



**John Heron**

Managing Director - Mortgages, Paragon

### Q3 2017 HIGHLIGHTS

- Average number of residential properties owned by landlords remains at 13
- Average LTV of investment property portfolios was 35% in Q4 2017
- More than half of landlords say decision to sell properties is not dependent on interest rate

# LOW GEARING IS GOOD NEWS FOR THE BUY-TO-LET SECTOR

Landlords are continuing to reduce borrowing as levels of gearing reached an all-time low in Q4 2017, suggesting lending in the buy-to-let sector has been perfectly sustainable in the long-term.

Average gearing of investment property portfolios was 35% loan-to-value (LTV) in Q4 2017, the joint-lowest level recorded in over 15 years, as recent fiscal and regulatory changes targeting landlords have dampened landlord motivation to take higher LTV buy-to-let mortgages.

Contrary to the view held by some, there is strong evidence over an extended period that gearing levels have consistently been at prudent, sustainable levels in the buy-to-let sector, with a peak of 43% LTV across all types of landlord in the last 15 years. Since that peak in 2012, gearing has been on a downward trend.

In response to Government tax relief changes and increased stamp duty imposed in the last two years, landlords are clearly less willing to take higher loan-to-value mortgages and borrow more. Meanwhile, regulatory changes and more stringent rules on affordability criteria, though welcomed by Paragon and other lenders, have constrained the market in its ability to finance buy-to-let lending.

There is no evidence to suggest lending to landlords has been anything but sustainable, and recent evidence shows that landlords are, in fact, reducing LTVs. Given current low levels of gearing, landlord sensitivity to increased mortgage interest rates is much lower than might be expected, which is good news for the buy-to-let sector.

Asked at what point they might need to sell properties in the event of rising mortgage interest rates, landlords appear confident of coping with increased outgoings, with more than half (51%) of landlords saying any decision to sell properties is not dependent on mortgage interest rate.

Of those that do believe they would need to sell properties due to rising mortgage interest rates, the majority (12%) believe they would not need to take any action until base rates reached at least 5%.

Despite much noise to the contrary, and whilst some landlords have responded to a turbulent market by selling property, we've seen no material evidence of a mass 'sell-off' by landlords. What we continue to see is strong performance of property portfolios, with a long-term upward trend in values and a stable outlook in portfolio size and returns.

Our Q4 2017 PRS Trends report points to continued stability in the buy-to-let sector, with the average number of properties owned by landlords still 13 for the third successive quarter and in line with the long-term average of 13 properties since the end of 2007. The average market value on property portfolios in Q4 2017 is £1.65 million, nearing record levels and continuing the long-term upward trend tracked from £1.3 million in 2004.

The average gross rental rate of return for all landlords in Q4 2017 was 6.3%, in line with the long-term average tracked for over ten years.

In summary, the buy-to-let sector appears to be performing well and key indicators show evidence of resilience and long-term sustainability. As ever we must remain cautious, with more challenging times ahead for landlords, but we can take confidence going into 2018 as landlords continue to meet these challenges.

### John Heron

Managing Director - Mortgages, Paragon



**There is no evidence to suggest lending to landlords has been anything but sustainable.**



## OUR LANDLORD PANEL

Our panel is an experienced group of buy-to-let landlords, with 86% of the 201 surveyed for this report having been landlords for more than ten years, and 38% for more than 20 years. More than two thirds (67%) of the landlords surveyed in Q4 2017 are classed as professional – owning three or more properties – and our sample is an accurate reflection of both the rented residential sector and Paragon's customer base of residential landlords.



**85%**

LANDLORDS FOR 10 YEARS +



**35%**

LANDLORDS FOR 20 YEARS +



**66%**

OWNING THREE OR MORE PROPERTIES

## PORTFOLIO SIZE

The size of the average portfolio in Q4 2017 is stable at 13 properties, unchanged in a year and consistent with the long-term average of 13 properties since the end of 2007. Landlords have indicated they do not expect their property portfolios to change in size over the next 12 months.

### Average number of rented residential properties in potrtfolio



## PORTFOLIO VALUE

The average market value on property portfolios in Q4 2017 is £1.65 million, nearing record levels and continuing the long-term upward trend tracked from £1.3 million in 2004.

