

# PRS Trends

—● Q2 2023



paragon



**The past 12 to 18 months have seen economic volatility not experienced since the Global Financial Crisis of the late 2000s.**

The impact has been felt in many aspects of our lives, but mainly in our pockets as stubborn inflation sticks around. The Bank of England's main mechanism for tackling inflation is its Base Rate and mortgage pricing across the board has increased as financial markets expect the Bank to keep rates higher for longer.

The survey work for this latest PRS Trends was conducted amidst a frenzied media environment and landlord sentiment is, on the whole, negative. However, there is a difference between how a landlord feels about the world and how their portfolio is performing, and in the latter we see signs of resilience.

During the time since the previous PRS Trends report investment in privately rented homes has crept up, while

divestment has reduced. Additionally, a record proportion of landlords who intend to buy in the next year will do so via a Limited Company structure, suggesting that portfolio landlords remain active.

Yields achieved by landlords have stabilised too, whilst arrears levels remain steady, as they have done over the past five to six years.

Linked to these measures is demand, a key metric for almost all businesses and something that the PRS has in abundance. We've reported record levels of tenant demand in previous editions of PRS Trends and this has continued into the second half of the year.

With the need for privately rented homes not met by supply, investment in the sector is vital so we need landlords to feel confident in the future of their lettings business, the sector and economy more broadly. I'm reassured by experience showing that instead of any real cause

for concern, any depression of sentiment is temporary and influenced by the broader feeling of doom and gloom that many of us have also been impacted by.

Supporting this, landlords have told us that they anticipate continuing to run lettings businesses for over nine years on average, more amongst the landlords who have built large portfolios over a number of years and have experienced previous periods of economic instability.

Like our landlords, we also remain committed and will continue to support the sector to provide good quality homes for the millions of tenants who rely on them.

**Richard Rowntree**  
Managing Director for Mortgages



# Portfolios

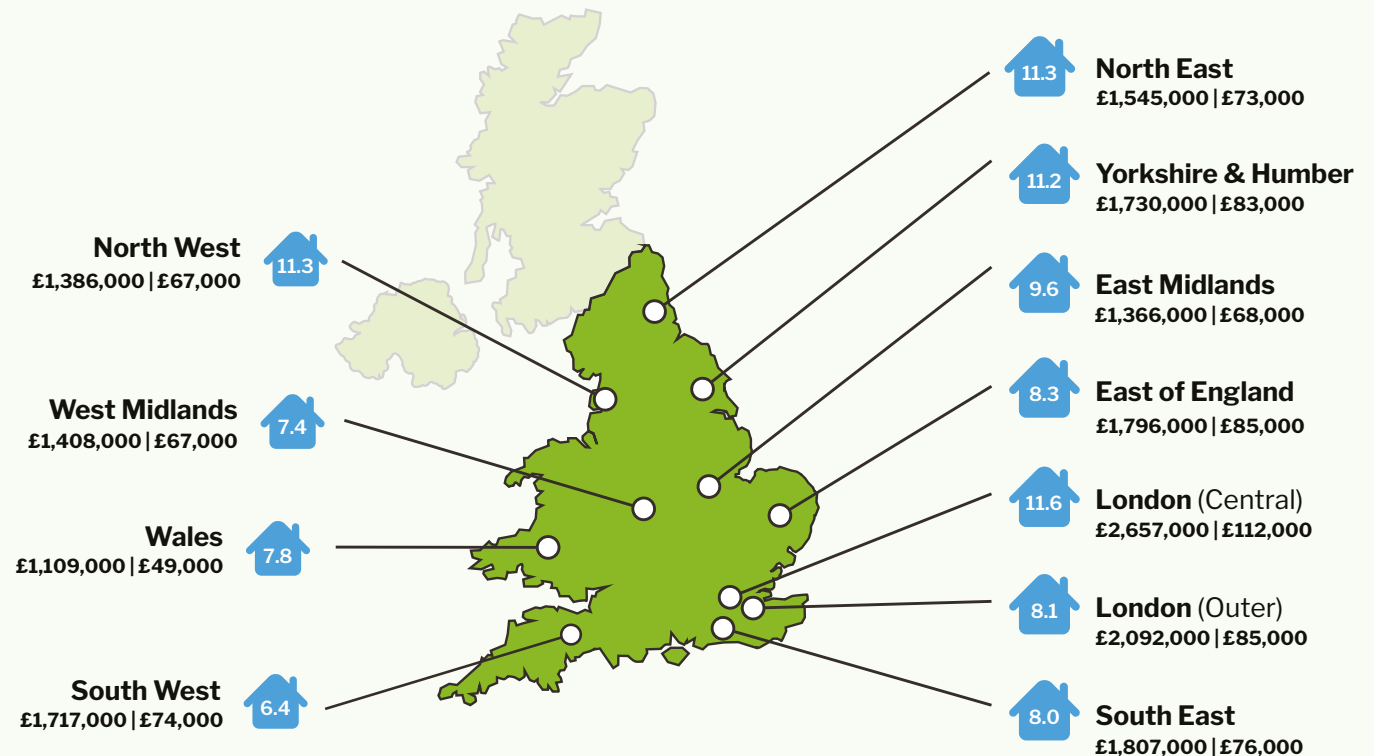
The typical portfolio has increased from 7.6 properties in Q1 2023 to 8.6 properties this quarter, the highest since Q1 2020. Although landlord investment is influenced by a number of variables, it is hypothesised that this growth is, in part, driven by larger, experienced landlords purchasing homes from those who are selling their single buy-to-let property and exiting the sector.

Alongside this growth in portfolio sizes, the average number of tenancies each landlord houses has also risen during the period, increasing from 9.6 in Q1 2023 to 10.5 in Q2 2023.

The typical portfolio is valued at £1.65 million, following an increase of approximately £100,000 since the previous quarter. When averaged across the 8.6 properties that make up the typical portfolio, this results in the typical rental property being valued at £191,860, a reduction of £12,219 since Q1 2023.

