

Welcome to Paragon Mortgages' PRS Trends Q2 Report



- Improved availability of buy-to-let mortgages
- Sustained tenant demand
- Sharp increase in landlord buying intentions
- The Green Deal needs more publicity

Welcome to the PRS Trends report for Q2. This quarter's report features feedback from just over 200 landlords, providing a valuable insight into the current state of play in the buy-to-let market and the wider private rented sector (PRS).

This quarter a third of landlords said that, in their view, buy-to-let finance was at least reasonably available, which is a marked increase in optimism and also the highest level reached since 2010. This shows a meaningful improvement in the availability of buy-to-let finance reflecting increased competition in the sector and a greater variety of products, particularly at the private investor end of the market.

Tenant demand has remained very high, with 93% of landlords describing demand as growing or stable, and the average yield achieved increased to 6.4% in Q2 from 6.2% in Q1.

There has also been a sharp increase in landlords' buying intention this quarter. In Q1 13% of landlords expected to purchase further buy-to-let property, this has risen to 19% in Q2.

The second quarter has been a progressive and positive one for landlords with a clear shift in perceptions of key areas of the market such as finance availability, let's hope this continues going forward.

John Heron

Managing Director of Paragon Mortgages

Q2 2013 Headlines

6.4% average yield

3 weeks average void pa

£1.57 million average portfolio value

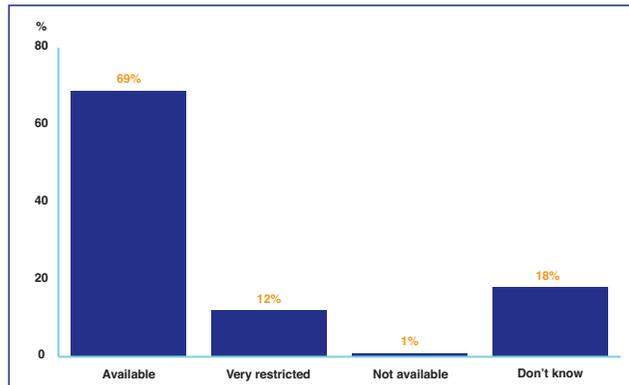
40% average portfolio LTV

13.3 properties average portfolio size



Views on buy-to-let finance are positive

Two thirds (69%) of landlords said that in their view buy-to-let finance was available, this is the highest level of positivity seen since 2010. This is good news for landlords and shows that there has been a marked improvement in the availability of products. Private investor landlords were more likely to think that finance was widely available – 8% compared to 3% of professionals.



Availability of buy-to-let finance

Portfolio size

The average property portfolio size for all landlords is 13.3 properties – a slight increase from 13.2 properties in Q1. Half of the private investor landlords surveyed had two properties and 24% of professional landlords had 11 to 20 properties.

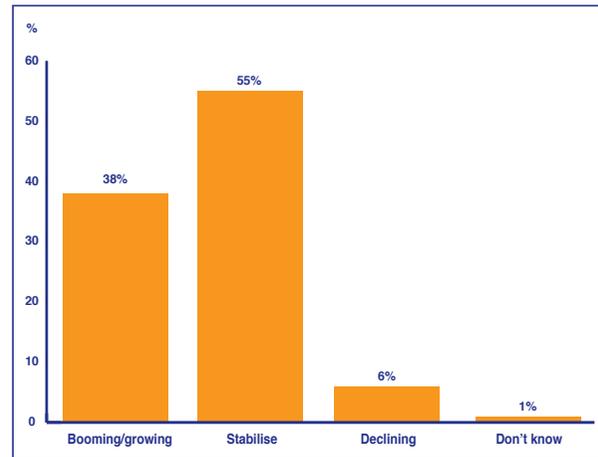
Late paying tenants

Landlords were asked what proportion of their portfolio is made up of tenants who have been late in making a payment, or who have missed a payment, in the last 12 months. Almost three quarters (71%) of those surveyed said that 10% or less of their portfolio was made up of tenants who fell into this category. More than a third (37%) said that they had no such tenants.

Tenant demand

Landlords' views on tenant demand have remained fairly consistent in the second quarter of the year, with 93% saying they would describe demand as stable or growing. With increasing demands on other sectors of the housing market, demand for private rented property remains high.

Looking ahead 86% of landlords think that in the next 12 months tenant demand will grow or stabilise, just 6% think that it will decline. There was only a very small difference in the perceptions of private investor and professional landlords – with 86% of private investors thinking demand will grow or stabilise, compared to 85% of professionals.



Landlords' views on tenant demand

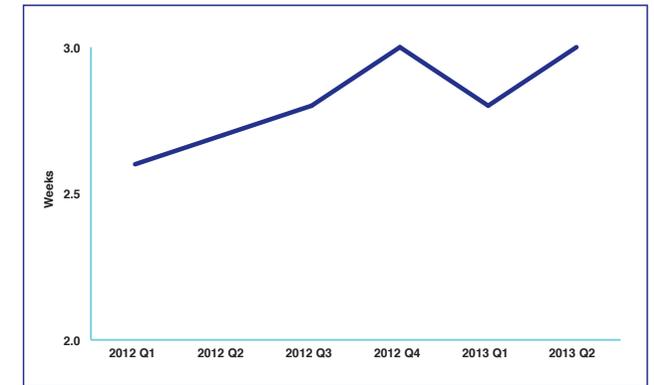
Rise in average yields

The average yield increased in Q2 to 6.4% from 6.2% in Q1, having stabilised around this level for some time. The yield that a landlord generates gives a good indication of how well their overall property portfolio is performing.

