

Welcome to Paragon Mortgages' PRS Trends Q2 Report



Our latest research shows the second quarter of 2012 has been positive for landlords. We have seen a marked increase in a landlord's average property portfolio size, increasing from 12.9 properties in Q1 to 14.1 which can only be good news for the wider private rented sector (PRS) in meeting tenant demand.

Landlords also reported an increase in the average yield figure, rising from 6.2% in the first quarter to 6.5% in Q2. When asked what they thought the average yield would be in 12 months' time, the forecast figure was 6.6%.

Tenant demand remains largely unchanged this quarter with just over a third (36%) of landlords saying they thought demand was growing and 55% believing demand had stabilised for the time being.

Views on availability of finance for landlords have remained fairly static with 31% of landlords stating buy-to-let finance is widely available. In order to further stimulate the buy-to-let market however, there does need to be a greater level of competition.

At the current time we are seeing lenders' products focused towards the smaller-scale landlord. We need to see more innovation in products aimed at professional landlords as they are the ones who can make a meaningful contribution to the increase in the supply of PRS homes. The UK is in desperate need of an increase in housing which is why landlords need to have the support in place to make further investments in their portfolios.

The second quarter of 2012 has been progressive, with the private rented sector, and in turn the buy-to-let market, continuing to make the headlines. I am sure that we will see further positive activity given the importance of this sector in meeting the UK's housing needs.

John Heron

Managing Director of Paragon Mortgages

Q2 2012 Headlines

yields **6.5%**

£**1.56** million average portfolio value

gearing **42%**

2.7 weeks void pa

21% of landlords to plan purchase in Q3

14.1 properties average portfolio size



Terraced houses most popular choice for Paragon landlords

Average yield increase

The average yield (a property portfolio's annual rental income as a percentage of its total value) increased in Q2 to a healthy 6.5%, compared with 6.2% in the first quarter.

Professional landlords achieved an average yield of 6.9%, an increase from 6.5% in Q1. Smaller-scale landlords achieved a lower average yield of 5.3%.

When asked for their views on the average yield in 12 months' time landlords said that they expect to achieve a yield of 6.6%.

Void periods

The average void period reported was 2.7 weeks, a very slight increase on Q1 when the average was 2.6 weeks.

More than half (57%) of smaller-scale landlords reported an average void period of under two weeks, compared with 41% of professional landlords. Overall the average void period for professional landlords was 2.8 weeks and 2.4 weeks for smaller-scale landlords.

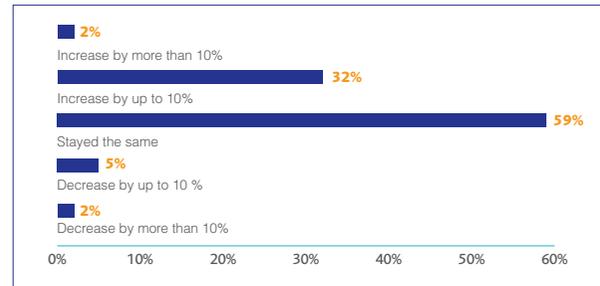
A void period is the length of the time that a rental property is empty, usually between tenancies.

Gearing

Over half (57%) of the landlords surveyed have borrowings of less than half the value of their portfolios. The average loan to value (LTV) ratio for landlords in the second quarter was 42% - this is a small increase on Q1 where the average was 41%.

Levels of rental income

More than a third (34%) of landlords reported an increase in their rental income during the second quarter. The majority of those surveyed (59%) said that their rental income had remained the same during Q2 and only 7% said they experienced a decrease.



CHANGES IN THE LEVELS OF RENTAL INCOME

Portfolio size increases

Landlords increased their average property portfolio size to 14.1 properties, from 12.9 properties in Q1. Looking back, this is also an increase on Q2 2011 where the average portfolio size was 12.5 properties. There was also an increase in the average weighted value of landlords' portfolios – increasing from £1.49 million in Q1 to £1.56 million in Q2.

Perhaps, unsurprisingly, professional landlords have much higher valued portfolios worth an average of £1.95 million, whilst smaller-scale landlords' average portfolio value was £0.41 million.

In the next 12 months landlords, on average, are expecting their portfolio value to increase by 2.1%.

Buy-to-let finance

There has not been a notable difference in landlords' views on buy-to-let finance over the course of the second quarter. There was a slight decline in landlords who thought that buy-to-let finance was reasonably available – 31% in Q2 compared to 33% in Q1. More than a quarter of landlords (27%) thought that buy-to-let finance was limited and 22% thought it was very restricted. Just 2% thought buy-to-let finance was not available at all.

