

## Welcome to Paragon Mortgages' PRS Trends Q4 Report



The last quarter of 2012 was a good one for landlords, bringing to a close a successful and healthy year for the Private Rented Sector (PRS) and the wider buy-to-let market. The UK housing market failed to make any real progress in the last 12 months with house prices remaining static and little innovation from lenders, especially in terms of engaging with first-time buyers.

However, buy-to-let was the only growing area of the mortgage market and performed well considering the difficulties which are still on-going in the wider economy.

Landlords continued to add to their portfolios and in Q4 the average property portfolio size was 12.7 properties, compared with 12.5 in Q3. In 12 months' time landlords are expecting their portfolios to increase further to an average of 13.2 properties.

The average gross yield reached 6.5% in the last quarter of the year, this was an increase on 6.2% in Q3 and reverted back to the average seen earlier in the year in Q2. Tenant demand remained high in Q4 and 41% of landlords are expecting demand to increase in 2013. There needs to be more investment in the sector in the next year to go some way in meeting the level of tenant demand expected. More people than ever before are living in the PRS, and a greater variety of tenant types.

The 2011 Census revealed that 15% of the population now rent from private landlords, increasing from 9% in 2001. This is part of the continuing shift in housing patterns since the 1980s and is only set to continue.

The next year will be a year of further progress for the PRS. Landlords look set to invest in their portfolios, with flats and terraced houses top of the list. We do need to see more innovation from lenders in 2013 and more competition at the professional landlord end of the market, to help encourage and stimulate further much needed growth.

### John Heron

Managing Director of Paragon Mortgages

### Q4 2012 Headlines

yields **6.5%**

£**1.47** million average portfolio value

Average portfolio LTV **40%**

**3.0** weeks void pa

**12.7** properties average portfolio size



Terraced houses are most popular choice for investment

## Yields rise

Landlords reported an average yield of 6.5% in Q4, which is an increase on 6.2% in Q3. The average yield for professional landlords was 6.9% and for smaller-scale landlords 5.4%.

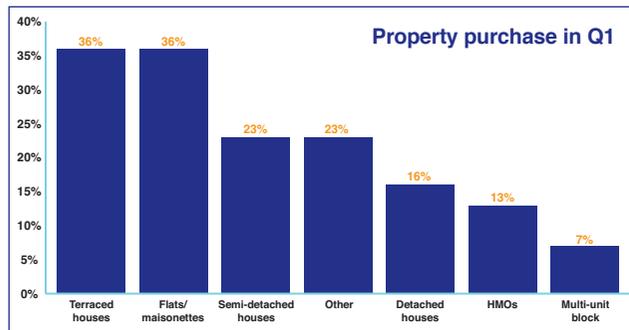
The average yield for all landlords in 2012 was 6.3%. Average yields have remained relatively consistent for the past two years, peaking at 6.6% in Q4 2011.

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

## Property purchase in Q1

During the first quarter of 2013, 15% of landlords are looking to purchase buy-to-let property. Of those planning to make investments, 36% plan to buy terraced houses, a further 36% expect to buy flats or maisonettes and 23% semi-detached houses.

It has been an on-going trend for landlords to favour purchasing terraced houses and flats. This could be due to the flexibility these properties offer as a let and also because landlords are increasingly needed to provide housing for different tenant types.



## Tenant demand remains strong

In the fourth quarter almost all landlords (90%) said that tenant demand was either stable or growing, with just 6% saying they thought demand was slumping. Landlords have reported growing tenant demand throughout 2012.

More people than ever before are relying on the PRS for housing and this is likely to continue into the New Year. Over a third (41%) of landlords think that tenant demand will increase during the next 12 months, with only 6% expecting a decline.

## Rental income

In the last quarter almost a third of landlords (30%) said that their rental income had increased, with 64% reporting that their rental income had remained static. Just 4% of landlords experienced a decrease in the level of rental income they had achieved. Professional landlords were more likely to report an increase (34%) compared to smaller-scale landlords (21%).

## Portfolio size

Landlords' average portfolio size increased in Q4, reaching 12.7 properties compared to 12.5 properties in Q3. In 12 months' time landlords expect to have an average of 13.2 rental properties in their portfolio.

