



PRS and buy-to-let trends overview 2013/2014

Welcome to Paragon's buy-to-let and PRS trends report

Much conversation was generated throughout 2013 around the growing potential of a buy-to-let boom. However, despite the attention grabbing headlines, we did not see a boom in the market materialise.

What we have seen is optimism levels increase among landlords, which reached the highest level in 2013 since 2010. This optimism will be key as we progress through 2014, as more investment in the Private Rented Sector (PRS) is crucially needed.

Paragon has been tracking trends in the landlord market and confidence in the intermediary sector for 18 years - monitoring movements, perceptions, business levels and views on the current state of the market and future expectations.

It is important for us to understand how the dynamics of the landlord market have been and are changing, and to see how intermediaries adapt to these changes.

2013 represented another major step in the recovery of buy-to-let lending. Total lending as reported by the Council of Mortgage Lenders (CML) at £20.7 billion, was still little more than 45% of its peak in 2007, and indeed little more than it was in 2003 despite a 40% increase in the scale of the PRS over the intervening 10 years. In short, great progress is being made but lending needs to increase a good deal more if supply is to keep pace with the continuing increase in demand for rented property.

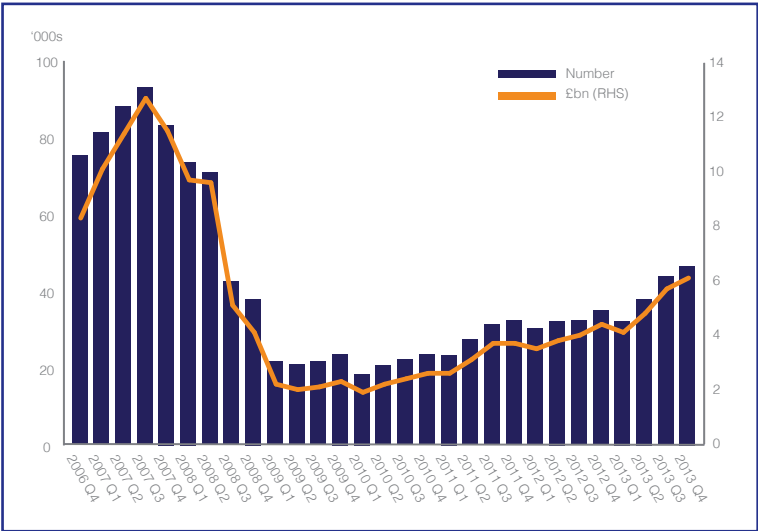
This report gives an overview of what Paragon's landlord customers and intermediary panel thought about activity in the buy-to-let market in 2013, and how they think the market will perform in 2014.



John Heron
Managing Director, Paragon Mortgages



“What we have seen is optimism levels increase among landlords - which has reached the highest level since 2010”



CML: New buy-to-let lending growth



A landlord overview

For many, 2013 was a year of further recovery which revived optimism and confidence in the sector; this positive sentiment was echoed by many Paragon landlords operating in the PRS.

Landlords further invested in their rental portfolios, with investment peaking during the third quarter when landlords reported an average of 14.7 properties. This was also the highest number of properties recorded per landlord since the question was first asked of landlords in 2002. On average, in 12 months' time landlords expect to have 14 properties; this matches the portfolio size landlords reported throughout 2013.

Similarly, the average market value of landlords' investment property portfolios also reached its highest level since 2002. During Q4 2013, the average value reported was £1.68 million. In terms of the net value of landlords' portfolios in the coming 12 months, 61% said that they expect it to stay the same.

A third (33%) said they expect net value to increase and 7% are expecting a decrease.

Large-scale landlords' portfolio value increased steadily throughout the year, reaching £2.1 million in the final quarter.

However, more needs to be done to encourage large-scale landlords to invest more significantly in their rental portfolios, instead of the creation of further red tape. Regulatory development such as Selective Licensing could deter landlords from investing, which will have a negative impact across the PRS.



Key landlord facts

14.7

properties in landlords' portfolios

£1.68 million

average portfolio value

6.4%

average yield

38%

of landlords are more optimistic about their portfolio prospects

67%

of landlords are looking to buy terraced houses in Q1, 2014



Buy-to-let finance, demand and performance

Finance availability

Landlords also appear to be much more optimistic about the availability of buy-to-let finance. The percentage of landlords who felt positive about the availability of buy-to-let finance was at a low in 2010. It began to recover towards the end of 2011, but from Q4 2012 and throughout 2013, the percentage of landlords seeing an improvement increased. In the fourth quarter, 42% of landlords felt that the availability of buy-to-let finance was improving.

