

Landlords plan for steady growth as optimism rises



Landlords are looking ahead with confidence, carefully developing their portfolios to offer a wider choice of housing as optimism improves.

Our latest survey results, from a panel of 202 landlords, demonstrates a higher proportion of landlords are optimistic about the prospects for their property portfolios, with over one quarter (27%) feeling positive about the future following a slight dip in optimism levels in 2014.

This increase in optimism is supported by strong market dynamics with high tenant demand, resilient rental yields and the lowest ever recorded void periods of just 2.4 weeks.

Landlords' propensity to purchase buy-to-let property in the immediate future has also increased with 18% expecting to buy sometime soon compared to 15% in Q4 2014. Interestingly, among those on the look-out for new property, there is a marked increase in landlords looking for semi-detached property, up from 23%

in Q4 2014 to 35% in Q1 2015 and a decline in those looking for terraced houses, down from 67% to 35%. A further 22% of landlords express interest in buying more specialist rental properties such as multi-unit blocks and HMOs.

Whilst landlords continue to look for growth opportunities, the average portfolio loan to value ratio remains well below peak levels at 38%. As confidence builds in the market, this is a very positive signal demonstrating that landlords continue to deploy significant equity into their portfolios and avoid over-stretching themselves.

Indeed our research shows that landlords are an experienced group who have a long-term commitment to the sector, with nine out of ten having been landlords for more than ten years. They include property as part of a diversified investment portfolio, with almost two thirds (66%) holding cash savings, six out of ten investing in a pension scheme (61%) and more than half invested in equities (56%).

Rising optimism, low gearing and long term commitment provide a positive backdrop for further investment and I look forward to working with our landlord customers as they continue to develop and grow their businesses.

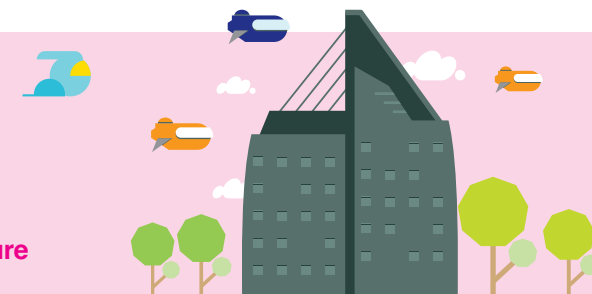
John Heron

Managing Director, Paragon Mortgages

Q1 2015 HEADLINES

27%

of landlords feel positive about the future



35%

are looking to add semi-detached property to their portfolio



9/10

landlords have been invested in property for more than ten years



The average portfolio loan to value ratio is

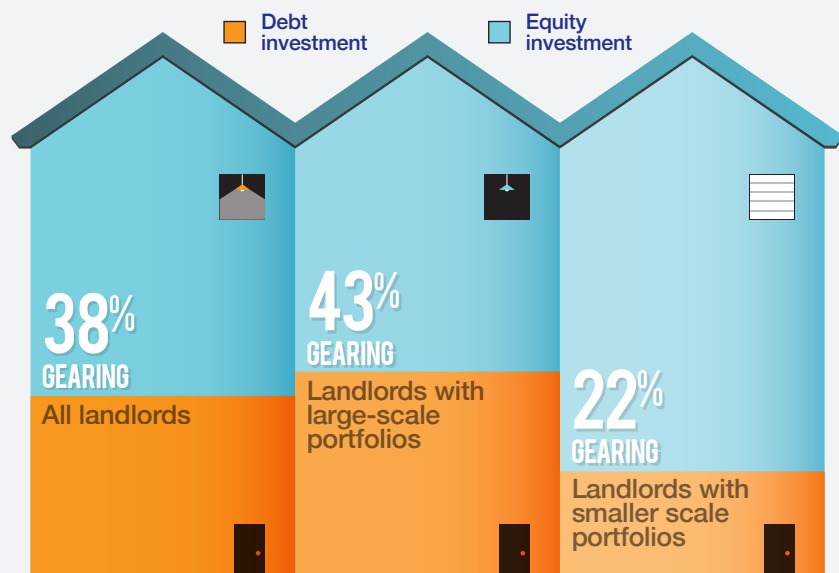
38%



Our landlord panel are an experienced group, with more than nine out of ten (92%) having been residential landlords for ten years or longer and a quarter (25%) having been involved in the private rented sector for more than 20 years. They include property as one in a range of investments, with two thirds (66%) holding cash savings; six out of ten investing in a pension scheme (61%), and more than half invested in equities (56%).

