

Steady progress in the PRS



Paragon Mortgages latest PRS (Private Rented Sector) trends data report paints a picture of a stable market. Yields have seen modest improvements and void periods, the average amount of time PRS properties spend unoccupied, are at historic lows.

More than half of those landlords surveyed report steady tenant demand over the quarter, while 40% said tenant demand was either 'growing' or 'booming'. The percentage of respondents expecting tenant demand to remain stable over the coming 12 months, or grow, has also increased from 85% to 89%.

The latest data also shows that average yields have grown over the last three months from 6.3% to 6.4%. This improvement is in line with steady growth seen throughout 2015. In another key indicator of confidence that the PRS market will remain stable, landlords indicated that they expect yields to remain stable and maintain current levels over the coming 12 months.

On the direct question of whether or not landlords intend to purchase properties over the coming 12 months, the figures again show a steady market, and a slight increase in optimism. Those intending to buy are up from 16.8% to 18.4%. Reflecting the overall stability of the market, however, landlords on average expect the number of PRS properties in their portfolio to be the same as they are currently in 12 months' time.

Void periods remain historically low at just below 2.6 weeks. This could be a reflection of the changing demographics of those choosing to live in the PRS. The most recent data shows an increase in the numbers of families with children moving into the PRS, and a corresponding decrease in young couples without children and single professionals.

But despite the changing makeup of the tenant population, demand for longer-term rental agreements remains relatively low. These demographic changes also appear to be reflected in the on-going buying intentions of landlords who are investing more in traditional family housing.

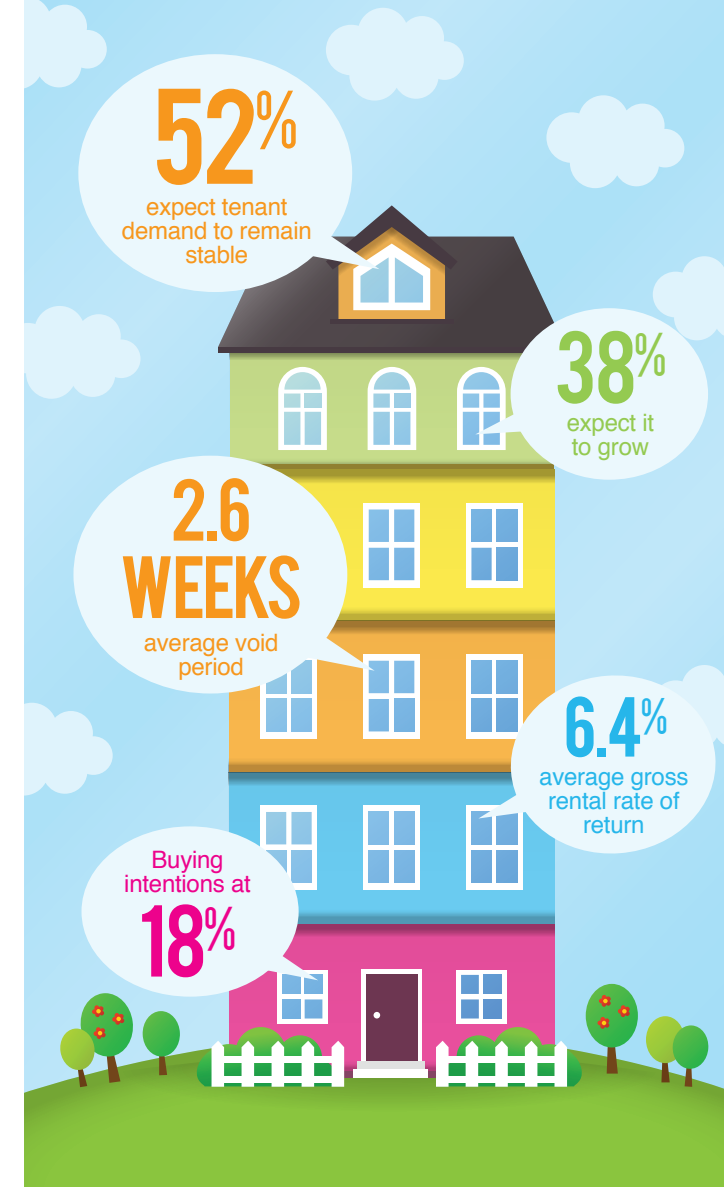
On the question of how landlords view their portfolios compared with three months ago, levels have remained stable throughout 2015 and continue to do so in the latest data. Those feeling a little more optimistic are up by 1.6% and a majority (58%) report that optimism levels are unchanged since the last quarter.

