

A balanced final quarter



Paragon Mortgages latest PRS Trends report comes against a background of more negative sentiment around the buy-to-let market driven by a sharp change in government policy towards the sector. The latest data was gathered just prior to the Autumn Statement which saw the Chancellor announce a 3% increase in stamp duty for purchases of second homes and buy-to-let properties.

Respondents to the survey have, however, had several months to digest the implications of the government's changes to the taxation of rental income, and sentiment around these changes is now starting to come through in the data. While there has been a slight dip in optimism in Q3 - this is to be expected given the level of change the market is expected to see. Despite the changes in the pipeline, our landlord panel remains generally optimistic about the PRS, and about their portfolios.

On the question of how many properties landlords expect to have in their portfolios in 12 months' time, a majority of landlords expected to retain their position - with no change in the size of their portfolios over the coming year. This sentiment is less positive than for the same period in 2014, when landlords expected to see modest growth in their portfolio. It does, however, represent a recovery from the first two quarters of 2015, when landlords expected to see a reduction.

And while there has been some reduction in the number of landlords expecting to purchase a property in early 2016, the figure remains stable and in line with its position in Q4 2014.

On the direct question of how optimistic or pessimistic landlords are feeling, sentiment is largely stable.

While the volume of respondents feeling 'much', or 'a little more' optimistic has reduced slightly, so has the volume of those feeling 'much', or 'a little more' pessimistic. Q4 2015 has in fact seen respondents consolidating around a position of 'no change' in levels of optimism or pessimism.

So, why is sentiment not more negative, given the scale of change in the sector?

The fundamental engine behind the buy-to-let market is tenant demand, and our latest report indicates that this remains as strong as ever. Those reporting tenant demand as either 'booming' or 'growing' stands at 43% in our latest report, up 2% on the previous quarter. Similarly, those reporting a decline in demand are down 2.5%.

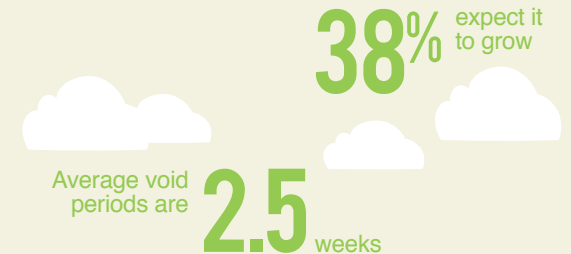
And this demand is ensuring that void periods remain at historic lows with more than half of respondents (51%) indicating that their properties stand empty for less than two weeks per annum. Consequently, yields remain incredibly stable, maintaining the position they have held - barring some minor fluctuations - since 2009.

Our report shows that landlords do have concerns about impending policy changes, which is to be expected. However, efforts by the government to balance the market away from buy-to-let investors are not impacting the demand that drives the market, for affordable, quality homes in the Private Rented Sector. Landlords will need to adapt to square the circle of rising demand and increasing taxes - and it will be interesting to see if the balance between landlords operating as individuals and those operating via a limited company changes through 2016. But what is clear is that with void periods low, and yields stable, buy-to-let will remain an attractive option for many.

John Heron

Managing Director, Paragon Mortgages

Q4 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 SIZE AND VALUE

The size of the average property portfolio is 12.7 properties and our landlords expect this to remain the same over the next 12 months.

