



**John Heron**

Managing Director  
Mortgages, Paragon

## Q3 2018 HIGHLIGHTS

- Average market value of property portfolio reaches £1.70 million
- Average portfolio now 6% higher than pre-crisis peak
- Landlords expect portfolio values to soften
- Optimism remains subdued

# PORTFOLIO VALUES PEAK

**Ten years on from the global financial crisis and the average market value of landlords' investment property has reached a record high of £1.70 million.**

The onset of the crisis caused portfolio values to topple, falling 16% from a pre-crisis peak of £1.60 million in Q3 2008 to £1.35 million just six months later.

Far from abandon the market as the storm clouds gathered, our survey shows landlords chose instead to sit tight maintaining an average portfolio size of between 11 and 12 properties all the way through until 2010 when they began, once again, to increase their investment.

Improved availability of finance and a more settled economic picture boosted investment until average portfolio size reached a peak of 14.8 properties in 2014. However, since then, the trend has been distinctly downwards, with the average portfolio size standing at 12.6 properties today.

While it would be understandable to expect record portfolio values to have fed through to a feel-good factor among landlords, what we're seeing is closer to the opposite.

Landlords are less optimistic about the future than at any time since 2010. Just over one in ten (11%) say they feel optimistic about the prospects for their property portfolios and more than two times as many (21%) expect to sell some of their buy-to-let properties than those who plan to buy (9%).

Even assuming landlords maintain their portfolio at its current size, more expect to see a drop in value over the next 12 months than those who anticipate an increase.

Unprecedented tax and regulatory changes have clearly taken their toll. Not only are landlords braced for the initial impact of the phased removal of mortgage interest tax relief in their next tax bill, they also remain on guard for any further, unwelcome changes as we head into Budget season.

The prospect of post-Brexit economic uncertainty is also starting to weigh as negotiations move centre stage ahead of the UK's March 2019 withdrawal deadline.

Despite all this, tenant demand remains robust, with well over 80% of landlords reporting demand as stable, growing or booming. Property voids are also low at 2.9 weeks on average.

The UK's Private Rented Sector is home to one in five households today and RICS predict we will need another 1.8 million rental homes by 2025.

However, if landlords don't begin to feel more optimistic about the future, it's difficult to see where this investment will come from.

**John Heron, Managing Director  
Mortgages, Paragon**

## OUR LANDLORD PANEL

Our panel is an experienced group of 200 buy-to-let landlords, with 87% of those surveyed having been residential landlords for more than ten years and 44% having been involved for more than 20 years.

Three quarters (75%) of landlords surveyed in Q3 2018 are classed as professional – owning three or more properties.



# 87%

LANDLORDS  
FOR 10 YEARS +



# 44%

LANDLORDS  
FOR 20 YEARS +



# 75%

OWNING THREE OR  
MORE PROPERTIES

## PORTFOLIO SIZE

On average, residential landlords have 12.6 properties in their rental portfolio in Q3 2018.

Landlords held portfolios steady at between 11 and 12 properties during the financial crisis, before increasing investment from 2010 through to a peak of 14.9 properties in Q3 2014.

Since then, the overall movement in portfolio size has been downwards.

### Average number of rented residential properties in portfolio



# PORTFOLIO VALUE

Ten years on from the global financial crisis and the average market value of landlords' investment property has reached a record high of £1.70 million.

The onset of the crisis caused portfolio values to topple, falling 16% from a pre-crisis peak of £1.60 million in Q3 2008 all the way down to £1.35 million just six months later.

Portfolio values climbed fairly steadily until 2014, although there has been some significant fluctuation since then.

## Average value of residential property portfolio



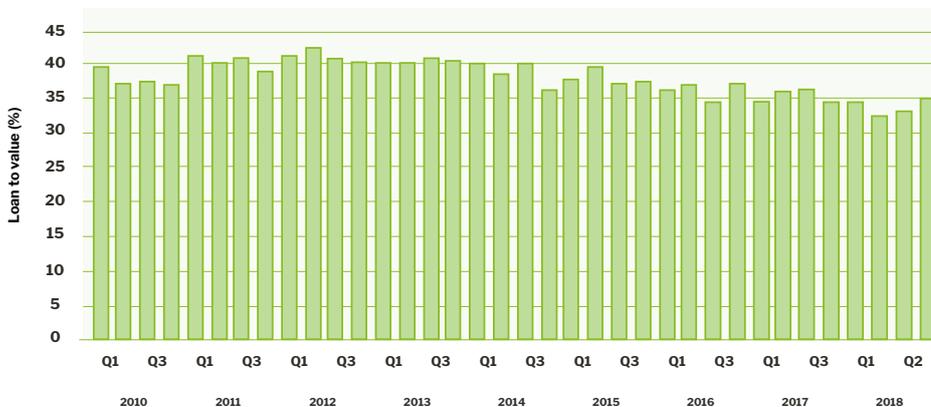
# GEARING

Landlord gearing remains well below its peak of 43% in 2012.