PORTFOLIO GEARING

Landlords maintain a significant amount of equity in their portfolios, with the average loan to value ratio of a residential landlord's portfolio standing at 38% in Q1 2015. This demonstrates that despite greater availability of buy-to-let finance in recent years, borrowing remains relatively modest and that landlords continue to deploy significant equity into their portfolios.



LANDLORD OPTIMISM

Encouragingly, a greater proportion of landlords are optimistic about the prospects for their property portfolios compared with three months ago, with over one quarter (27%) feeling positive and almost two thirds (65%) indicating that their view is unchanged. This follows a slight dip in optimism levels during 2014, suggesting more landlords are feeling positive about the year ahead.

PORTFOLIO SIZE

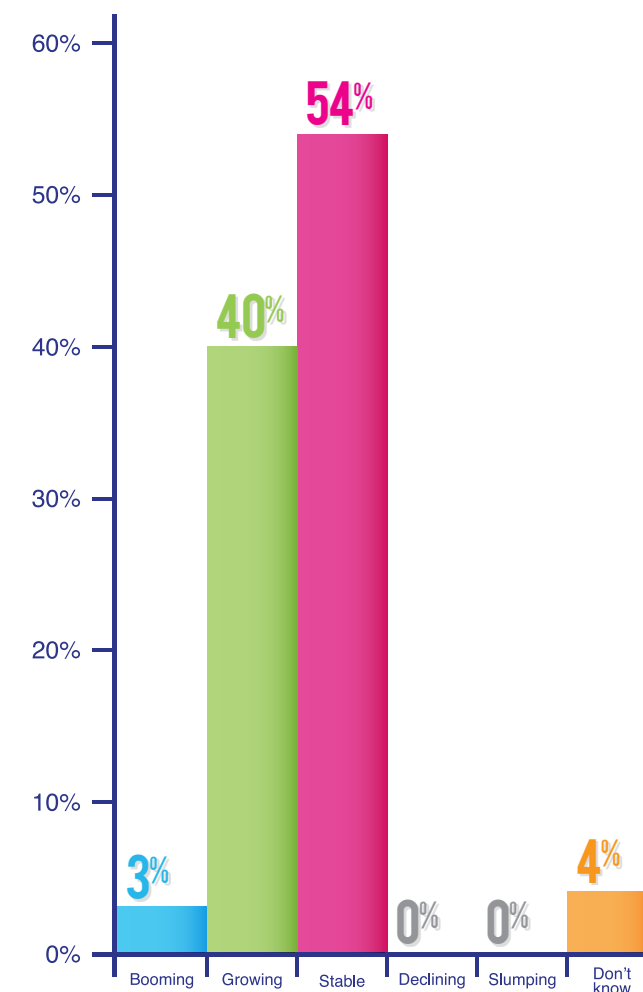
The size of the average property portfolio reported by landlords in Q1 2015 was stable at 13.4 properties, unchanged compared with Q4 2014.

VALUE

Portfolio values increased by 0.3%, from an average value of £1.65 million in Q4 2014 to £1.66 million in Q1 2015. This was the fourth successive quarterly increase in value. Landlords expect property portfolio values to continue to increase over the next 12 months, forecasting a steady gain of 2.1%.

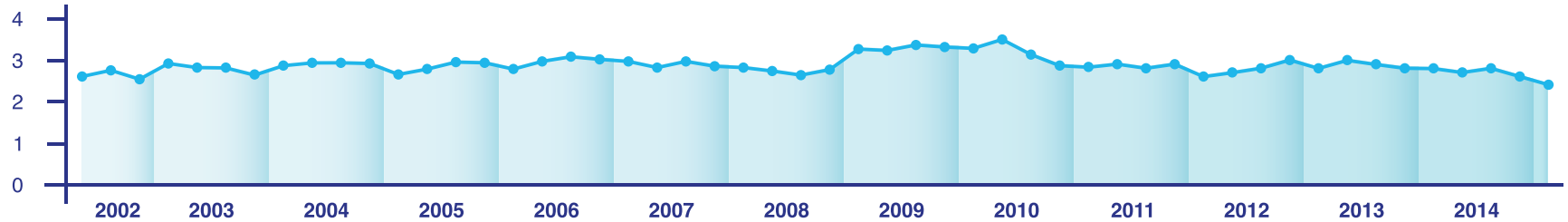
TENANT DEMAND

Tenant demand remains high. More than four out of ten landlords (43%) believe that tenant demand for residential property is currently either growing or booming and more than half (54%) say that, in their view, tenant demand is stable. No landlords report a slump or decline in demand.



