



HOUSING MATTERS

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The inside track from the UK's leading specialist lender to landlords



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Introduction

Housing is a key issue for the UK electorate and, as we approach the May 2015 General Election, it's important to recognise the central role the Private Rented Sector (PRS) plays in today's UK housing mix.

Today 19% of UK households call the PRS home, some 4.9 million households in total. The PRS represents the second most popular housing tenure in the UK. While still far behind levels seen internationally, it now ranks above social housing in the UK. What's more, 84% of tenants in the PRS report that they're satisfied with their accommodation, demonstrating that private landlords are adept at meeting the high standards their tenants rightly expect and balancing fairness with flexibility.

Private renting is no longer a last resort, or a sector dominated by students and younger generations. It is now a tenure of choice as well as need.

People are actively choosing to live in the PRS as it provides greater flexibility and better suits their lifestyle needs.

Looking at the strength of the PRS today, it's easy to forget how far the sector has come and how important it is to support the vital investment, the strong policy framework and the healthy public debate that underpins its success.

In this special pre-election issue of Housing Matters, we consider each of these three areas. In turn, we highlight how the sector has flourished since the introduction of buy-to-let mortgage products back in 1996, we set out the critical policy areas and actions required to maintain and grow investment levels to meet demand and we report on some of the sector's most topical issues recently aired at the annual Great Buy-to-Let Debate.

We know that you'll be busy as electioneering begins in earnest and that's why we've deliberately kept this issue short on words and



Housing is a key issue with the General Election fast approaching

long on facts. Our aim is to give you the big picture, highlighting the issues that matter, in order to support you when the serious business of government resumes.

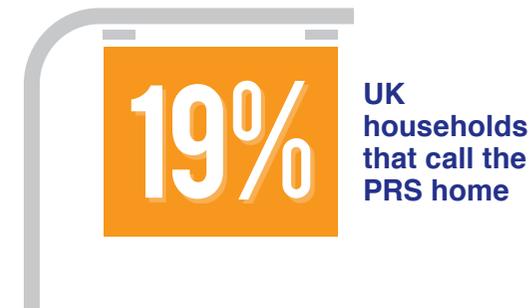
Nigel Terrington

Paragon Group
Chief Executive

Source: DCLG

Buy-to-let comes of age

Now synonymous with the PRS, the term 'buy-to-let' was coined just over 18 years ago in 1996. In the early 1990s, demand from tenants for private rented property was growing fast as a result of demographic, political, economic and social change. Describing what was then a ground-breaking mortgage finance product developed by the Association of Residential Letting Agents (ARLA) with a small group of lenders including Paragon, buy-to-let has helped to shape a PRS that is fit for purpose and provides choice, value and flexibility for tenants. Supporting Britain's growing army of private landlords, buy-to-let has changed the face of the PRS over the last two decades and will be vital if the UK is to meet the projected growth in housing demand.



Number of UK households living in the PRS today, more than double the 2.4 million PRS households in 1996



1 MILLION

Additional PRS homes required to meet forecast demand by 2018



The average UK landlord is 56 years old, owns 8 rental properties, has been a landlord for 15 years and aims to retain their investment for 20 years



84%

Tenants who say they are satisfied with their accommodation

2.5 YEARS

Average length of a tenancy in the PRS

£27.4 BILLION

2014 buy-to-let gross lending

2.8 YEARS

Average time a family stays in a PRS tenancy



ALMOST 2 MILLION

Number of private landlords in the UK

Sources: DCLG / Savills / CML / ARLA / BDRC

Housing matters for policy makers

The PRS is a significant and growing part of the UK's housing mix. The sector has already demonstrated its ability to underpin a more flexible, affordable and diverse housing market. In order to meet the UK's growing housing demand, policy makers need to consider how best they can support the PRS to encourage further investment from private landlords and continue to deliver fairness and flexibility for tenants. We set out five key policy actions that policy makers can adopt to ensure an innovative, healthy and performing housing market going forward.



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The Government worked hard to increase mortgage availability

1 Boost measures to increase housing supply and support house building

The UK population is expected to grow to 73.2 million by 2035 but housing supply is failing to keep pace. It has been estimated that 290,500 new homes need to be built each year to meet this growing demand - only 141,000 homes were built in the UK in 2014. Current supply is failing to meet demand across all tenures – owner occupation, PRS and social housing – placing pressure on the overall housing stock and on the PRS.

2 Gradually withdraw from state-backed mortgage finance support schemes as market conditions improve

Availability and access to affordable mortgage finance is the bedrock underpinning home ownership and investment in rental property.

Availability of mortgage finance was significantly restricted following the financial crisis and the Government has worked hard to increase availability, both through the introduction of Funding for Lending and Help to Buy. While helpful in the short term, these types of scheme can distort the market in the long term by risking 'artificial' house price inflation and undermining the sustainability of the market.