After dropping to below 25% in Q3 2012, the percentage of landlords feeling more positive about the level of buy-to-let finance available climbed every quarter during 2013.

Tenant demand and arrears

Whilst tenant demand reached its highest level in Q4 2011 since early 2008, 2013 saw this settle back. However, more than a third (32%) of landlords believe that demand from tenants will increase over the next 12 months.

Looking ahead, Paragon landlords say that in the next 12 months they expect tenant arrears to remain stable, whereas just 11% of landlords thought that arrears levels would increase.

Property purchase

A fifth of the landlords surveyed (21%) said that in the first three months of 2014 they are planning to extend their rental portfolios. Again, this is back to the more positive levels seen in early 2012. Of those looking to purchase, there were no great surprises in their preferred property type, with 67% looking to buy terraced houses and 38% flats or maisonettes. Just 7% are looking to buy HMOs and 12% multi-unit blocks.

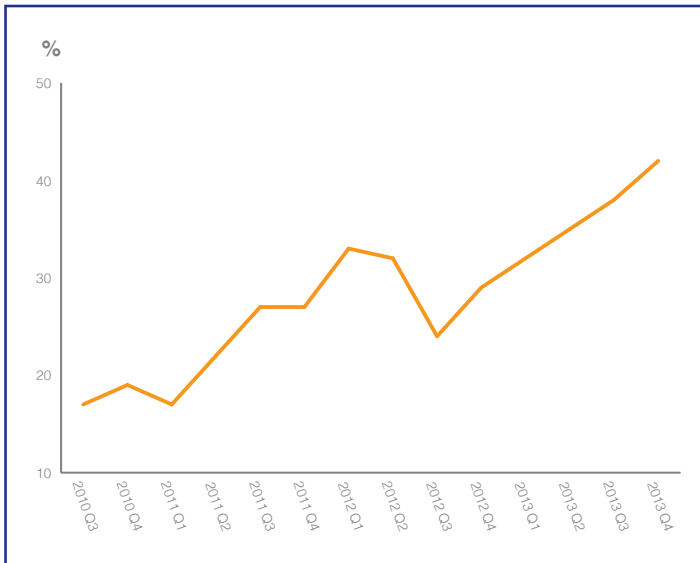
Terraced houses have remained the most popular choice for investment for the past two years, most probably due to their versatility as a rented property, appealing to a wide range of tenant types.



Yields

Yields remained consistent throughout 2013, with an overall average for the year at 6.4%. Small-scale landlords (those with between one and five properties) achieved an average yield of 5.2% whilst large-scale landlords achieved 6.6%.

In 12 months' time large-scale landlords expect to generate an average gross yield of 6.5% and small-scale landlords 5.1%.



Percentage of landlords seeing an improvement in the availability of buy-to-let finance



Intermediary overview

A key component of the buy-to-let market is the role played by intermediaries, who have been instrumental in sourcing finance for landlords since the inception of buy-to-let 18 years ago.

The Paragon Mortgages Financial Adviser Tracking Index (FACT) tracks key trends in the intermediary market.

The Q4 2013 survey of 200 intermediaries showed an increase in the number of mortgage applications each office generated. In fact, there has been a clear upward trend since late 2009 when it dipped to the lowest level since the survey began in 1995.

From 1995 to 2000 the number of all mortgages introduced to lenders by our intermediary panel in the quarter was between 22 and 28. Levels increased from 2001 and hit 30 plus in early 2007. In late 2007, case levels dropped significantly. This puts into context the improvement in the amount of cases processed by intermediaries during 2013. Intermediaries are clearly getting busier but we are still some way off the levels of productivity seen in the mid-2000s.

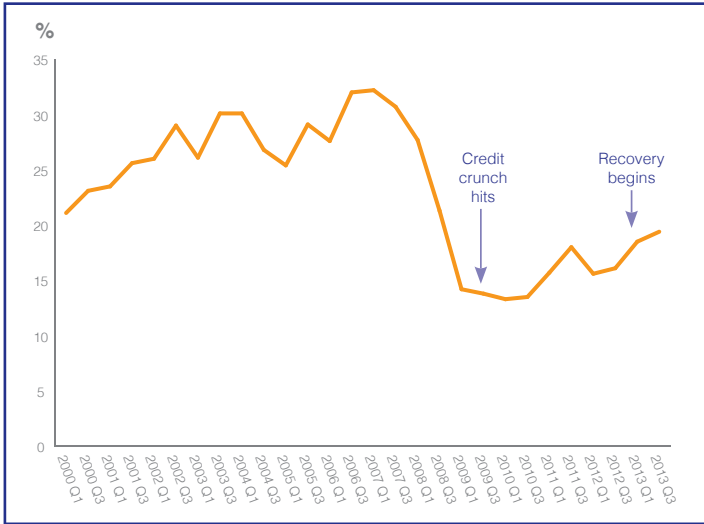
Number of mortgage cases increase

Over the past year the percentage of intermediaries' mortgage cases from landlord customers has remained consistent, ranging from 22% to 21%. In terms of other mortgage business, first-time buyers remained at a lower level than other client types - reaching 17% of business in Q4. Clients looking to remortgage continued to provide the highest percentage of business, at 34% in Q4.