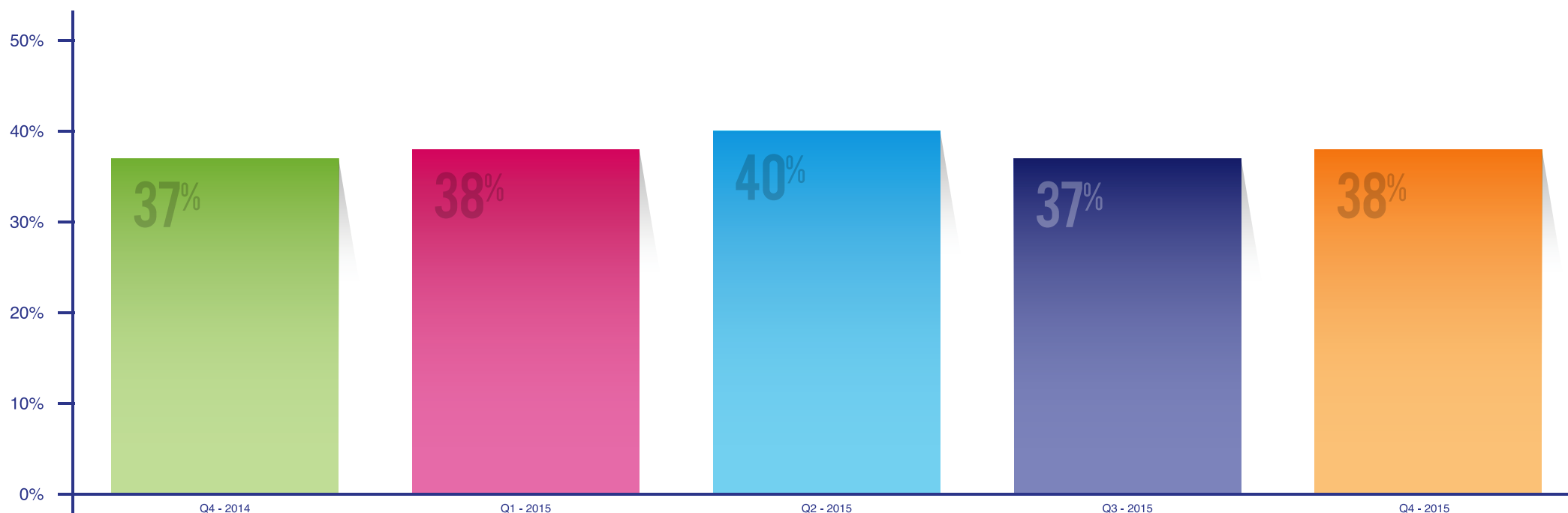
Our landlord panel reported an average property portfolio value of £1.52 million in Q4 2015, a slight reduction on the previous quarter (£1.59 million). On average landlords expect the value of their portfolios to grow by 2.8% over the next 12 months.

INCOME TAX RELIEF CHANGES

When asked what action they would likely take in response to the limiting of income tax relief for landlords announced by the government in summer 2015, more than half of landlords (53%) indicated that they may increase rent to recoup some of the losses made. 51% of landlords said they may sell some of their portfolio and not buy any further properties while 2% of respondents said they would sell all of their properties. Nearly a third of landlords (32%) also indicated that they would consider moving their portfolio into a limited company structure.

PORTFOLIO GEARING

The level of equity in landlords' portfolios remains significant and steady over the long-term. The average loan-to-value stands at 38% in Q4, a slight increase on Q3 but in line with 2015 overall. Aggregate loan-to-value levels across landlord's portfolios remain at prudent levels.