The steady reduction in gearing over time suggests landlords are committed to maintaining borrowing at manageable and sustainable levels.

Landlords also report a fall in the proportion of rent spent on mortgage payments, down from 30% at the beginning of 2017 to 27% today.

## Average gearing of investment property portfolios

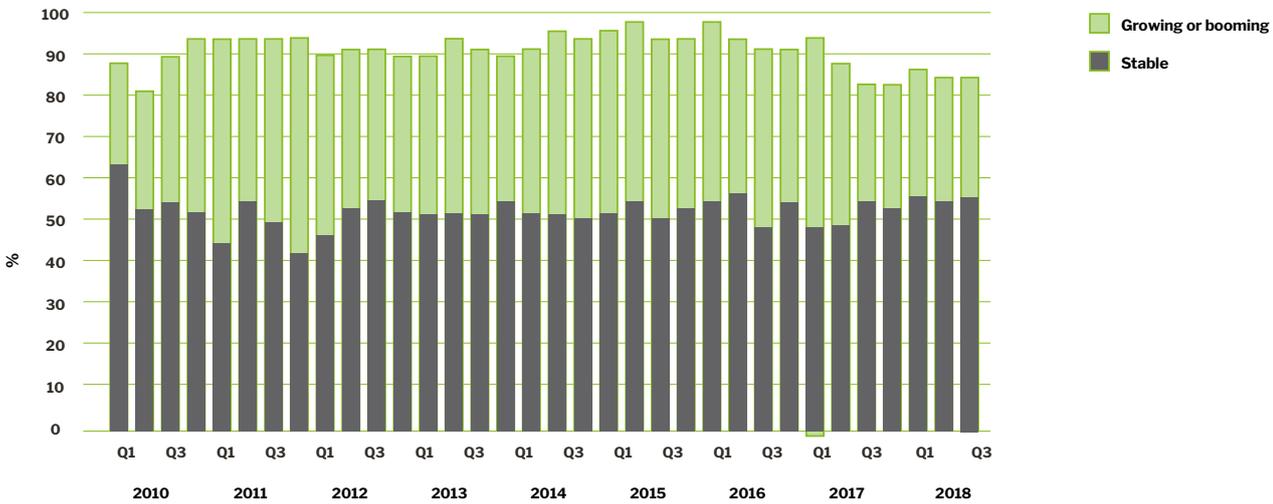


# TENANT DEMAND

Population growth, people’s need for flexibility and tighter mortgage affordability are as relevant today as ever before and rental property remains in high demand.

While the strength of tenant demand has moderated since 2015, an overwhelming 84% of landlords continue to report stable or growing demand for rental property.

## Proportion of landlords who say tenant demand is growing or booming

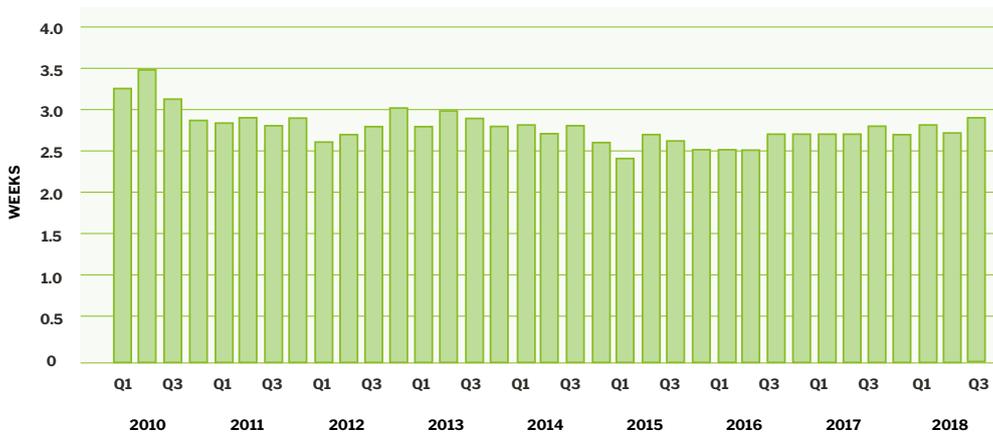


# VOID PERIODS

Strong demand for rental property means that void periods remain firmly within a long-established range of 2.5 to 3 weeks.