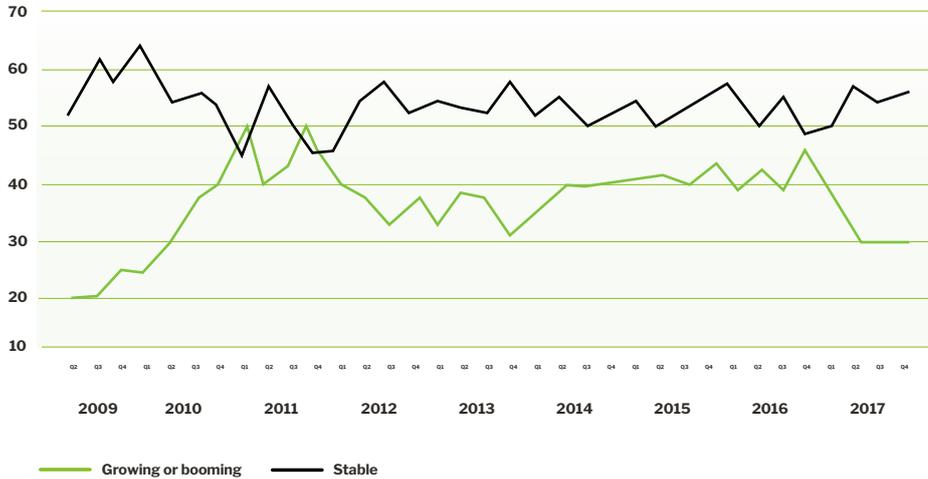
### Average market value of investment property portfolio



# TENANT DEMAND

30% of landlords believe demand is either 'growing' or 'booming' for the third successive quarter, as demand remains substantially lower than the peak of 50% in 2011 but remains on a modest long-term upward trend from 20% in 2009.

## How tenant demand for residential property is changing



# VOID PERIODS

The average void period remained stable again in Q4 2017 at 2.7 weeks. This has now held level for over a year, and is consistent with the long-term average over the past six years, adding further evidence that the balance between the supply of property to the PRS and tenant demand is finely balanced.

## Average void period

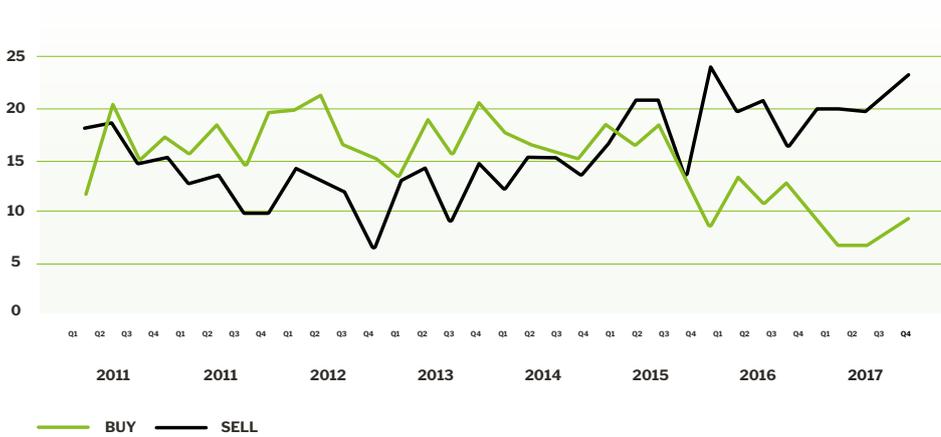


# BUYING VS. SELLING EXPECTATIONS

For the first time in over a year, the number of landlords expecting to purchase buy-to-let property in the next quarter increased, from 7% in Q3 2017 to 9% in Q4. This is, however, an increase from record lows and remains some way off the peak of 20%.

Whilst the disparity between landlords expecting to buy and sell didn't increase further in Q4 2017, more landlords also say they expect to sell some or all of their buy-to-let property in Q1 2018, up 4% to 23%, the second highest percentage ever recorded.

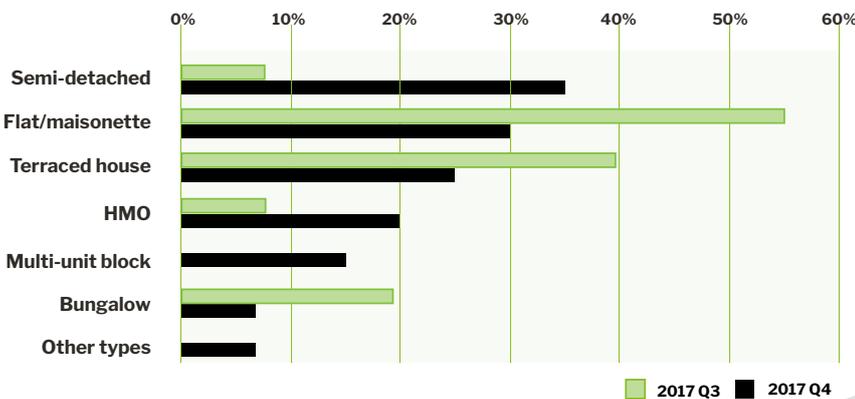
## Proportion of landlords expecting to buy and sell property in the next quarter



# PROPERTY TYPES

Amongst landlords expecting to purchase buy-to-let property in Q1 2018, the most common type of property is semi-detached, with over a third (35%) indicating this as most likely. There is a notable decrease in the proportion of landlords expecting to purchase a flat/maisonette, down to 30% from 55% in Q3 2017.

