

## Welcome to Paragon Mortgages' PRS Trends Q3 Report



The third quarter of 2012 has been a stable one for landlords. In many ways the last three months have been unique not just for landlords, but the wider population in general. Having played host to what could arguably be the best Olympic Games to date, the UK has experienced a renewed sense of vigour.

Only time will tell how far reaching the economic benefit of hosting such a successful Games will be, but for now it seems people are riding high on a positive quarter.

The private rented sector (PRS) has made headlines this quarter following the review by Adrian Montague. We agree with the government's position that the PRS is an increasingly important tenure providing housing to a growing number of people across the country. Now as the new housing minister takes the helm it will be interesting to see how he progresses with the recommendations made in the review.

As a sector we need to see any new initiatives work in harmony with the existing market. The government needs to encourage smaller-scale landlords to make further investments, simplify the complex legislation which surrounds the sector and launch schemes that incentivise landlords to bring unused or dilapidated properties into residential use.

We also need to see more investment in the sector to meet the high level of tenant demand, which 39% of landlords say will increase over the next 12 months.

Landlords this quarter reported an average yield of 6.2%, an average void period of 2.8 weeks and portfolio size of 12.5 properties.

The market is very stable in terms of demand, yields and income, also with landlords looking to expand their portfolios.

As we approach the final quarter of the year it will be interesting to see how the sector progresses and also to hear landlords views and predictions for 2013.

**John Heron**

Managing Director of Paragon Mortgages

### Q3 2012 Headlines

yields **6.2%**

average portfolio value  
**£1.51 million**

Avg portfolio LTV **41%**

**2.8 weeks** void pa

**16%** of landlords plan to purchase property in Q4

**12.5 properties**  
average portfolio size

Flats / maisonettes rise in popularity

## Solid tenant demand

More than half of landlords (57%) surveyed this quarter felt that tenant demand was stable. This is only a small increase on landlords who held this view in Q2 (55%). However, 34% said that they would describe tenant demand as growing or booming and just 6% said they thought demand was declining – the lowest level this year.

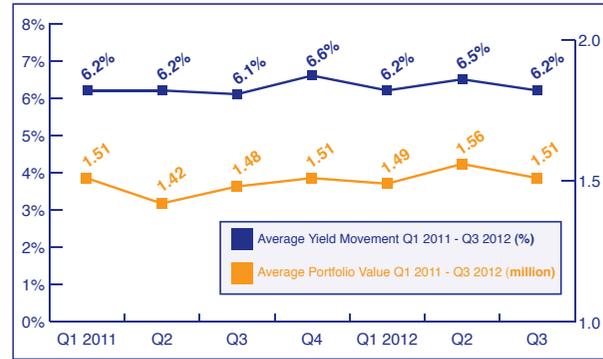
Landlords were also asked for their views on how they think tenant demand will change in the next 12 months. More than a third (39%) think that tenant demand will increase over the coming 12 months, 46% think it will stabilise and 6% think that it will fall.

## Yields remain stable

Landlords reported an average yield of 6.2%. The yield is a property portfolio's annual rental income as a percentage of its total value. This quarter has seen a slight decline on the average Q2 yield which was 6.5%, but mirrors the Q1 average.

The average yield has remained fairly consistent since Q1 2011, fluctuating between 6% and 6.6% over the past 18 months and shows that landlords are achieving a consistent rate of return on their portfolios.

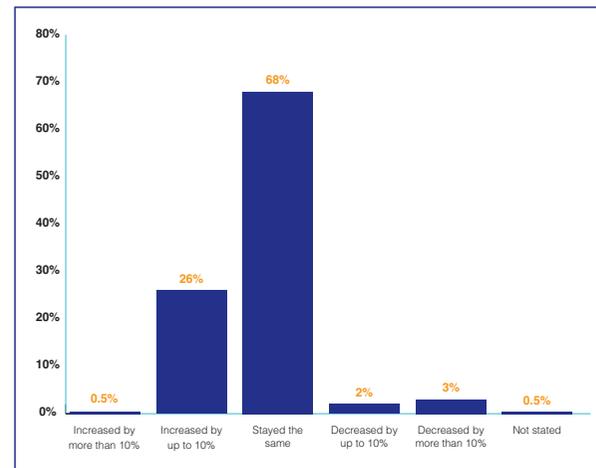
The yield a property portfolio generates is a key indicator used by landlords to assess how their investment is performing.