Professional landlords generated a yield of 6.8% which was an increase from 6.6% in Q1, but private investor landlords saw a more significant increase from 4.7% in Q1 to 5.2% in Q2.

Void periods rise

The average void period landlords' reported in Q2 was three weeks, which has increased from the average of 2.8 weeks reported last quarter. Professional landlords reported a below average void of 2.9 weeks, which also remains unchanged from the previous quarter. However, private investor landlords reported an average void period of 3.3 weeks which was up from 2.7 weeks in Q1.



Average void period

The Green Deal

The Green Deal is a Government scheme designed to enable people to make energy-saving home improvements. Landlords can take advantage of the scheme and then tenants make the payment via their energy bills.

Landlords who took part in the survey were asked whether they were aware of the Green Deal and, if so whether they were planning to take up the scheme. Just 4% said that they were definitely going to take up the scheme and 34% said that they were considering it.

More than four out of ten (42%) landlords said they were aware of the Green Deal, but 38% were not. Professional landlords were more likely to be aware of the scheme – 47% compared to 28% of private investor landlords.

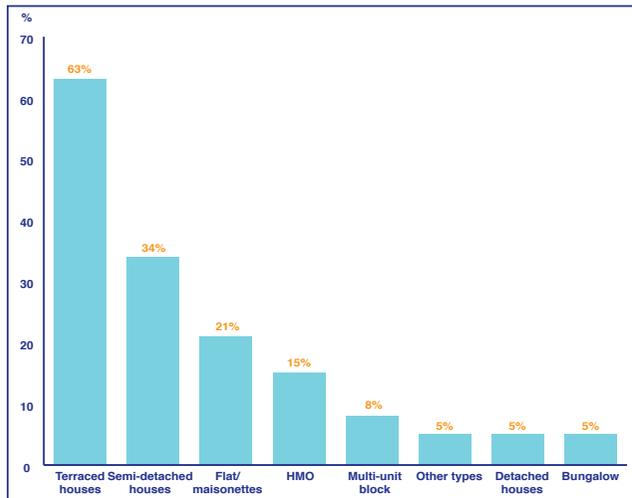


Property investment in Q3

In the next quarter 19% of landlords are looking to expand their rental portfolios and purchase further buy-to-let property. This is an increase from 13% in the first quarter. Just over a fifth (22%) of professional landlords are looking to buy, as are 10% of private investor landlords.

Of those looking to make purchases, 63% expect to buy terraced houses. Private investor landlords are more likely to choose this property type – 80% compared to 61% of professionals.

The second most popular property type landlords are looking to purchase are semi-detached houses, with 36% of professionals expecting to make a purchase and 20% of private investors.



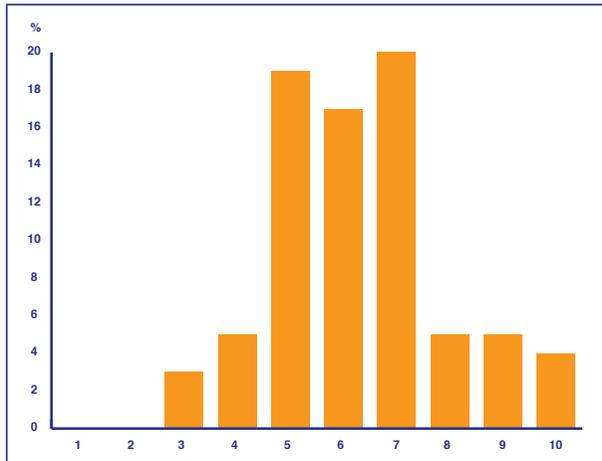
Property purchase plans for Q3

Portfolio prospects

Levels of optimism have remained consistent this quarter with 30% of landlords saying that they are now more optimistic about the prospects for their property portfolios – the same level reported in Q1. For more than half (60%) there had been no change.

Prospects for the PRS

Landlords were asked to rate the prospects for the PRS for the next 12 months on a scale of one to ten (one being the lowest and ten the highest). The majority of landlords (78%) scored the prospects for the sector between five and eight. This gives an average score of 6.7. There has been little movement in landlords' views for the sector's prospects going forward, in Q1 the average score was 6.6.



Landlords' views on prospects for PRS

Impact of regulation

Landlords were asked to give feedback on what legislation and regulation they think will hit them the hardest, and affect the day-to-day running of their property portfolios.

Of those surveyed 15% said that City Wide Licensing and Article 4 Directions for HMOs would hit landlords the hardest, 12% said additional licensing and 12% said Selective Licensing.

A fifth of landlords (21%) also felt that Selective Licensing will make it harder for them to secure finance to expand their portfolio.

ABOUT PARAGON

Paragon is the UK's leading independent specialist provider of buy-to-let mortgages to landlords, having launched our first specifically targeted mortgages in 1995. We are a buy-to-let specialist lender to landlord customers through our Paragon Mortgages and Mortgage Trust brands.

We were the first lender to work with the private rented sector to develop the buy-to-let market and, in 2000, we became the only major UK mortgage lender to focus exclusively on buy-to-let products.

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.