So, in all, this quarter's results present a picture of a PRS sector that is neither booming nor contracting, but rather growing steadily. There is room for improvement and it will be interesting to see, in future reports, if macroeconomic concerns about the stock market and the Eurozone, and changes in tax and regulation such as those recently announced by the Chancellor, have an impact on sentiment. For the time being however, landlords are seeing steady growth and they expect to see this continue as demand for quality PRS accommodation remains buoyant.

John Heron

Managing Director, Paragon Mortgages

Q3 2015 HEADLINES

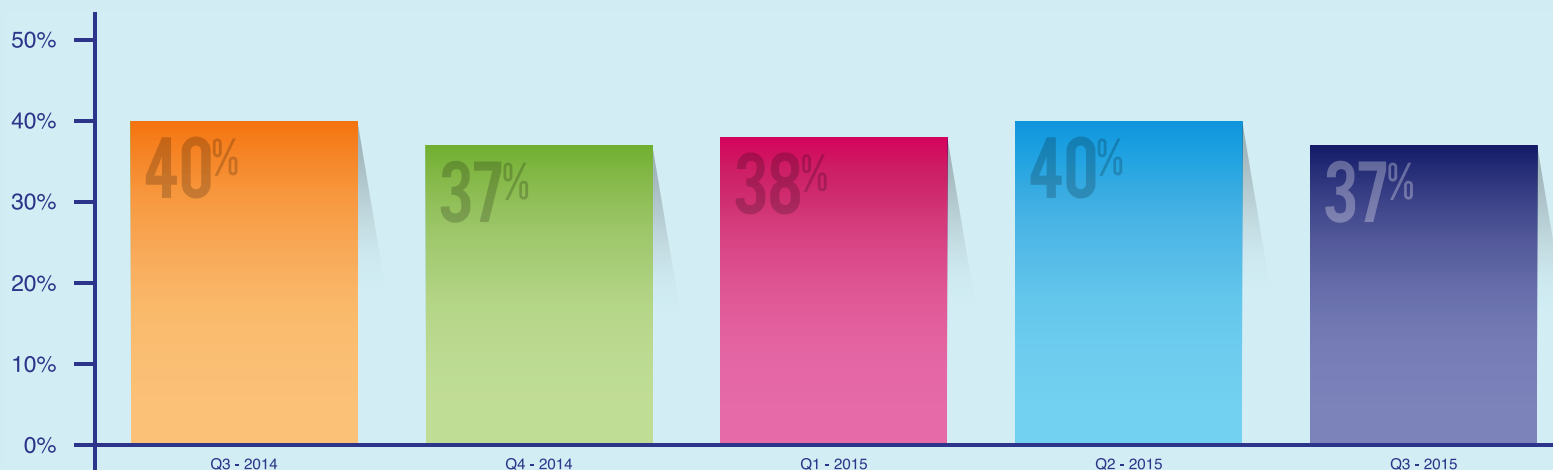


OUR LANDLORDS

Our landlord panel are an experienced group, with 85% having been residential landlords for ten years or longer and more than a quarter (27%) having been involved in the Private Rented Sector for more than 20 years.

PORTFOLIO GEARING

The level of equity in landlords' portfolios remains significant, with the average loan-to-value standing at 37% in Q3, down from 40% in Q2. Aggregate loan-to-value levels across landlord's portfolios remain at prudent levels.



PORTFOLIO SIZE AND VALUE

The size of the average property portfolio is 12.8 properties and our landlords expect this to remain the same over the next 12 months.

In terms of the average value of property portfolios, this has remained unchanged since last quarter at £1.59 million. On average landlords expect the value of their portfolios to grow by 3.5% over the next 12 months.

PRODUCT SELECTION

For more than half of landlords (55%), the most important factor when selecting buy-to-let products, remains interest rates – though this figure is down slightly on last quarters (58%). Reflecting the slight shift away from interest rate consideration, other factors such as loan-to-value ratio and existing relationships with lenders have grown in importance to landlords selecting products.

INCOME TAX RELIEF CHANGES

In July the Chancellor announced that in future, tax relief on buy-to-let mortgages would only be available at the basic rate of 20%.

We asked landlords what impact this would have on their portfolio strategies. While more than half (47%) of landlords indicated that they wouldn't be making any changes to their portfolios as a result of income tax changes, a significant 31% said they may buy fewer, or no further properties as a result of the changes. A further 18% indicated that they would consider selling some properties.

