

Private Rented Sector Trends Quarter 3 2010

Welcome to The Paragon Group's Private Rented Sector Trends Report, a quarterly survey of experienced landlords that tracks developments in the UK's buy-to-let market and wider private rented sector.



Paragon Group Chief Executive Nigel Terrington comments on issues affecting the buy-to-let market and private rented sector (PRS):

'The third quarter marked two important buy-to-let lender developments. Paragon returned to new lending in the buy-to-let mortgage market through the Paragon Mortgages brand, specifically targeting the professional landlords who have been underserved by current lenders. Given our experience and expertise in this area, Paragon's return was warmly welcomed by the mortgage intermediary and landlord communities.

'The quarter also saw the sector's largest lender, Lloyds, reduce its exposure to individual landlord customers, restricting them to a maximum of three properties, or £2 million, across its brands. This move further restricts options for professional or portfolio landlords. It will be professional landlords that will stimulate the growth of the private rented sector and they have been denied access to the finance required to enable them to expand their portfolios, as our research findings demonstrate.

'As Michael Coogan, the Council of Mortgage Lenders' Director General, recently stated, 'the golden age of home ownership is over, for the moment'. This is a sentiment we agree with. Mortgage lenders are not providing adequate levels of finance to owner-occupier borrowers and this situation could worsen if the Financial Services Authority's Mortgage Market Review proposals are taken forward. This could permanently exclude large segments of the UK population from the mortgage market, particularly those with imperfect credit histories.

'There is little option for these individuals other than to rent, and pressure on the PRS is expected to build over the coming months and years. Paragon's return will help open up finance options for professional landlords to expand the PRS and we look forward to helping them meet their buy-to-let needs.'

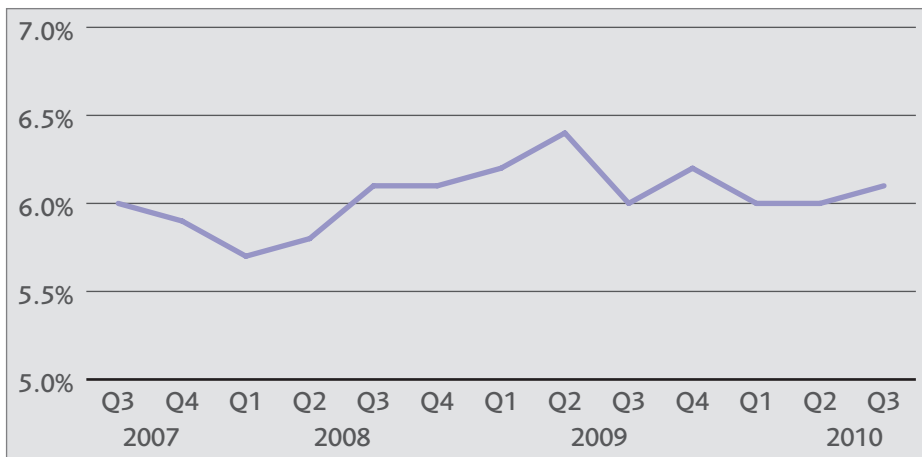
"The age of home ownership is over for now. Mortgage lenders are not providing adequate levels of finance to owner-occupier borrowers and this situation could worsen."

YIELDS EDGE UP

Yields increased slightly during the quarter to 6.1%, from 6% in the second quarter. Yields, a portfolio's annual rental income as a percentage of its total value, rose during 2008 and the first half of 2009 in line with the general weakness in the housing market. However, they have bounced between 6% and 6.2% for the past five quarters. There is a distinct difference in the yields achieved by professional and smaller scale landlords. Professional landlords achieved a yield of 6.4% across their portfolio, compared to 5.1% for smaller scale landlords.

The average number of properties in a portfolio ticked up during the period, from 12 during the second quarter to 12.5 in the third. The average investment property portfolio had a value of £1.45 million, with the average gearing – the level of borrowing as a proportion of the property's value - steady at 37%.