The next Government should give careful thought about how and when to withdraw from these mortgage finance support schemes. Fundamentally, the Government should encourage banks to lower their deposit requirements and gradually return to higher LTV (loan to value) lending, reducing the need for this type of state support.

CONTINUED OVER...

Housing matters for policy makers continued

3 Maintain buy-to-let mortgage finance within a business regulatory framework

It is vitally important that we foster a regulatory environment that encourages continued participation of both residential property investors and lenders in the PRS. The UK has recognised that a buy-to-let loan is a business transaction - it is the borrower's intent to let the property in which they are investing to generate a return and, in the long term, to sell it at a profit.

The recent Mortgage Market Review applies to the residential mortgage market and does not directly impact on the buy-to-let market. We welcome this approach and would urge the next Government not to read-across regulation intended for consumer mortgage products to business-focussed buy-to-let.

4 Maintain the balance between fairness and flexibility for tenants in the PRS

The introduction of the Assured Shorthold Tenancy (AST) agreement in the 1988 Housing Act paved the way for the flexibility that tenants in the PRS enjoy today, allowing them to break their tenancy after an initial six-month period. While there has been a lot of noise about the supposed 'insecurity of Britain's private rental market' and the need for rent controls, independent research shows that on average tenants stay in their rental property for 2.5 years, with families staying for 2.8 years. Moreover, rents are typically only changed when the tenancy changes.

Landlords value stability as much as tenants and, while we fully support voluntary agreements that enable longer tenancies, we would caution against statutory intervention in this area.

5 Allow flexibility at a local level to deal with 'rogue' landlords and ensure local councils are properly resourced to implement the powers already available to them

One of the consequences of the growth of the PRS has been a focus on property standards and the conduct of private landlords. With 84% of PRS tenants reporting that they are satisfied with their accommodation, we know that the vast majority of private landlords are doing a good job.

Also, local authorities already have extensive powers to deal with poor standards. The best improvements are generally achieved where local authorities have sufficient resources to use those powers to take targeted action to deal with specific issues in their area.

In short, there is ample legislation already in place to keep 'rogue' landlords in check. While this could be simplified to make it easier for landlords to understand their obligations, local authorities must be given adequate resources to tackle poor practice where needed.

Sources: DCLG / BDRC

The future shape of UK buy-to-let

Housing experts and commentators gathered in Westminster this month for the UK's third annual Great Buy-to-Let Debate sponsored by Paragon. This year's panellists - drawn from the PRS, the media and academia - focussed on the ever-increasing demand for PRS accommodation, key issues affecting fairness and flexibility for tenants and the vital need to boost house-building in the UK.



- **John Heron**
Managing Director
Paragon Mortgages
- **Valerie Bannister**
Head of Lettings at Your Move and
President of the Association of
Residential Lettings Agents
- **Richard Dyson**
Personal Finance Editor
Daily Telegraph
- **David Whittaker**
Managing Director
Mortgages for Business
- **Professor Michael Ball**
Professor of Urban and Property
Economics at Henley Business
School, University of Reading

Continued growth in the PRS and buy-to-let

The PRS continues to be a growing sector, representing 19% of all housing in the UK. In 2014, it overtook the social rented sector for the first time since the 1960s. Further steady growth in the PRS and buy-to-let finance is expected going forward, with panellists anticipating that PRS accommodation will grow to 24% of all housing in the UK over the next five years.



Measures to boost housing supply remain a priority

Longer-term tenancy agreements and the need for flexibility

Various lenders, including Paragon, already support longer-term tenancies and recognise the importance of maintaining flexibility to cater for landlords and tenants who want to implement longer-term renting solutions. Panellists agreed that more lenders need to adopt this approach. However, making longer-term tenancy agreements compulsory is unnecessary and could exacerbate the very issues it sets out to resolve.

Ensure letting agents work to industry standards

While reputable letting agents are transparent with prospective tenants regarding the fees and expenses they can expect to incur, it's still too easy for rogue

letting agents to establish themselves and charge over the odds. Panellists agreed that the industry needs to ensure all letting agents are working within industry standards and adopting a professional and transparent approach to doing business.

Boost UK housing supply

Although the PRS and private landlords are sometimes used as a scapegoat for the difficulties first-time buyers face in getting onto the property ladder, there is no evidence to support these claims.

In 2014, CML data showed first-time buyer activity outweighed buy-to-let purchases 3:1, with 311,500 loans advanced to first-time buyers and 100,100 buy-to-let loans advanced to landlords.



3:1 - Ratio of loans issued to first-time buyers compared with those issued to landlords for buy-to-let purchases in 2014

The underlying issue remains the lack of housing supply, which is already impacting property prices and affordability. A co-ordinated house-building strategy needs to be implemented to reduce the gap between supply and demand.

Source: CML

Contact us

For further details about any of the information included in Housing Matters, or to arrange a meeting, please contact one of the team:

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