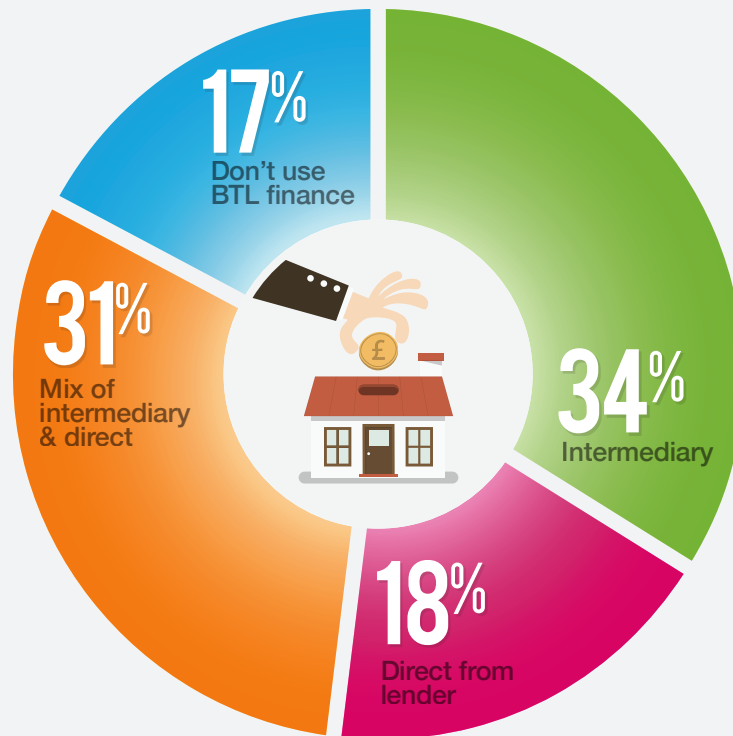
VOIDS

Supporting this picture of strong tenant demand, landlords reported the lowest ever average annual void period of 2.4 weeks. Typically, the average void period is between 2.6 and 3.0 weeks, despite occasionally straying outside this band.



BUY-TO-LET FINANCE

Intermediaries continue to provide a valuable service for landlords sourcing and arranging finance. Most landlords (65%) use intermediaries to source their buy-to-let finance either in whole or in part. Less than two out of ten landlords (18%) sourced their finance direct from the lender and a similar proportion (17%) did not use buy-to-let finance at all. Landlords with large-scale portfolios were almost twice as likely to use an intermediary than their smaller-scale counterparts.



PROPERTY MANAGEMENT

More than half of landlords (51%) manage their property portfolio entirely by themselves. The other half divide evenly between those who use an agent to manage their entire portfolio and those who manage part of their portfolio by themselves and part through an agent. The proportion using an agent increased from 21% in Q4 2014 to 24% in Q1 2015.

RENTAL YIELDS

Rental yields are resilient. Rental yield represents rent receivable as a percentage of portfolio value and in Q1 2015 landlords reported average gross yields of 6.2%, with marginal improvement to 6.3% expected in 12 months' time.