Since the last quarter, gross rental income has increased by £1,000 so each let typically generates £687 a month or £8,256 annually.

## Portfolio value & gross annual rental income levels by region



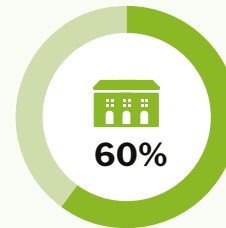
Consistent with previous editions of PRS Trends, terraced houses are the property type most commonly owned by buy-to-let landlords, with six in 10 having at least one in their portfolios, up from 56% last quarter.

Half of those surveyed stated that they own at least one individual flat, making them the second most popular buy-to-let investment type. Semi-detached houses are also a predominant property type, with 44% of landlords reporting owning at least one.

Landlords are significantly less likely to target other types of property that sit outside of these core, traditional investments, with 18% operating Houses in Multiple Occupation (HMO) and a similar proportion, 16% and 14%, owning detached houses and Multi-Unit Blocks of flats (MUB).

Ownership of HMOs is more prevalent amongst landlords with between 11 and 19 properties in their portfolios (41%), whilst MUBs are owned by 51% of landlords who have portfolios of more than 20 properties.

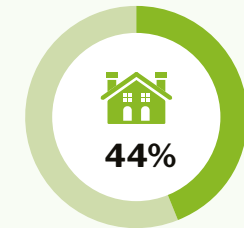
### Type of property owned



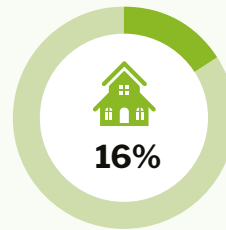
**Terraced house**



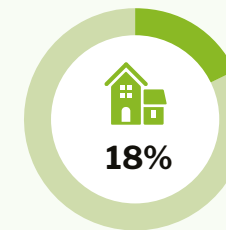
**Flats – Individual units**



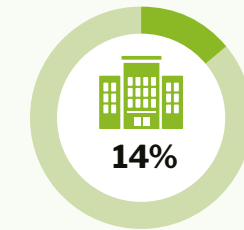
**Semi-detached house**



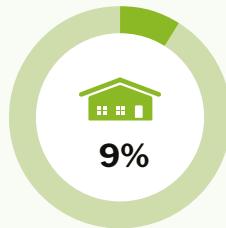
**Detached house**



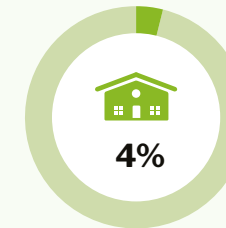
**HMO  
House in Multiple  
Occupation**



