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Q3 2017 HIGHLIGHTS

- Landlord morale remains low despite stable performance indicators
- Average portfolio size remains at 13 properties
- Void periods still 2.7 weeks
- 30% of landlords may be discouraged from using letting agents as a result of a ban on tenant fees

BUY-TO-LET MARKET STABLE

DESPITE LOW LEVELS OF CONFIDENCE

Confidence has been in short supply in the landlord community, due to the multiple challenges they have faced. However, another common theme has been stability in the face of adversity, and once again our Trends survey suggests that rental portfolios are performing better than landlord sentiment would suggest.

Despite landlords continuing to indicate low levels of confidence, rating overall prospects for the Private Rented Sector (PRS) in the next 12 months at 6.3 out of ten for the second successive quarter, key performance indicators appear to have remained stable again in Q3 2017.

The average portfolio size is still 13 properties, average void periods are still no more than 2.7 weeks, and the

downward trend in tenant demand from earlier in the year appears to have been arrested, with 30% of landlords saying demand is 'growing' or 'booming' also unchanged in Q3.

Q3 data shows a widening gap between landlords intending to purchase buy-to-let property (7%) and those planning to sell (19%) over the next quarter. However, the average portfolio size of 13 has held over the long-term, further suggesting a positive disparity between sentiment and performance.

We expect to see continued uncertainty right up until 2021, as the results of the phased changes to tax relief continue to be felt. But these long-term trends indicate a resilient PRS.

Of particular interest this quarter is a substantial proportion – 30% – of landlords suggesting they may be discouraged from letting property via an agent or third party if landlord fees were to increase as a result of a ban on tenant fees.

73% of landlords currently use an agent or third party to let some or all of their properties. Of those, 12% said they would ‘definitely’ be discouraged from doing so if landlord fees were to increase as a result of a ban on tenant fees, with 18% answering ‘probably’.

The report also revealed 27% of landlords do not use an agent or third party to let any of their properties, and it is interesting to learn that, of those landlords, more than eight out of ten (84%) do not charge any tenant fees.

In the midst of ongoing turbulence in the PRS, landlords have already had to navigate through challenging policy changes, and rethink their strategies accordingly.

An increase in landlord fees as a result of a ban on tenant fees would be the latest in a succession of challenges and it’s unsurprising to learn that a substantial number of landlords might consider altering their approach to letting out their properties in that circumstance.



**Rental portfolios
are outperforming
landlord sentiment**



OUR LANDLORD PANEL

Our panel is an experienced group of buy-to-let landlords, with 85% of the 202 surveyed for this report having been landlords for more than ten years, and 38% for more than 20 years. Two thirds (66%) of the landlords surveyed in Q3 2017 are classed as professional – owning three or more properties – and our sample is an accurate reflection of both the rented residential sector and Paragon’s customer base of residential landlords.



85%

LANDLORDS
FOR 10 YEARS +



35%

LANDLORDS
FOR 20 YEARS +



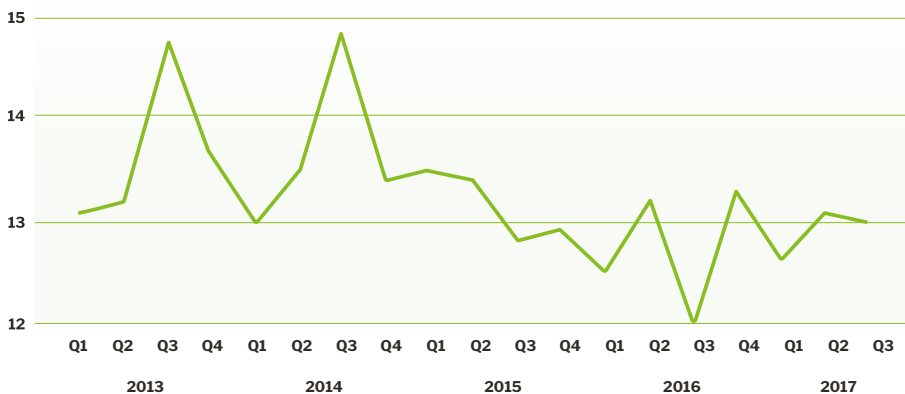
66%

OWNING THREE OR
MORE PROPERTIES

PORTFOLIO SIZE

The size of the average portfolio in Q3 2017 is stable at 13 properties, unchanged from the previous three quarters and consistent with the long-term average. Landlords have indicated they do not expect their property portfolios to change in size over the next 12 months.