## Void periods

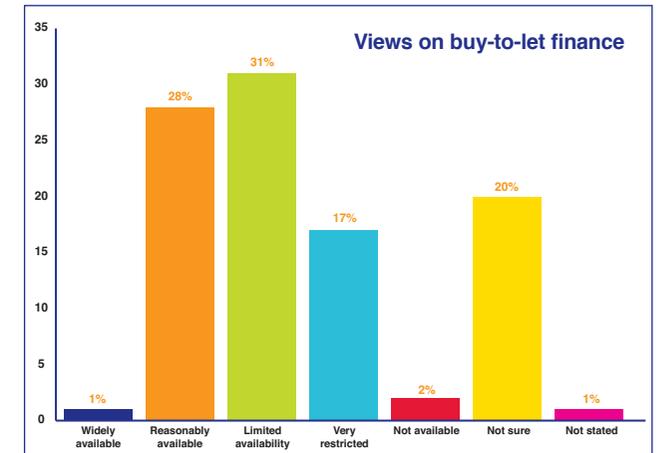
The average void period reported by landlords in Q4 was 3.0 weeks. This is a slight increase on Q3 where the average was 2.8 weeks, but is still low as it has been for the past 12 to 18 months.

## Buy-to-let finance

Almost a third of landlords (29%) think that buy-to-let finance is at least achievable, 31% think there is limited availability and 17% think that buy-to-let finance is very restricted.

Views on the availability of finance have remained largely static throughout 2012, with optimism dipping slightly in Q3, but improving in Q4. Lenders still have work to do in the coming months in terms of creating innovative, competitive products for professional landlords.

Currently, the focus is on products more suited to amateur landlords. Professional landlords will be the drivers of growth in the PRS in the coming months and will need to see more product variety.



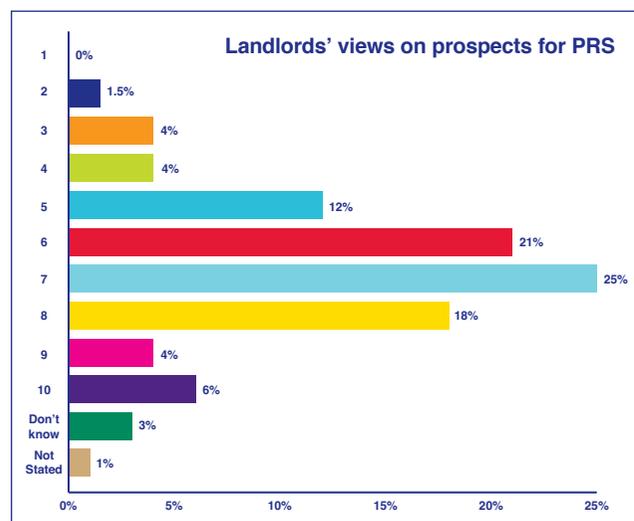
## Looking ahead to 2013

Landlords were asked to give their views on expectations for 2013 and what factors they consider most important in the running of their business.

Below is a summary of landlords' thoughts on the coming year.

## Prospects

Landlords were asked to decide on a scale of one to ten how they would score their view of overall prospects for the PRS in the next year. With one being very negative and ten very positive, the majority of landlords (76%) scored the prospects between five and eight. Of those surveyed 18% rated prospects at eight, 25% at seven and 21% at six.



## Rental demand – most important factor

Landlords were asked which factors were most important to them in the coming year. Rental demand was selected as the most important factor with 83% of landlords choosing this. Following rental demand was rent levels (69%), tenant arrears (46%) and void periods (43%).

Less important factors in terms of determining views on prospects for the PRS, were buy-to-let mortgage availability and property prices/portfolio values (31%).

## Value of portfolio

Taking into account both changes in property values, sales and purchases of properties, 17% of landlords expect over the next 12 months to see an increase in their net investment in property. However, just 7% think they will see a decrease. Three quarters (76%) of landlords are expecting the value of their portfolio to remain the same. Given the continuing difficulties in the UK housing market maintaining the value of portfolios is extremely positive.

## Property purchase

Over the next 12 months, 15% of landlords expect to buy rental property. Of those looking to invest, 47% are expecting to purchase terraced houses and 47% flats/maisonettes. Almost a third (30%) are looking to buy semi-detached houses and 20% multi-unit blocks. The least popular choices for property investment were detached houses (10%) and HMOs (13%).

## Home improvements

More than half of landlords (64%) are planning to make improvements to some or all of their properties in 2013.

The most likely home improvement is a new kitchen or bathroom (30%), followed by new boilers (26%) and double glazing (16%). On comparison with last year's survey, these three areas of improvement remain the top three landlords are likely to make.

## Other investments

Landlords often have other investments that sit alongside their property portfolios. In the next year there are two main types of other investments that landlords are intending to make, cash savings (53%) and equities (24%).

### 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.