Residential & development

Titlestone hits £2bn lending mark five years after launch

Lender has expanded into new sectors and adapted to challenges such as the buy-to-let clampdown

BY GUY MONTAGUE-JONES

Pragmatic: Titlestone's Robert Orr decided to move away from the luxury market in 2015

Titlestone Property Finance has reached the milestone of £2bn in drawn-down facilities five years after the residential development lender was founded.

Back in 2012, the Oaktree Capital-backed firm had relatively little direct competition. At the time, the lending market was largely split between banks offering conservative levels of senior debt and mezzanine providers to whom developers would turn for extra leverage. What Titlestone offered instead were stretched senior loans so that developers looking to borrow at up to 70% of gross development value could use one provider without the hassle and potential delays involved in securing bank and mezzanine finance separately.

Fast-forward to today and Titlestone faces more competition from other lenders offering stretched senior debt, as well as an arguably more uncertain housing market. So how is Titlestone adapting?

The lender's chief executive Robert Orr says that over the past five years it has had to adjust its pricing to remain competitive, but has resisted the temptation to chase business by offering extra leverage and hasn't strayed beyond its southern England heartlands. Instead, it has expanded into new sectors, namely student accommodation and commercial property, which together account for about 15% of its loan book today.

In 2015, Titlestone saw an opportunity to break into commercial development lending because of the impact that office-to-residential conversions under permitted development rights (PDR) were having on the office market in the South East.

"If you go around the home counties to places like Horsham and Kingston, a lot of small businesses complain that the flexible office space has disappeared and commercial rents are on the up," says Orr. "We could see a clear opportunity to support commercial developers on small projects."

Titlestone has also shifted its residential lending focus away from the luxury end of the market to schemes with flats selling for less than £600,000 and houses for under £1.25m. "We always have to look 18 months to two years ahead and we made the call in September 2015 when we saw a few clouds on the horizon," Orr says.

> **Developers don't have the luxury of having buyers buying 10 or 20 units off plan**

Giving developers more time

Since then, Titlestone has also had to react to the government's crackdown on buy-to-let, with increased stamp duty on second homes and reduced tax relief. "What our developers don't have is the luxury of a group of buyers, buying 10 or 20 units or the whole scheme off plan and not being that picky about what road it's on or the quality of the finish," he says.

Instead, developers have to sell to owner-occupiers who are buying single units and tend to want to wait until completion before parting with their cash.

The upshot is that developers have less chance of selling all the units in a scheme as quickly as they once did. As a result, Titlestone is paying closer attention to each scheme's appeal to the owner-occupier market and building more time into loan facilities in order to allow developers to complete sales.

A year after Titlestone was set up, Orr says the business was given "an unexpected turbo boost" by the launch of PDR. Today, Titlestone is still happy to lend on PDR schemes, but it is wary about the quality of some of the projects that are now proposed, particularly in light of the retreat of buy-to-let investors. "Naturally some of the low-hanging fruit from the first wave of PDR has gone," says Orr. "What we are now finding is that some of the rawer commercial units are being approached."

Five years on from its launch, Titlestone has not strayed far from its original purpose. It is still providing stretched senior loans to residential developers and has not been tempted to push the envelope on leverage. But it is moving with the times, both to tap new markets and to avoid potential hazards. ■

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