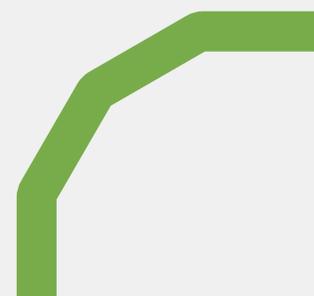




PRS TRENDS





July, August and September are usually busy months for the rental market, particularly towards the end of the quarter. Students start to return to university, whilst post-graduates make their first steps into the world of work, often moving to a new part of the country to take up employment. People also want to secure a new property before the winter months kick in.

This year, the third quarter of the year has seemingly been a period of conflict for landlords. On the one hand, tenant demand has never been stronger and we hear evidence of rental property going for sealed bids in many parts of the country.

However, on the downside, landlord confidence has dipped, reflecting what we are seeing across the economy. This declining confidence appears

to be based on an expectation of what may happen to the economy, house prices and their property business, rather than landlords experiencing any actual deterioration in their lettings activities.

Landlords report that profitability remains high and house price growth still remains positive, albeit flattening in more recent months. Yields are also strengthening, perhaps reflecting the slight levelling off of house price inflation at a time when rents are increasing on the back of this record level of tenant demand.

Landlords will be mindful of the financial position of renters during this cost-of-living challenge. We are heartened by evidence that suggests the majority of landlords are seeing no signs of tenants facing financial difficulty, with

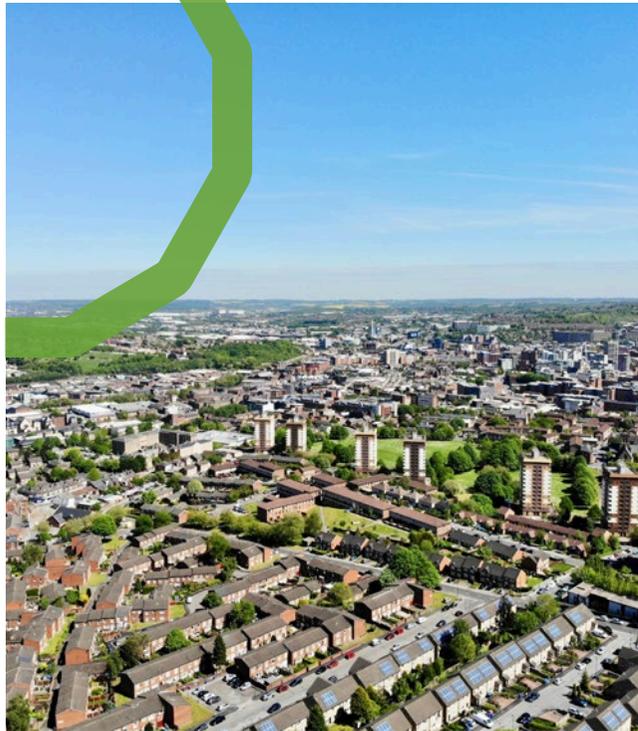
those that are generally willing to provide help and support.

I often hear from our customers that landlords would prefer to keep a good tenant in place and would be prepared to keep rent increases to an affordable level to facilitate that.

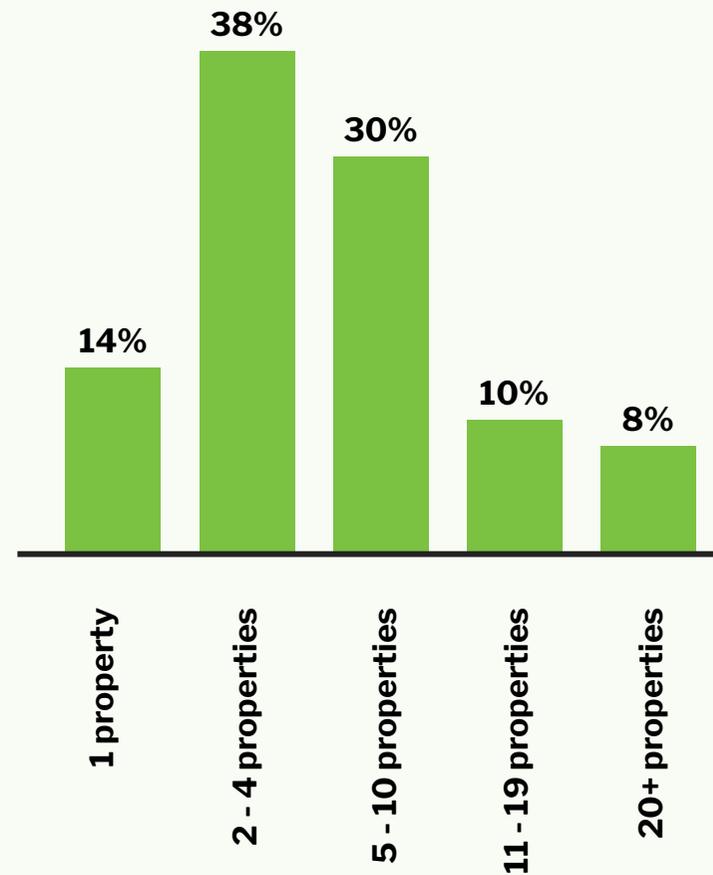
Richard Rowntree
Managing Director of Mortgages

