

Steady progress continues for buy-to-let



At this point in the year, we can usually gauge how the wider buy-to-let market has performed and what likely lending volumes for the calendar year will be. Last year, the Council of Mortgage Lenders (CML) reported total buy-to-let lending for 2013 as £20.7 billion. Current thinking is that gross buy-to-let lending this year will be around the £25 billion mark. This represents a healthy increase over 2013 but there has been some evidence that the rate of growth has slowed as the year has progressed. The CML information also makes it clear that the credit quality of buy-to-let lending is exemplary with mortgage arrears in the sector substantially lower than in the market generally.

Our latest survey results show that buy-to-let remains a popular choice with the average landlord property portfolio increasing from 13.5 in Q2 to 14.9 in Q3 and the average value increasing from £1.60 million in Q2 to £1.64 million.

This positive theme carries through to landlords views on the availability of buy-to-let finance, which has seen an increase in landlords agreeing that buy-to-let finance is at least reasonably available. The numbers would suggest though that landlords are still looking to lenders to do more to meet their requirements for buy-to-let funding.

Since the second quarter, there has been a fluctuation in landlords' views about the current state of tenant demand, with the proportion saying that it is growing or booming increasing from 39% to 41%, and the proportion saying that it has remained stable reducing from 55% to 51%. Regardless of this, landlords have continued to experience very stable rental yields.

There has been a reduction in the number of landlords reporting that tenant arrears levels have remained stable, from 72% in Q2 to 69%. The average void period increased slightly to 2.8 weeks in Q3, and interest rates have remained the most important factor for landlords when choosing a buy-to-let product.

This report also looks into other key trends that landlords have reported for the third quarter, including: portfolio management, finance sourcing, tenancy terms, property purchase intentions, average yields, and prospects for portfolios and the Private Rented Sector over the next 12 months.

I hope you find the articles of interest and please let us know if there are any areas that are important to landlords that you would like us to cover in the survey.

John Heron
Managing Director, Paragon Mortgages

Q3 2014 HEADLINES



2.8 WEEKS AVERAGE VOID PERIOD

Property portfolios

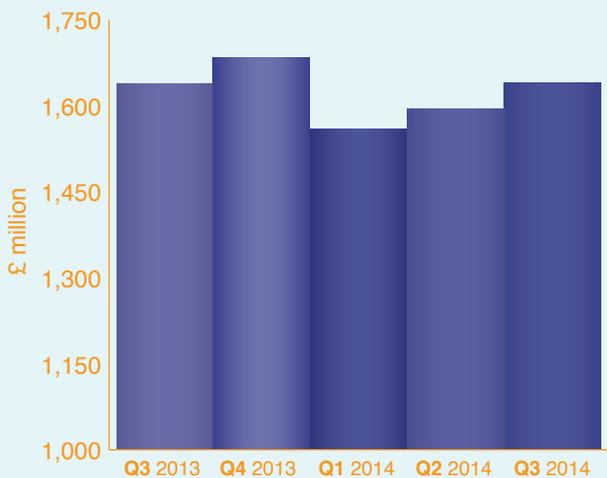
SIZE

The average size of property portfolios reported in Q3 increased to 14.9, showing a second successive increase from 13.0 properties in Q1 and 13.5 properties in Q2. However, when asked how many properties they expect to have in the next 12 months, landlords expect their portfolio size to remain at today's average size of 14.9 properties.

VALUE

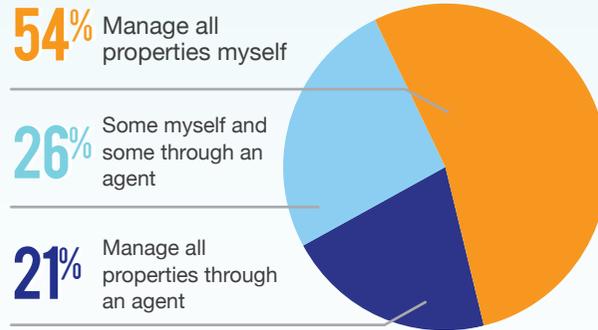
In Q3, the average value of property portfolios increased to £1.64 million, showing a 2% increase from the second quarter at £1.60 million and a reversion to the average property portfolio value reported in Q3 2013.

