Bull & Bear

ST. BRIDE'S MANAGERS

The Refinancing Paradox

Bear: Well, that was all rather predictable, wasn't it? The great AI tech bubble has finally burst and my pension pot is about to take a nosedive. I dread to think how much exposure I've got to the US stock market. Trillions of dollars were wiped off the value of major US tech firms on Thursday.

Bull: I wouldn't go cancelling your retirement plans just yet. The fall in stock values since the US midterm results has been rather dramatic, but the value of the tech-heavy Nasdaq is still way higher than it was a year ago.

Bear: And all because the American public are concerned about the number of data centres that are being built. I think that's rather selfish, if you ask me.

Bull: I think that's oversimplifying matters, Bear. Investors have been getting jittery about whether the enormous sums being spent on AI infrastructure will ever generate the returns needed to justify those ballooning valuations.

Bear: So it was a *bubble* then.

Bull: I'd call it an overdue correction and reassessment. Anyway, if you want something closer to home to worry about, it won't have escaped your notice that the Bank of England raised the Bank Rate from 3.75% to 4.00% on Thursday.

Bear: Great. So just as my pension pot is being drained, my mortgage is about to go up. And that's before we discuss the impact higher interest rates will have on an already fragile commercial property market. Honestly, I give up.

Bull: I am not sure it's as bad as you think, Bear. Lenders have been pricing in a rate hike for months and the recently released biannual survey from Bayes Business School shows there has actually been a surge in new lending for UK commercial property.

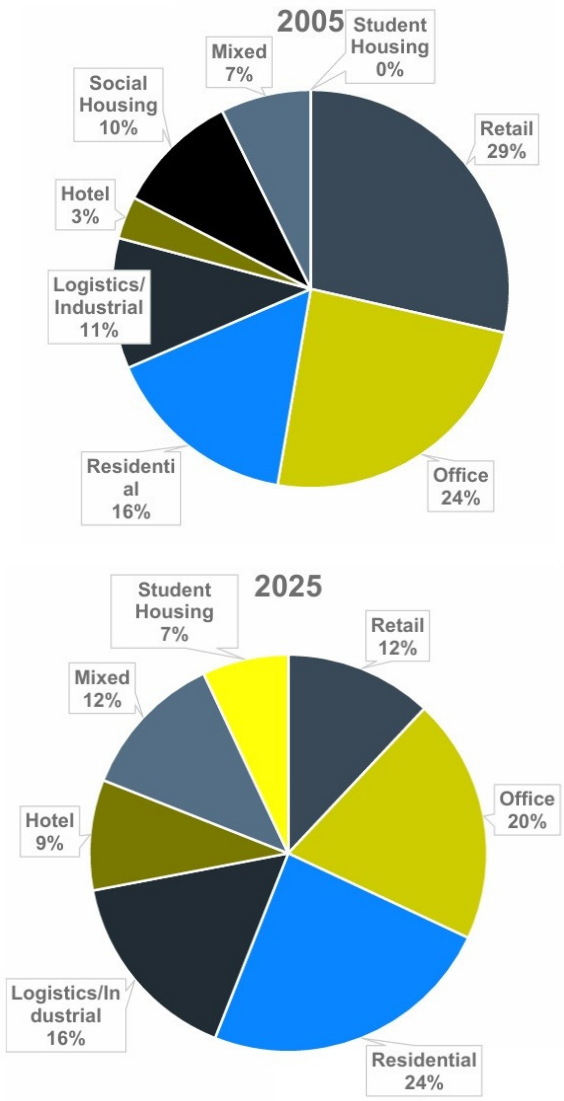
Bear: Hold on a second. The Bank of England has just raised the price of money, and you want me to celebrate a lending boom?

Bull: I think the word boom is overstating it, Bear, but the report is definitely encouraging. New lending for UK commercial real estate rose 29% year on year in the first half of 2026 to £28.7bn. In fact, the total annual volume of new lending could potentially be higher than 2025, reaching another peak in the cycle.

Bear: I'm thoroughly confused. We've spent the last few months bemoaning the lack of property transactions in the market, and you're talking about a peak in the lending cycle. Where is all this demand for borrowing coming from?

Bull: This isn't being driven by transaction volumes. It's being driven by refinancing. Around £33bn of commercial property loans were expected to mature during 2026, and lenders have been competing hard for the business.

Asset financing: Changes to property sector distribution from 2005 to 2025



Source: Bayes Business School, Bayes CRE Lending Survey Year-End 2025

Bear: So everyone has effectively been racing to refinance?

Bull: Precisely, Bear. Since the start of 2026, borrowers have been taking advantage of higher LTVs than they could secure four or five years ago, alongside improved ICRs and more attractive loan pricing.

Bear: Steady on, Bull. You can't just throw in a few fancy-sounding acronyms and hope that nobody asks what they mean. I'm sure most of our readers are familiar with Loan to Value (LTV) ratios, but do you actually know what ICR stands for?

