

HOUSING MATTERS

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



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The Queen's Speech and future political milestones

Paragon looks at the Queen's Speech and its importance for the PRS

In May, the Queen's Speech launched the legislative agenda for the year ahead in Westminster. For landlords, the following areas will be of particular interest:

The economy

Landlords have an important role to play in boosting supply to meet demand in the private rented sector as difficult economic conditions mean the housing market continues to struggle

Policy implementation

A range of policies will come into force including the Welfare Reform Act's measures on housing benefit and the forthcoming Green Deal regulations on the private rented sector

Legislation

The Banking Reform Bill and the Enterprise & Regulatory Reform Bill will be important as they impact on the wider environment in which landlords operate

The Montague Review

Ministers are expecting the publication of this report on barriers to institutional investment in the UK's private rented sector shortly. Private individual landlords will hope to see a balanced approach to encouraging all types of investment in the sector

Outside Westminster, both Scotland and Wales are currently looking at housing. The Welsh Government has outlined plans for a mandatory registration and accreditation scheme for landlords whilst Scotland is looking at measures to encourage growth and quality in the sector. Scotland's plans are discussed in more detail on page 4.

Overall, there are two key issues going forward. First, the availability of mortgage finance needed to allow landlords to play the role the Government envisages for them. Secondly, there needs to be a sensible proportionate approach to regulation of the private rented sector, looking after tenants whilst supporting the role of the landlord.

Whilst there are concerns about rogue landlords, and this minority should be tackled, the debate should also focus on the positive role responsible landlords play.

All political parties are currently looking closely at housing policy and landlords will need to be mindful of these policy discussions going forward.



CLG report into financing new housing supply

The essential role of the private landlord does not get enough recognition

The Communities and Local Government Select Committee recently published its report on the Financing of New Housing Supply. We provided oral evidence to the Committee on the importance of the private landlord in the housing mix and we are broadly pleased with the recommendations made by the Committee. New housing supply is urgently needed to meet the growing demands in all tenure types, and particularly the private rented sector (PRS). However, there was perhaps not enough recognition of the essential role played by private landlords and the contribution they make in providing homes for millions of people in the UK.

A great deal of effort goes in to policy development around expanding the scale of corporate and institutional investment but experience in the UK and other comparable countries shows that institutional investment will only ever play a limited role in the housing sector. Not enough thought has been given as to how

we expand and motivate the model which already succeeds in delivering high-quality, flexible and convenient accommodation – that is the private landlord.

There is a need for a larger and more diverse PRS to accommodate the growing demand from tenants. Private landlords have demonstrated over many years their willingness to expand the supply of rented property. We need policy developments that work with private landlords, not ones that get in their way.

With that in mind, we welcome the Committee's recommendation that the Government considers simplifying the tax and regulatory structures under which private landlords operate as a step in the right direction. We shall look forward to seeing the Government's response to the report, although with its housing strategy published in November 2011 we do not anticipate a major change in the Government's approach.

PRS is predicted to grow to

20%

of all households by 2020

Source: Savills

55%

more tenants than properties in 2011

Source: ARLA

Bank deleveraging market

Paragon's investment division, Idem Capital, is now a leading consumer debt buyer in the UK

The credit crunch has had a significant affect on the world's economies and its financial markets. As a consequence many banks need to reduce the size of their balance sheets, a process known as deleveraging. Alongside a reduction in new lending activity, banks have increasingly turned to selling loan assets and segments of their wider business they now deem as non-core.

According to PricewaterhouseCoopers, there is an estimated €1.3 trillion of European loan assets (40% of which are in the UK) that financial institutions are looking to dispose of. Accounts that are part of the deleveraging process can include mortgages as well as consumer loans.

Paragon's investment division, Idem Capital, has acquired a total of seven loan portfolios to date, totalling £145.7 million, including mortgages, unsecured loans and credit card receivables.

As well as continuing to develop our lending activities, we plan to make further portfolio investments as the banks and other financial

institutions sell assets as part of their efforts to deleverage their balance sheets.

Idem Capital is now established as one of the leading consumer debt buyers in the UK. We look forward to using our expertise in this area to comment on related parliamentary activity alongside the existing input we provide on buy-to-let and the private rented sector. If you have any specific questions related to this, please get in touch using the contact details on the back page.



The economy and housing

How economic factors are impacting lending and funding



Paragon operates in a relatively specialist sector of financial services yet it is clear even in our business that the Eurozone crisis is affecting every part of the UK economy, including the housing market.

Mortgage borrowers can see the direct consequences of the crisis, in tighter lending criteria and higher rates. These rates reflect the instability in global markets and increased financing costs for banks.

This is because the crisis is playing a role in constricting the availability of finance. Regulatory initiatives to improve capital ratios and institutional efforts to make further provisions to cope with the fallout from a potential Greek exit from the single currency and the Spanish bailout, combined with a reluctance to indulge in financing any activity perceived as risky, means that banks' financing costs are inevitably higher. The chart below shows the banks' credit default swap levels, the cost of issuing bank debt but reflecting the sharp increase in the perceived risk of banks and their funding costs.

Higher costs are having significant effects on all tenure types. Customers are finding it more difficult to access loans and this is hindering the usual dynamic in the housing market. This dysfunctional market has combined with long-term cultural and demographic changes to result in high demand for rented accommodation. Capacity in the private rented sector (PRS) is stretched and some reports say that buy-to-let landlords and lenders are enjoying a boom on the back of this demand.

