

Steady progress continues for buy-to-let



Buy-to-let has dominated the media recently following the Government's latest tax change announcements for landlords, sparking much discussion around the impact this may have on the market. However, with strong and growing rental demand, which is expected to remain high for the foreseeable future, landlords are likely to continue to see the benefits of making further investment in the sector.

Results from our latest landlord survey, which was conducted before the Government's summer Budget announcements, show market confidence among landlords remains steady in the second quarter. Based on these recent developments however, this is something we will look into in our next survey to see whether landlords' confidence has been impacted.

Going back to our Q2 survey results, which are based on answers from a panel of 202 landlords, feelings of optimism are clear among landlords about prospects for the Private Rented Sector (PRS) over the next 12 months, reporting an average positivity score of 6.8 out of 10.

This reported optimism is supported by landlords' positive experiences and expectations, with three quarters (75%) feeling confident that arrears levels will remain stable over the next

year, 43% saying that tenant demand is either growing or booming, and 51% expecting demand to increase over the next year – a significant increase on the 45% of landlords who said this in Q1.

Landlords also look to be sharpening their focus on opportunities for development to support their investment outlook, with 17% expecting to purchase a buy-to-let property in the next quarter and 32% expecting to see an increase in their net property investment over the next 12 months. These are also variables which will be looked at more closely in our next quarter's survey, following the recent tax change announcements.

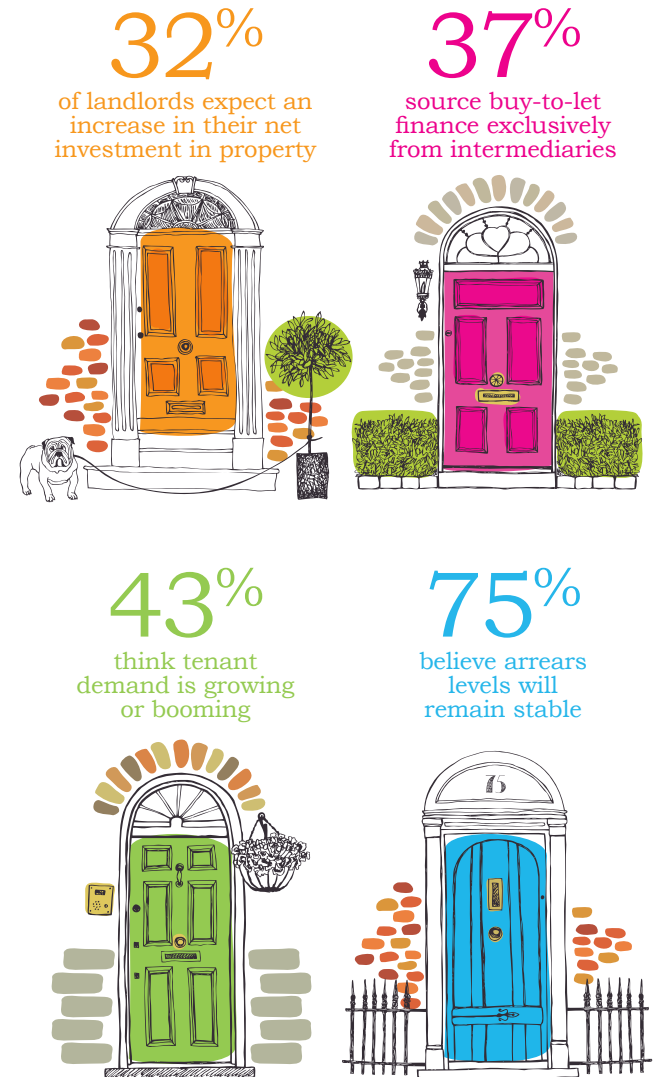
Those surveyed continue to value the service provided by mortgage intermediaries with 37% of landlords sourcing their buy-to-let finance through intermediaries – a modest increase from 34% in the last quarter. Also, more than half of landlords (52%) now take greater ownership of their investments by managing their property portfolios themselves, as opposed to 18% who manage solely through agents. This is a significant reduction from the 24% who managed solely through agents in Q1.

Overall, the Q2 results paint an encouraging picture of the PRS, which we hope to continue into the next quarter. Following recent developments, I look forward to seeing what is in store for the buy-to-let market as the year progresses.

John Heron

Managing Director, Paragon Mortgages

Q2 2015 HEADLINES



OUR LANDLORDS

Our landlord panel are an experienced group, with 87% having been invested in buy-to-let property for ten years or longer and just over a quarter (27%) for over 20 years.