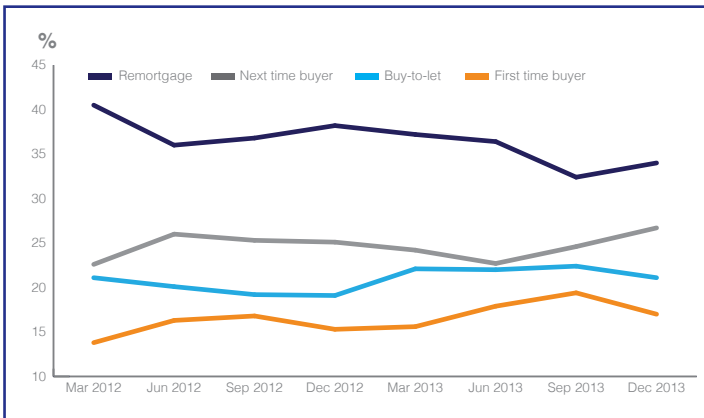
When asked how much more total mortgage business intermediaries expect to do in Q1 2014 in comparison with Q4, responses show an anticipated increase of 5.1%.

We have seen the expected change in mortgage business increase slowly but steadily during 2013, suggesting that intermediaries are cautiously optimistic.





Percentage increase in all mortgage business



Borrower types - percentage of cases



Business levels and landlord demand

Type of landlords

The percentage of buy-to-let business coming from first-time landlords peaked for 2013 in Q3, with 27% of intermediaries' buy-to-let business coming from new landlords. Cases from first-time landlords dropped to an all-time low in Q4 2008 to just 10%. The percentage of cases fluctuated marginally in 2010, but really gained momentum in 2012 and 2013. Whilst this area is recovering it certainly isn't at the level it was between 2001 and 2004, where in 2002 levels reached 42%.

In terms of the purpose of loans, portfolio extension has been the main reason for obtaining a buy-to-let mortgage during 2013; increasing from 33% of cases in Q1 to 39% in Q4.

Intermediaries have seen landlord demand begin to stabilise over 2013, with 48% saying that over the next three months demand will remain stable. However, further growth is still expected with 41% saying that demand will remain strong.

Expectations for 2014

Looking ahead to 2014, it is clear that intermediaries are expecting an increase in mortgage business more generally. However, they also appear to be more optimistic about the amount of buy-to-let business they will process for landlord customers.

Intermediaries have highlighted rental demand, property prices, buy-to-let finance availability and interest rates as being the most important factors in the amount of buy-to-let mortgage business they complete in 2014. Whereas, the performance of the residential housing market and the general state of the economy were seen as slightly less important for the next 12 months.



About us

Paragon Group

The Paragon Group of Companies PLC is a FTSE 250 business, consisting of several specialist companies. The Group is divided into three main areas: lending, acquiring and servicing loan portfolios.

The Group has 380,000 live customer accounts under management and has serviced over one million customer accounts during its history.

Paragon Mortgages

Paragon Mortgages caters primarily for large-scale, professional landlords with extensive portfolios who require bespoke services. We have particular expertise in this area of the market and in dealing with landlord customers who need a more tailored approach.

Under our Mortgage Trust brand we provide buy-to-let mortgages for small-scale landlords with between one and five properties in their portfolio. Applications are made exclusively via the Mortgage Trust website providing customers with a quick response to their application.

Paragon is proud to be a member of the Council of Mortgage Lenders, the Intermediary Mortgage Lenders Association, the Association of Residential Letting Agents' lenders panel, the National Landlords Association and the Finance & Leasing Association.

Paragon Bank

Paragon Bank, a British bank built on good old fashioned, common sense principles, launched in February 2014 after being granted a banking licence by the Prudential Regulation Authority

Benefitting from the Group's strong heritage as a low-cost specialist mortgage and consumer finance lender, Paragon Bank will bring choice and competition to UK consumers.

The Bank will operate from headquarters in Solihull and will employ market leading technology to deliver lending products through established intermediary channels and via the growing use of the internet for its savings products.



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