Almost three quarters (70%) of landlords said they expect the net value of their portfolios to remain static over the next 12 months, in comparison with 25% of landlords who expect to see an increase.



MANAGEMENT

More than half (54%) of landlords manage all of their rented property portfolio themselves, which is down from 57% in the previous quarter. In comparison, 21% of landlords said they manage all properties through an agent, and 26% said they manage their properties partly themselves and partly through an agent.



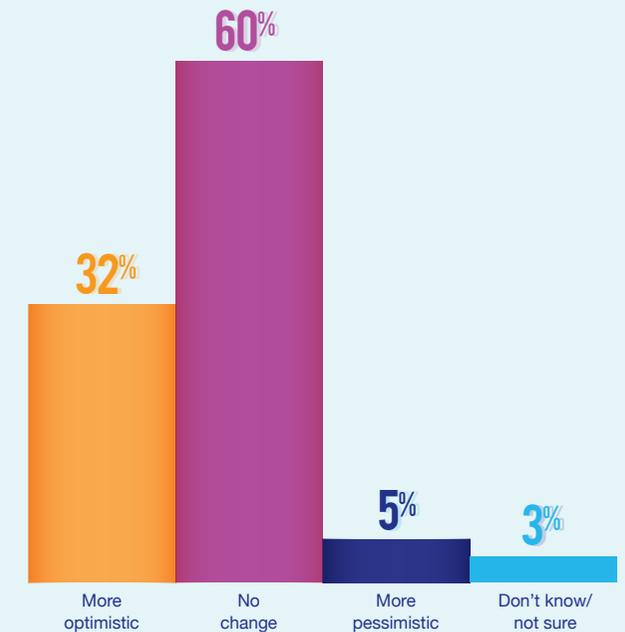
Of those landlords who use an agent to manage some or all of their properties, more than eight out of ten (82%) said that none of these were with an online letting agent. This is a significant increase from the 69% recorded in Q2.

FUTURE INVESTMENT

Overall, landlords expect their net investment in buy-to-let property to increase by an average of 2.2% over the next 12 months, which is down from an expected figure of 5% in Q2. With an average expected increase of 3%, small-scale landlords were more likely to expect their overall net investment in property to increase in comparison with large-scale landlords whose average expected increase was 2%.

FUTURE PROSPECTS

Almost a third (32%) of landlords reported feeling more optimistic about prospects for their property portfolios, showing a 6% reduction from the previous quarter. In comparison, 60% of landlords' views were unchanged about prospects for their portfolios and 5% of landlords were more pessimistic.



In terms of the Private Rented Sector (PRS) as a whole, on a scale of one (very negative) to ten (very positive), the average score for prospects for the PRS over the next 12 months was 7.0, up marginally from the 6.9 recorded in Q2.

With an average of 7.2, large-scale landlords felt slightly more optimistic than smaller scale landlords (6.9) about prospects for the PRS over the next 12 months.