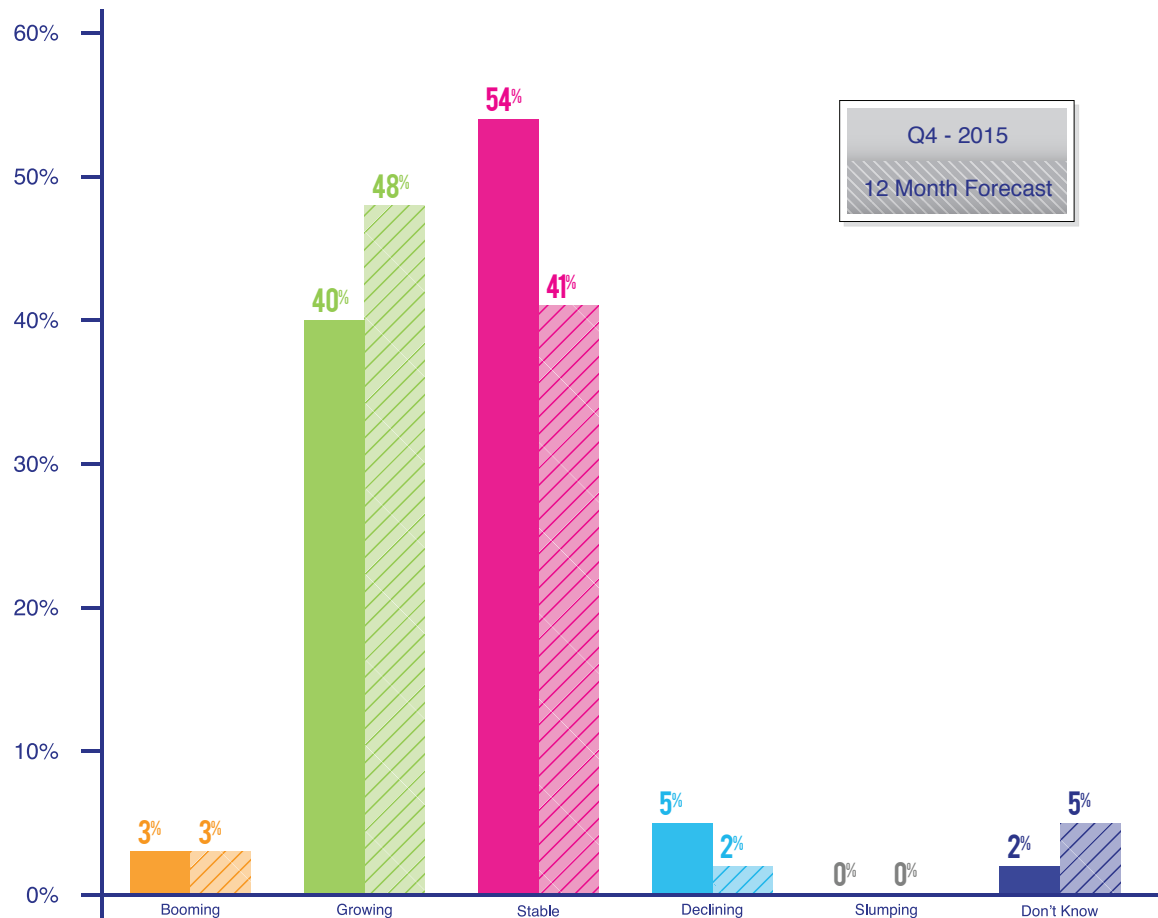


TENANCY DEMAND

Tenant demand remained high in Q4 2015 – in line with long-term trends. Of the landlords surveyed, 43% indicated that demand was either 'growing' or 'booming', up 3% on the previous quarter. Those describing demand as 'stable' also saw a slight increase in Q3 2015 while there was a decrease in those reporting a dip in demand.

FUTURE TENANT DEMAND

On the question of how demand will change over the coming 12 months, sentiment has remained largely unchanged on the previous quarter with a majority of respondents (48%) expecting tenant demand to continue to 'grow'. Just behind this, 41% expect demand to remain stable while a minority of 3% expect demand to 'boom' in 2016.



LIMITED COMPANIES

A majority of landlords surveyed, 82%, hold their property portfolio as private individuals. Just 3% currently operate as a limited company, while 14% operate as both an individual and as a limited company. These figures are broadly similar among both professional and smaller-scale landlords. As the government's changes to tax relief come closer however, we may see these figures shift towards more landlords operating via limited company structures.

VOID PERIODS

Void periods have fallen again in Q4 2015, beating the historical low set in the previous quarter. On average landlords report that their rental properties now stand void for just 2.5 weeks per annum, down from 2.6 weeks in Q3 2015.

RENTAL YIELDS

Rental yields represent rent receivable as a percentage of portfolio value. Gross rental yields for Q4 averaged 6.3%, a slight reduction from 6.4% in Q3 2015 but in line with a gradual growth in yields over the course of 2015 and a long-term, upward trend in yields. On the question of where landlords expect yields to be in 12 months' time, landlords expect them to remain at the same level over 2016, giving an average figure of 6.4%.

