

## Market making significant strides in recovery



We are now at the half way point of 2014, and looking back over the past six months, we have seen a definite improvement in buy-to-let lending activity. The latest figures from the Council of Mortgage Lenders (CML) show that in April there was a 43% increase in the number of buy-to-let loans originated, compared with April 2013, and a 57% increase in the value of lending.

Our latest survey results show that landlords are feeling optimistic when it comes to the prospects for the market and their rental portfolios. Those surveyed reported an increase in the average value of their rental portfolios, from £1.56 million in Q1 2014 to £1.60 million in Q2 2014.

The average annual void period has also fallen in the second quarter, from an average of 2.8 weeks in Q1 to 2.7 weeks. There is a clearly established downward trend in the average length of void period, which we look at in more detail on page four of this report.

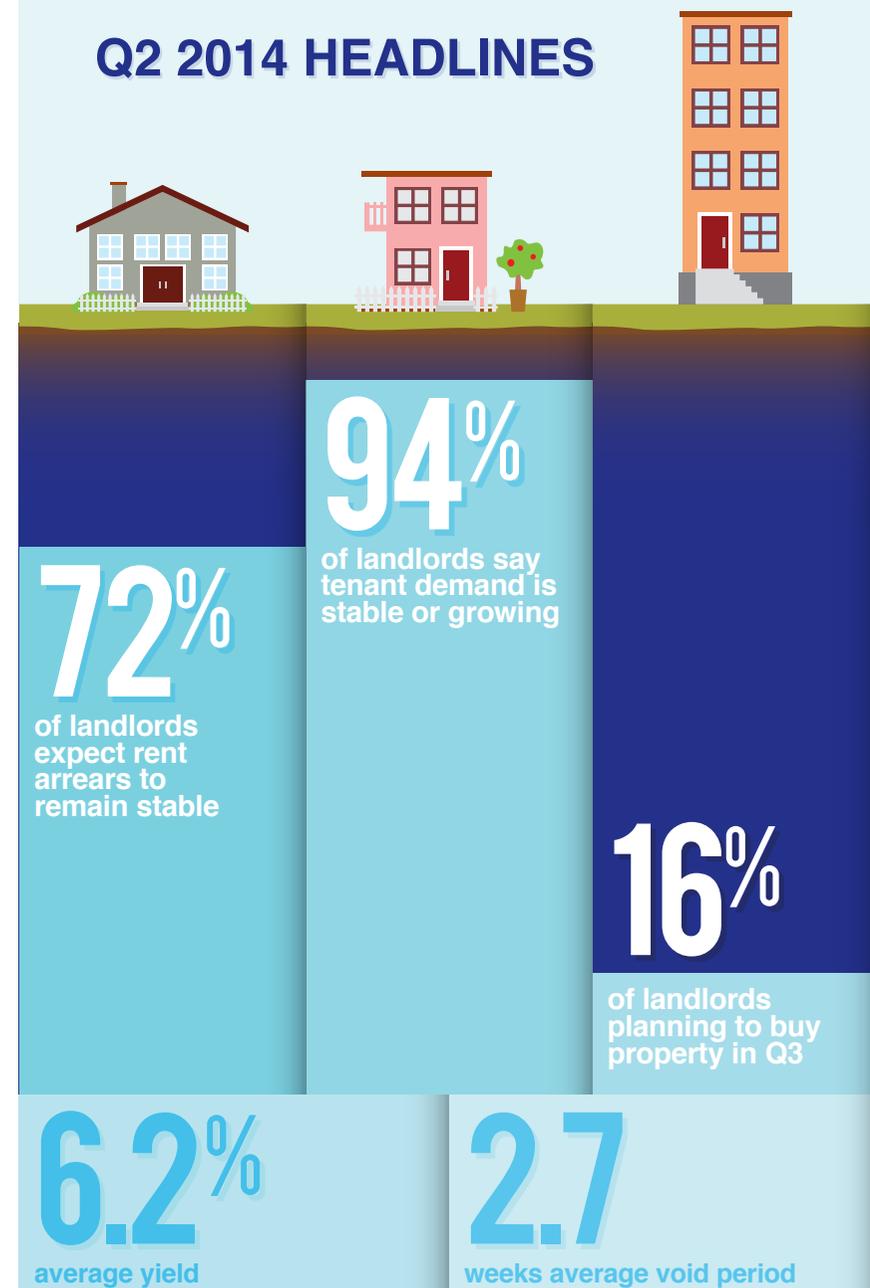
Gross yields remained much the same in the second quarter with landlords reporting an average of 6.2%, which is not dissimilar to the levels seen throughout 2013. In the next 12 months landlords expect this average gross yield to remain stable.