Smaller-scale landlords were more likely to think buy-to-let finance was at least reasonably available – 35% compared to 31% of professionals.

Views this quarter are not dissimilar to those expressed over the last year. Although since the credit crunch we have seen lenders increase their product ranges and new players join the market, however, there still needs to be greater innovation, particularly at the professional landlord end of the market.

Views of portfolio prospects

Almost a fifth (19%) of landlords are now more optimistic about the prospects for their portfolios with only 12% saying that they are now more pessimistic.

The majority of those questioned (68%) said that compared with three months ago there was no change in their views.

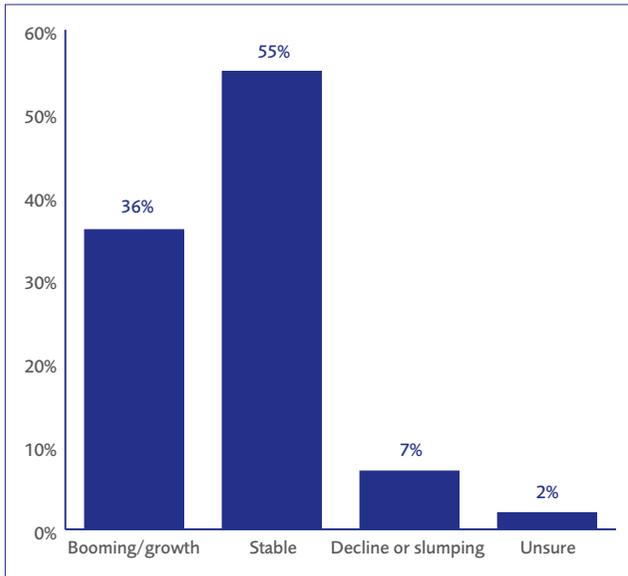
Tenant demand

The majority of landlords (55%) believe that, for the moment at least, tenant demand appears to be stabilising. However, more than a third (36%) believe tenant demand is either growing or booming.

Professional landlords are significantly more likely to think tenant demand is increasing – 39% compared to 27% of smaller-scale landlords.

There has, however, been an increase in those landlords who think that tenant demand is stabilising – rising from 46% in Q1 to 55% in Q2.

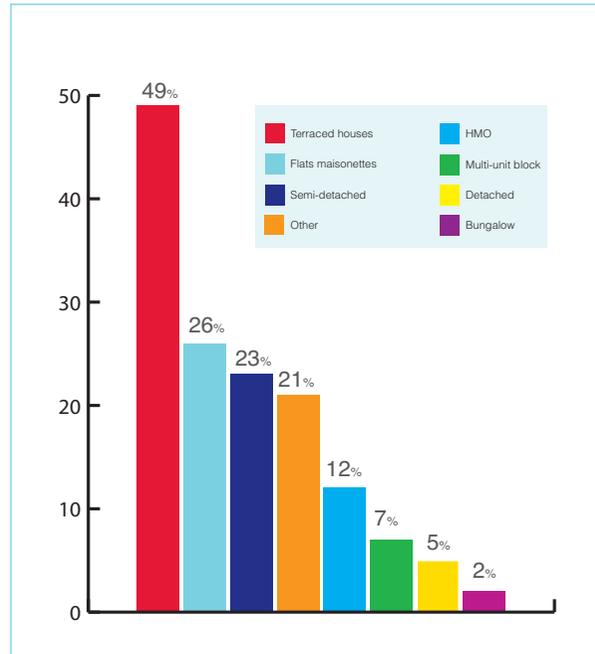
When asked for their views on levels of tenant demand over the next 12 months, 44% of landlords think demand will increase, 42% say it will stabilise and 5% think levels will fall.



LANDLORDS' VIEWS ON TENANT DEMAND LEVELS

Terraces are top

For the second consecutive quarter terraced houses proved to be the most popular type of property for those landlords planning to purchase. Almost half (49%) said terraced houses were their preferred choice, 26% plan to buy flats or maisonettes and 23% semi-detached properties.



There was a slight increase in those landlords who are expecting to buy property in Q3 – 21% compared to 20% in the previous quarter.

Professional landlords are more likely than smaller-scale landlords to add to their portfolios in Q3, 24% compared to 14%. Only 13% of landlords expect to sell property in the third quarter.

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.