Portfolios

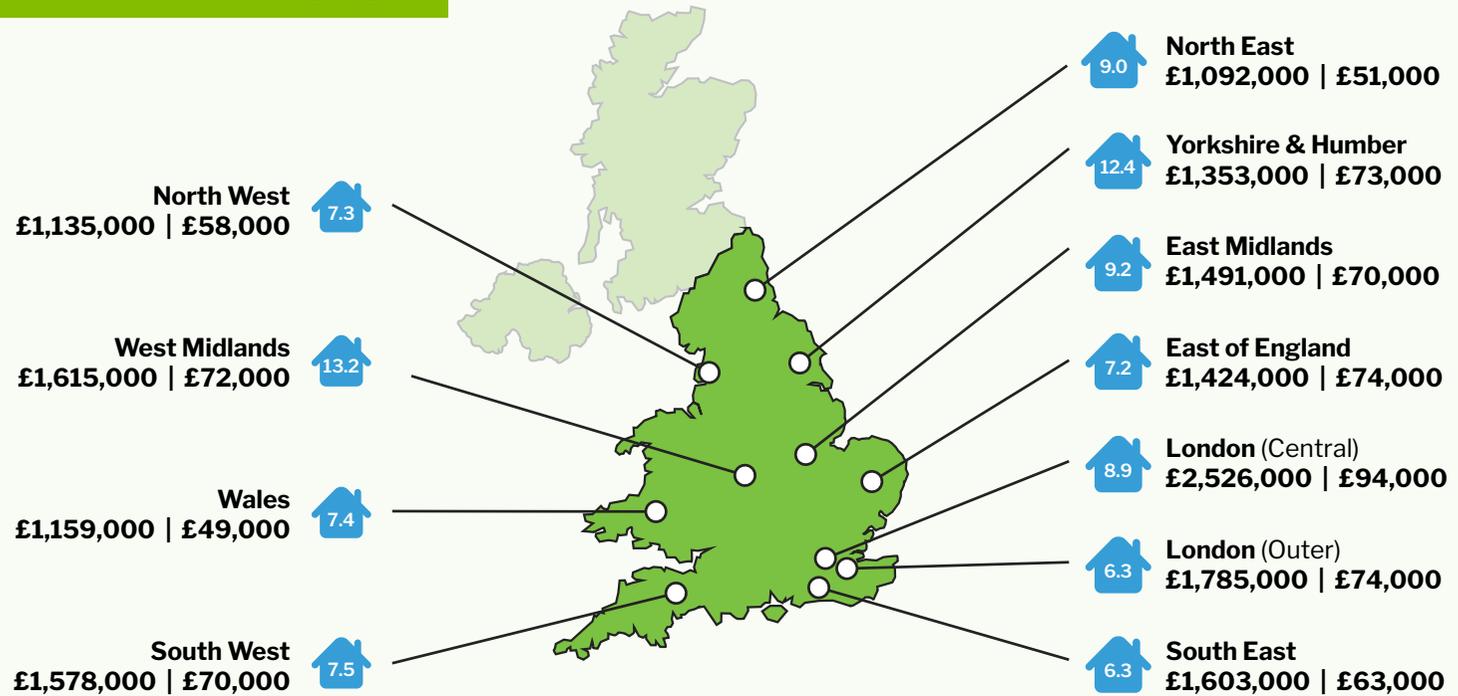
Across the board a landlord typically has 8.0 properties in a portfolio, a figure that has been relatively stable across recent waves of the PRS Trends report, with an average of 9.9 tenancies. There was a slight increase in the proportion of landlords who owned between 11-19 properties from Q2 – increasing from 8% to 10%.



Number of properties in portfolio (by percentage of landlords)



Portfolio value & gross annual rental income levels by region



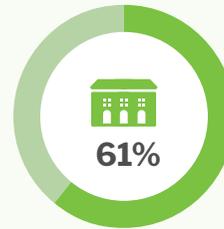
The average portfolio is worth approximately £1.49 million in total

The typical portfolio in Q3 was worth around £1.49 million, up from £1.47 million on the previous wave, generating a gross rental income of £64,000. The typical property value is £185,625 (based on an average portfolio size of 8.0 properties in Q3), with an average income of £8,000 per property or £667 per calendar month.

Regionally, landlords in the West Midlands hold the greatest number of properties, with an average of 13.2 properties. A close second are landlords who operate in Yorkshire and The Humber, averaging 12.4 properties. Landlords in Outer London and the South East typically hold fewer properties in their portfolio, but the value of those portfolios are amongst the highest in the country due to property prices in those regions.



Type of property owned



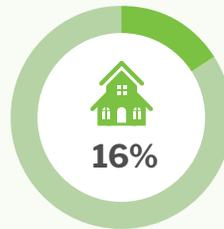
Terraced house



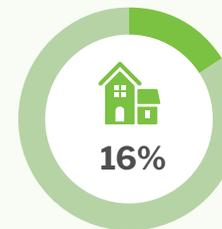
Flats - Individual units



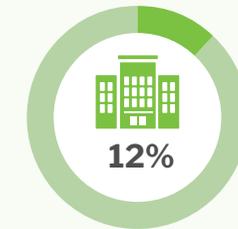
Semi-detached house



Detached house



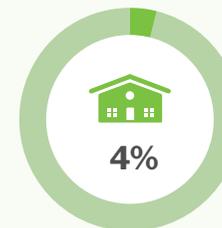
HMO
House in Multiple
Occupation



Flats - Multi unit block



Bungalow



Short-term / Holiday lets

Terraced houses remain the most commonly owned property, with 61% of landlords owning at least one in their portfolio. There was an increase in the incidence of owning terraced homes and flats during the third quarter, up from 58% and 47% respectively from Q2, with a decline in the proportion of landlords owning semi-detached and detached homes, flats within multi-unit blocks and bungalows.

This could suggest as more normal market conditions return following the Covid 19 pandemic, landlords have focused on purchasing the type of property that has defined the private rented sector over the past 20 years, plus a greater demand for flats as city living is back in fashion.

Growth in letting to young couples and professionals

Whilst families with children remain the most common tenant type, with 52% of landlords providing a home to this group, there has been a distinct increase in the proportion of landlords letting to young couples and professionals in recent waves of the PRS Trends survey.

Over half (51%) of landlords let to young couples in this wave, up from 42% from Q2 2021, with a third (34%) letting to professionals, up from 25% at the end of 2020. Again, this could be a reflection of the PRS returning to more normal market conditions as the market settles following the end of the pandemic.

This wave saw a decline in landlords letting to young singles – down to 43% from 45%. This is the first fall since the nadir of the pandemic and could be a sign of rental inflation making it more difficult to rent as an individual.