In terms of property purchasing behaviour, 16% of landlords are planning to buy additional buy-to-let property in the third quarter, and of those looking to buy, more than half (54%) expect to buy terraced houses.

In this report we look at the key trends that landlords are reporting on in more detail, including rent arrears, tenancy terms, views on buy-to-let finance and tenant demand.

**John Heron**  
Managing Director, Paragon Mortgages

## Q2 2014 HEADLINES



## PORTFOLIO INVESTMENT

The average value of landlords' rental property portfolios increased by 2% in the second quarter of the year from £1.56 million in Q1 to £1.60 million. Large-scale landlords reported a higher average of £1.99 million, compared with small-scale landlords whose average portfolio value is £0.44 million.

In terms of the size of landlords' property portfolios, in Q2 the average number of rental properties landlords currently have in their portfolio is 13.5. This is a slight increase on the reported average of 13 properties in Q1. The average size of portfolio increased fairly steadily throughout 2013, reaching a survey high of almost 15 properties in Q3 2013. There has been a small decline over the past two quarters.

Landlords were also asked how many properties they expect to own in 12 months' time, and 13.6 properties was the average.

## SOURCING BUY-TO-LET FINANCE

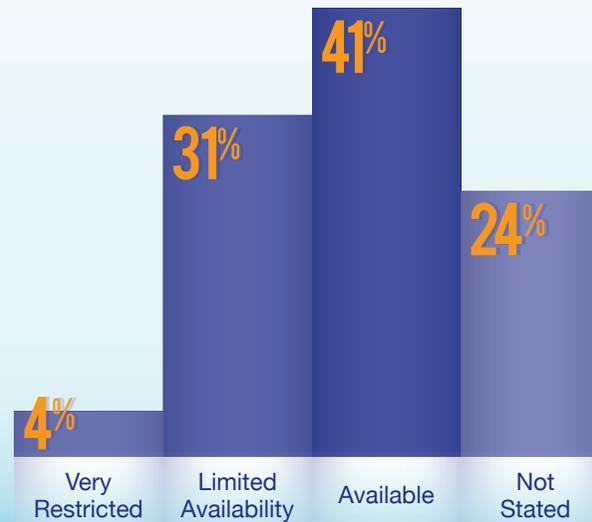
There continues to be a preference among landlords to source buy-to-let finance via an intermediary, with 35% reporting that this is the way in which they usually arrange their buy-to-let finance. Almost a quarter (23%) said that they go directly to a lender and 27% said that they use a mix of both sourcing methods.



Landlords reported that the most important factors when selecting a buy-to-let product are interest rates (56%), LTV (14%) and existing lender relationships (11%).

## VIEWS ON BUY-TO-LET FINANCE

Landlords' views on the availability of buy-to-let mortgage finance have steadily improved since the end of 2012. This quarter 41% of landlords said that they viewed finance as at least reasonably available, whilst this is very slightly lower than last quarter (44%) the proportion of landlords who described finance as restricted has decreased sharply from 11% to 4%.



## PROPERTY MAINTENANCE

Keeping on top of property maintenance is important to landlords, with on average landlords typically reserving 10% of their portfolio income for ongoing repairs and improvements. There is some difference between large and small-scale landlords, unsurprisingly with the difference in portfolio size, with small-scale landlords reserving 7% of their income and large-scale, 11%.

