

Landlords show growing confidence in the buy-to-let market



Welcome to Paragon Mortgages' PRS Trends Q1 Report. This issue features feedback from 200 large-scale and small-scale landlords, providing a valuable insight into the current trends in the buy-to-let market and also the private rented sector (PRS) more generally.

This last quarter has seen an increase in positivity among landlords, with 41% reporting increased optimism in prospects for their property portfolios. We have also seen a rise in the amount of landlords that view buy-to-let finance as at least reasonably available – rising from 42% in Q4 2013 to 44% this quarter. This demonstrates continued confidence in the market and is a good sign going forward into Q2.

It is encouraging to see that, from the last quarter, 90% of landlords believe that tenant demand is currently stable or growing. In addition, the majority of landlords expect overall net investment in residential property to increase by 5.6% over the next 12 months. Such trends reinforce the growing levels of confidence in the buy-to-let market.

Almost a third (31%) of landlords reported some increase in rental income during the first quarter.

This is an encouraging start to 2014 however, to maintain this positive momentum, we will need to see more innovation and flexibility from lenders to encourage much needed growth across the sector. We will also need to see an increase in property supply and reduced red tape for investors in order to keep up with anticipated levels of tenant demand.

John Heron

Managing Director, Paragon Mortgages

Q1 2014 Headlines

41% of landlords are now more optimistic about prospects for their portfolios

90% of landlords believe tenant demand is currently stable or growing

67% of landlords expect arrears levels to remain stable in 2014

13 is the average property portfolio size



15.7 months is the average preferred tenancy



Portfolio prospects

For 51% of landlords, there has been no reported change in their view about the prospects for their property portfolios. However levels of optimism remain positive with 41% of landlords saying that they are now more optimistic about prospects for their property portfolios. Large-scale landlords in particular have shown greater levels of optimism, with 43% more optimistic in comparison with 33% of small-scale landlords.

Prospects for the PRS

Landlords were asked to rate the prospects for the PRS in the next 12 months on a scale of one (lowest rating) to ten (highest rating). Overall, 77% of landlords scored between five and eight, an average of 6.8; this is marginally down from 6.9 in Q4 2013. When comparing different types of landlords, large-scale landlords are more likely to score between one and four and seven and nine, an average of 6.7 compared with 6.8 for small-scale landlords.

Portfolio size

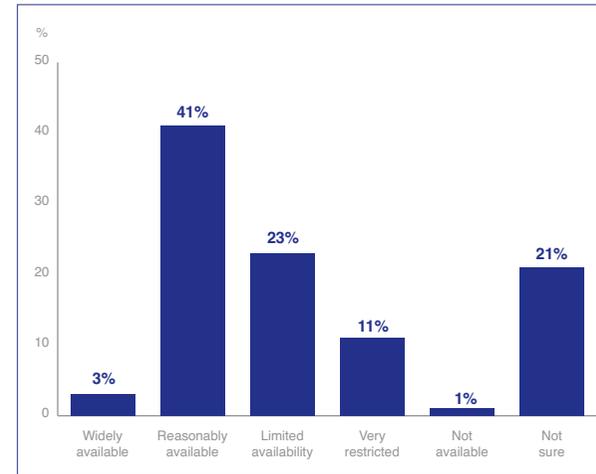
The average property portfolio size for all landlords has decreased from 13.6 in Q4 2013 to 13 properties in the current quarter. The majority of respondents (22%) have between three and five residential properties, whereas 13.5% have one property and 19% have between 11 and 20 properties.

Further reductions are anticipated over the next 12 months, with the average property portfolio size expected to decrease to around 12.9. When this is put into context, however, 12.9 is a relatively high figure as it is only marginally less than the recorded averages in 2012 (13 properties) and 2013 (13.7 properties).

Buy-to-let finance availability

44% of landlords have said that, in their view, buy-to-let finance is at least reasonably available, which is an increase from 42% in Q4 2013. This is good news for landlords and shows that there has been a marked improvement in the availability of products. Small-scale landlords were more likely to think that buy-to-let finance is at least reasonably available - 49% compared with 42% large-scale landlords respectively.

Landlords' views on availability of buy-to-let finance



Market value of property portfolios

Over the last three months the average market value of residential landlords' property portfolios has fallen by 7.1% from £1.68m to £1.56m, which somewhat reverses the increases seen in the previous two quarters. On average, landlords expect their overall net investment in residential property to increase by 5.6%, which is an increase on the anticipated 12 month increase of 3.5% as reported three months ago. This is a result of more respondents expecting to see an increase in net value, rather than a decrease.

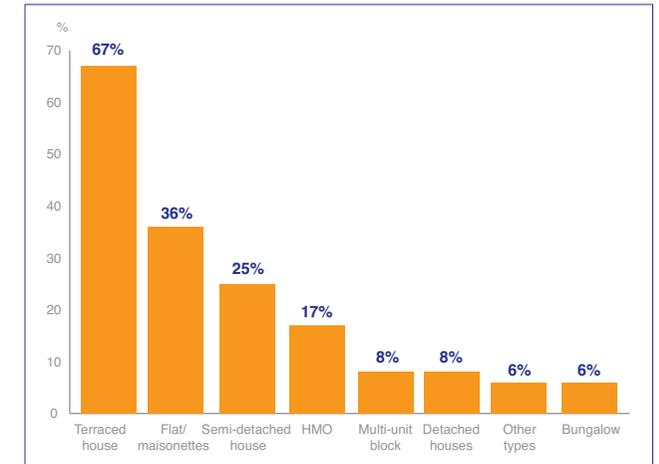
Property investment aims

In the second quarter of 2014 almost a fifth (18%) of landlords anticipate making a purchase of a buy-to-let property, which is slightly down from 21% in the final quarter of 2013.