**Flats – Multi unit block**



**Bungalow**



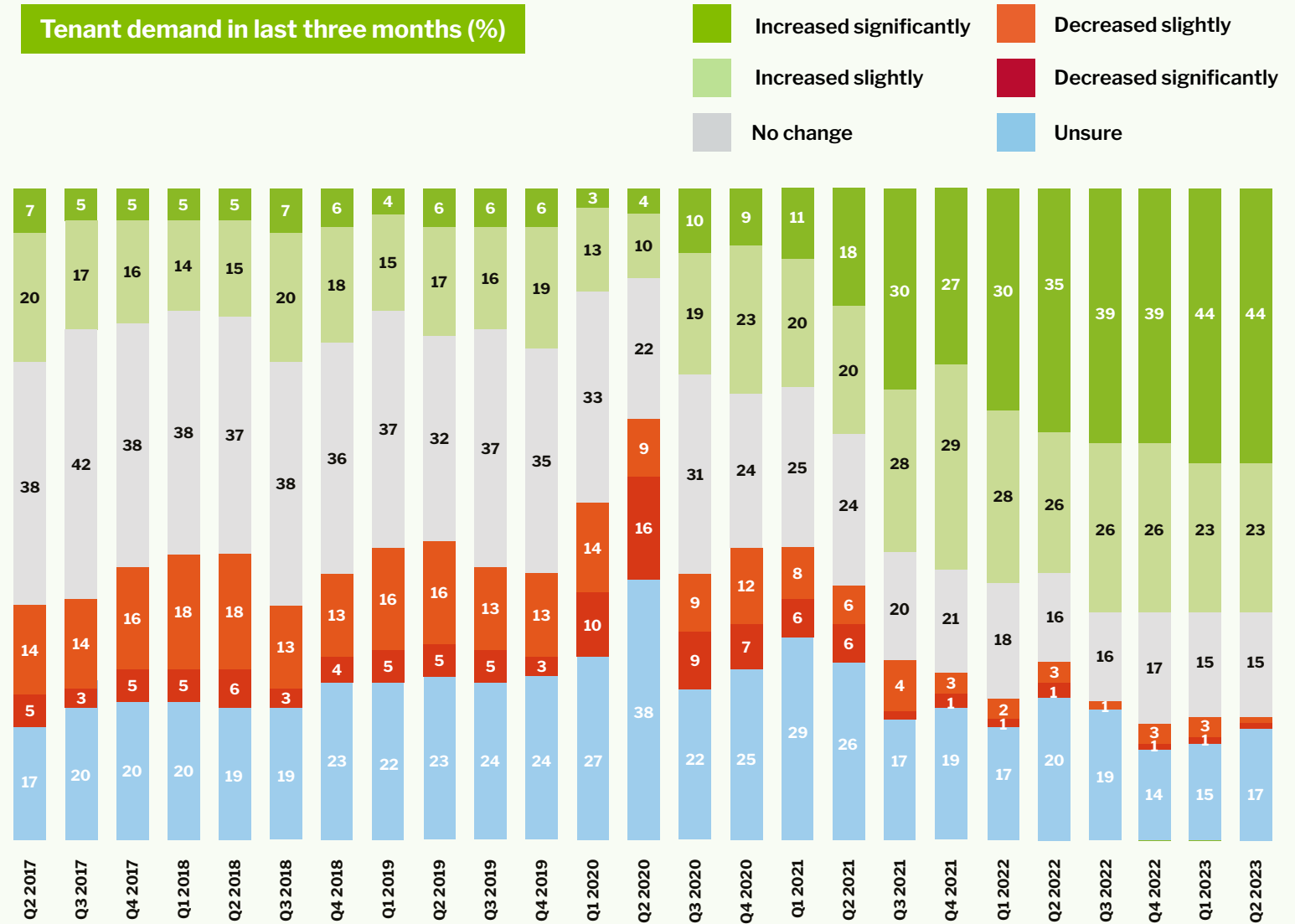
**Short-term / Holiday lets**

# Tenant demand

Last quarter's all-time high of 67% of landlords reporting increased tenant demand during the previous three months has continued into Q2 2023.

While the same proportion of landlords reported that demand had either increased significantly or slightly compared to Q1 2023, there was a small drop from 3% to 1% in the proportion who had experienced slight decreases in demand.

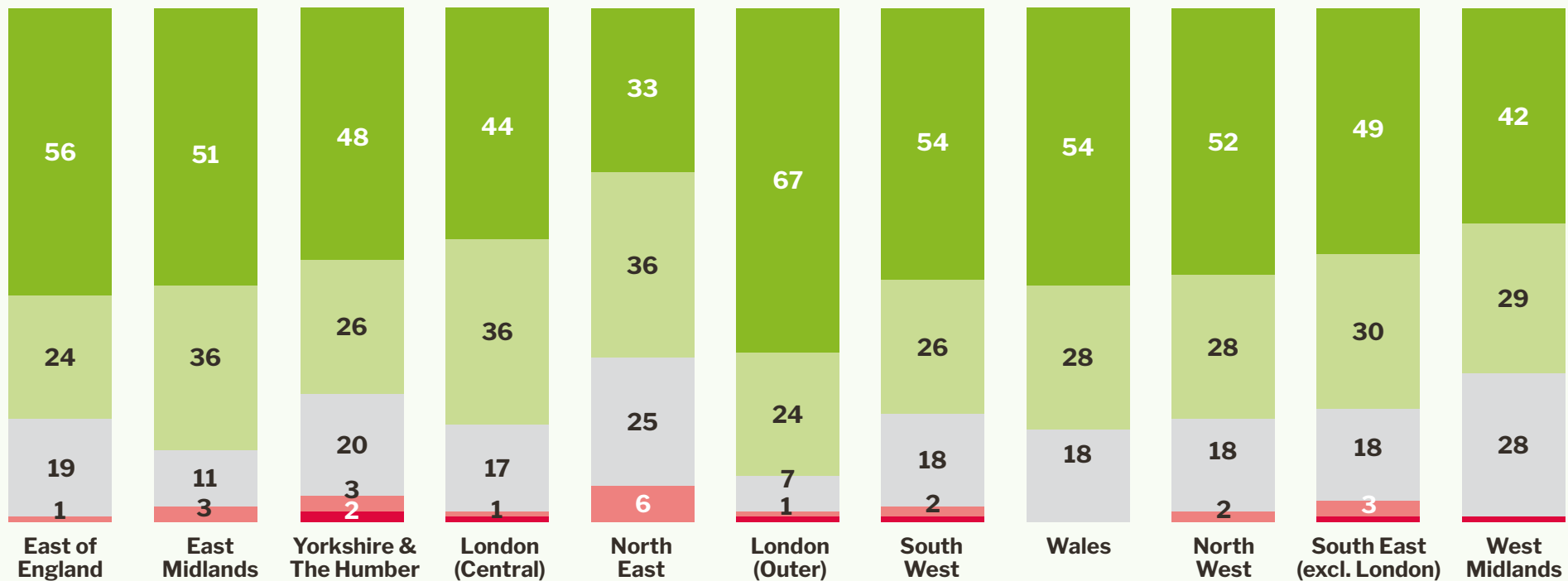
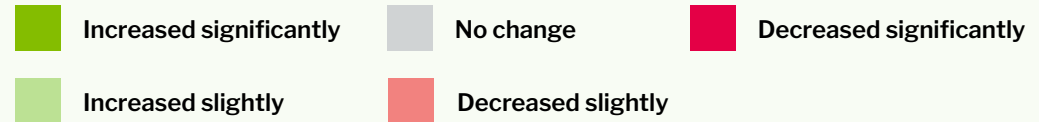
Tenant demand in last three months (%)



The highest levels of tenant demand during the last three months have been reported by landlords in outer London, where 91% of landlords reported rising demand, up from 81% detailed in Q1.

In the East Midlands, 86% of landlords reported that demand had increased, 2% more than last quarter to see the region retain its place as the second most in-demand location for privately rented homes.

### Tenant demand in the last three months (%) - Regional



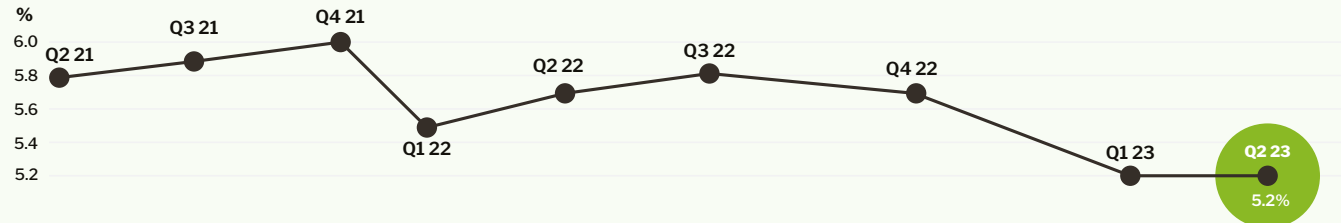
# Yield generation

Average rental yields generated by landlords have remained stable since Q1 2023 at 5.2%.