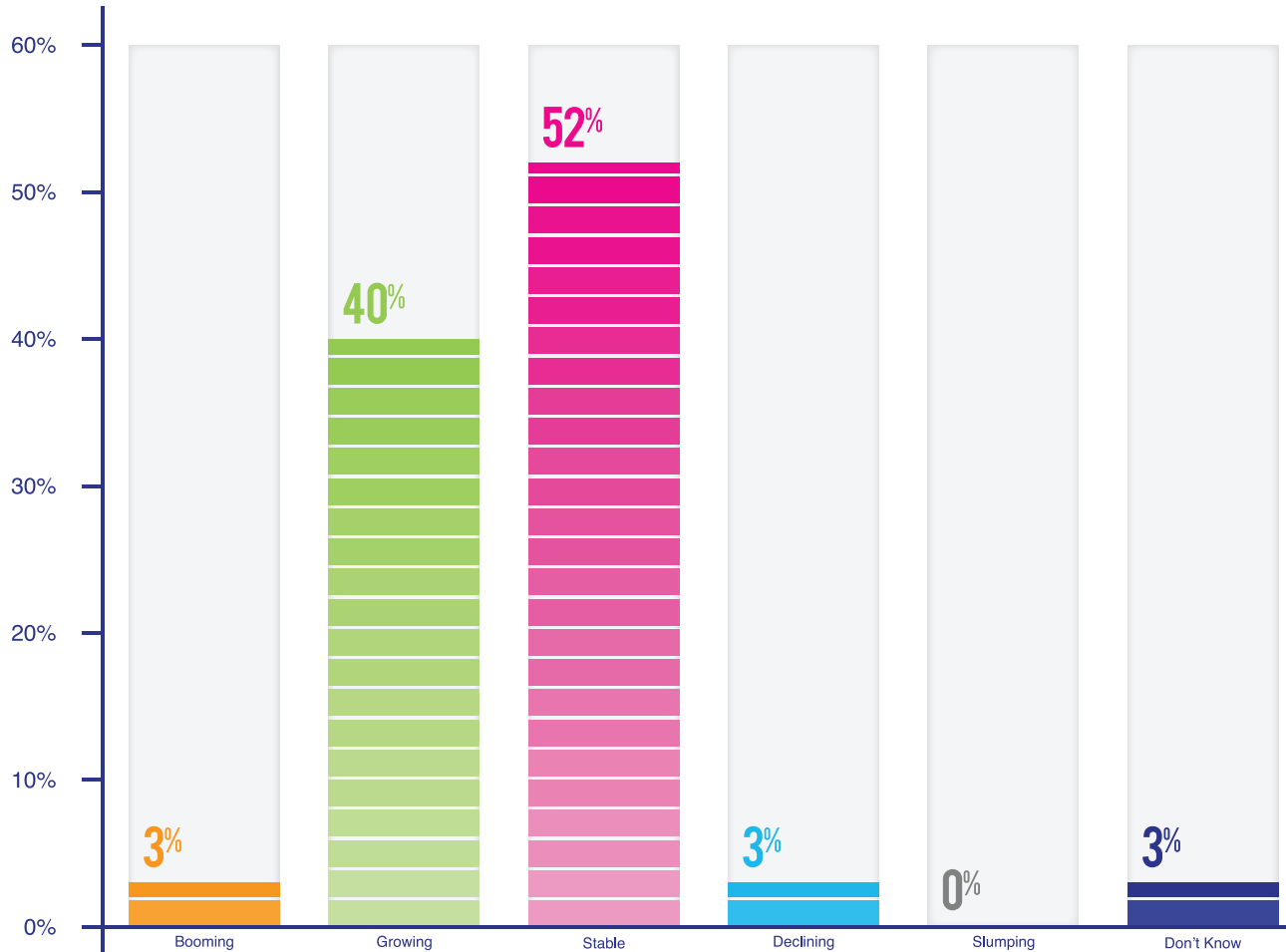
In terms of managing the extra costs incurred as a result of the income tax changes, 71% of landlords indicated that they would increase rents to compensate for increased costs, while 14% said they would seek to recoup the full increase in costs through higher rents.



TENANCY DEMAND

Tenant demand is high, with 40% of landlords saying that demand is either growing or booming, only a slight decline on last quarter's figure of 43%. Those describing demand as stable however, have increased since Q2 from 51% to 52%.

