

## Optimism increases among landlords



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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).

Most significantly, more than one third of landlords (39%) feel more optimistic about the prospects for their rental portfolios, a substantial increase from 30% in the first and second quarters, and the highest level recorded since 2010.

During this quarter, landlords also continued to report improvement in the availability of buy-to-let finance, with 37% of landlords saying finance is now at least reasonably available.

An overwhelming majority of landlords were positive about demand levels, with 91% describing tenant demand as stable or growing. At 6.4%, the average rental yield was unchanged and the void period tightened slightly to 2.9 weeks.

Against this backdrop, investors have taken the opportunity to grow their portfolios, with the average portfolio size increasing to 14.7 properties from 13.3 properties in the second quarter.

Overall, the third quarter survey paints an encouraging picture of growth in the PRS, suggesting landlords increasingly have both the confidence and the means to invest. Given the scale of demand for private rented accommodation, it is vital that this emerging confidence is nurtured in order to maintain the growth in supply. While landlords recognise that lenders are doing more to improve the availability of finance, it is important that we, as an industry, continue to develop our products to support steady and sustainable growth.

### Q3 2013 Headlines

**6.4%** average yield

**2.9 weeks** average void pa

**£1.64 million** average portfolio value

**41%** average portfolio LTV

**14.7** properties  
average portfolio size



**Terraced** houses are the most popular choice for investment for **58%** of landlords



## Landlords more optimistic

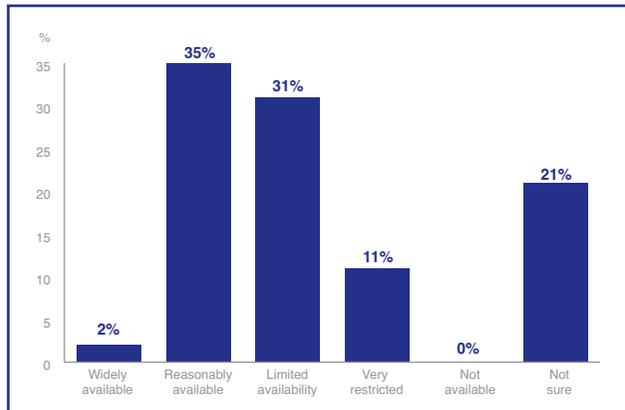
Optimism continues to grow in the landlord community, with more than a third of landlords (39%) more optimistic about the prospects for their rental portfolios. This is a substantial increase on the first and second quarters (30%) of 2013 and the highest level recorded since 2010.

Just 4% of those surveyed said that they were feeling pessimistic about the prospects for their property investments compared with three months ago, and for 56% of landlords there had been no change.

There was some difference between professional landlords and private investor landlords – those with between one and five properties. Professional landlords with more substantial property portfolios were more likely to be feeling more optimistic, 41% compared with 32% of private investor landlords.

## Buy-to-let finance

Landlords continue to report an improvement in the availability of buy-to-let finance, with 37% of landlords saying finance is at least reasonably available. This represents a steady increase compared with 35% in Q2 and a substantial improvement compared with 25% who reported finance to be at least reasonably available a year ago.



Views on buy-to-let finance

## Portfolio size

Landlords average portfolio size increased to 14.7 properties – a substantial increase from 13.3 properties in Q2.

In 12 months' time landlords expect to have 14.8 properties in their portfolios.

## Average yields

Landlords reported an average yield of 6.4%, unchanged compared with Q2. The average yield for professional landlords was 6.6% and for private investor landlords was 5.7%.

The average yield a property portfolio generates is one of the key indicators in terms of how well a portfolio is performing.

## Void periods fall

The average void period reported by landlords in Q3 was 2.9 weeks, a decrease from the average of 3.0 weeks reported last quarter.

Professional landlords reported a below average void of 2.8 weeks, down from 2.9 weeks in the previous quarter. For private investor landlords, the average void period was 3.3 weeks, unchanged on Q2.

## Late paying tenants

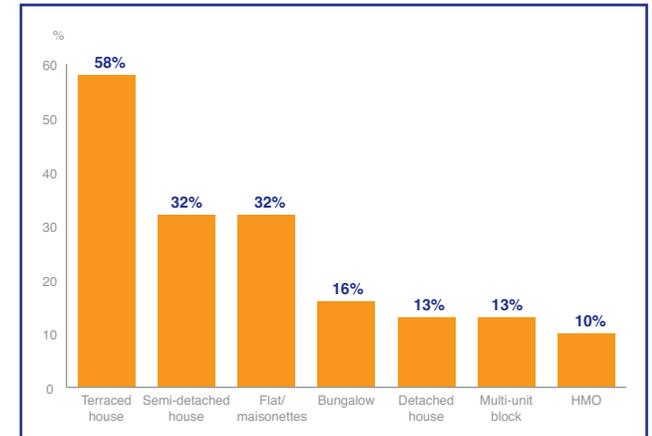
Landlords were asked what proportion of their portfolio is made up of tenants who have been late in making a payment or who have missed a payment in the last 12 months. Four out of ten (40%) said they had no such tenants. A further 34% reported that 10% or less of their portfolio is made up of tenants who fell into this category.