Tenant type



52%
Families with children



51%
Young couples



43%
Young singles



36%
Older singles



34%
White collar / professionals



25%
Blue collar / manual workers



25%
Older couples



19%
Universal credit claimants



17%
Retired



15%
Local housing allowance claimants



11%
Students



9%
Other benefit claimants



4%
Executive / company lets



5%
Migrant workers

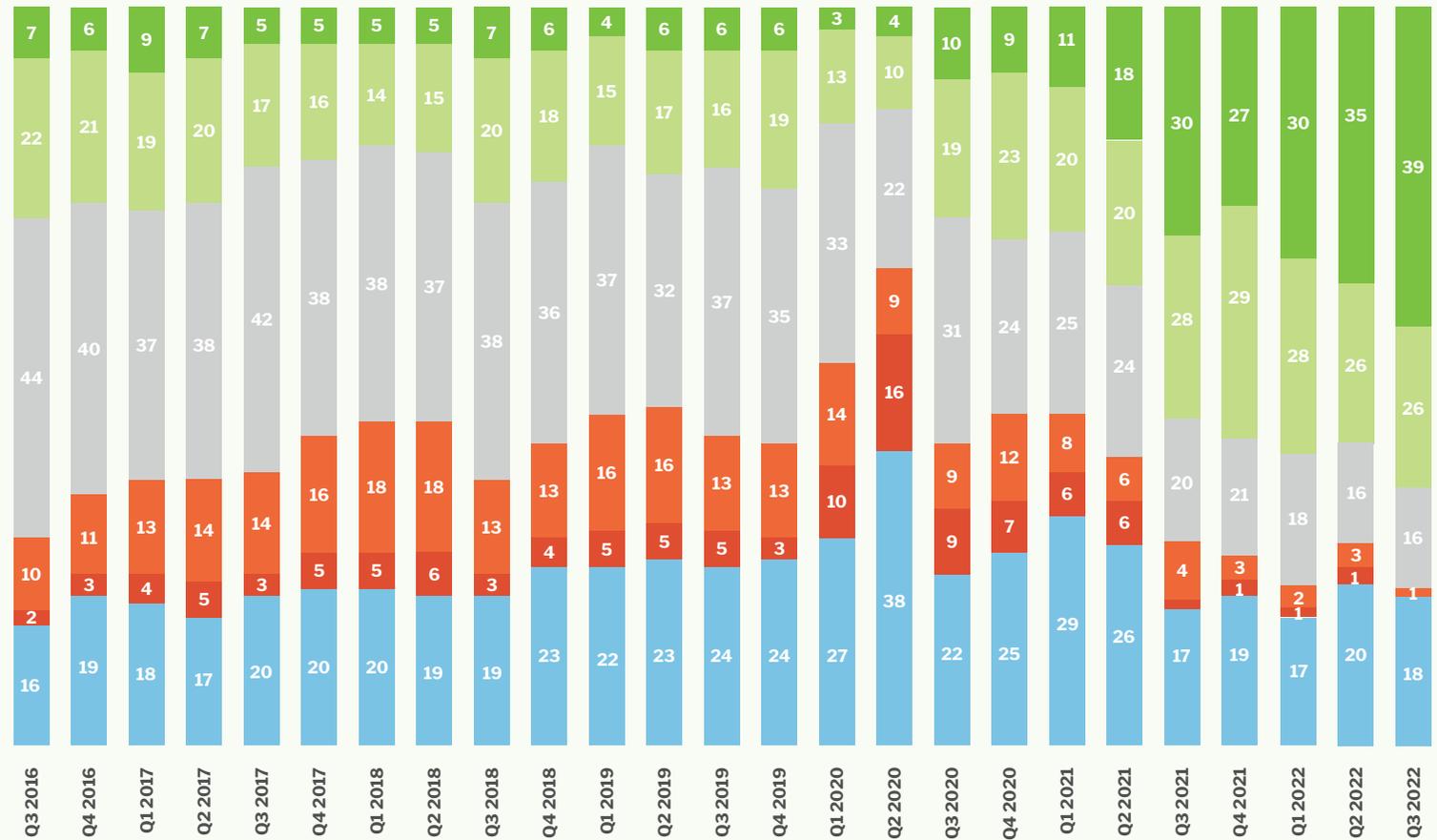
Tenant demand

The proportion of landlords reporting an increase in tenant demand hit an all-time high of 65% in Q3 2022. There was a large increase in the proportion recording a 'significant increase' in tenant demand, up four percentage points to 39%. Just 1% have seen a 'slight decrease' while no landlords reported a 'significant decrease', a survey first.

A total of 79% of landlords with larger portfolios, that of 11 or more properties, are more optimistic this quarter due to their noticeable increase in tenant demand versus those landlords with one to 10 properties, averaging at 61%.



Tenant demand (%)



Regionally, the highest level of increasing tenant demand in Q3 2022 was recorded in the South West of England, followed by Wales and Outer London.

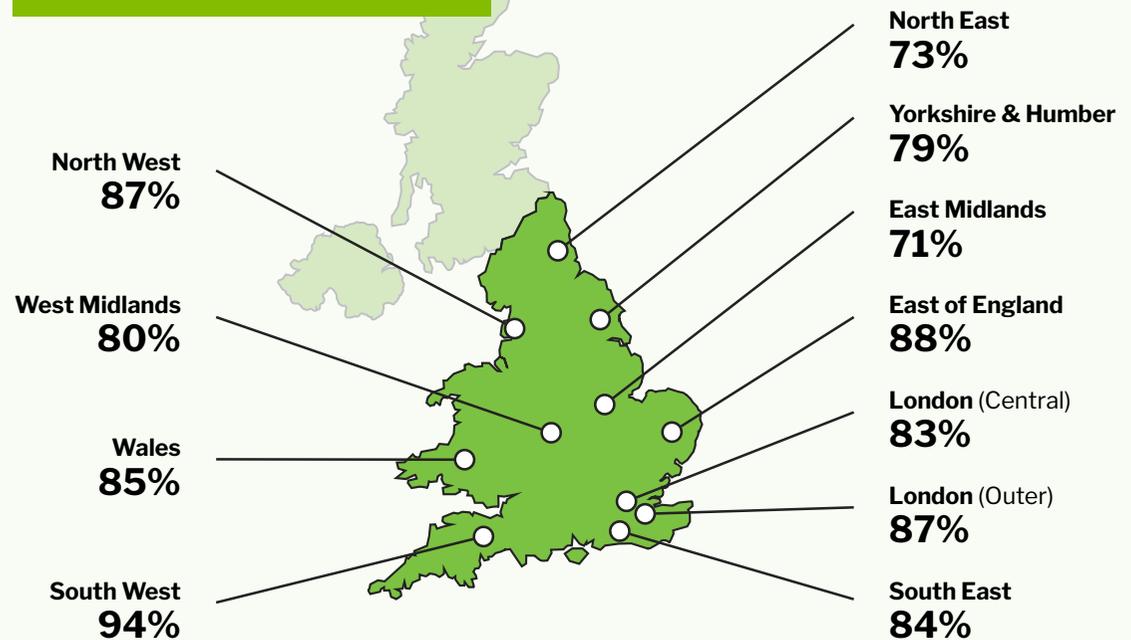
There was a staggering 94% net increase in landlords in the South West reporting rising demand, with 88% of those in the East of England and 87% in Outer London recording increases.

