates have increased, cost of finance is increasing. And that's taking some of the heat out the market. So we're in I guess in a it's cooler now than it was at the start of the year, but probably better than most of last year.

00;54;30;28 - 00;54;46;07
GUEST
So I wouldn't say it's plain sailing in in the market as we are today. But you know, it's an improvement on where it was. And I guess, you know, slow steps are of what was clearly it has been a quite a challenging period, really.

00;54;46;13 - 00;54;55;28
HOST
And are there any indicators you look for, particularly ahead of the curve to try and get, get an early or a march on when maybe activity might pick up? Yeah. So I think can you shed shadows.

00;54;55;28 - 00;55;19;13
GUEST
So I think that that's what rate is really important. And it's been it is really volatile. It bounces around a lot. But a trend around that, which I think shows the rates come down. And what the January showed us was that when rates come, mortgage rates, finance rates come down to a certain level, a massive there's a massive amount of pent up demand that just gets unlocked.

00;55;19;15 - 00;55;39;01
GUEST
So someone wants to move house. Mortgage rates are down a bit. Okay. Now's my time to do it. Someone's to buy an investment. Now's my time to do it. You're not. If you're on an existing mortgage, it's come down a little bit. Now is my time to remortgage. There's a whole raft of pent up demand that gets unlocked as, as as rates come, come down.

00;55;39;03 - 00;56;00;16
GUEST
So I think the key is sort of waiting for that moment. I think that the overall property market will just breathe a sigh of relief when the Bank of England hopefully makes its move to cut rates. Yeah, and I think that will be a signal to the property market overall that, the if better times are ahead. We'll see.

00;56;00;19 - 00;56;11;08
HOST
You've touched on the products, and some of the investors in the bids. Can you just give me an overview of like the, the kind of the locations and the people and just the wider business because you're also listed. When when when did that happen? Yes.

00;56;11;11 - 00;56;45;26
GUEST
So the listing that was off the back of that boom post Covid, we grew said from June 2020 through to July 2020, that's when we listed July 2021. And that growth that we had experienced just allowed us to, to to list the company and raise money in that way. It's been hard being listed company since because and not that many months after we listed, we had to deal with sort of rising interest rates, which is, as we just talked about, dampened the whole property market overall, just made everyone's lives a lot harder.

00;56;45;26 - 00;57;03;08
GUEST
And from property market perspective, but also lending perspective. So I guess, you know, challenging times. But it was, it was great to get the company listed off the back of that, that growth at that point, in terms of the I guess, on where where we're lending by location, we lend across the whole of the UK. Yeah.

00;57;03;11 - 00;57;26;27
GUEST
From. Yeah, Scotland all the way through to, you know, central London. It's really the whole of the UK as a company where around 200 people, around 50 of our people will be software engineers and data scientists and people working on that. Complicated stuff. And then the rest is, originators and underwriters and loan services and all the rest of it.

00;57;26;27 - 00;57;33;25
GUEST
People, finance people. We have around 50 people based in Glasgow and around 100 people based in central London.

00;57;33;27 - 00;57;46;03
HOST
And do you have qualified surveyors within the business or people who have come from a traditional property background? We've kind of flip from an equity to, to more of, a debt side, or they want to be focused more on lending rather than, yeah.

00;57;46;06 - 00;58;08;00
GUEST
So we do it's it's pretty unusual, actually. You know, most people who in property lending, people that work for banks and have come through the bank rates, but there are people who are more traditional property, people that go into to property lending. And we've got a number of them in the business. They tend to work in either origination, portfolio management, recovery.

00;58;08;01 - 00;58;31;10
GUEST
So, you know, when loans go wrong, you need to work hard on the asset to get your money back. So asset management. Yeah. So they loan asset management. A lot of those people come from receivership backgrounds. So we have receivers that work for X receivers that work for us on the lender side. So it's yeah a range of different property experience across across the business really.

00;58;31;13 - 00;58;42;18
HOST
So as we draw to a close, a question I ask everyone who comes on the podcast is if I gave you 500 million pounds of the capital, who are the people? What property and which place would you, allocate that capital?

00;58;42;21 - 00;59;04;04
GUEST
Well, that's a brilliant question. I clearly see that it beforehand. I completely forgotten what I was going to say. The only real answer to this question is, as we just talked about, I think we're in a we're in a pretty low point in the market. And I got to think back to 2008, 2009, I think to be in a in a similar point.

00;59;04;06 - 00;59;33;01
GUEST
And, you know, the Business Lending Invest was created out of the opportunity that existed post financial crisis. So I reckon now is the time of a lifetime to take that 500 million and blitz it and make many, many

multiple bits of that money. I think it’s so, you know, not quite a once in a lifetime opportunity, but it’s, certainly once in a decade, probably one, you know, once in two decades opportunity.

00;59;33;03 - 00;59;49;16
GUEST
So if it’s that type of opportunity, the first thing you got to do is level the hell out McQuade and make that £500 million even bigger, okay? Certainly part of the £500 million, let’s say half the £500 million I’m going to put in lending.

00;59;49;19 - 00;59;49;24
HOST
No.