The void period measures the average amount of time rental properties are vacant each year, with this quarter’s survey recording a void period of 2.9 weeks.

## Average void period

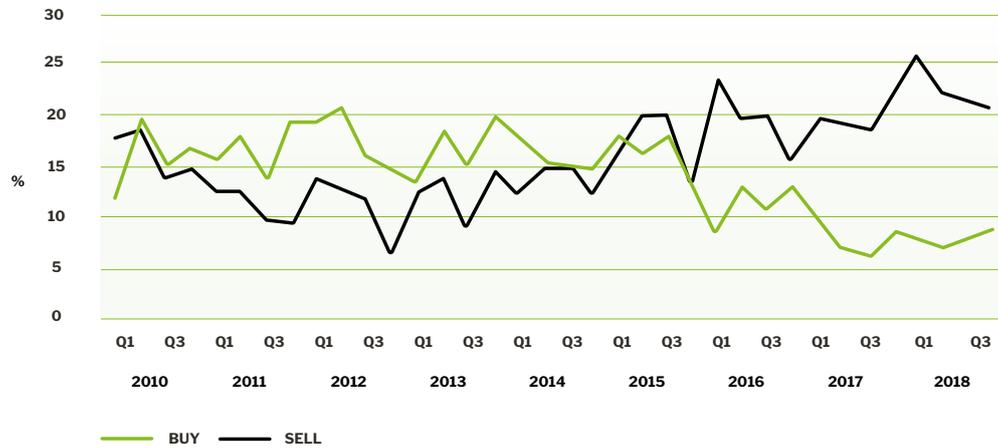


# BUYING VS. SELLING EXPECTATIONS

In spite of the relatively strong fundamentals underpinning the rental market, two times as many landlords (21%) say they are more likely to sell property in the next quarter than to buy (9%).

Those indicating an intention to sell first overtook potential buyers in early 2015 and although the gap has narrowed it remains significant.

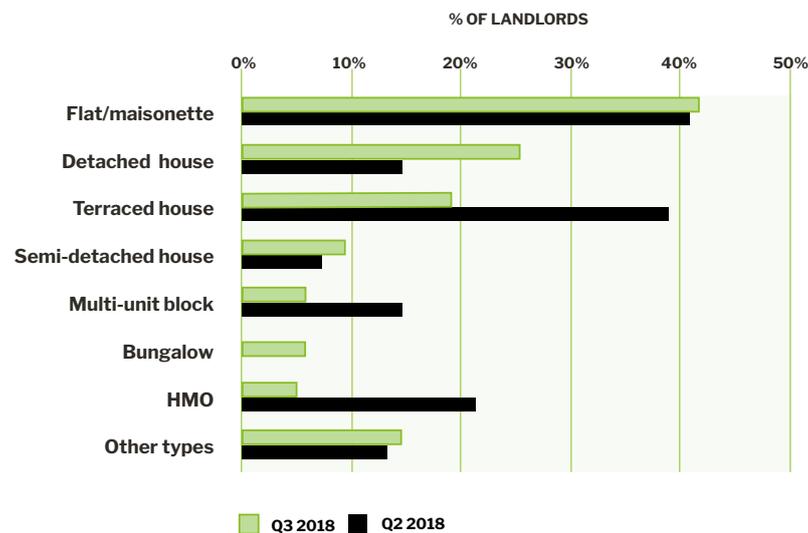
## Proportion of landlords expecting to buy and sell property in the next quarter



# PROPERTY TYPES

For those landlords who plan to buy property in the next quarter, flats and maisonettes are the most popular choice. Although detached houses have gained in popularity, there is less demand for HMOs and multi-unit blocks.