Outer London has experienced three successive quarterly increases in demand in 2022, rising from a net increase of 72% of landlords in the first quarter. This, again, reflects the resurgence of the London rental market since the pandemic end. Central London mirrors this growth, hitting 83% for this wave, up from 69% recorded in the final quarter of last year.

Not all markets increased during the third quarter, however. Landlords reporting increasing demand in the East Midlands fell from 84% in Q2 to 71%, placing it lowest on the regional list.



Net strong tenant demand for rental properties



Note: Net strong demand is 'Very strong' and 'Strong' minus 'Weak' and 'Very weak'.

Since Q2 2022, there has been a two percentage point increase in the incidence of void periods, after 28% of landlords experienced one within the previous three months. Void periods have generally levelled off in recent waves and remain below the long-run historical average.

Alongside the increase in the incidence of voids, there has also been an increase in the average number of days, increasing to 82 from 71 in the second quarter.

Void periods are more common amongst those with larger portfolios (11+ properties), who have greater exposure due to the higher number of properties owned. Linked to this, landlords in the North of the country, where portfolios are typically bigger, are also more likely to have had a property empty recently.

It may seem surprising that voids can increase in a period of high tenant demand. However, a landlord may class a property as void if they are carrying out maintenance work between tenancies, rather than the property being empty because of lack of demand.



Proportion of landlords experiencing a void period (%)



Void duration (days)



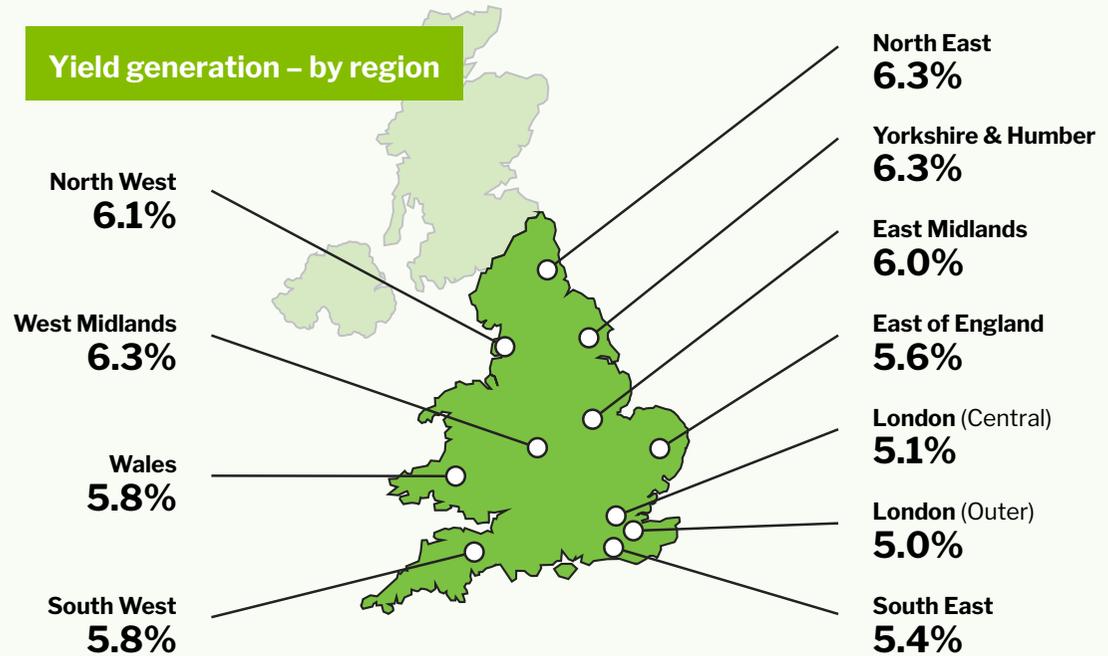
Yield generation

The average rental yield achieved by landlords has increased for the second consecutive quarter to 5.8%. This could reflect rents starting to increase at a time when house price inflation is starting to level off.

Landlords operating in the West Midlands, North East, Yorkshire and The Humber, the North West and East Midlands achieved the highest rental yields in Q3, with all achieving average yields in excess of 6% this quarter.

Landlords operating in Outer and Central London continue to generate the lowest yields on average at around 5.0%, due to higher property prices in those markets. However, yields jumped in Central London compared to the previous quarter, up from 4.4% to 5.1%.

Yield generation – by region



Yield generation – historical



Yield generation – by property type**6.3%**

Flats – Multi unit block

**6.2%**

HMO

**6.1%**

Bungalow

**5.9%**

Terraced house

**5.9%**

Detached house

**5.8%**

Flats – Individual units

**5.7%**

Semi-detached house

Contrasting to the last quarter, landlords with multi-unit blocks of flats achieved the highest rental yields in Q3, with an average of 6.3%. This is the first time since 2017 that landlords with multi-unit blocks of flats have reported achieving higher yields than all other types of buy-to-let property.

In the time since the previous quarter, yields achieved from bungalows have overtaken those generated by terraced houses, with rental yields at 6.1% (up from 5.8% in Q2). Semi-detached homes achieved the weakest yield during the quarter at an average of 5.7%.