00;59;49;24 - 01;00;14;07
GUEST
Surprises. That’s what we do. And, you know, if there’s great returns to be made in real estate lending. So I’m going to take £250 million. I’m going to lever it five times. I’m going to deploy it into a different type of property lending. I actually think property development lending, which has been a risky bet the market is going to have, a great it’s going to be a good place to, to lend over the next few years.

01;00;14;07 - 01;00;23;05
GUEST
So I’m going to deploy. What’s that, £1 billion. Over £1 billion. Billion in a billion and a five year, one and a half.

01;00;23;07 - 01;00;32;01
HOST
1.25, two, 50 times. Yeah. So I’m going to, I’m going to deploy that point 1 to 5 and I rocket I’m sent return. And we’re looking at.

01;00;32;05 - 01;01;01;05
GUEST
So the underlying loans I think are going to pay me about 12% per annum. And I’ve just levied the hell out of that money. So I can probably borrow at three over bay. So I reckon I’m going to make close to 20% return on billion quid’s one and half billion quid. We’re sorry, £500 million over the next. Let’s say three years.

01;01;01;05 - 01;01;11;09
HOST
So for people listening to that, it sounds like from an equity perspective that is past value and opportunistic opportunistic type plus plus return. Yes, that’s plus plus returns.

01;01;11;09 - 01;01;16;20
GUEST
But it’s not you know, you can make more returns on you should be able to make more returns on equity, of course.

01;01;16;20 - 01;01;19;01
HOST
But in terms of a lending perspective, if you’re looking.

01;01;19;03 - 01;01;25;20
GUEST
At tons of lending perspective where your downside is protected, to some degree, yeah.

01;01;25;22 - 01;01;30;17
HOST
There’s talk about equity value add opportunistic class returns in terms of time frame.

01;01;30;20 - 01;02;03;22
GUEST
I think I said I’d put half the money in now you did said 500. That’s 250 million has been levied that. Yeah. Yeah. The rest of it I’m going to pick opportunities because, you might as well take some risk on the other part. So I would, asset specific opportunities. I wouldn’t be too precious about sectors or, or regions, but I would choose I commercial real estate opportunities where I felt there was long term value for that real estate, and it was being undervalued today, and I take advantage of it.

01;02;03;22 - 01;02;23;07
GUEST
So it could be offices, which clearly not not flavor of the month. But you know, the hard bit will get in the money into the market in those specific asset opportunities. I think the area being a little bit cautious around the area, I’ve always been a bit cautious of the big sheds because that’s been sort of like the area that most people may loads of money.

01;02;23;10 - 01;02;49;25
GUEST
So over the last decade, but it feels like cattle values are quite high there. So I’m not quite sure there’s that same distressed opportunity that I’m looking for with the other £250 million. So it may may be off something a bit unloved, but it would be an asset specific really pulling down to the particular property, particular location. And maybe the tenant, he he would, he would what other uses that might be for that property.

01;02;49;27 - 01;02;52;27
HOST
And are there any people that you would bring along the journey in terms of.

01;02;53;01 - 01;02;54;27
GUEST
Well, the brilliant team that I’ve assembled.

01;02;54;27 - 01;03;01;04
HOST
And invest got 200 of that and any, any anyone else you’ve worked with your your career or.

01;03;01;07 - 01;03;16;01
GUEST
I’ve worked with lots of brilliant people over my career. Most of them retired now. But you know, maybe I’d love maybe they’ll come along and be on a board or, give me give up some of their retirement time, say, in terms of some of who these people are, I, Andrew Baum, just talked to right at the beginning.

01;03;16;01 - 01;03;30;03
GUEST
He set me on that proptech journey decades ago, a guy called Tony Martin, who I work with at CBRE, who looked after me for many years and gave me a huge amount of opportunity. There’s a lot, you know, lots of people, a lot to.

01;03;30;06 - 01;03;51;17
HOST
Well, Ron, you’ve had a fascinating career. I’m really excited to see how you and the team navigate this once in a decade, double decade kind of opportunity. You’ve been really generous with your time sharing

and educating us all. In terms of the different nuances when it comes to real estate finance. So thank you. And like I said, excited to see what you take on today.

01;03;51;19 - 01;03;53;25
GUEST
Thanks a lot. Really enjoyed it.

01;03;53;28 - 01;04;17;25
HOST
Thanks for listening to this week's episode People property Place podcast. If you found it insightful, feel free to share it with a friend or colleague. Give us a rating, light or comment. It helps tremendously. It'd be great to hear from you on LinkedIn. I'm super open minded to recommendations of guests we should have on the show. What areas of the market we should explore further.

01;04;17;25 - 01;04;48;06
HOST
So do drop me a message. The People Property Plays podcast is powered by Rob on the team recruit, leadership and future leadership hires for real estate owners, funds, investors and developers. So if you're looking to hire top talent for your business, head over to the website. Rob Buncombe, where you'll be able to find a wealth of information. Or feel free to drop me a message on LinkedIn.

01;04;48;09 - 01;04;51;17
HOST
Have a great day wherever you are, and I look forward to catch you next time.