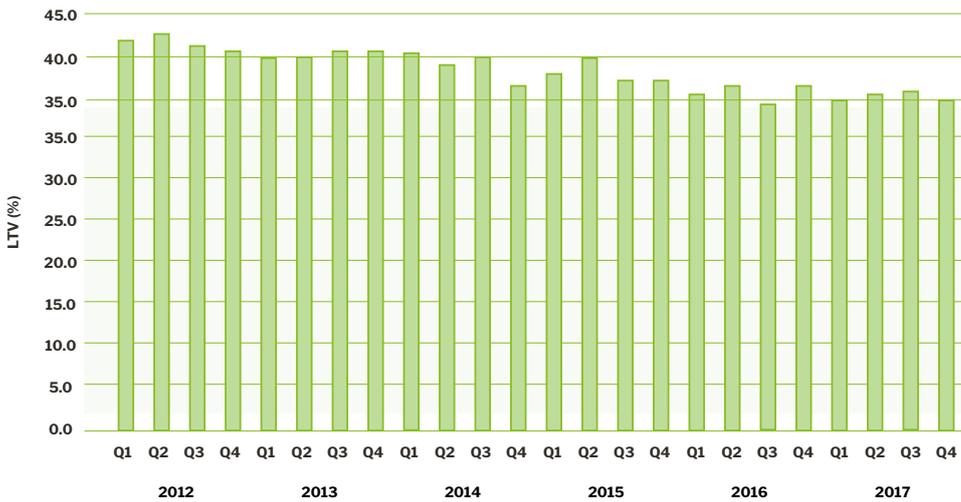
## Type of property expected to purchase



# GEARING

Landlords are continuing to reduce borrowing as levels of portfolio gearing reached an all-time low in Q4 2017. Average gearing of investment property portfolios was 35% loan-to-value, the joint-lowest level recorded in over 15 years, as recent fiscal and regulatory changes targeting landlords have dampened landlord motivation to take higher LTV buy-to-let mortgages.

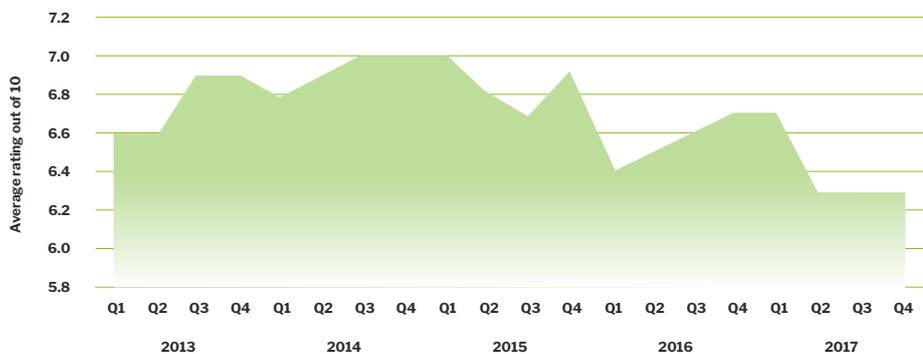
## Average gearing of investment property portfolios



# OVERALL PROSPECTS FOR THE PRS

Following a sustained upward trend in the year between Q1 2016 and Q1 2017, optimism in Q2 2017 decreased from a score of 6.7 out of ten to 6.3 and this persisted for the remainder of the year. This maintains the lowest recorded figure since we began tracking overall prospects for the PRS in the following 12 months, in Q1 2012.

## Overall prospect for the PRS in next 12 months



# ABOUT

Paragon is a leading provider of buy-to-let mortgages for landlords with property portfolios, both big and small, through its portfolio and non-portfolio range.

Paragon lends to private individuals and limited companies and has mortgages suitable for single, self-contained properties, as well as HMOs and multi-unit blocks. Paragon can accommodate higher aggregate lending limits and more complex letting arrangements including local authority leases and corporate leases along with standard ASTs.

Paragon introduced its first product aimed at the professional property investor in 1995 and is a member of UK Finance, the Intermediary Mortgage Lenders Association (IMLA), National Landlords Association (NLA) and the Association of Residential Letting Agents (ARLA).

Paragon Bank PLC a subsidiary of the Paragon Banking Group PLC which is a FTSE 250 company based in Solihull in the West Midlands. Established in 1985, Paragon Banking Group PLC has over £12 billion of assets under management and manages over 450,000 customer accounts.

Paragon Bank PLC is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England number 05390593. Registered office 51 Homer Road, Solihull, West Midlands, B91 3QJ. Paragon Bank PLC is registered on the Financial Services Register under the firm reference number 604551.

**Shaun Staff PR Account Manager**

**0121 712 2414**

**[shaun.staff@paragonbank.co.uk](mailto:shaun.staff@paragonbank.co.uk)**