## Property investment in Q4

Looking ahead to Q4, 16% of landlords are keen to expand their rental portfolios and purchase further buy-to-let property - slightly lower than 19% in the second quarter.

Professional landlords are five times more likely than private investor landlords to purchase buy-to-let property.

Of those looking to make purchases, terraced houses remain the most popular choice, with 58% of landlords expecting to purchase property of this type. Almost a third of landlords (32%) expect to purchase a flat, with the same proportion targeting semi-detached property.



Anticipated property purchase type

## Key factors when seeking finance

For more than half of landlords (54%) interest rate is the most important factor when selecting a buy-to-let mortgage product.

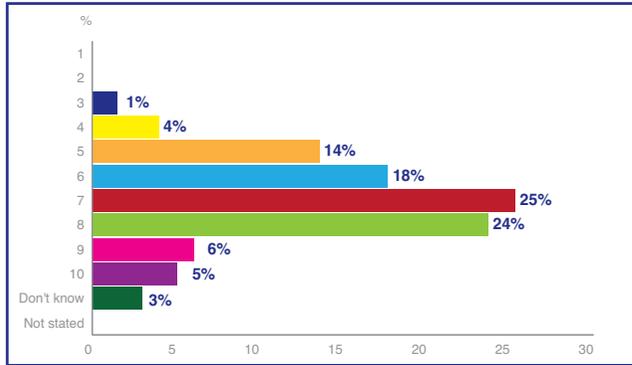
Other critical considerations include product fee, relationship with the existing lender and loan to value ratio, with 12% of landlords highlighting each of these factors as paramount.

## Sourcing finance

Almost a third of landlords (32%) said they would normally source buy-to-let finance via an intermediary, 28% said they tended to go direct to the lender and 25% reported using a mix of intermediary and direct channels. Professional landlords were more likely to value the expertise of an intermediary.

## Prospects for the PRS

Landlords were asked to decide on a scale of one to ten how they would score their view of the overall prospects for the PRS in the next year. With one being very negative and ten being positive, the majority of landlords (80%) scored the prospects between five and eight.



Landlords' views on prospects for the PRS

## Value of portfolio

Landlords reported a 3.2% increase in the value of their property portfolios compared with Q2, taking the weighted average property portfolio value to £1.64 million.

Taking into account both changes in property values and

sales and purchases, landlords expect an average 2.6% net change in the value of their portfolios over the next 12 months.

A much higher proportion of respondents expect to see the net value of their portfolios increase over the next 12 months compared with Q2 – 30% compared with 21%.

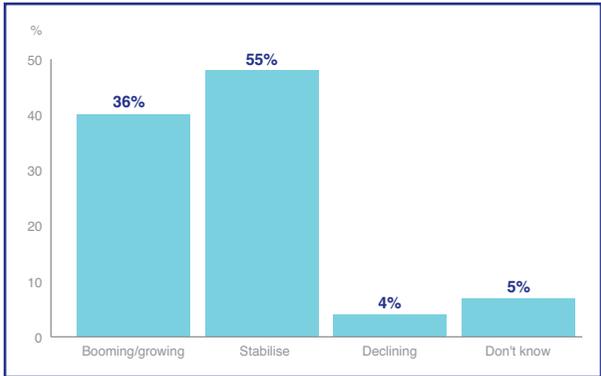
The proportion of landlords expecting their portfolio value to stay the same fell from 71% to 65% and those expecting to see the value of their portfolio decrease dropped to 5%, down from 7%.

## Tenant demand

Landlords' views on tenant demand have remained fairly consistent in the third quarter of the year, with 91% saying they would describe demand as stable or growing.

Looking ahead over the next 12 months, 88% of landlords think tenant demand will grow or stabilise and just 4% think that it will decline.

Professional landlords are slightly more optimistic than private investor landlords – with 90% of professional landlords expecting tenant demand to strengthen or stabilise compared with 84% of private investors.



Tenant demand

## 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 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.

