

Welcome to Paragon Mortgages' PRS Trends Q1 Report



Welcome to the first PRS Trends report of 2013. Landlord optimism levels increased in Q1 to the highest level since 2010 which is a positive reflection on prospects for the sector.

Average void periods dropped in Q1 to 2.8 weeks compared to Q4 when the average was 3.0 weeks. Yields were down slightly on the previous quarter, with landlords reporting an average of 6.2% (6.5% in Q4). Landlords' average yields have remained around this level for the past 12 – 18 months.

Almost a third of landlords (32%) said they thought buy-to-let finance was at least reasonably available in Q1 whilst 13% said they would describe finance as restricted. Tenant demand continues to remain high and in Q1 35% of landlords said that demand was growing or booming, with just 6% thinking it was declining. In the next 12 months 41% of landlords expect demand to continue to grow; 44% think that it will stabilise.

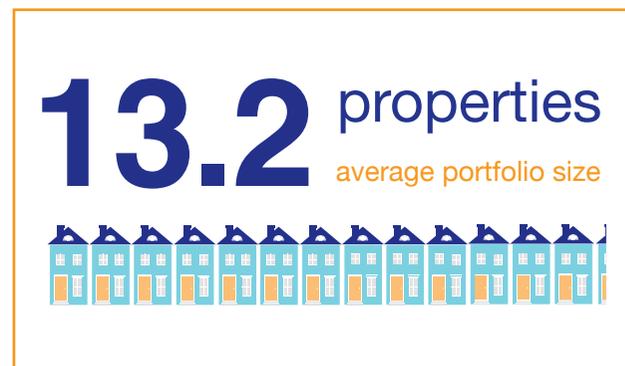
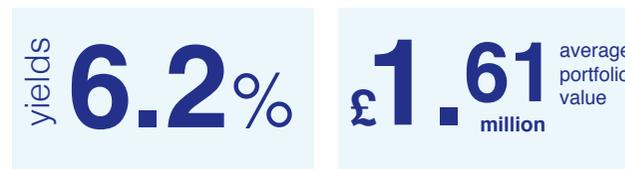
I believe that it is unlikely that we will see a significant decrease in tenant demand in the foreseeable future. Despite the Government's recent announcements around initiatives such as 'Help to Buy', the UK housing market is still in desperate need of revitalisation and the PRS will continue to provide suitable housing for a large proportion of the population.

The sector has started the year positively, however we need to see landlords expanding their portfolios at a much higher rate in order to satisfy tenant demand. Going forward it will be private investor landlords that will be the driving force here, as professional landlords with more substantial portfolios are finding it more difficult to secure further funding.

John Heron

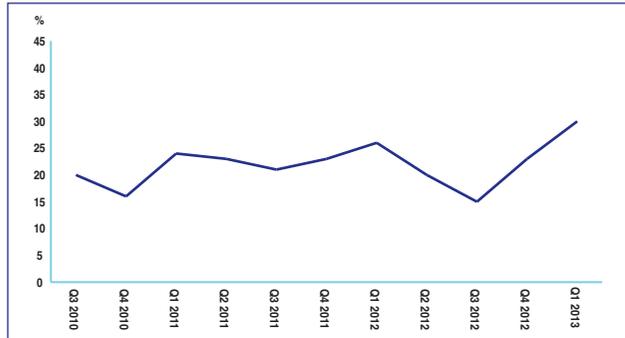
Managing Director of Paragon Mortgages

Q1 2013 Headlines



Landlords optimistic about PRS prospects

Optimism levels increased this quarter, with 30% of landlords saying they were optimistic about the prospects for their property portfolios, compared with 23% in Q4 2012. This is the highest level of optimism seen since we began asking this question in mid - 2010.



Proportion of landlords saying they are optimistic

Portfolio size

Landlords' average portfolio size increased during the first quarter to 13.2 properties, compared to an average size of 12.7 in Q4 2012. In 12 months' time landlords expect to have an average of 13.7 properties in their rental portfolios.

Loan-to-values

The average loan-to-value (LTV) landlords have across their investment portfolio is 40%. Private investor landlords have a higher average LTV than professional landlords, with an average of 25% compared to 45%.

Voids

The average void period for all landlords was 2.8 weeks, which is a slight decrease on 3.0 weeks reported in Q4 2012. Professional landlords reported an average of 2.9 weeks and for private investor landlords the average void period was 2.7 weeks in Q1.

Average yields

The average yield for the first quarter of 2013 was 6.2%. This is a slight drop on the Q4 average which was 6.5%. Typically, over the last 12 – 18 months the average gross yield landlords have achieved on their rental portfolio has been 6.0 – 6.7%.

Professional landlords achieved an average yield of 6.6% in Q1 and private investor landlords reported a lower average yield of 4.7%.

In 12 months' time professional landlords expect to achieve an average yield of 6.8% and private investor landlords are looking to achieve 4.8%.

Value of portfolio

Landlords reported an average portfolio value of £1.61 million in Q1. Unsurprisingly professional landlords have a much higher average portfolio value of £2.01 million compared with private investor landlords whose average is £0.44 million.

In the next 12 months 21% of landlords expect the net value of their portfolio to increase, whilst 74% expect that it will remain the same.

