



**PARAGON MORTGAGES PRESS RELEASE
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**LANDLORDS CONSOLIDATE CREDIT PROFILES AND UPGRADE PROPERTIES IN RESPONSE TO
INCOME TAX CHANGES**

- Levels of gearing down, with average portfolio loan-to-value at 36%
- Affordability improving with less rental income spent on mortgages
- Rental yields remain unchanged for third consecutive quarter

Paragon Mortgages' latest Private Rented Sector (PRS) Trends report, based on interviews with a panel of more than 200 landlords, shows landlords strengthening their credit profiles as they shift investment away from new acquisitions and towards the upgrading of existing portfolios.

Following announcements from the government last year that tax relief on rental income would be reduced, and stamp duty increased on buy-to-let purchases, Q1 2016 has seen a decline in landlords' purchasing intentions. Just 9% of respondents indicated that they intended to purchase a property over the next three months, down from 14% in the previous quarter.

This reduction coincides with rising levels of awareness about the implications of the tax relief changes. More than three quarters (76%) of respondents said they now understand what the changes to tax relief will mean for them, up from 62% in Q4 2015.

Alongside scaling back on short-term investment plans, landlords are also improving their credit profiles. Average levels of gearing – the value of an investment portfolio less existing outstanding mortgages – are down from 38% in Q4 2015 to 36% now. Two thirds of landlords surveyed (67%) have borrowings of less than half the value of their investment property portfolios.

Affordability levels are also improving with landlords spending, on average, 28% of their rental income on mortgage repayments, while more than half of all respondents (51%) spend less than a quarter of their rental income on mortgage repayments. Returns are also very stable with the average net rental yield remaining at 4.7% for the third consecutive quarter.

The latest data also indicates that landlords are considering upgrading existing portfolios. Asked whether, as a consequence of reduced tax relief on rental income, landlords would reduce maintenance of their properties, just 12% said they would – down from 25% in Q4 2015.

On the question of whether landlords would make fewer improvements to their properties, just 14% said they would make fewer improvements, a figure more than halved since the previous quarter when it stood at 31%.

John Heron, Director of Mortgages at Paragon, said: “The PRS is facing the prospect of a great deal of change as a result of the significant shift we have seen in fiscal and regulatory policy. Some landlords are responding to this uncertainty by planning fewer new purchases and investing in their existing portfolios. At the same time credit profiles are very robust and improving, a picture that is somewhat at odds with the picture being painted in some quarters.

“If landlords materially reduce investment, those that have to rely on the PRS for a home could be hit quite hard. It may well become even more difficult and expensive to rent a home with no obvious commensurate benefit to homeowners.”

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NOTES TO EDITORS

Paragon Mortgages is a leading provider of buy-to-let mortgages delivering lending solutions designed for professional landlords with more complex requirements. These include lending to limited

companies as well as private individuals, lending on more complex property including HMO's and multi-unit blocks, higher aggregate lending limits and the ability to accommodate more complex letting arrangements including local authority leases and corporate leases along with standard ASTs.

Paragon Mortgages introduced its first product aimed at the professional property investor in 1995 and is a member of the Council of Mortgage Lenders (CML), the Intermediary Mortgage Lenders Association (IMLA), National Landlords Association (NLA) and the Association of Residential Letting Agents (ARLA).

Paragon Mortgages is part of The Paragon Group of Companies, a FTSE 250 company and a specialist provider of finance.

In February 2014 Paragon Group launched its banking subsidiary, Paragon Bank PLC. It is a retail-funded lending bank with a direct-to-consumer Internet platform for savings. Its loan products are distributed via intermediaries. The Bank is authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.