Rising rents

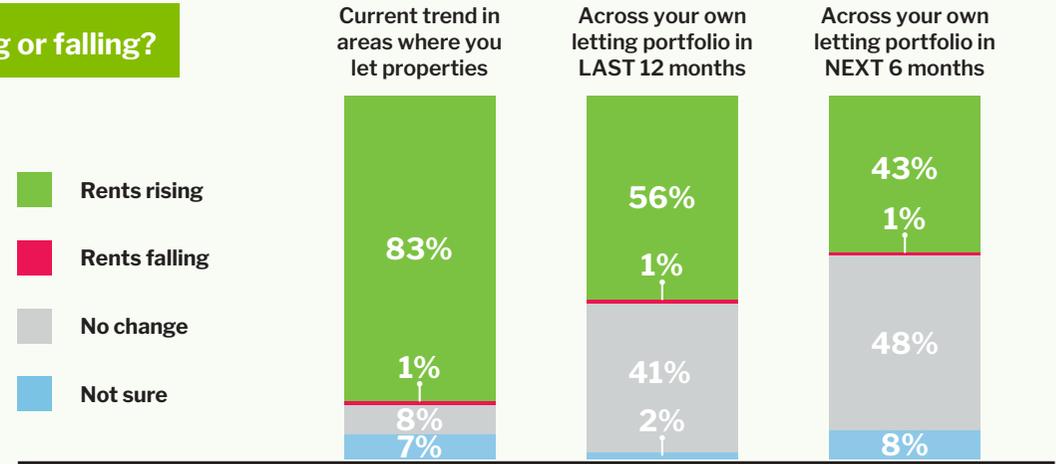
Over eight in 10 landlords report increasing rents in the areas where they operate, up four percentage points from Q2 and 23% against a year ago. Regionally, those in the South West and Wales are most likely to see rents increasing.

Once again, more than half of landlords have increased rents in the last 12 months, with this figure remaining largely unchanged compared to last quarter. Similarly, the proportion intending to increase rents in the next six months remains unchanged at 43%, with this more likely to be the case for those with larger portfolios (62% of landlords with 11+ properties).

Over two thirds of landlords who are looking to increase rents in the next six months will do so to cover the increased costs of running a property. Landlords also appear inclined to increase rents to align with local market rents (62%), while a lesser proportion are looking to increase rents due to increased mortgage finance costs (40%) and due to tax changes (40%).



Rents rising or falling?



Reason for rent increase

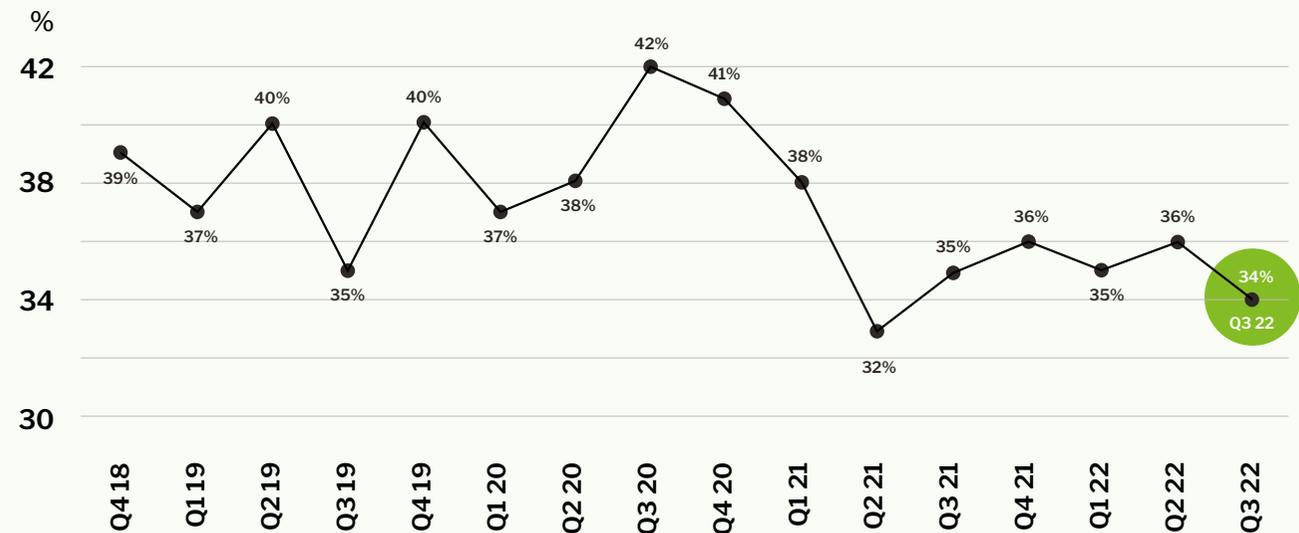


The average proportion of landlords reporting rent arrears has decreased to 34% in Q3 2022

Rent arrears

The proportion of landlords reporting an incidence of arrears fell by two percentage points to 34%, remaining below the historic long-run average. On average, a landlord has 1.9 tenants in arrears and landlords who let to Local Housing Allowance tenants are most likely to incur rental arrears. Those letting to young couples were least likely to incur arrears.