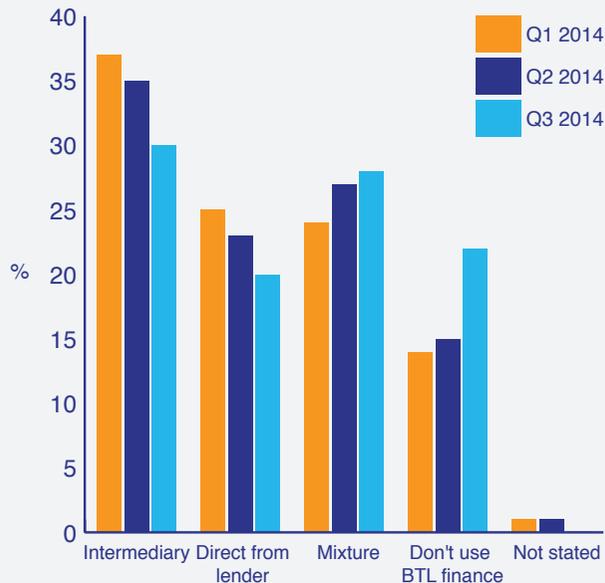
Buy-to-let finance

SOURCING

There has been a moderate shift in the way that landlords source their finance. In Q3, 30% of landlords bought finance via an intermediary, which is a reduction of 5% since Q2, and 7% since Q1. Also, the proportion of landlords sourcing finance direct from lenders reduced to 20% in Q3, from 22% in Q2 and 25% in Q1.

Preference towards sourcing finance through a mixture of intermediary and direct from a lender increased to 28%, from 27% in Q2 and 24% in Q1.

When sourcing buy-to-let finance, 58% of landlords agreed that intermediaries provide a valuable service in finding the best deals.



AVAILABILITY

Optimism among landlords about the availability of buy-to-let finance has improved slightly since the previous quarter with 42% of landlords viewing finance as at least reasonably available in Q3, in comparison with 41% in Q2. The proportion of landlords saying that finance availability is limited reduced by 2%, from 31% in Q2 to 29% in Q3.

Despite a marked improvement in the number of live products in the market (701 in September as reported by Moneyfacts), the perception of availability is still somewhat muted for landlords.

Tenancy trends

TERMS

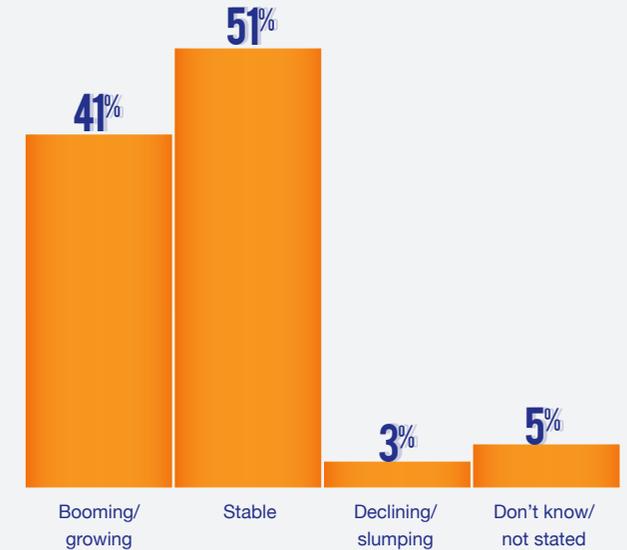
More than half of landlords surveyed identified that only up to 10% of their tenants requested a tenancy term of over two years, showing a reduction of 4% since the previous quarter (at 58%). Overall, in Q3, the average proportion of landlords whose tenants requested terms of more than two years was just 8.8%.

ARREARS

Seven in ten (69%) landlords believe that arrears levels will remain stable over the next year, which is a 4% reduction from the 72% of landlords in Q2. In comparison, 12% thought that arrears levels would increase and 8% thought that they would decline. It appears that, at 13%, large-scale landlords were more likely to expect arrears levels to increase compared with 8% of small-scale landlords.

DEMAND

The proportion of landlords that think tenant demand is growing or booming increased from 39% in Q2 to 41% in Q3, whilst the proportion saying it has remained stable decreased from 55% in Q2 to 51%. Large-scale landlords (43%) appear more likely to think that tenant demand is increasing in comparison with small-scale landlords (38%).