Just over a fifth (22%) of large-scale landlords are looking to buy in comparison with 8% of small-scale landlords.

When comparing property types, terraced houses are the most common properties that landlords are looking to purchase, as well as flats or maisonettes. In comparison, bungalows were the least common property type on the investment radar.

Landlords' preferred property types for investment



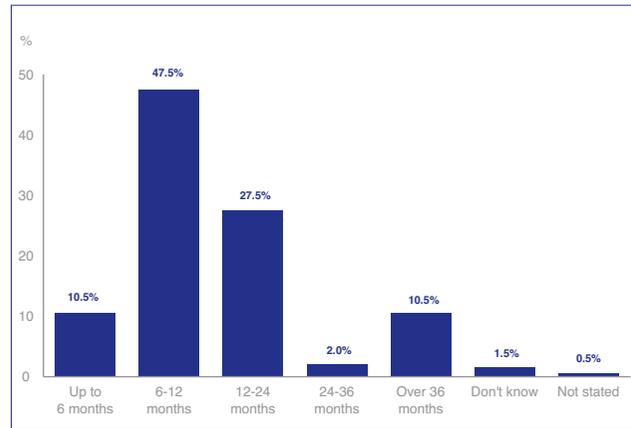
Arrears levels

Two thirds (67%) of landlords say that they expect tenant arrears levels to remain stable in the next year, which is down from 72% three months ago. In comparison, more than one in seven landlords (15%) expect arrears levels to increase – a figure that is up from 11% in Q4 2013. There has also been a slight decrease, from 7% in Q4 2013 to 6% in the current quarter, in the amount of landlords who expect arrears levels to decline.

Tenancy agreement preferences

The overall average preferred length of tenancy agreement is 15.7 months, with the average for small-scale landlords being 14.8 months and the average for large-scale landlords being 15.9 months.

Length of tenancy agreement



There has been a reduction in the amount of landlords reporting that tenants are requesting longer term tenancy agreements; for instance, fewer landlords (54% down from 58% three months ago) have identified that up to 10% of their tenants ask for terms of more than two years.

Rental income

Rental income increased during Q1 for almost a third (31%) of landlords surveyed, with just 5% reporting a decrease. Of those landlords who achieved an increase, for the majority, it was an increase of between 2% and 4%.

Large-scale landlords were more likely to have achieved a rental income increase, 33% compared with 26% of small-scale landlords.

Property maintenance

The majority of landlords (87%) reserve around 25% of their rental income for ongoing repairs or renovation work. When comparing different types of landlords, small-scale landlords reserve an average of 9% of their rental income whereas large-scale landlords reserve around 12%.

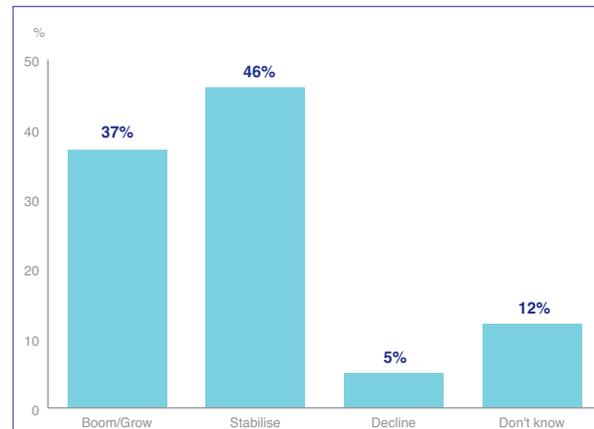
Tenant demand

Landlords' views on tenant demand are positive, with 54% saying they believe demand is currently stable and 36% saying that demand is currently growing or booming. Since 2013, the proportion of respondents saying that tenant demand is increasing has risen by 2%, whilst the proportion saying that it is declining has fallen by just 1%.

Large-scale landlords are more likely to think that tenant demand is booming (6% compared to 0% of small-scale landlords). In addition, they are also more likely to think that demand is currently stable (56% compared with 49% of small-scale landlords).

Looking ahead, 37% of landlords think that tenant demand will increase over the next 12 months, in comparison with 46% who believe it will stabilise.

Landlords' views on levels of tenant demand over the next 12 months



ABOUT PARAGON

Paragon is a leading specialist lender of buy-to-let mortgages to landlords and residential property investors in the UK, a loan servicing provider for third party clients and an active acquirer of loan assets and portfolios and has most recently established a banking subsidiary, Paragon Bank. Paragon has £10 billion of loan assets under management. Since being established in 1985, it is the only specialist lender to maintain an independent position within the UK mortgage market.

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.

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