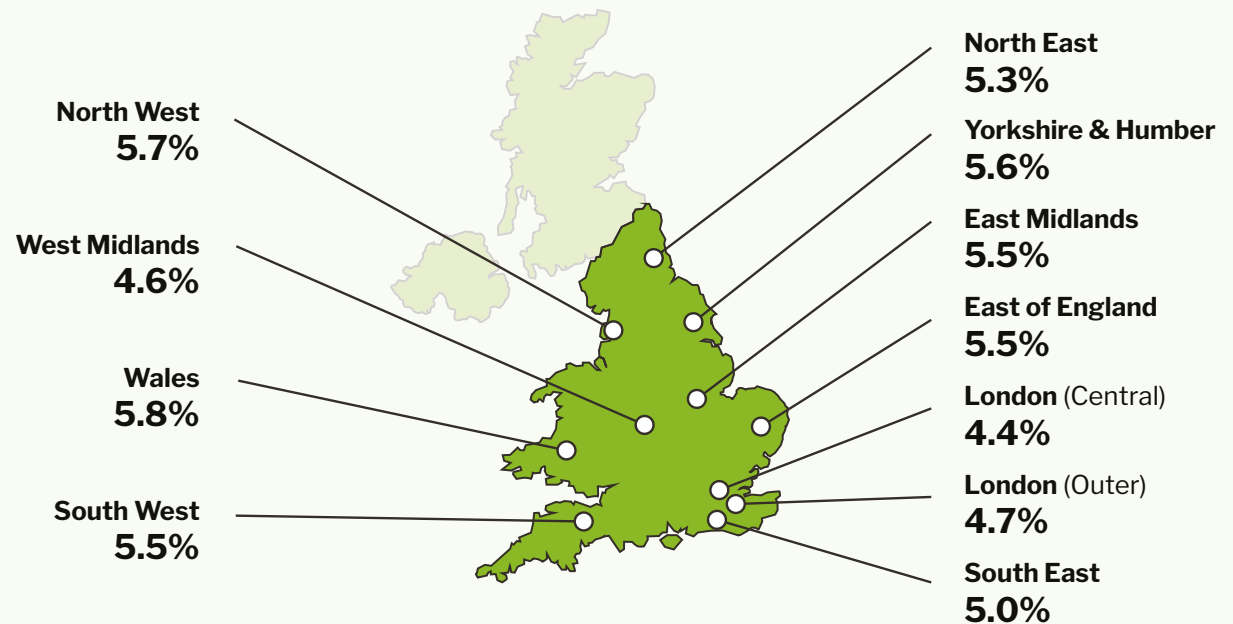
While similar yields were reported by landlords with varying portfolio sizes, noticeably lower returns of 4.3% were reported by single property landlords, while higher yields of 5.9% and 5.6% were seen amongst landlords with between 11-19 and 20 or more properties, respectively.

Splitting the data geographically, the strongest average yields of 5.8 were seen by landlords in Wales, up from 5.0% in Q1 2023. This was closely followed by the North West, where yields of 5.7% were reported following a drop from 6.1% in the three months since the previous edition of PRS Trends.

## Yield generation – historical



## Yield generation – by region



Offering landlords average returns of 6%, the same figure reported in Q1, HMOs continue to be the property type with the strongest yield generation potential. This is tied with MUBs of flats, following an increase from 5.6% last quarter.

Also increasing since the Q1 2023 PRS Trends are yields reported by investors with bungalows and semi-detached houses, up from 5.0% to 5.6% and 5.3% to 5.5% respectively.

Looking at the yields generated by letting to different tenant types highlights how retirees offer the strongest returns of 5.7%, closely followed by older singles and Universal Credit claimants, both at 5.6%.

Despite still sitting above the 5.2% average, yields achieved by landlords letting to students continued to fall. The first quarter of the year saw student lets generate yields of 5.6%, following a drop of 0.9% on Q4 2022, and this has further reduced to 5.3% this wave, marking a year-on-year decrease of 1.5 percentage points.