## Type of property expected to purchase

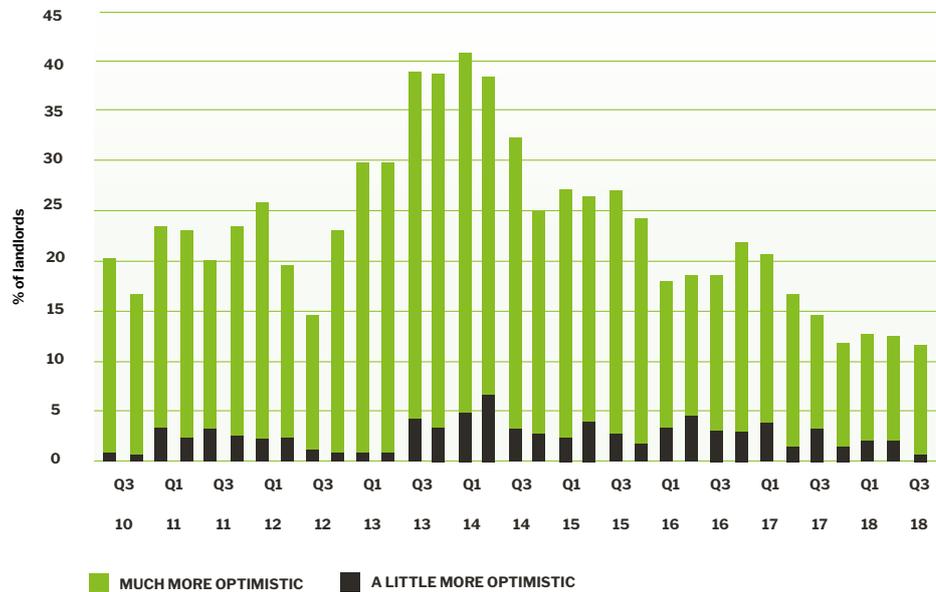


# VIEW OF PROSPECTS FOR PROPERTY PORTFOLIO

Landlords continue to feel progressively less optimistic about the prospects for their portfolio.

Back in 2014, four out of ten landlords (41%) said they felt optimistic about the prospects for their portfolio in the months ahead. However, since then, following progressive tax and policy changes aimed at landlords and targeting buy-to-let in particular, optimism among landlords has dwindled, reaching a low of 12% in this quarter's results.

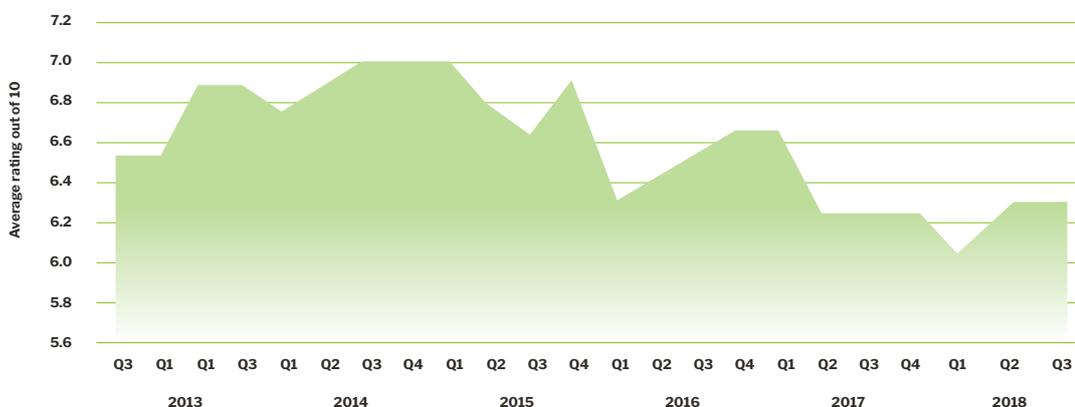
## Landlords optimism about portfolio prospects



# OVERALL PROSPECTS FOR THE PRS

When asked to score the prospects for the PRS in the next 12 months, landlords returned an average score of 6.3 out of ten. This remains close to the lowest level recorded in Q1 2018 of 6.1 and appears to be indicative, once again, of the dampening of landlord optimism as the various tax and regulatory measures take effect.

## Overall prospects for the PRS in the next 12 months



# ABOUT PARAGON

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 also offers second charge and specialist residential mortgages.

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 1985, Paragon Banking Group PLC has over £12 billion of assets under management.

**For further information contact:**

**Kathryn Rhinds**

**PR Account Manager**

**Tel: 0121 712 3161**

**Email: [kathryn.rhinds@paragonbank.co.uk](mailto:kathryn.rhinds@paragonbank.co.uk)**

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

Paragon Bank PLC is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England number 05390593. Registered office 51 Homer Road, Solihull, West Midlands, B91 3QJ. Paragon Bank PLC is registered on the Financial Services Register under the firm reference number 604551.