AVERAGE CURRENT RENTAL RATE OF RETURN

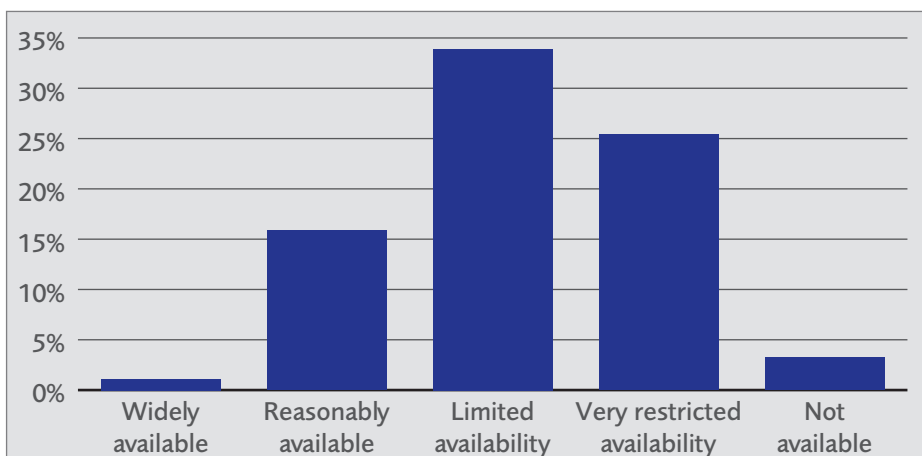


MORTGAGE FINANCE

The availability of mortgage finance to property investors continued to be constrained during the period. Although 17% of landlords said that mortgage finance was either widely or reasonably available, 34% stated there was limited availability, with a further 29% reporting very restricted availability. The remaining 20% were unsure or were not actively looking for mortgage finance during the period.

However, there was a clear split between the view of professional and smaller scale landlords towards the availability of finance. Over twice as many smaller scale landlords said that finance was widely or reasonably available (30%) than professionals (13%). The figures were mirrored amongst landlords reporting very restricted availability (30% professionals vs 13% smaller scale). This reflects the criteria adopted by many lenders in the buy-to-let market, which typically favours landlords with small portfolios.

VIEW OF CURRENT AVAILABILITY OF BUY-TO-LET FINANCE



LANDLORD OPTIMISM GROWS

Landlord confidence strengthened during the third quarter, with one in five landlords stating they were more optimistic regarding the prospects for their property portfolios compared to the previous quarter. The majority of landlords (65%) were unchanged in their view of their portfolio's prospects, whilst 13% were more pessimistic.

PRS Trends shows that 16% of landlords expect to purchase buy-to-let property during the fourth quarter of the year. Of those that intend to buy, terraced property is the most popular choice (62%), followed by semi-detached housing (35%).

QUICK STATS - Q3

yields **6.1%**

£ **1.45** million average portfolio value

gearing **37%**

3.1 weeks average void

"The availability of mortgage finance to property investors continued to be constrained during the period. For the majority of landlords, 63%, mortgage finance is either limited or very restricted. Just 17% say that mortgage finance is widely or reasonably available."