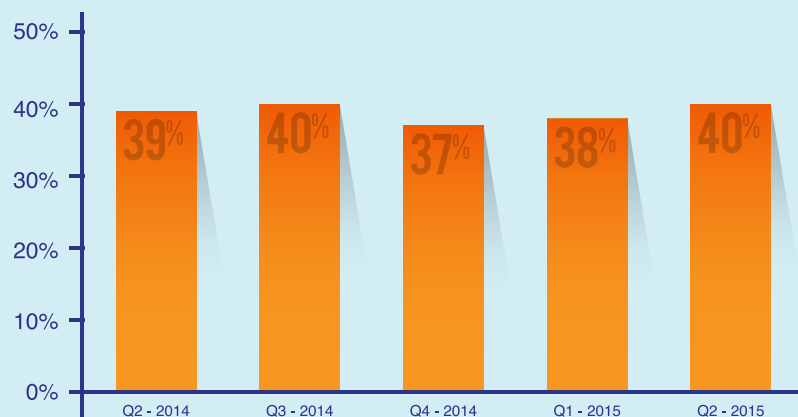
PORTFOLIO SIZE AND VALUE

The size of the average property portfolio is 13.3. Over the next 12 months, this is expected to reduce very slightly to 13.1.

In terms of the average value of property portfolios, this has seen a 4.1% decrease to £1.59 million in Q2 compared to £1.66 million in Q1, which is the first reduction reported in over a year.

PORTFOLIO GEARING

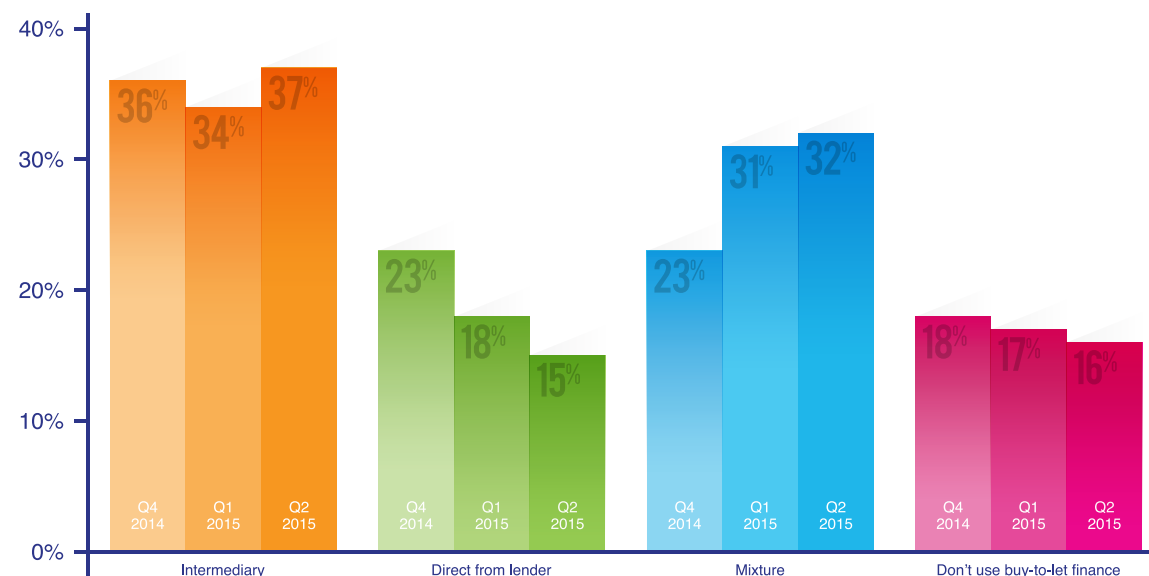
The level of equity deployed in landlords' portfolios remains significant, with the average loan-to-value standing at 40% in Q2. Although this has gone up slightly from 38% in Q1, it demonstrates that average borrowing remains fairly modest.



BUY-TO-LET FINANCE

Intermediaries continue to be the most popular channel to source finance through for landlords, with 37% sourcing exclusively via intermediaries. This demonstrates landlords' continued recognition of the benefits of using a trusted and experienced intermediary to help source the most appropriate finance for their needs.

Sourcing direct from lenders has become less popular, with the proportion of landlords doing this reducing consecutively over the past few quarters, from 23% in Q4 2014, 18% in Q1 2015 and 15% in Q2.



PRODUCT SELECTION

For more than half (58%) of landlords, the most important factor in selecting a buy-to-let product is interest rates. Attention to interest rates has become more prominent over the past few months, rising from 53% of landlords in Q1.