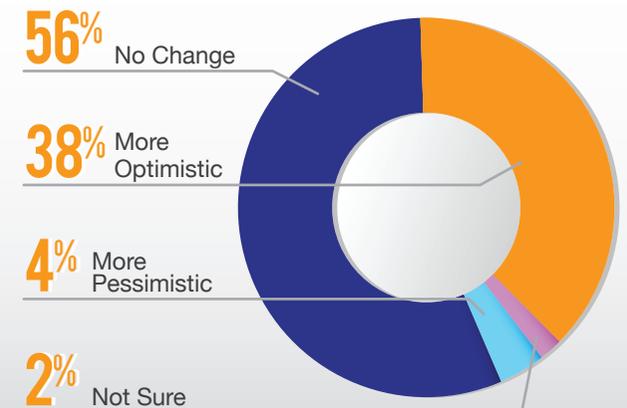
## PURCHASING PLANS

In the third quarter 16% of landlords are expecting to add to their rental portfolios and purchase further buy-to-let property. This is a small decrease on expectations during the first quarter when 18% were planning to add to their property portfolio. Small-scale landlords are more likely to purchase property in Q3 - 18% compared to 16% of large-scale landlords.

## FUTURE PROSPECTS

Just over a third (38%) of landlords said that they are now feeling more optimistic about the prospects for their rental portfolios and more than half (56%) said there had been no change in their views.

Optimism among landlords dropped to its lowest point in early 2012, and then began to recover throughout 2013. Since the third quarter of 2013 the proportion of landlords feeling more optimistic has remained between 35% and 41%.

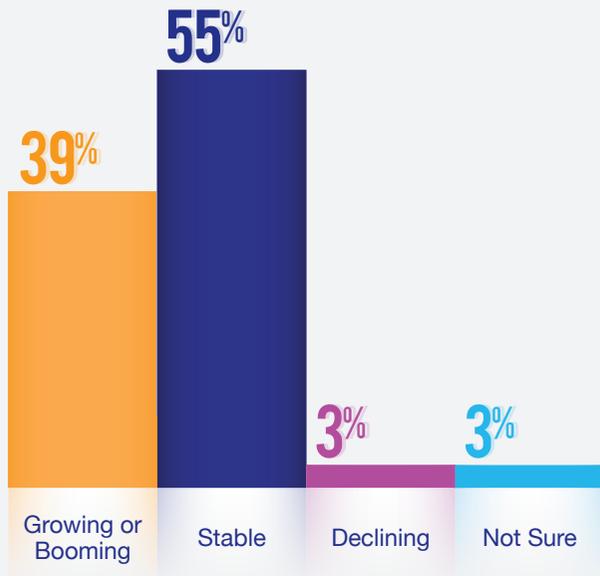


## TENANT DEMAND

Almost four in ten landlords surveyed (39%) said that they would currently describe tenant demand as growing or booming. This is a 2% increase on Q1, when 36% of landlords thought that demand from tenants was growing.