### Yield generation – by property type



**6.0%**  
HMO



**6.0%**  
Flats – Multi  
unit block



**5.3%**  
Terraced house



**5.3%**  
Detached  
house



**5.5%**  
Semi-detached  
house



**5.3%**  
Flats – Individual  
units



**5.6%**  
Bungalow



# Rising rents

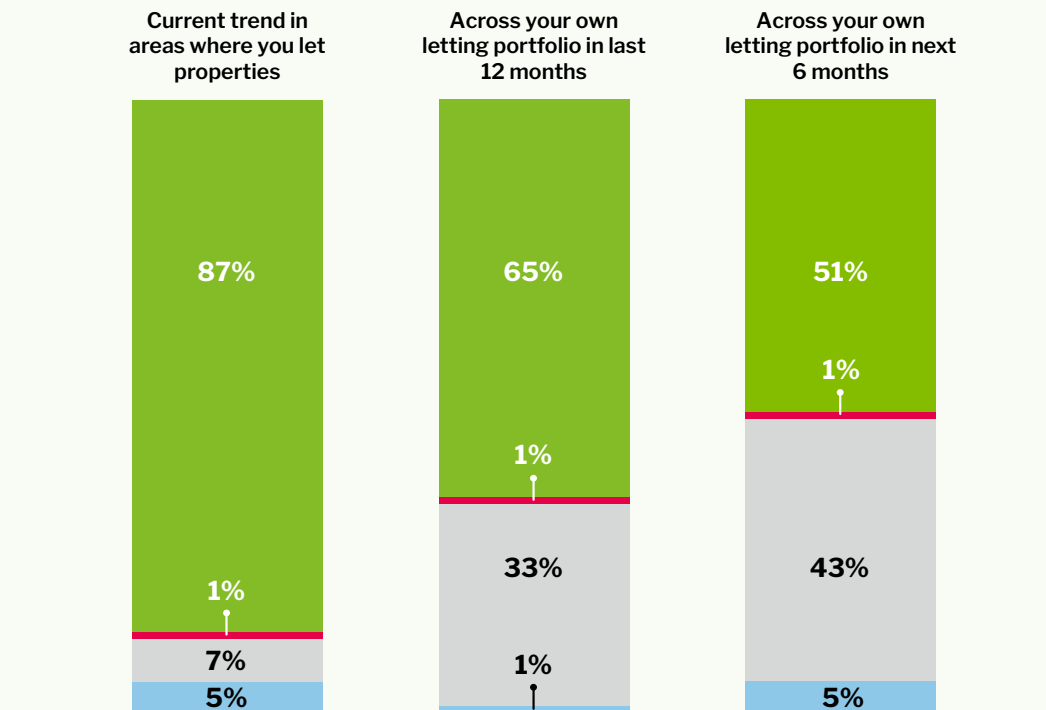
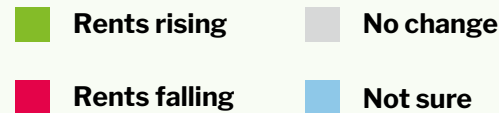
Increasing rent levels were reported by 87% of landlords when looking at the areas where they currently let properties, up from 85% in Q1 2023 and a continuation of a trend seen over the past year. This aligns with the increase in landlords who have increased rents across their own portfolios in the last 12 months, up from 63% last quarter to 65% this time.

The previous edition of PRS Trends highlighted how Wales was the region where rent increases were most likely to be reported by landlords and this has continued, with 94% seeing rental payments rising, up from 90% three months ago.

Reinforcing the link between demand and rising rents, the East Midlands, the region with the second highest levels of tenant demand, also had higher than average levels of rising rents, with 91% of landlords noting an increase.

Just over half of those surveyed, 51%, plan to raise rents in the next six months, a slight drop from 52% last quarter. Average increases of 8.4% are anticipated by those who plan to raise rents in the second half of the year.

## Rents rising or falling?



Covering increases in the cost of running a property continued to be the most commonly cited reason for rent rises planned over the next six months, up by one percentage point since the last quarter to 74%.

Aligning with the local market also continues to play a part in rent increases, with 59% of landlords indicating that this was behind their decision, down from 60% since Q1 2023.



### Reason for rent increase



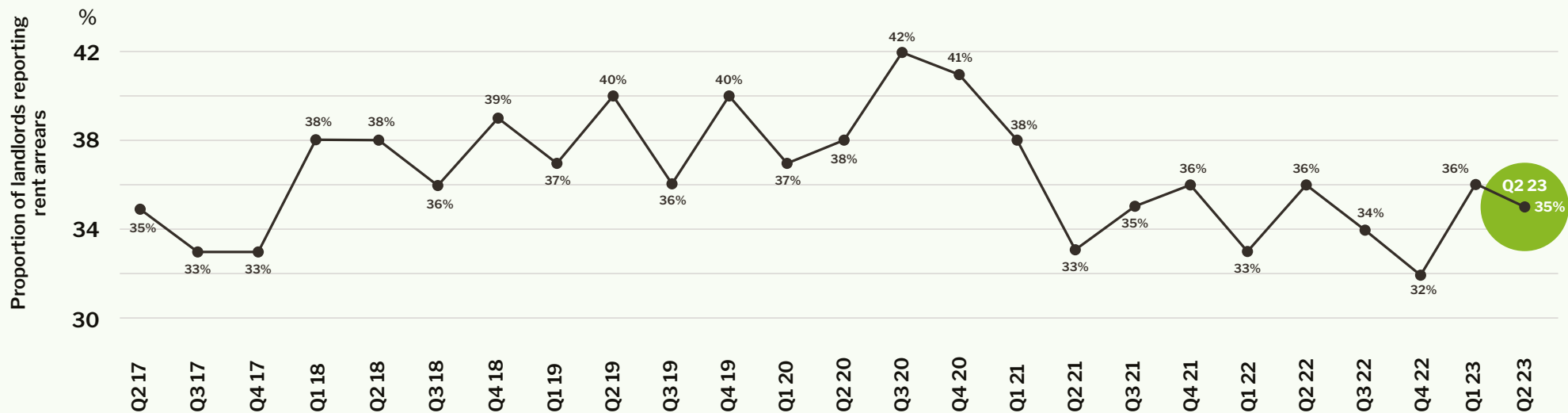
# Rent arrears



There has been a drop of one percentage point, from 36% in Q1 2023 to 35% this quarter, in the incidence of arrears reported by landlords.

Each landlord who stated that they have experienced rental arrears over the past 12 months had an average of 1.7 tenants who had fallen behind on their rental payments, with each owing around £2,200.