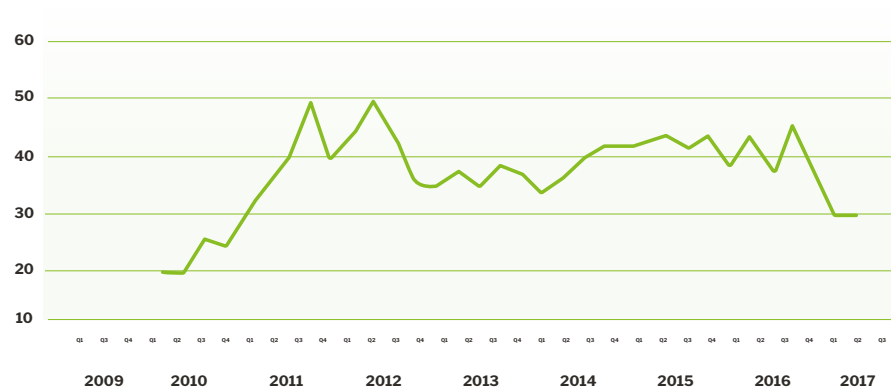
Average number of rented residential properties in potrtfolio



TENANT DEMAND

Tenant demand remained stable on Q3 following declines in the previous two quarters, with 30% of landlords saying demand is 'growing' or 'booming', down from 45% nine months ago. More than half (53%) of landlords believe tenant demand is stable.

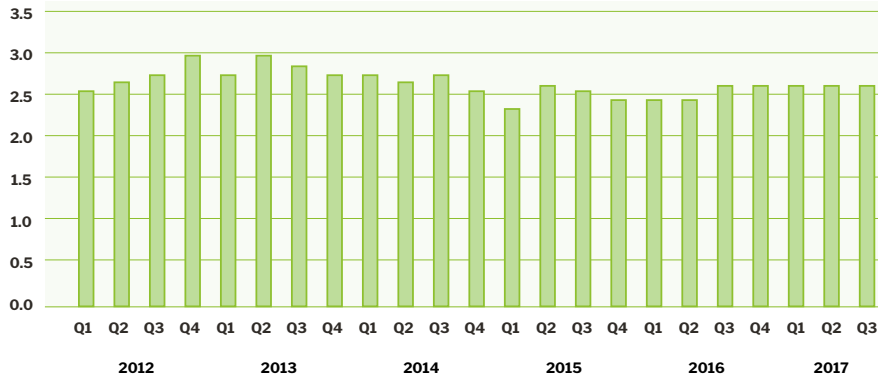
Proportion of landlords saying tenant demand is 'growing' or 'booming'



VOID PERIODS

The average void period remained stable again in Q3 2017 at 2.7 weeks. This has now held level for over a year, and is consistent with the long-term average over the past six years, adding further evidence that the balance between the supply of property to the PRS and tenant demand is finely balanced.

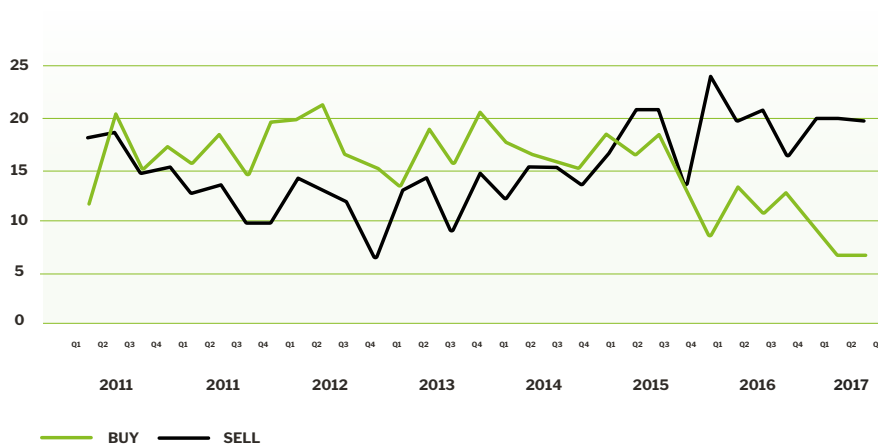
Average void period



BUYING VS. SELLING EXPECTATIONS

Q3 data shows a widening gap between landlords intending to purchase buy-to-let property (7%) and those planning to sell (19%) over the next quarter. However, average portfolio size has remained stable at 13 properties in the long term, suggesting a positive disparity between sentiment and performance.

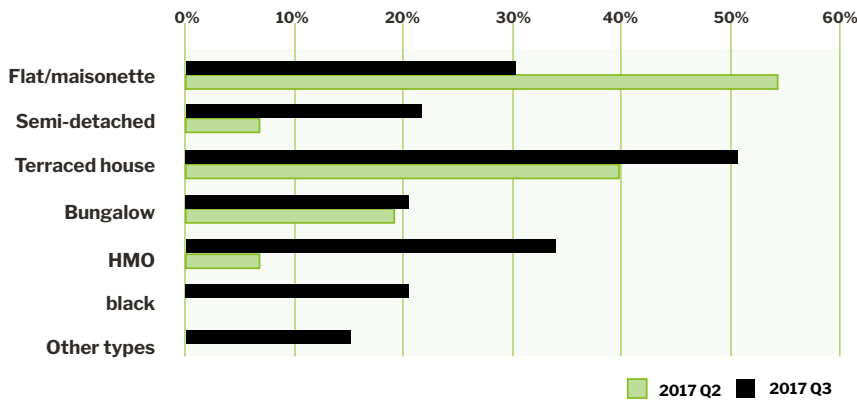
Proportion of landlords expecting to buy and sell property in the next quarter



PROPERTY TYPES

Amongst landlords expecting to purchase buy-to-let property in Q4 2017, the most common type of property is flat/maisonette, with over half (55%) indicating this as most likely. There is a marked decrease in landlords expecting to purchase HMOs in Q4, down to just 7% from 34% in Q2.