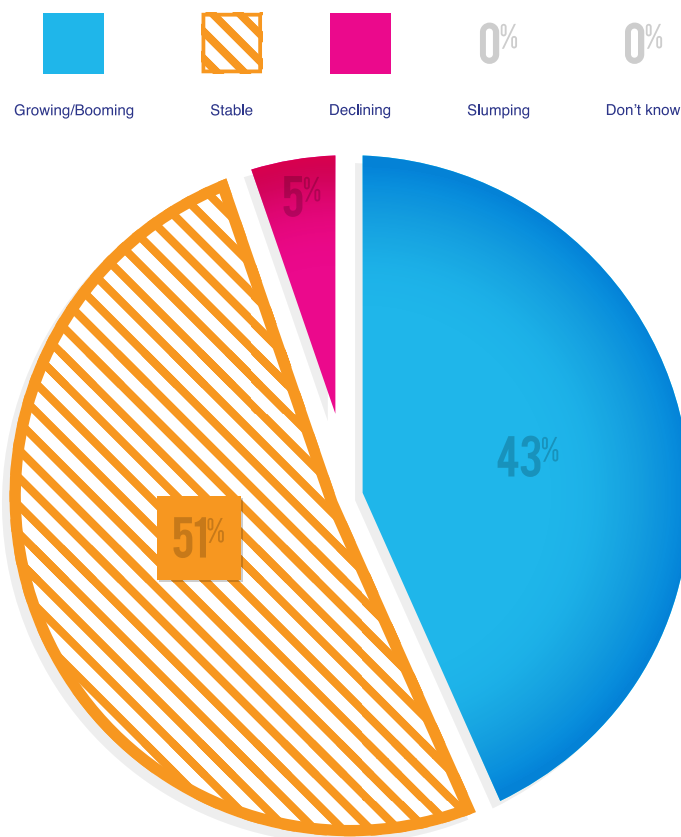
PROPERTY MANAGEMENT

More than half (52%) of landlords manage their property portfolios themselves, up slightly from 51% in the previous quarter. In comparison, 30% of landlords manage their portfolios partly by themselves and partly through an agent, whereas 18% manage solely through agents. This is a significant reduction in those who manage exclusively through agents, falling from 24% in Q1.

TENANCY DEMAND

Tenant demand remains high, with 43% of landlords saying that demand is either growing or booming, and over half (51%) saying that demand is stable. Compared with the previous quarter, the proportion of landlords who think demand is growing or booming has increased slightly from 42%.

In terms of future tenant demand, over half (51%) of the landlords surveyed believe this will increase over the next 12 months – a significant increase on the 45% of landlords in Q1.



TENANT TYPES

For landlords surveyed in Q2, young couples, young singles and families with children are their most common tenant types, at 47%, 43% and 42% respectively.

TENANCY TERMS

In Q2 only a small proportion of tenants request longer-term agreements. Whilst tenants may choose to stay in a private rented property for a considerable time, 92% did not request a tenancy term of longer than two years.

VOID PERIODS

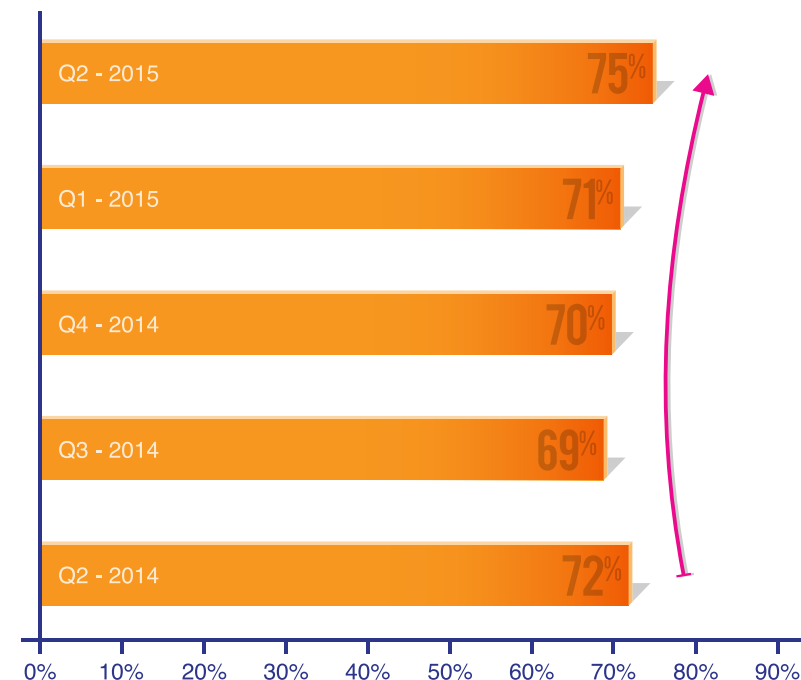
The average void period per year for all landlords is 2.7 week. This has jumped slightly from 2.4 weeks in Q1 but remains within the typical average void period of between 2.6 and 3.0 weeks. Since 2002, the average void period has remained fairly stable between these two time periods, despite the occasional anomaly.

RENTAL YIELDS

Rental yields represent rent receivables as a percentage of portfolio value. In Q2, landlords reported an average gross rental yield of 6.3%, up slightly from 6.2% in Q1. Looking ahead over the next 12 months, landlords expect this figure to remain steady at 6.3%.