Proportion of landlords reporting rent arrears – historical

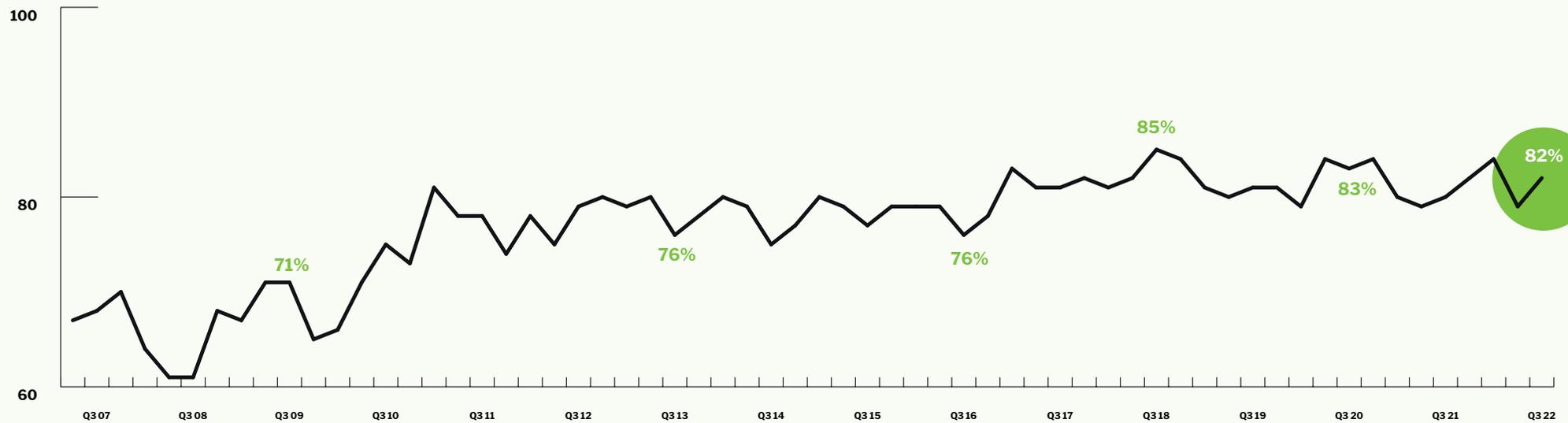


Profitability

Net profitability is calculated by subtracting the proportion of landlords who make a financial loss from those who report making a profit. Net profitability recorded by landlords has risen by three percentage points from 79% in Q2 2022 to 82% this quarter.



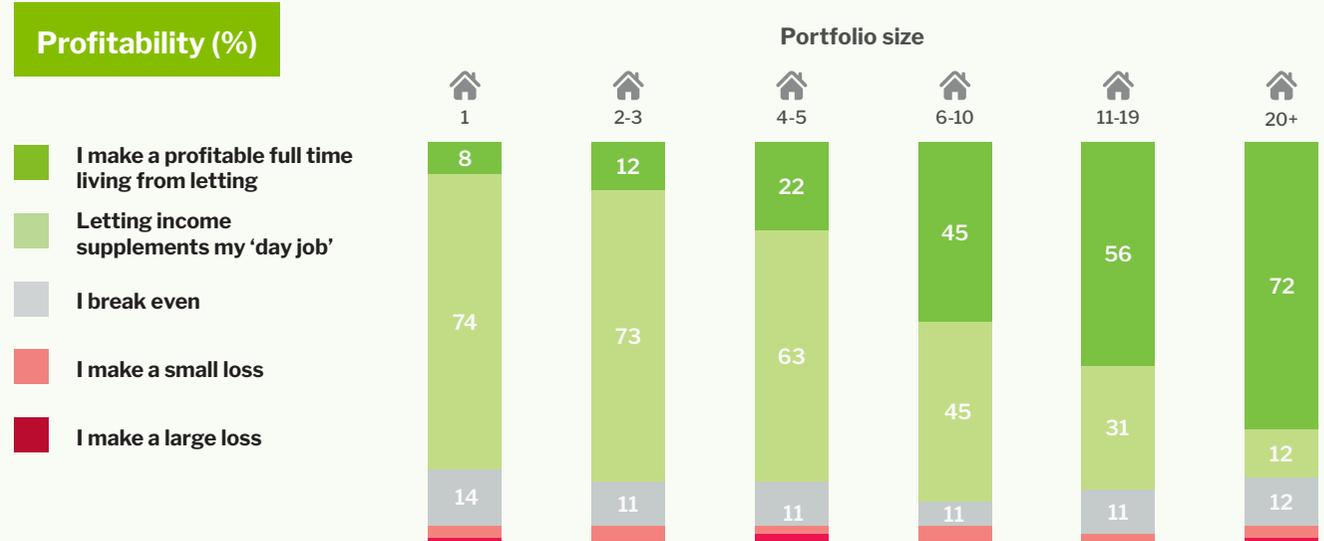
Landlord profitability – historical





Losses are significantly more likely to be declared by those who own just one property

The proportion of all landlords making a profitable full-time living from their letting business remains unchanged at three in 10, with this increasing in line with portfolio size. Nearly three quarters (72%) of landlords with more than 20 properties in their portfolio make a full-time living from property, compared to 15% with between two and three properties. Just 4% of landlords reported making a loss on their letting activities during the quarter, with decreases seen across most portfolio sizes compared to Q2.



Landlord business expectations

Rating five different facets of letting – capital gains, rental yields, UK financial market, UK private rented sector and own lettings business – landlords provide insight into confidence for their business, the sector and the wider economy.

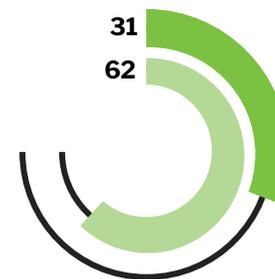
When we compare these ratings to the same period a year ago, we see that landlords are less confident. Confidence in the UK Financial Market has fallen to the greatest degree, with just 4% of landlords feeling that its prospects are either 'Good' or 'Very Good' compared to 42% in Q3 2021. This is unsurprising given the current economic climate.

Confidence has also fallen across other metrics, which reflects the more downbeat mood in business and the economy more generally.

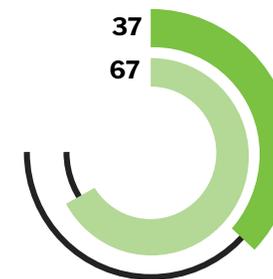
Landlords rating their expectations for next three months as 'good'/'very good' (%)