Type of property expected to purchase

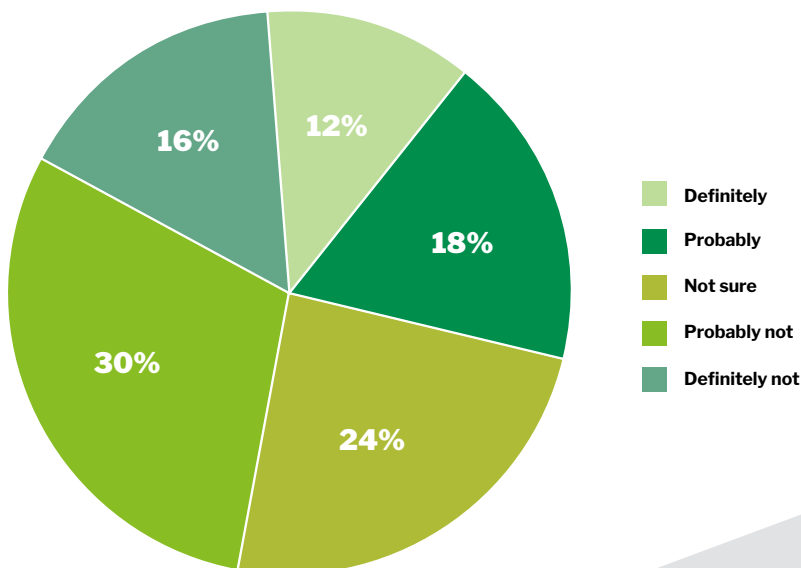


LANDLORD / TENANT FEES

73% of landlords currently use an agent or third party to let some or all of their properties. Of those, 12% said they would 'definitely' be discouraged from doing so if landlord fees were to increase as a result of a ban on tenant fees, with 18% answering 'probably'.

The majority of landlords (46% – 16% 'definitely', 30% 'probably') who use an agent or third party said they would not be discouraged from doing so. 27% of landlords do not use an agent or third party to let any of their properties. Of those, more than eight out of ten (84%) do not charge any tenant fees, whilst just 16% do.

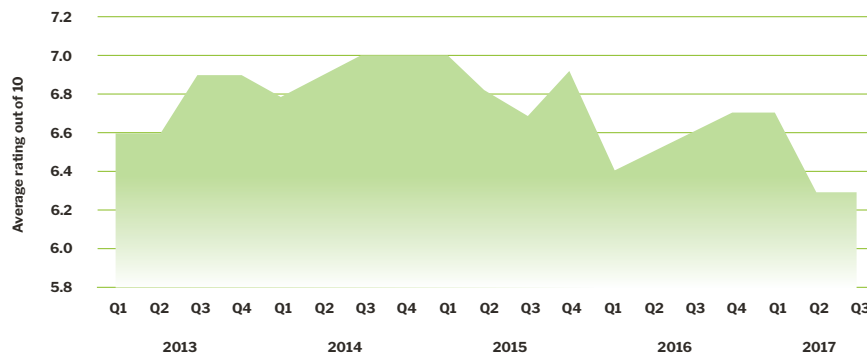
Proportion of landlords discouraged from using an agent or third party if landlord fees increased as a result of a ban on tenant fees



OVERALL PROSPECTS FOR THE PRS

Following a sustained upward trend in the year between Q1 2016 and Q1 2017, optimism in Q2 2017 decreased from a score of 6.7 out of ten to 6.3 and this has remained stable in Q3 2017. This maintains the lowest recorded figure since we began tracking overall prospects for the PRS in the following 12 months, in Q1 2012.

Overall prospect for the PRS in next 12 months



ABOUT

Paragon is a leading provider of buy-to-let mortgages for landlords with property portfolios, both big and small, through its portfolio and non-portfolio range.

Paragon lends to private individuals and limited companies and has mortgages suitable for single, self-contained properties, as well as HMOs and multi-unit blocks. Paragon can accommodate higher aggregate lending limits and more complex letting arrangements including local authority leases and corporate leases along with standard ASTs.

Paragon introduced its first product aimed at the professional property investor in 1995 and is a member of UK Finance, the Intermediary Mortgage Lenders Association (IMLA), National Landlords Association (NLA) and the Association of Residential Letting Agents (ARLA).

Paragon Bank PLC a subsidiary of the Paragon Banking Group PLC which is a FTSE 250 company based in Solihull in the West Midlands. Established in

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