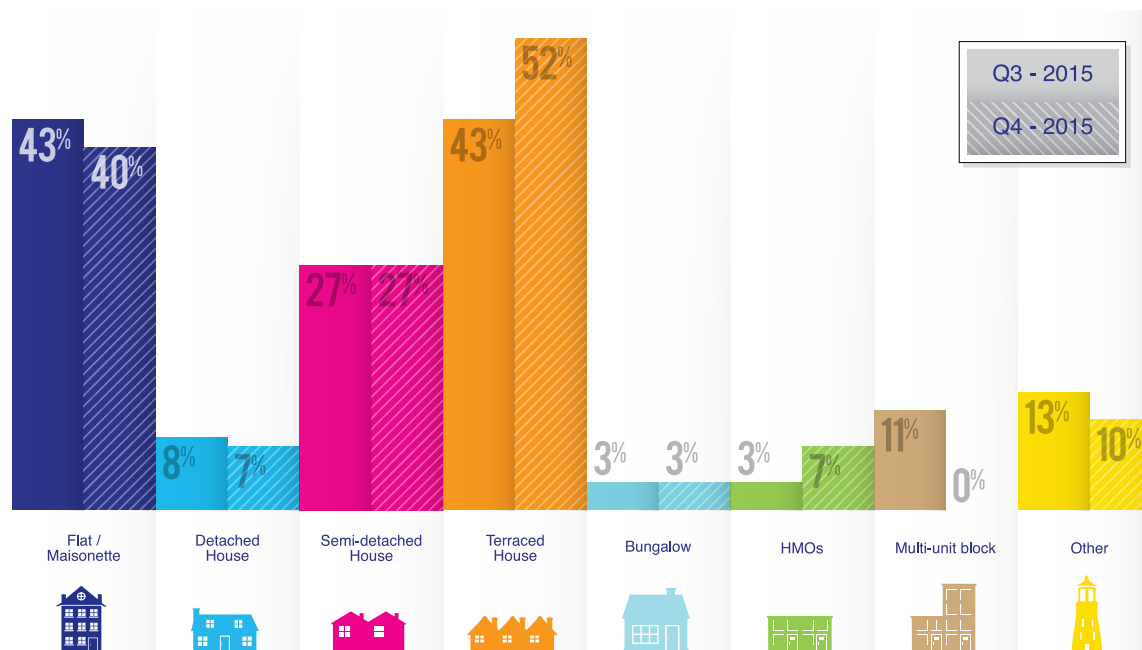
INVESTMENT EXPECTATIONS

Despite landlords reporting a decline on the average value of their portfolios since Q3 2015 (from £1.58m to £1.52m), nearly a third (29%) expect to see an increase in the net value of their portfolios over the coming 12 months. This compares with just 9% who expect to see a decrease. A majority of 62% expect the net value of their portfolio to remain the same throughout 2016.

PURCHASE EXPECTATIONS

14% of landlords surveyed expect to be purchasing a property in the next financial quarter, down from 18% in Q3 2015. This figure may well shift further as the impact of the government's stamp duty increase on buy-to-let properties becomes clearer.

Among those looking to make a purchase, terraced houses remain the most popular option, with just over half of those looking to make a purchase (52%) expecting to invest in a terraced house. Flats and semi-detached properties also remain popular with landlords, representing a clear preference for the traditional 'safe havens' or buy-to-let investment.



FOR MORE INFORMATION CONTACT :

Liam Thompson
PR Account Manager

0121 712 2601
liam.thompson@paragon-group.co.uk

ABOUT PARAGON

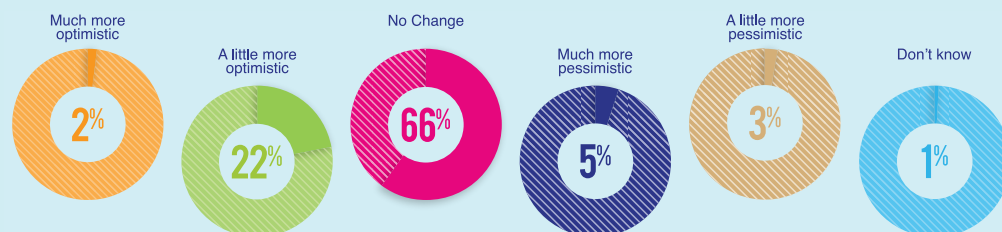
Paragon Mortgages' PRS Trends report has been tracking sentiment among residential landlords since 2001 with a panel of approximately 200 landlords. For this quarter's report, 203 landlords were surveyed.

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 £11.2 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.

PROSPECTS FOR PORTFOLIOS

Optimism levels have remained steady amongst landlords in Q4 2015. Nearly a quarter of landlords (24%) report they are 'much more' or 'a little more' optimistic about their portfolios compared to the previous quarter.



PROSPECTS FOR THE PRS

Despite uncertainty around buy-to-let investment at present, landlords surveyed remain largely positive about the sectors prospects in 2016. On average, positivity among those surveyed was recorded at 6.9 out of ten, where ten equates to very positive and one to very negative. This represents an increase from 6.7 in the previous quarter.