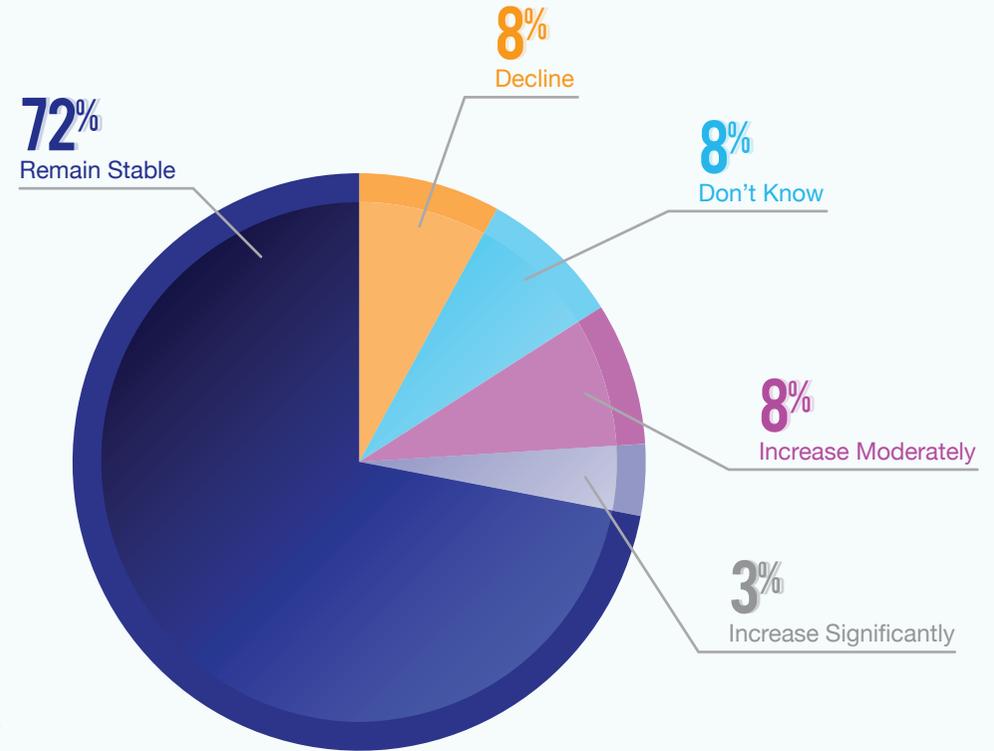
Landlords' views on tenant demand dropped significantly during mid-2008 and then remained low until the end of 2010 when it started to climb again, and at a fairly rapid rate. The proportion of landlords who feel that tenant demand is growing has remained between 30% and 40% for the past nine quarters.

In 12 months' time landlords expect tenant demand to strengthen further, with 48% predicting that demand will grow or boom. Large-scale landlords are a little more positive at 49%, compared with 43% of small-scale landlords.



## RENT ARREARS

Just over seven out of ten landlords (72%) said that they thought arrears levels would remain stable in the next year. A small proportion of landlords thought that arrears would increase (11%) and 8% think arrears levels will decrease in the coming 12 months. Overall, the feedback from landlords seems to suggest that we may see only marginal movement in arrears looking ahead.



## PROPERTY MANAGEMENT

More than half of landlords surveyed (57%) said that they manage their entire property portfolio themselves, and 20% use a letting agent. Small-scale landlords are more likely to use an agent to manage their entire portfolio – 37% compared with 15% of large-scale landlords.

## TENANCY TERMS

With the length of tenancy remaining a talking point in the news, we continue to track landlords' experiences of tenancy terms. More than half of the landlords surveyed (58%) said that only 10% of their tenants had requested a tenancy of more than two years.

## AVERAGE YIELD

The average gross yield that landlords reported for Q2 was 6.2% which is up from 6.1% in the first quarter. Yields have been consistent over the last 12 months, only fluctuating very slightly in Q3 2013 to 6.4%. Large-scale landlords reported an average yield of 6.5% in Q2, and small-scale landlords, 5.4%.

## RENTAL INCOME

For the majority of landlords (73%) rental income has remained the same during the second quarter. For almost a quarter (23%) rental income has increased between 2% and 10% and for 3%, income has increased by more than 10%. Just 3% of landlords have experienced a decrease in rental income in Q2.

## DOWNWARD TREND IN VOIDS

The average time a rental property remains empty between lets (void period) has dropped from 2.8 weeks in Q1 to 2.7 weeks in Q2. Void periods have typically, throughout the 12 year duration of the Paragon survey, remained between 3.5 and 2.5 weeks on average.

Since 2011 void periods have remained consistently low, only fluctuating between 2.6 and 3.0 weeks. There are several factors that contribute to short void periods such as high tenant demand and good working relationships between landlords and letting agents.



## 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.

## FOR FURTHER INFORMATION PLEASE CONTACT:

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