Expectations of future demand also remain positive with 50% expecting demand to be growing or booming in 12 months' time, unchanged from the previous quarter. While those expecting demand to remain stable over the next 12 months has moved from 38% to 42%.



TENANT TYPES

In Q3 landlords reported families with children (45%), young couples (44%) and white collar professionals (40%) to be the most significant tenant groups. This represents a reduction in the percentage of young singles towards young couples and couples with children and indicates that the PRS is increasingly attractive to more 'settled' tenants.

PROSPECTS FOR PORTFOLIOS

More than a quarter (27%) of landlords are more optimistic about the prospects for their property portfolios (up from 26% in Q2) and 14% are more pessimistic, up from 8% in Q2.



RENTAL YIELDS

Rental yields represent rent receivable as a percentage of portfolio value. Gross rental yields for Q3 averaged 6.4%, continuing an upward trend from 6.3% in the previous quarter and 6.2% in Q1. Landlords expect to be generating the same level of yield in 12 months.

INVESTMENT EXPECTATIONS

Almost one third (31%) 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. This is a fractional decrease on the previous quarter's figure of 32%, but still well above the figure of 25% seen in Q1.

PROSPECTS FOR THE PRS

Landlords are up-beat about prospects for the PRS going forward. On average, positivity among those surveyed was recorded at 6.7 out of ten, where ten equates to very positive.

TENANCY TERMS

Low demand for longer-term tenancies continues to be the trend with 58% of landlords reporting that 10% or fewer tenants are requesting terms of more than two years. This is an increase from last quarter's figure of 56%.

VOID PERIODS

Average void periods for Q3 remain historically low at 2.6 weeks, down from 2.7 weeks in Q2. This continues a trend underway since 2002, with the average void period remaining stable, despite occasional anomalies.



FOR MORE INFORMATION CONTACT :

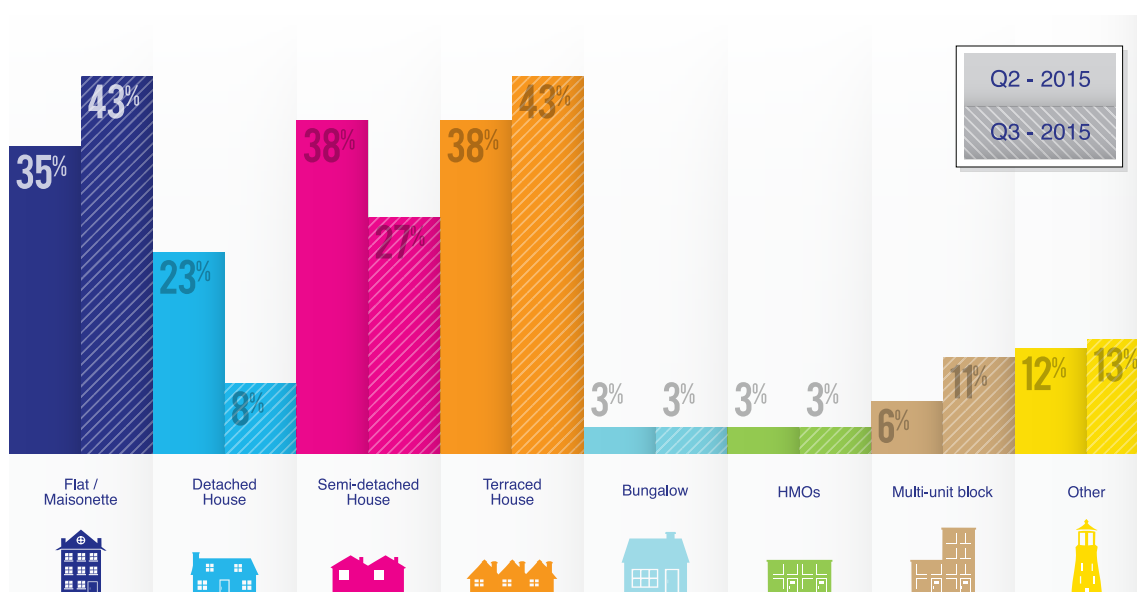
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PURCHASE EXPECTATIONS

Almost a fifth (18%) of landlords expect to purchase a buy-to-let property in the next quarter, up from 17% in Q2.

Among those looking to make a purchase, this is most likely to be either a terraced house (43%) or a flat/maisonette (43%). The proportion of landlords looking at more specialised rental properties (16%) such as HMOs and multi-unit blocks, has increased slightly from 15% in Q2 but is still well below the figure of 22% seen in Q1.



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.