Buy-to-let lending was significantly affected by the credit crunch and although it has entered a period of recovery, it remains difficult for private landlords to access finance to invest in properties.

Government initiatives to stimulate the housing market, such as the recently announced 'Funding for Lending' scheme, focus on first-time buyers and owner-occupiers, leaving the expansion and improvement of the PRS down to private individual landlords.

All Mortgages

July 2007
15,559



Mortgage Product Volumes

Buy-to-let

July 2007
3,648



All Mortgages

May 2012
3,019



Buy-to-let
May 2012
453

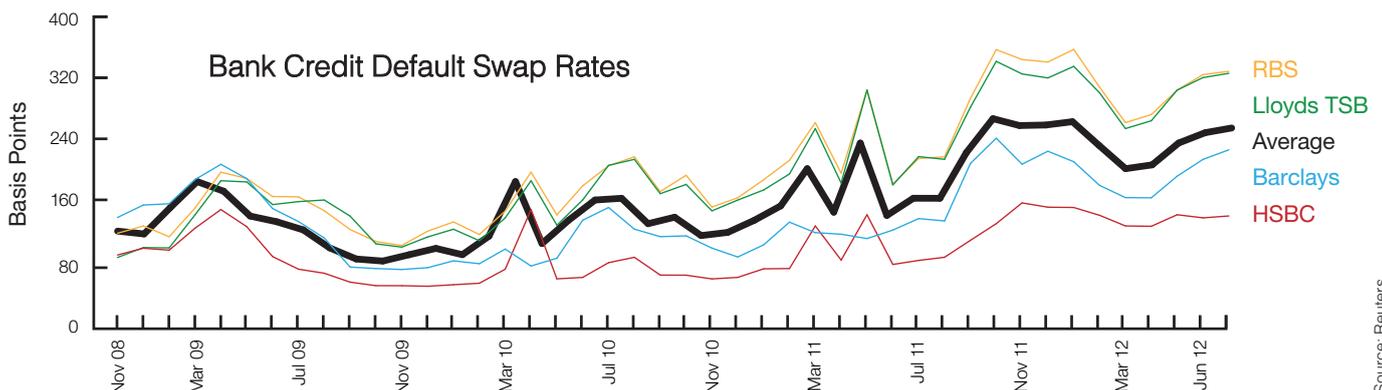


Source: Moneyfacts

The number of new loans originated is still relatively small and the number of products available is much fewer than pre-crisis levels. The securitisation market – a vital means of securing investment for property loans – has only recently reopened. At the end of 2011, Paragon completed the first securitisation since the credit crunch shut off capital markets and several other lenders have followed suit.

We don't see the wider outlook improving in the near future. Confidence remains weak and it is likely that there will be further shocks in the Eurozone that will impact both on the global financial markets and also on the UK economy. However, we don't envisage the UK buy-to-let market and the PRS becoming a source of instability. As a lender we ensure that all loans have strong credit credentials with excellent affordability.

However, it is important that regulators continue to take a balanced view of funding models, including securitisation, if buy-to-let is to help the private rented sector grow and meet the high level of demand for rented accommodation.



Source: Reuters

Scotland consults on a strategy for the Scottish private rented sector

The Scottish Government must consider similar issues to the rest of the UK



Paragon welcomes that the starting point for the Scottish Government consultation on the Scottish private rented sector (PRS) is a desire for a sector that can continue to grow while providing flexible and good quality accommodation. Key to this is putting in place an environment that will encourage investment from individual private landlords.

"it is important that there is a consistent approach for investing in the PRS."

It is clear that the trends of growth in the Scottish PRS mirror those in the rest of the UK, and the make-up of the sector is also broadly the same in that it is dominated by individuals, couples or family owners.

Only two per cent of properties in Scotland are owned by institutions.

It is therefore unsurprising that pressures on the sector are the same as in the rest of the UK; namely constrained access to finance, social housing reforms and long-term cultural changes, which mean that the capacity of private rented accommodation is being stretched by demand.

The Scottish Government recognises that the principal fiscal levers to encourage investment – tax treatment for example – remain the responsibility of the UK Parliament and may well be covered by the Montague Review of institutional investment in the PRS.

We believe that whatever happens to Scotland's constitutional status it is important for all parties that there is a consistent approach to financial incentives for investing in the PRS.

The consultation also makes an interesting comment with regard to standards in the sector. The Scottish Government admits that the landlord registration scheme introduced north of the border has become focused on administrative outcomes and not on enforcement by local authorities. This would suggest that registers of landlords do not offer any more effective tools than those that Trading Standards and local authorities already possess, while simply adding to the regulatory burden on landlords.

The consultation notes that its framework of regulation needs to be balanced and fair because there is only a small minority of landlords who act unlawfully but who cause a disproportionate impact to the reputation of the sector as a whole.

Landlords are already governed by over 50 Acts of Parliament and more than 70 sets of regulations and we believe that the UK Government has taken the right approach to enforcement by recognising that adding to the burden does not equal better enforcement of existing rules. We hope that the Scottish Government will follow its Westminster counterparts in committing to a balanced regime that encourages private landlords to invest in the market.

Dwellings in the PRS owned by private landlords

71% in England

84% in Scotland

Source: DCLG / Scottish Government

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