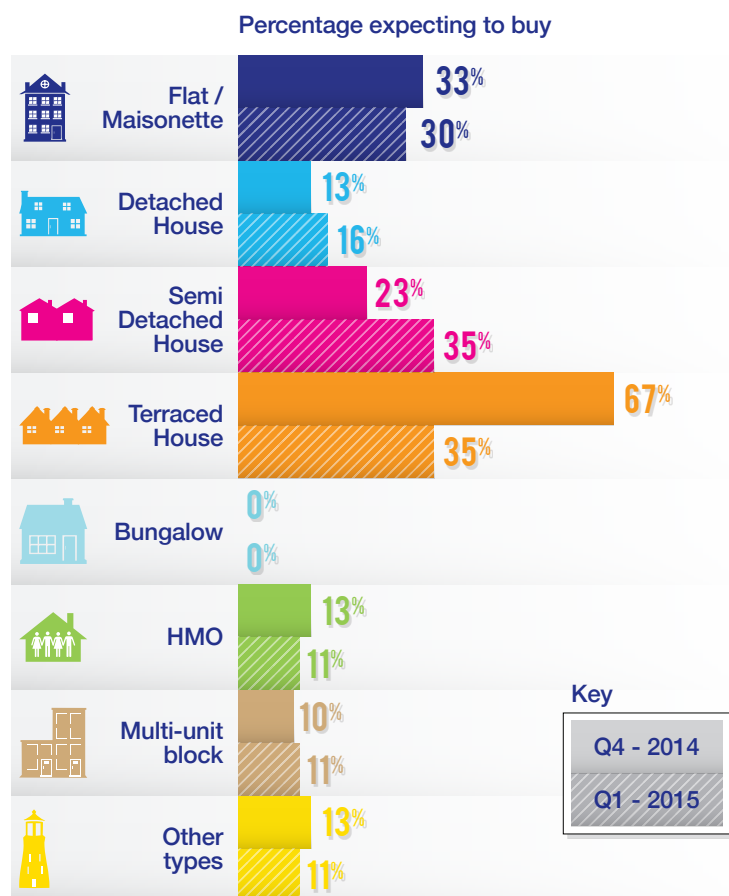
TENANCY TERMS

Interestingly, our landlord research shows that only a very small proportion of tenants seek a long-term agreement. Whilst tenants may choose to stay in a property for a considerable time, 91% of tenants did not want or ask for a tenancy term longer than two years.

LANDLORDS' BUYING EXPECTATIONS

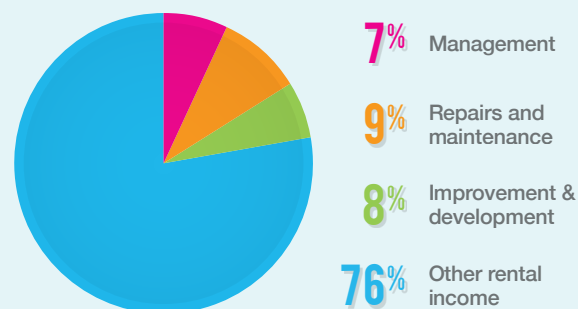
Landlords' propensity to purchase buy-to-let property in the immediate future has increased with 18% expecting to buy soon compared to 15% in Q4 2014.

Among landlords on the look-out for new property, 22% are buying more specialist rental properties such as multi-unit blocks and HMOs. There is also a notable increase in demand for semi-detached houses and a marked decline in demand for terraced houses.



MANAGEMENT, MAINTENANCE AND INVESTMENT

On average, landlords reserve almost one quarter (24%) of the income from their property portfolio for management, maintenance and investment. Landlords break this down, using 7% for property management, 9% to cover repairs and maintenance and a further 8% for improvement and development.



The most significant investments are made in kitchen and bathroom improvements, followed by upgrades to windows and doors. Heating, insulation, flooring and security also ranked highly in terms of investment spend.

- | | |
|-------------------------------|-----------------------|
| 1. KITCHENS
£1,551 | 5. INSULATION
£620 |
| 2. BATHROOMS
£1,155 | 6. CARPETS
£613 |
| 3. WINDOWS & DOORS
£1,020 | 7. SECURITY
£287 |
| 4. HEATING & PLUMBING
£672 | |



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ABOUT PARAGON

Paragon is a leading specialist lender of buy-to-let mortgages to landlords and residential property investors in the UK, a loan servicing provider for third party clients, an active acquirer of loan assets and portfolios and has most recently established a banking subsidiary, Paragon Bank.

Paragon has £10 billion of loan assets under management. Since being established in 1985, it is the only specialist lender to maintain an independent position within the UK mortgage market.

The Group is a member of the Council of Mortgage Lenders, the Intermediary Mortgage Lenders Association, the National Landlords Association and the Association of Residential Letting Agents Lender Panel.