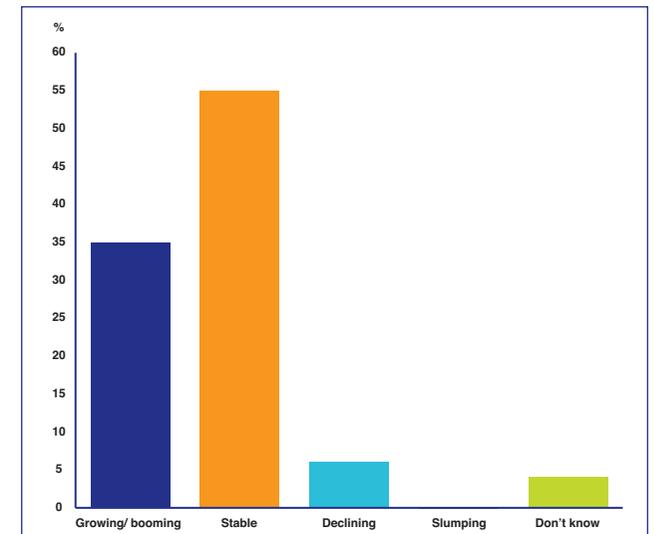
Rental income

A quarter of landlords (26%) said that rental income had increased in Q1 but more than half (67%) said that it had remained the same. Just 4% of landlords surveyed said that their rental income had decreased.

Tenant demand stays strong

A third of landlords (35%) said they would describe the current level of tenant demand as growing or booming. Tenant demand peaked in 2008, and then reduced pace over 2009 and 2010. During 2011 it continued to climb and remained at a consistent level throughout 2012.

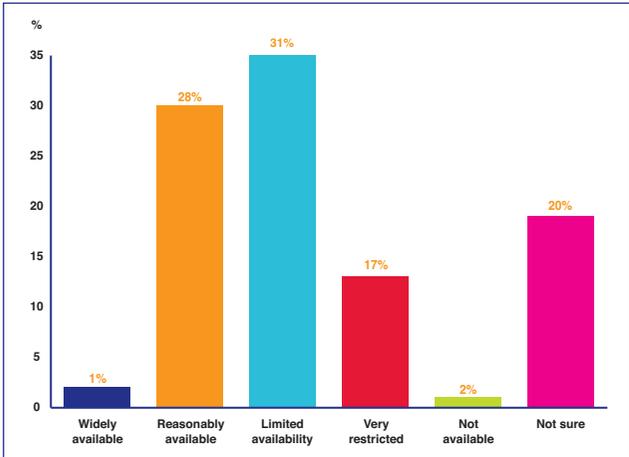
In the next 12 months 43% of landlords said that they think demand will grow or boom and 44% said that it would stabilise, with just 4% saying they thought it would decline.



Landlords' views on tenant demand

Landlords' views on finance

Almost a third of landlords (32%) said they thought buy-to-let finance was at least reasonably available, an increase from 29% in Q4. Views on the availability of buy-to-let finance have remained steady for the past 12 months. Whilst landlords are feeling more positive about the market, there still needs to be an increase in flexible, competitive products for both professional and private investor landlords.



Landlords' views on availability of finance

Tenants making late payments

Landlords were asked what proportion of their portfolio was made up of tenants who have been late in paying or had missed a payment. Almost three quarters of landlords (72%) said that 10% or less of their portfolio had been late or missed a payment in the last 12 months. A third of landlords (38%) however, had no such tenants in their portfolio.

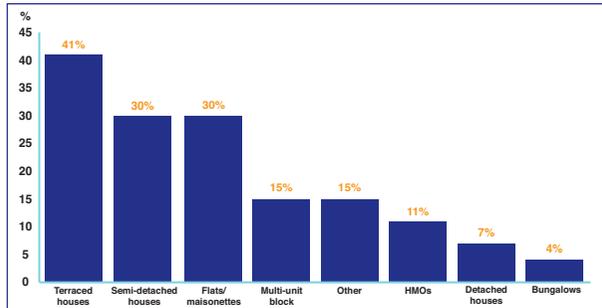
Sourcing buy-to-let finance

Landlords were asked how they normally source buy-to-let finance. There was a fairly even split between those using intermediaries (35%) and those going to the lender direct (31%). Professional landlords are more likely to source buy-to-let finance via an intermediary (43%) compared with 12% of private investor landlords.

Property investment in Q2

During the second quarter 13% of landlords expect to buy rental property - this is a slight decrease on Q4 when 15% were planning to add to their portfolios. Professional landlords are more likely than private investor landlords to buy property in Q2, 16% compared to 4%.

The most popular choice for investment was terraced houses with 41% of landlords planning to buy this type of property. Terraced houses have remained the top choice for landlords for the past two years. As a rental property, terraced houses offer greater flexibility as they can accommodate a variety of tenant types such as young couples, friends sharing and also families.



Property types landlords plan to purchase

ABOUT PARAGON

Paragon is the UK's leading independent specialist provider of buy-to-let mortgages to landlords, having launched its first specifically targeted mortgages in 1995. Paragon is a leading authority on the buy-to-let market and the wider private rented sector and its views are regularly sought by politicians, policy makers, financial analysts and the media.

Paragon is a member of the Council of Mortgage Lenders (CML), the Intermediary Mortgage Lenders Association (IMLA), the National Landlords Association (NLA) and the Association of Residential Letting Agents (ARLA) Lender Panel.