AVERAGE YIELD MOVEMENT AND PORTFOLIO VALUE Q1 2011 - Q3 2012

## Rental income

A fifth of landlords reported an increase in rental income in the third quarter. However, the vast majority (68%) said that their rental income had remained the same over the last three months. Just 5% of landlords said that rental income had decreased.



LANDLORDS' VIEWS ON RENTAL INCOME

## Void periods

Landlords reported an average annual void period of 2.8 weeks in Q3. This is a small increase on last quarter when landlords reported an average of 2.7 weeks.

Smaller-scale landlords tend to be fairing slightly better than professional landlords in terms of void periods, with 53% saying their average period was less than two weeks compared to 39% of professionals.

## Average portfolio size

On average landlords have 12.5 rental properties in their portfolio. This is a decrease on the 14.1 average portfolio size reported last quarter, but merely reverses the change seen then. However, on average, landlords expect to have 12.9 properties in their portfolios in 12 months' time.

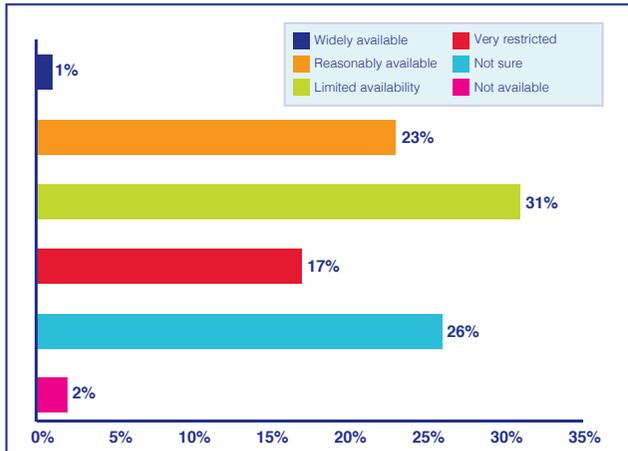
In terms of size of investment the average value is £1.51 million. Perhaps unsurprisingly professional landlords have much higher valued portfolios than smaller-scale landlords, an average of £1.87 million compared to £0.44 million.



## Views on buy-to-let finance

Landlords' views on the availability of buy-to-let finance have remained mostly static in the third quarter, with 24% saying they felt finance was at least reasonably available.

Almost a third (31%) of landlords said in their view buy-to-let finance was limited. There was a drop though in landlords who thought finance was very restricted, with 22% holding this view in Q2 and 17% in Q3.



VIEWES ON BUY-TO-LET FINANCE

## Loan-to-values

More than half of landlords (59%) have borrowings of less than half the value of their investment property portfolios. The average loan-to-value ratio for all landlords in Q3 was 41%, which was the same level reached in Q1 2012 and a small decrease on last quarter's ratio of 42%.

## Terraces and flats are top

In the fourth quarter 16% of landlords are expecting to buy further rental property. Professional landlords are more likely to invest than smaller-scale landlords, 20% compared with 6%.

Of those landlords looking to add property to their portfolio, 58% said they are planning to purchase terraced houses or flats/maisonettes.

This is the third consecutive quarter that terraced houses have been the most popular investment choice. This could be attributed to their flexibility, suiting a range of tenant types – families, couples and students.

Flats and maisonettes were also a popular choice this quarter, as were semi-detached houses. Both property types reached their highest level of popularity this year. There was also a significant rise in the popularity of detached homes, with 21% of those landlords looking to invest in Q4 planning to buy this type of property. In Q2 just 5% of landlords were planning to purchase detached houses and previous to that they hadn't appeared on the list at all.

HMO's declined in popularity in Q3 with just 6% of landlords looking to purchase this type of property.

When asked whether they were planning to sell property in Q4, only 12% said that they had plans to.

## Using social media

Compared to Q3 2011 there has been a small increase in landlords using social media for business purposes. Last year 9% of landlords said they used social media channels in the running of their business, compared to 11% this quarter.

The preferred channel was Facebook with 52% of those using social media using it. Almost a third (30%) use Twitter and 26% are using LinkedIn.

The main uses of social media for landlords was advertising property (57%), communicating with tenants (52%) and learning about news and developments (57%).



### 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.