ARREARS

Landlords are confident that levels of arrears will remain stable over the next year, with three quarters (75%) of those surveyed sharing this view. Looking back over the past year, landlords' confidence in the stability of arrears levels has continued to increase since Q3 2014, following a slight dip between Q2 2014 and Q3 2014.

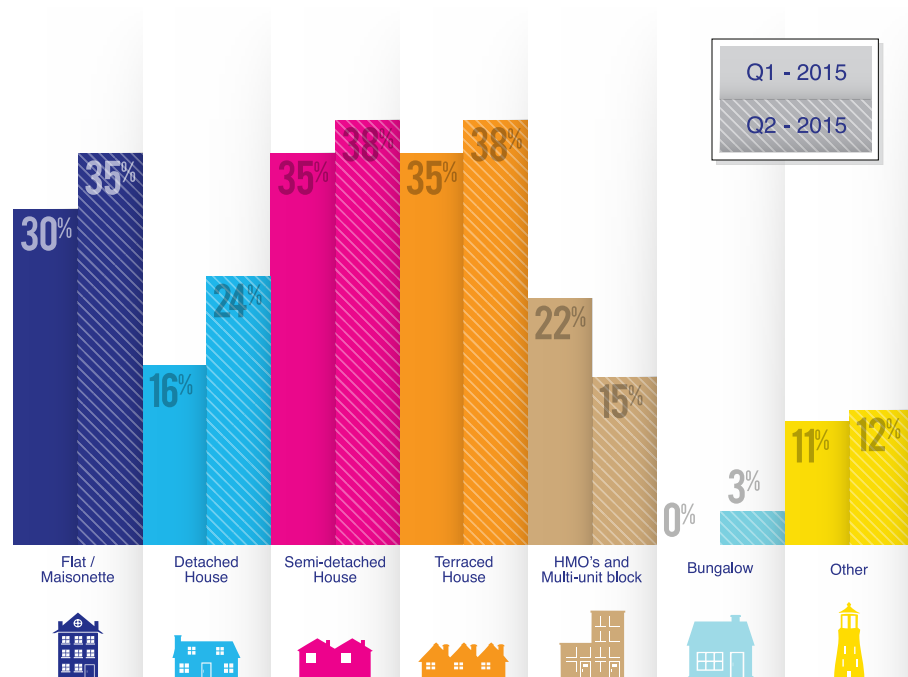


INVESTMENT EXPECTATIONS

Almost one third (32%) of landlords expect to see an increase in their net investment in property over the next 12 months, when accounting for property values, sales and purchases. Looking back, 25% of landlords said this in Q1, showing a notable increase.

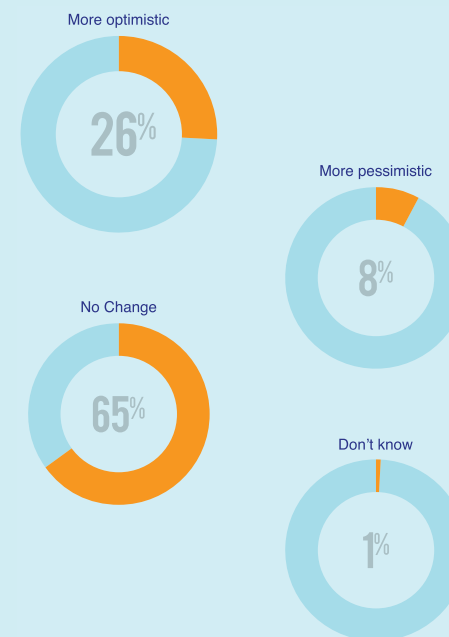
PURCHASE EXPECTATIONS

Almost a fifth (17%) of landlords expect to purchase a buy-to-let property in the next quarter. Among those looking to make a purchase, this is most likely to be either a terraced (38%) or semi-detached (38%) property. The proportion of landlords looking at more specialised rental properties (15%) such as HMOs and multi-unit blocks, has noticeably reduced from 22% in Q1. Whereas, the proportion looking at detached properties has increased significantly from 16% in Q1 to 24% in Q2.



PROSPECTS FOR PORTFOLIOS

More than a quarter (26%) of landlords are more optimistic about the prospects for their property portfolios and only 8% are more pessimistic, down slightly from 9% in the previous quarter.



PROSPECTS FOR THE PRS

Landlords are fairly positive about prospects for the PRS going forward. On average, positivity among those surveyed was recorded at 6.8 out of ten, where ten equates to very positive.



FOR MORE INFORMATION CONTACT :

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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 and an active acquirer of loan assets and portfolios and has most recently established a banking subsidiary, Paragon Bank.

Paragon has £10.5 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.