Specialist lending faces market uncertainty but signals growth opportunities

News

28.02.25

TAB's latest broker sentiment survey reveals a specialist lending market wrestling with economic uncertainty, yet opportunities persist for lenders who are adaptable. Despite a slowdown in market conditions compared to six months ago, TAB remains optimistic about the sector's resilience and potential.

Market conditions and client confidence

The survey indicates that most respondents perceive the current specialist lending market as either weaker or stagnant, primarily due to high base rates and stress testing. These factors limit borrowers' ability to secure financing, making affordability a key concern. Nonetheless, borrower segments continue to expand, providing a positive aspect for the industry.

Borrower trends

A shift in borrower demand is evident, with increased interest from international investors and first-time buyers. Specific property types, including HMOs, holiday lets, and residential investments, are seeing heightened demand. However, a growing number of borrowers struggling financially, suggests that economic pressures are fuelling the need for specialist solutions.

Loan approval and lending activity

Loan approvals remain inconsistent, with the most common approval rate falling between 26-50%, followed closely by the 51-75% range. Residential bridging loans, buy-to-let mortgages, and commercial mortgages dominate lending activity, while auction and development finance show notable traction, particularly in the North and Midlands.

Regional lending insights

Market activity remains strongest in the North East, North West, and the Midlands, where demand is consistent. London and the South East also show movement, though not as pronounced. Meanwhile, Scotland and Wales feature in responses but with lower levels of activity.

Term preferences and borrower challenges

Given the current climate, fixed-rate loans are the preferred choice among borrowers, with many seeking longer-term security where competitive rates are available. However, some borrowers favour shorter-term fixes due to market volatility. Affordability stress testing, high base rates, and restrictive LTV ratios are key challenges limiting access to finance, with conservative property valuations further compounding the issue.

Market risks and outlook

Interest rates remain the most significant concern among brokers. Whilst some anticipate a base rate reduction of 0.25-1.00% in the near term, others foresee continued volatility or slight increases due to instability. Additional risks include HMO saturation, overly cautious valuations, and potential government intervention in the form of tax or regulatory changes. While some respondents expect the market to stabilise, others predict higher rates and increasingly stringent lending conditions.

The role of technology

Technology's role in specialist lending is increasing, with brokers calling for enhanced tools to streamline processes. Key advancements in demand include:

- Automated credit-scored terms
- Automated Valuation Models (AVMs)
- Improved lender platforms
- Centralised solicitor tracking systems
- Enhanced integration with affordability calculators and credit searches

Looking ahead: TAB's perspective

Despite current headwinds, TAB sees opportunities within the shifting landscape. The rising interest from international and first-time investors suggests sustained demand for specialist lending solutions. Additionally, technology adoption is set to be a game-changer, enabling lenders to improve efficiency and borrower accessibility.

TAB remains committed to providing flexible and tailored finance solutions to navigate the evolving market conditions. While affordability challenges and uncertainty persist, the firm believes that innovation, adaptability, and strategic risk management will be key to long-term success in the sector.

Capital is at risk. Property values can go down as well as up. Borrowers may default and investments may not perform as expected. Interest and income are not guaranteed. Returns may vary. You should not invest more than you can afford to lose. TAB is not authorised by the Financial Conduct Authority. Investments are not regulated and you will have no access to the Financial Services Compensation Scheme (FSCS) or the Financial Ombudsman Service (FOS). Past performance and forecasts are not reliable indicators of future results and should not be relied on. Forecasts are based on TAB's own internal calculations and opinions and may change. Investments are illiquid. Once invested, you are committed for the full term. Tax treatment depends on individual circumstances and may change.

You are advised to obtain appropriate tax or investment advice where necessary. Understand more about the key risks here.