■ Q3 22

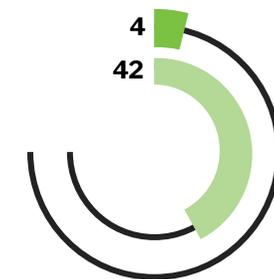
■ Q3 21



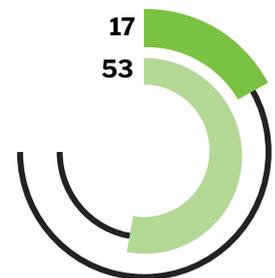
Capital gains



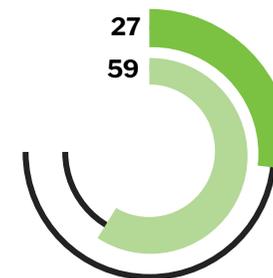
Rental yields



UK financial market



UK private rented sector



Own lettings business

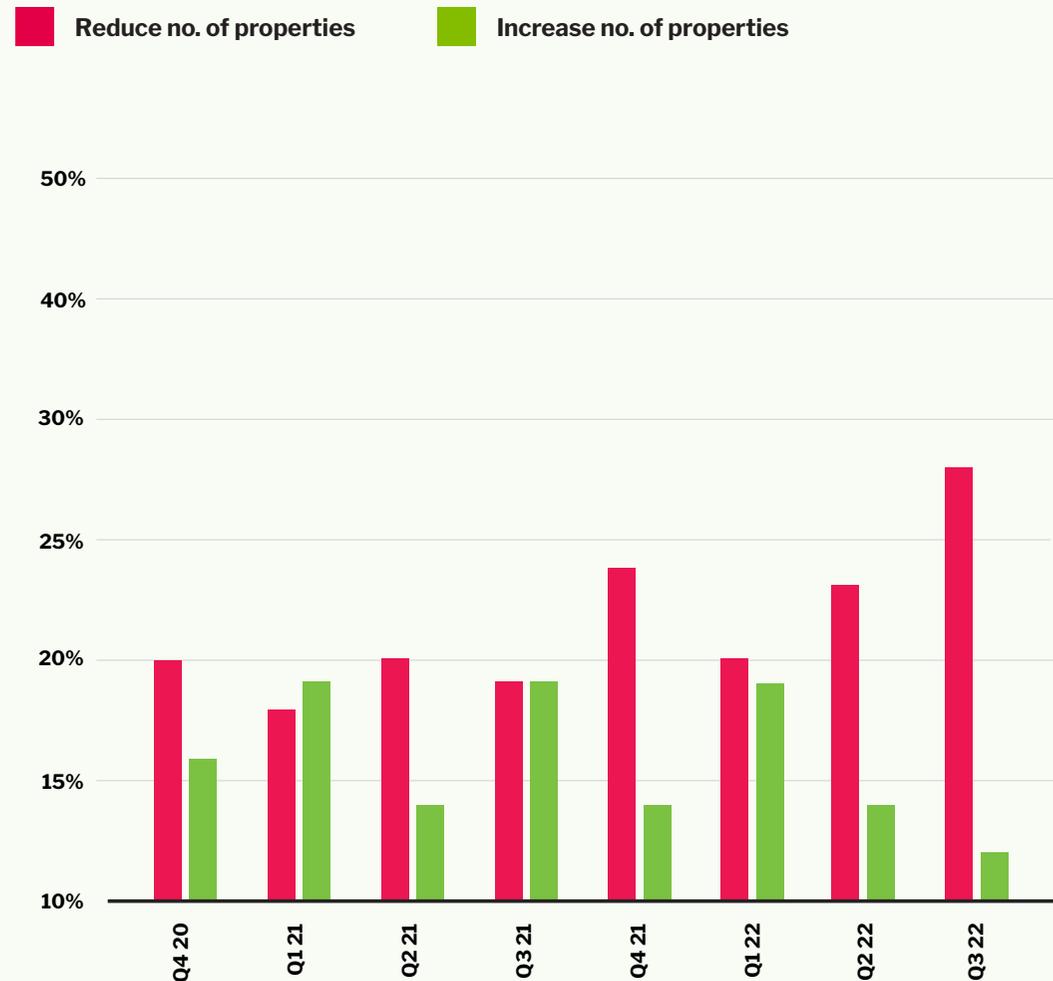
Portfolio intentions

When asked how they plan to modify their portfolio over the coming year, 12% of landlords indicated that they plan to purchase property, its lowest level for over two years.

Landlords with larger portfolios, that of 11 or more properties, continue to be the group most likely to make changes over the next 12 months, with 21% of those with between 11 and 19 properties looking to purchase and 14% of those with 20+ properties. Conversely, those with 20+ properties are also more likely to sell, reflecting the general higher level of trading undertaken by this cohort.



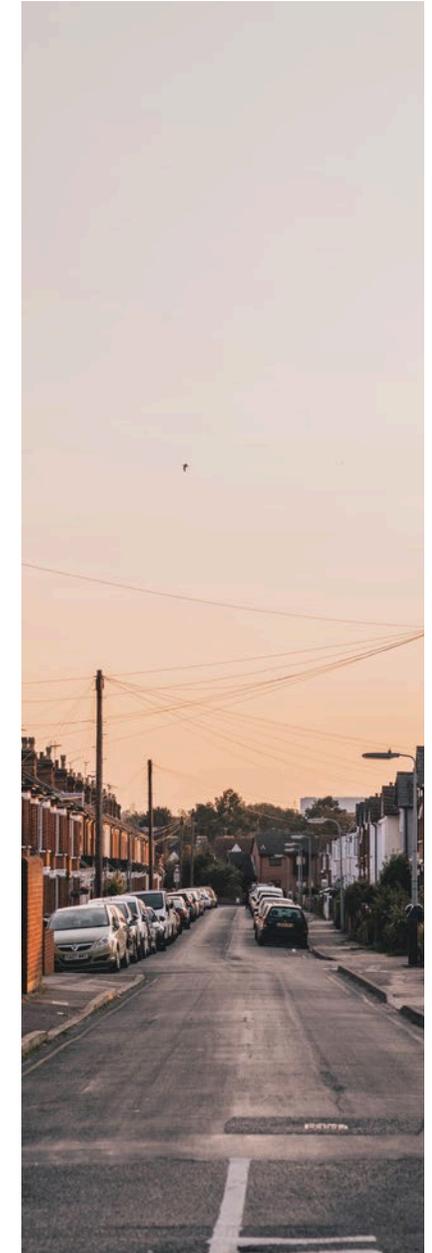
Landlord portfolio intentions – historical



Property purchase strategies

The proportion of landlords who intend to purchase property within a limited company structure fell slightly this quarter to 57%, down from 62% in Q2. Those planning to buy in an individual name increased from a low of 24% to 30% during the third quarter.