Bull: You can be so patronising sometimes, Bear. ICR is short for Interest Cover Ratio. It measures how comfortably a property's income covers the interest payable on its debt. Or in simple terms, how much headroom the borrower has to meet its interest payments. Does that satisfy you?

Bear: Just checking you've done your homework, Bull. You do have a tendency to skip over the detail sometimes.

Bull: Says the Bear who was thrown into a blind panic by a 25-basis point increase in the Bank Rate! What I am trying to convey, without drowning you in banking terminology and jargon, is that the strong lending volumes are an encouraging sign for the market.

Bear: Even if the Bank Rate is going up?

Bull: Any rate rise is unwelcome for borrowers, Bear, but tighter lending margins and increased competition between lenders can absorb some of the impact of the higher underlying Bank Rate.

Bear: So borrowing is getting more expensive, just not quite as expensive as it might have been?

Bull: You're missing the point. The encouraging thing is that the commercial real estate lending market is in good health, with plenty of liquidity and strong competition amongst lenders, despite the obvious headwinds. Transaction volumes might be sluggish, but there's certainly no shortage of money available for refinancing.

Bear: I suppose it shows lenders' underlying conviction in property as an asset class.

Bull: That's exactly the point, Bear. Fewer lenders are reporting defaults and the overall credit quality of loan books has improved, with 69% of loans now below 70% LTV.

Bear: I'll take your word for it on the numbers, Bull. You appear to have done your homework for once! But I can't help thinking that the picture is a little more nuanced than you're suggesting. A lot of lenders appear to be chasing the same sectors, particularly residential and logistics. Surely there's a danger of everyone piling into the same parts of the market?

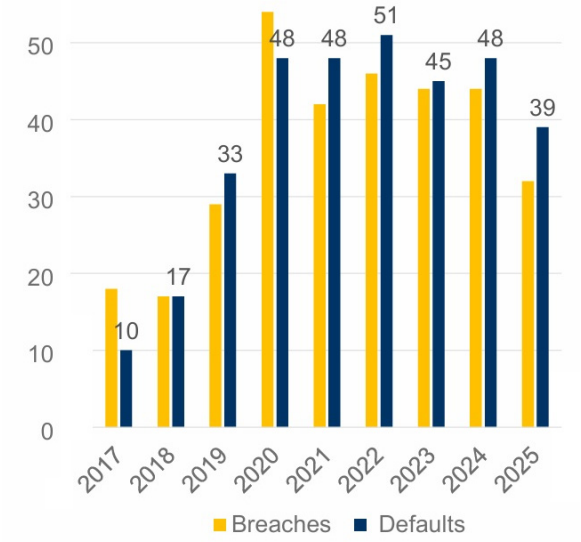
Bull: I guess so. The Bayes Business School report does highlight that more than two-thirds of lenders are chasing opportunities in sheds and beds, with a warning note that this concentration leaves lenders more exposed to sector-specific shocks. Whatever that means.

Bear: It means that a change in rental regulation, a shift in logistics yields or a bout of supply-chain disruption could suddenly remind everyone why diversification matters.

Bull: It's a risk the lenders appear prepared to take, Bear. Although, I'd have to concede that the same sentiment doesn't extend to the office sector.

Bear: I've heard that on secondary offices, more than 100bps now separates the keenest and most expensive lender groups at similar leverage. That hardly suggests lenders are falling over themselves to finance every property that comes their way.

Defaulted loan books have reduced since their 2022 peak: Number of lenders reporting breaches and defaults (2017 to 2025)



Source: Bayes Business School

Bull: That's a fair point. There is liquidity in the market from a wide range of sources, but it is increasingly selective. If you were trying to refinance a secondary, out-of-town office building right now, I suspect you'd find the queue of willing lenders rather short.

Bear: I'm not sure there would be a queue at all in that scenario, Bull. Although the cynic in me can't help thinking that in some cases refinancing is merely the mechanism by which lenders and owners put off finding out what an asset is really worth.

Bull: You really did get out of the wrong side of bed this morning, didn't you? The market needs a healthy supply of debt, Bear, and preferably from a diverse range of lenders.

Bear: Is that code for saying we were overly dependent on a handful of UK banks during the GFC?

Bull: Yes. But we are in a very different position today. In the first half of 2026, debt funds became the primary source of residential and commercial development funding, with around 32% of their lending directed towards development projects. They're helping to keep the wheels turning.

Bear: Hmmm. I take your point, although I'm not sure the Governor of the Bank of England shares your unbridled enthusiasm for the growth of private credit. But that's probably a topic for another day. Haven't we got an important rugby match to watch this afternoon? I need to bag my usual seat in the pub.

Bull: Didn't you spend all of yesterday watching the Nations Championship?

Bear: I certainly did. The Italy v South Africa game started at 11.40am and I didn't leave until after 7pm when the Wales game finished.

Bull: Well, that explains a lot. No wonder you're so grumpy.

Bear: What are you suggesting?

Bull: Hair of the dog? Come on, I'll get the first round.