## Incidence of arrears in last 12 months

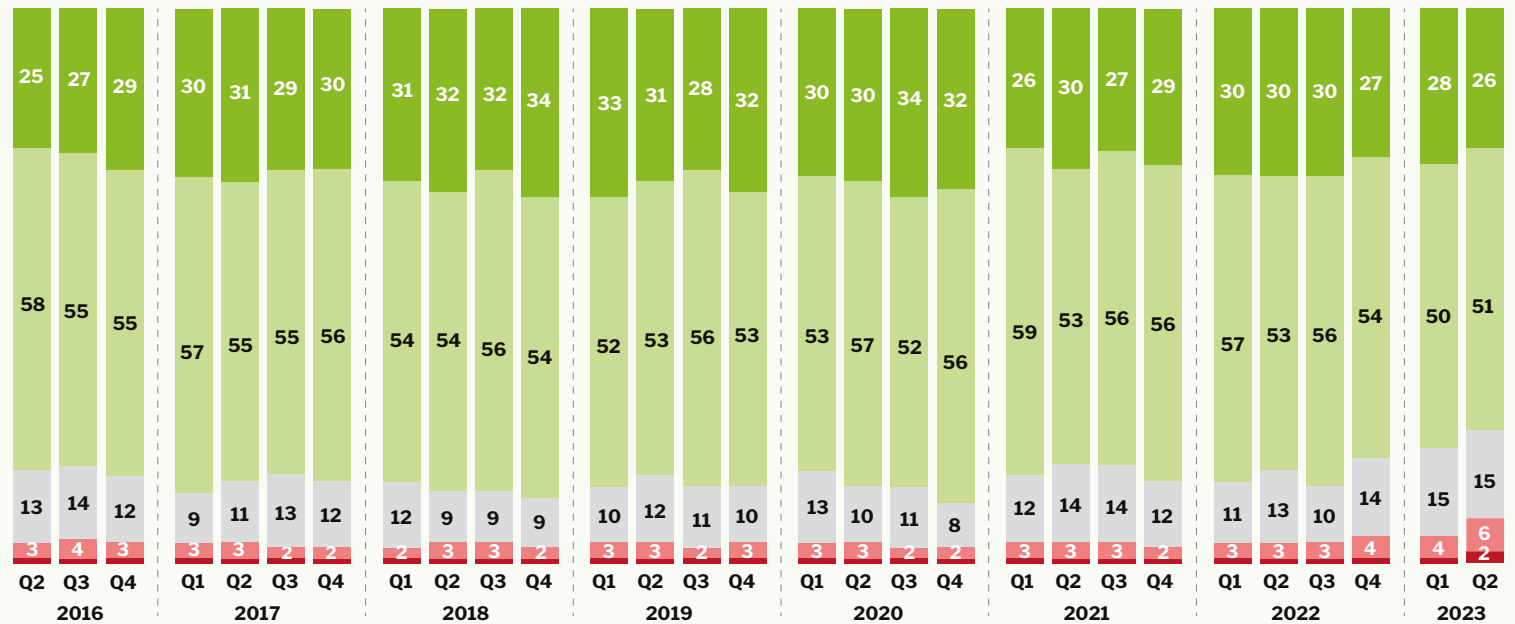


# Profitability

The proportion of landlords making a profit from their lettings operations remained broadly consistent with the previous quarter at 77%, with the proportion also breaking even level at 15%.



## Profitability (%)





# Landlord business expectations

After seeing a slight uptake in the last wave of research, landlord confidence has fallen across all metrics, highlighting noticeably lower levels of optimism compared to the same period a year ago. The timing of fieldwork for this report is likely to have impacted sentiment given it was conducted in a period of high inflation and rising mortgage rates.

Reassuringly however, this reduction in confidence doesn't appear to have a negative impact on long-term investment strategy because landlords expect to remain in the private rented sector for a further 9.4 years on average. There is a sense of uncertainty, however, with 28% of survey respondents currently unsure about the length of time that they will continue operating lettings businesses.