Landlords who have larger portfolios are more likely to purchase within a limited company structure with an average of 73% planning to buy this way, contrasting to those with one to five properties averaging at 41%.

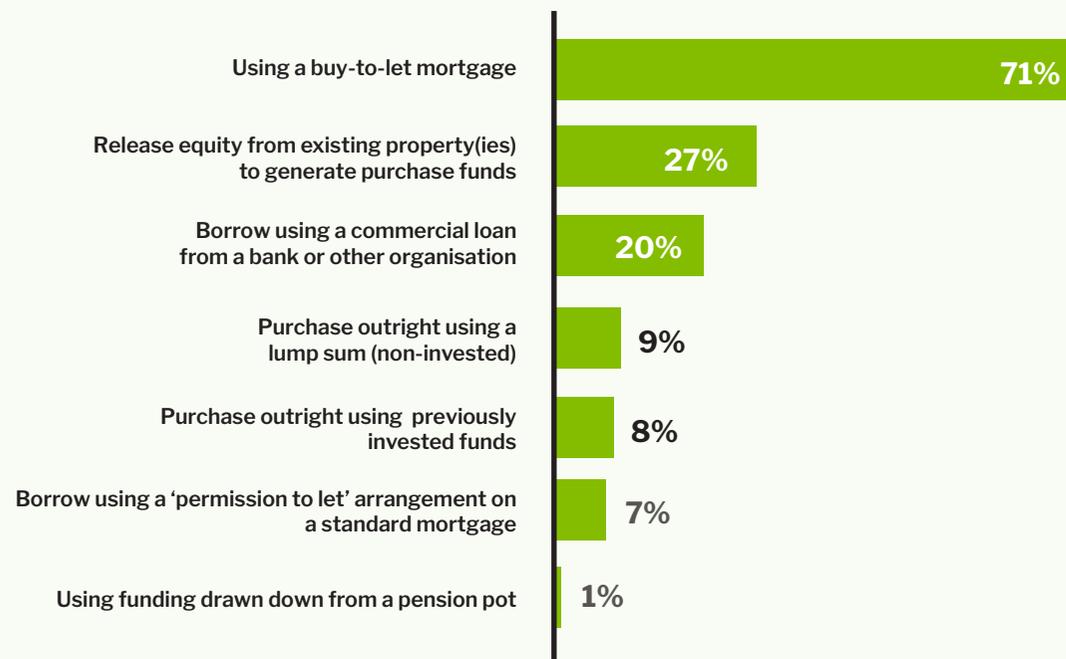


Compared to Q2 2022, there has been a five percentage point increase in landlords expecting to use a buy-to-let mortgage in order to purchase a property, rising to 71%.

There has also been a noticeable jump in landlords using previously invested funds to purchase a property outright – up from 7% to 20% – which perhaps indicates landlords are taking money out of more volatile assets to purchase property.

There has been a decline in the number of landlords expecting to borrow via a bank or organisation for a commercial loan, which currently sits at 7%, and a fall of 3% from the previous quarter to average at 1% for landlords who borrow using a ‘permission to let’ arrangement on a standard mortgage. Meanwhile, those who purchase using a non-invested lump sum has also fallen compared to the previous quarter.

Source of funding for next property purchase (%)

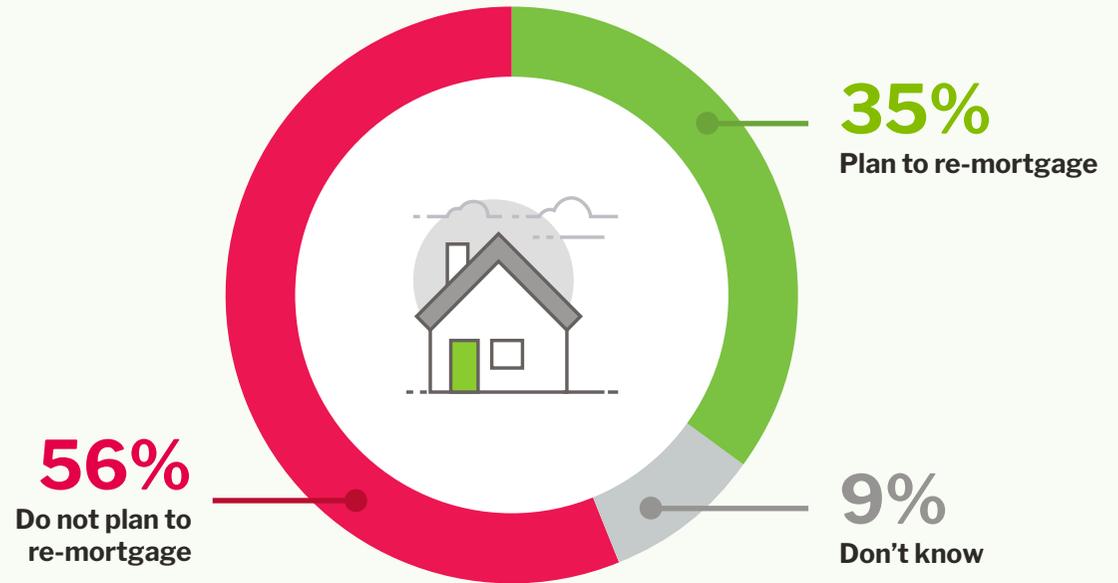


Remortgage intention

There has been an increase in the proportion of landlords who plan to remortgage which now sits at 35% after increasing from 31% since the second quarter. Compared to Q2 2022, there has also been a decrease in landlords who do not plan to remortgage, 60% down to 56% in Q3.

Five-year fixes remained the most popular choice for landlords during the third quarter, with 56% of landlords opting for this mortgage. There has been an increase in the proportion of landlords opting for a two-year product – up four percentage points to 18%. The take-up on variable rates has remained low with just 1% selecting them but we may see this increase during the fourth quarter as landlords look to see what will happen with interest rates given the uncertain environment.

Plans to remortgage in the next 12 months



If remortgaging, rate likely to go for...





The Q3 2022 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with 708 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews between August and September 2022.



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BTL0161-001 (11/2022)