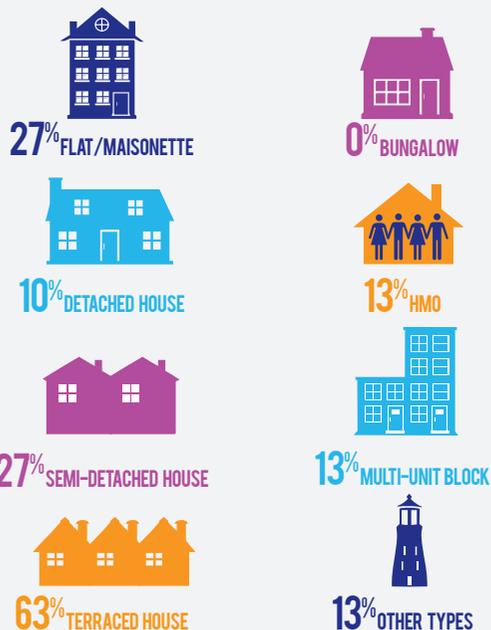


VOID PERIODS

In the third quarter, four in ten landlords (41%) stated that their average void period per year is less than two weeks and for 38% this was between two and four weeks. Overall, the average void period per year for landlords in Q3 was 2.8 weeks, which is up slightly from 2.7 weeks in Q2. Void periods have remained low for the past 12 years, with the average staying between 2.6 and 3 weeks.

PROPERTY PURCHASES

Almost one in six landlords (15%) expect to purchase a buy-to-let property in the next quarter, which is down slightly from 16% in Q2. These landlords are most likely to purchase terraced houses, with 63% identifying this property type as a preference.

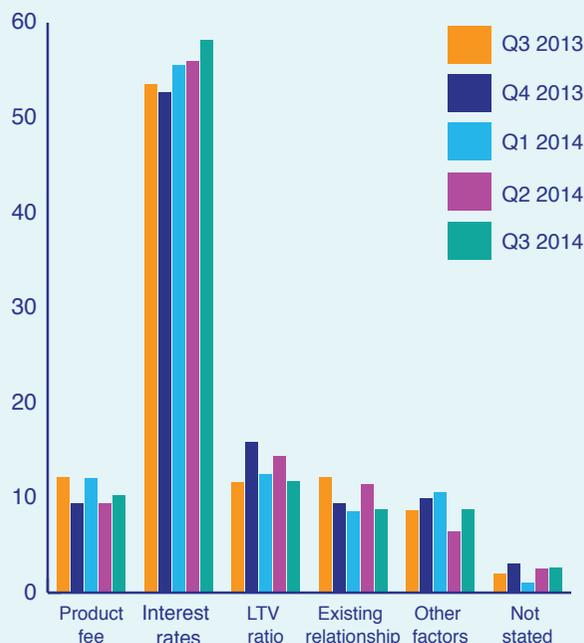


RENTAL INCOME

The majority of landlords (67%) identified that their rental income has remained the same, which is down from 73% in the second quarter. There has been a 7% increase in the proportion of landlords reporting an increase in their rental income, rising from 23% in Q2 to 30%. Only a small percentage (2.5%) said that their rental income decreased in Q3, which is down from 3.5% from the previous quarter.

PRODUCT FACTORS

Interest rates remain the most important factor for landlords when choosing a buy-to-let product with 58% of landlords identifying this preference in Q3. Preference towards interest rates has been increasing since the final quarter of 2013, and is 5% higher than the same period last year.



AVERAGE YIELDS

More than six out of ten landlords (63%) reported an average gross yield of between 4% and 7%, resulting in an average gross yield of 6.6% for landlords in the third quarter. This was a second successive increase reported, from 6.2% in Q2 and 6.1% in Q1.

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, 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.

The Group is a member of the Council of Mortgage Lenders, the Intermediary Mortgage Lenders Association, the National Landlords Association and the Association of Residential Letting Agents Lender Panel.

FOR FURTHER INFORMATION PLEASE CONTACT:

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