## 9.4 years

**Average time  
landlords intend to  
stay in the PRS sector**

### Landlords rating their expectations for next three months as 'good'/'very good' (%)

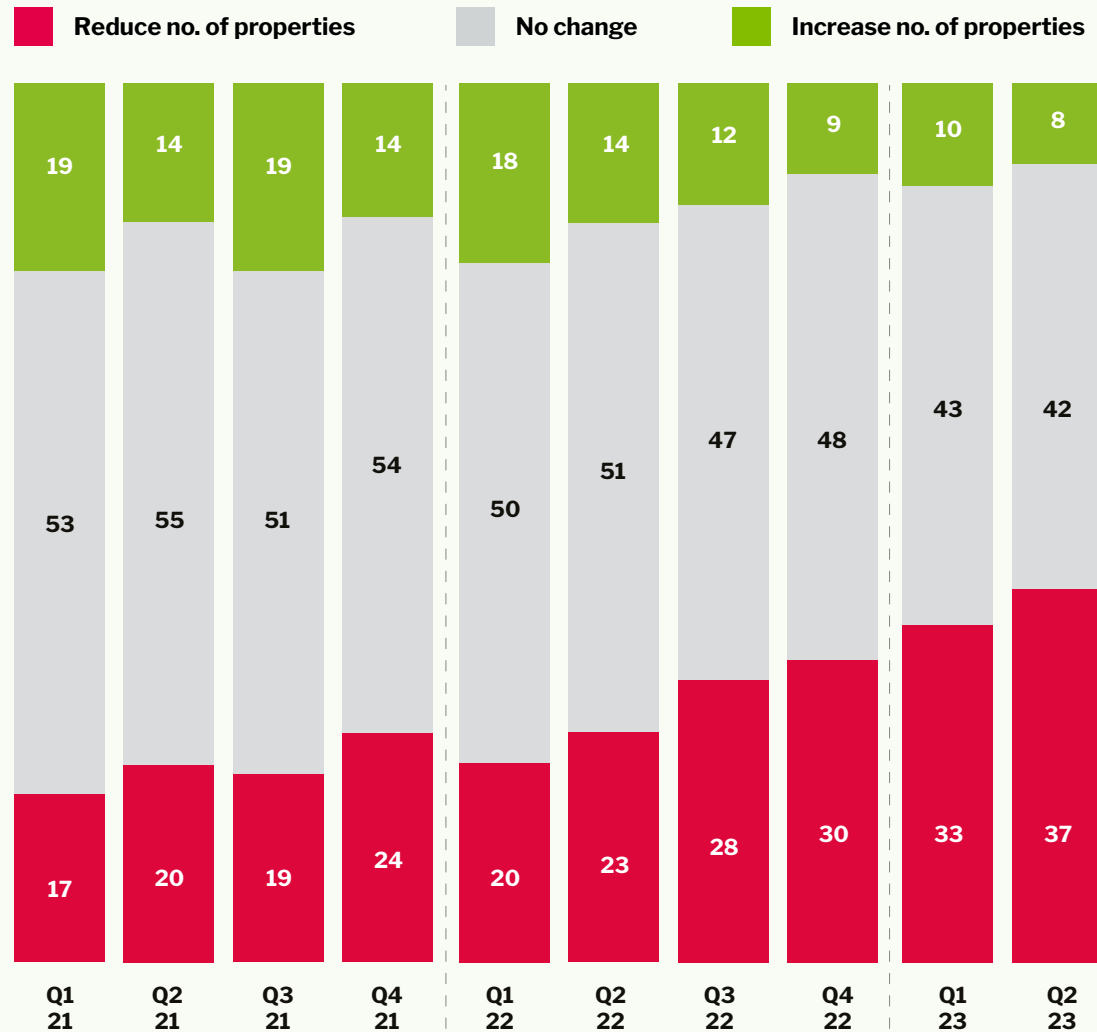


# Portfolio modification

The proportion of landlords purchasing properties during the past three months has increased by one percentage point to 5%, while those selling has fallen by four percentage points to 12%. Those who have invested have bought an average of 2.5 properties each, while landlords who have divested have reduced their portfolios by an average of 1.8 properties.

Planned divestment has increased by four percentage points since last quarter to reach 37%. The proportion of landlords who intend to purchase property in the next 12 months has fallen from 10% last wave to 8% in Q2 2023. This is an average recorded across England and Wales and we do see that landlords in the North East and West Midlands are more likely to invest, with each region having 13% of landlords planning to purchase.

## Landlord portfolio intentions in the next 12 months (%)



# Property purchase strategies

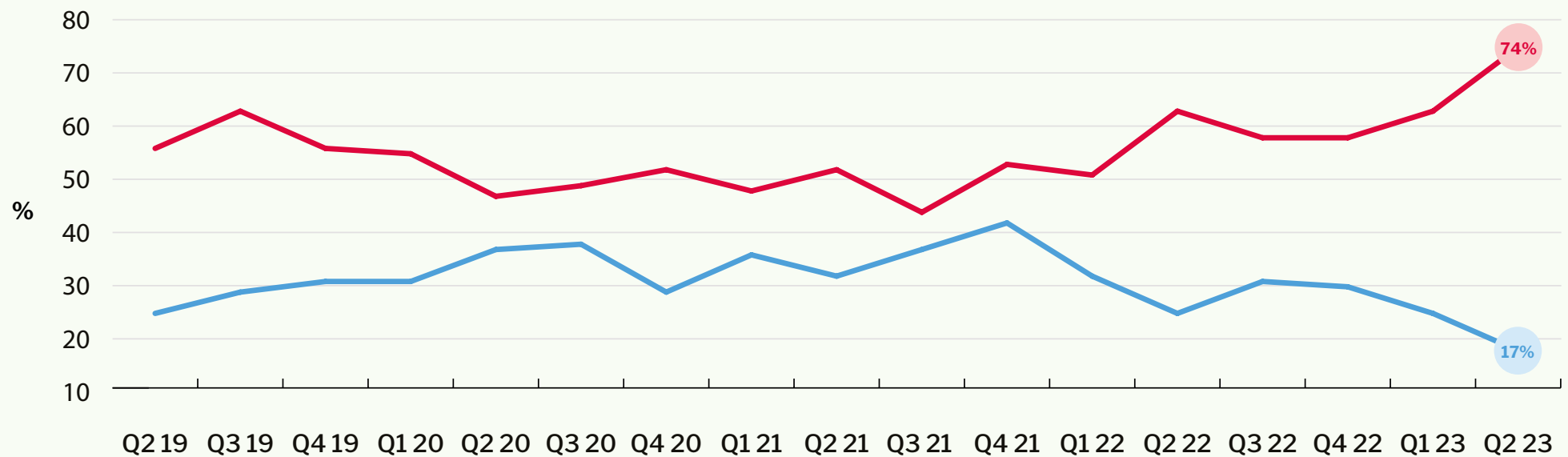
Of those who intend to invest in the next year, almost three quarters (74%) will do so through a limited company structure. This is up from 62% last quarter, the same proportion reported a year ago, and marks an all-time high.

The proportion who plan to purchase as individuals has continued to decline, dropping by seven percentage points to an all-time low of 17%.

Limited company purchase plans are more prevalent amongst larger landlords, with 63% of those with six or more properties expecting to incorporate compared to 37% amongst those with between one and five lets.

## Intent to purchase next property in limited company

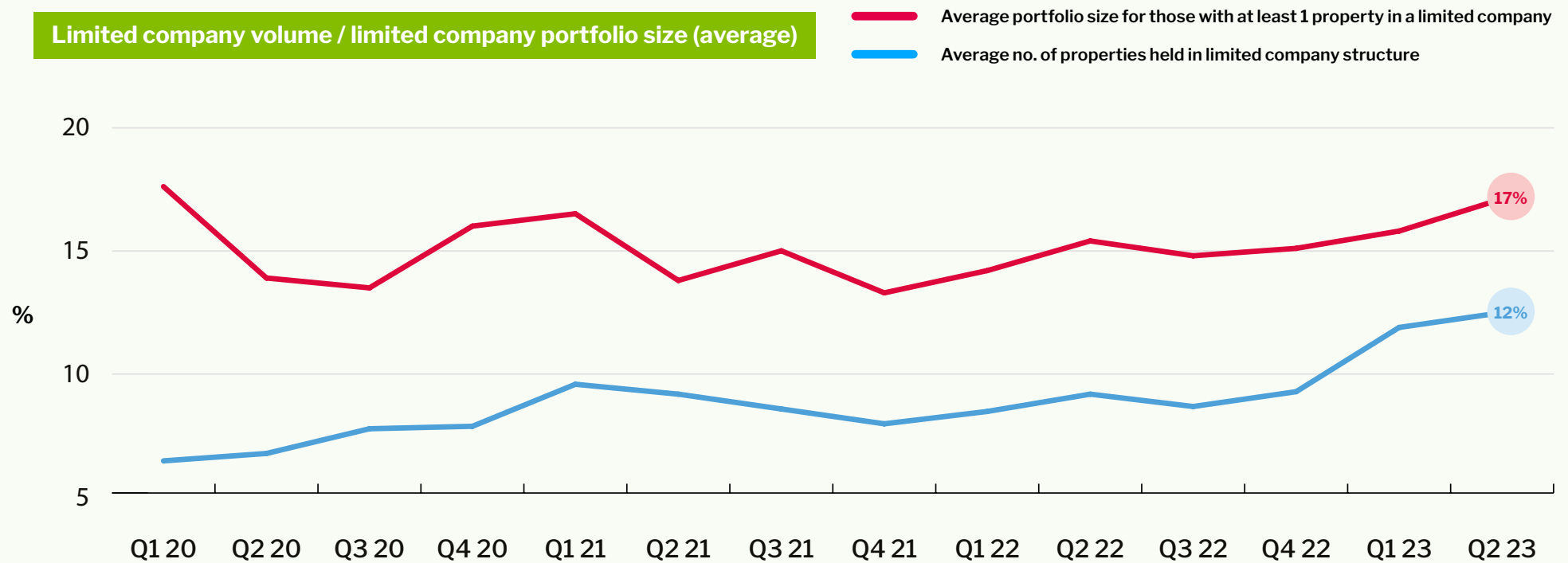
Within a limited company  
As an individual



The research showed the average portfolio size of landlords with at least one property in a Limited Company, as well as the average number of properties held in a Limited Company structure within those portfolios, have increased since the final quarter of 2021, suggesting portfolio landlords remain active purchasers of property.

The average portfolio size for those landlords in the second quarter of the year was 16.9, up from 15.6 in Q1 and 13.1 in the final quarter of 2021. Of those landlords, the average number of properties held within a Limited Company in Q2 was 12.3, up from 11.7 in Q1 2021 and 7.8 in the final quarter of 2021.

### Limited company volume / limited company portfolio size (average)





# Remortgage intention

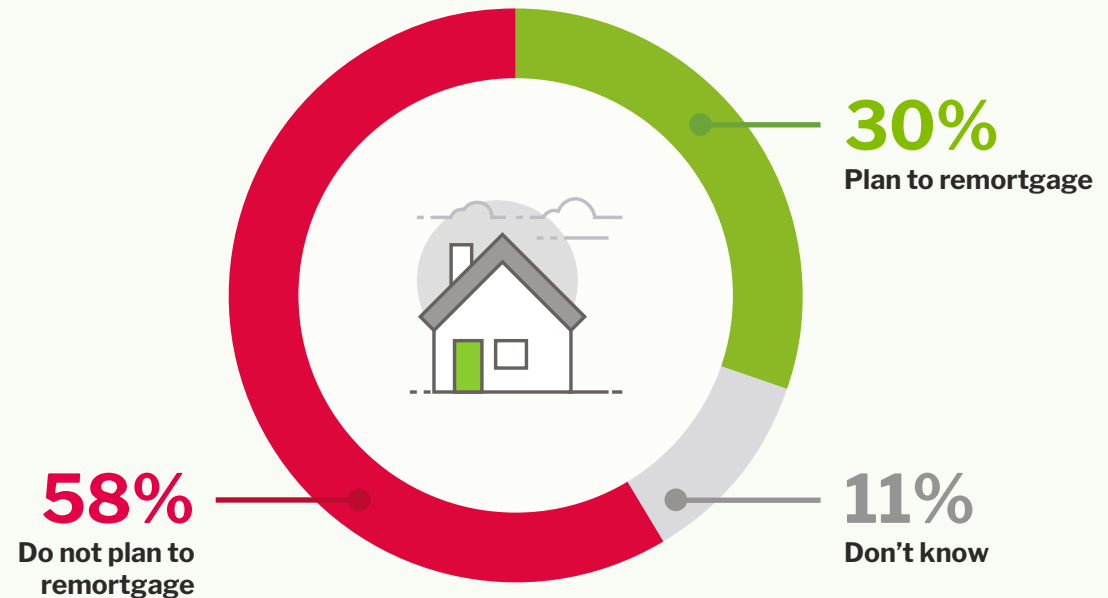
Three in 10 landlords plan to remortgage in the next 12 months, unchanged since last quarter. Remortgage intention is more prevalent amongst landlords with four or more mortgaged buy-to-let properties compared to those with fewer – 42% vs 18%.

Of those who intend to remortgage, 48% expect to select a fixed rate product, compared to 5% who will select a variable rate. Over a third (35%) don't know what type of product they are likely to choose and a further 11% will take advice from a broker.

Landlords have indicated that the most popular term for fixed-rate products is two years, with 27% of remortgagers selecting that option, up from 22% last edition. This was followed by five year terms, which 16% of landlords anticipate utilising when remortgaging, down from 22% in the first quarter of the year. Lower proportions, 3% and 2% respectively, will go for loans fixed for three years or other fixed rate products.

Remortgaging within a limited company remains less popular than purchasing, with the majority of landlords planning to remortgage as an individual, despite a fall of three percentage points to 52% since Q1 2023. Those intending to remortgage within an limited company remains unchanged at 20%.

## Plans to remortgage in the next 12 months



### Rate likely to go for

Fixed (2 year)	27%	Variable	5%
Fixed (3 year)	3%	Don't know	35%
Fixed (5 year)	16%	Will take advice from broker	11%
Fixed (other)	2%		



The Q2 2023 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with 983 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews in July 2023.



[www.paragonbank.co.uk](http://www.paragonbank.co.uk)



[jordan.lott@paragonbank.co.uk](mailto:jordan.lott@paragonbank.co.uk)

BTL0227-001 (08/2023)