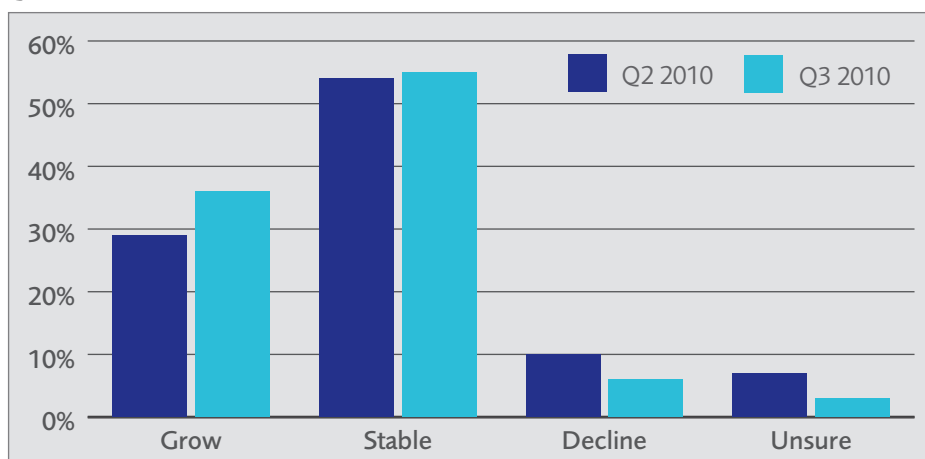
TENANT DEMAND ON THE UP

Tenant demand continued to strengthen during the third quarter, with 36% of landlords reporting growing levels of tenant demand for rented property, compared to 6% who said it was falling. Both of these variables were more positive than the previous quarter, when 29% of landlords reported growing tenant demand and 8% said it was falling.

Over half of landlords (55%) reported that tenant demand was stable during the third quarter, with 3% stating that they were unsure how tenant demand was moving.

Looking forward, 42% of landlords believe that tenant demand will be stronger in 12 months' time, which is a considerable increase on the previous quarter (35%), although a higher proportion of landlords (10%) forecast falling tenant demand over the next year compared to the previous quarter (8%).

QUARTERLY CHANGE IN TENANT DEMAND



VOIDS

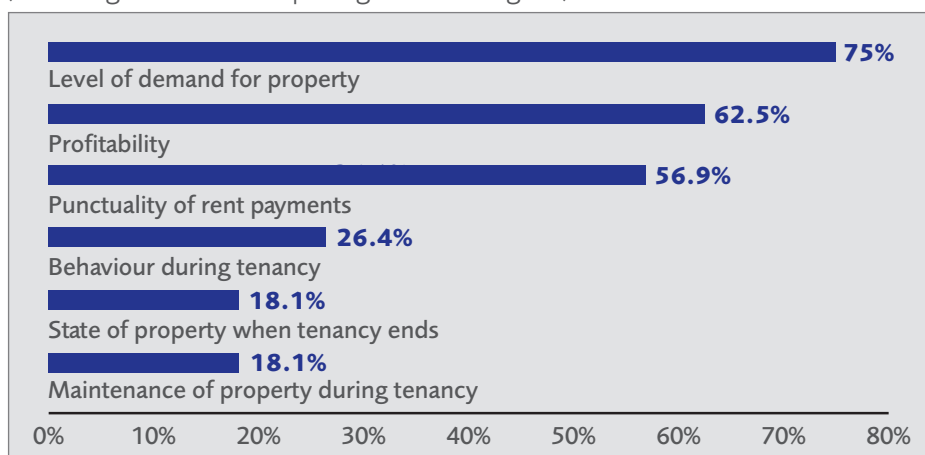
The average void period, the amount of time a property is left empty, across a portfolio is 3.1 weeks. For a third of landlords (34%), the average void period per year is less than two weeks, with 42% experiencing total void periods of between two and four weeks. Less than a quarter (24%) experienced voids of more than four weeks.

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STUDENT TENANTS

To mark the beginning of the academic year, we asked landlords about their experience of student lettings. Nearly four out of 10 landlords (38%) have experience of letting to students, with three quarters of those stating that they have good or excellent levels of tenant demand and 63% stating that students are a profitable sector to let to. Over half (57%) said students were punctual rent payers. However, students scored low on the maintenance of the property (18%) and the state of the property at the tenancy's end (18%). They also scored poorly on behaviour during the tenancy (26%).

LANDLORDS' EXPERIENCE OF STUDENT TENANTS (Percentage of landlords reporting excellent or good)



ABOUT US

Paragon is the UK's leading independent specialist provider of residential mortgages to professional and investor landlords, having launched our first specifically targeted mortgages in 1995. Paragon is a leading authority on the buy-to-let market and the wider private rented sector and its views are regularly sought by politicians, policy makers, financial analysts and the media.

Paragon is a member of the Council of Mortgage Lenders (CML), the Intermediary Mortgage Lenders Association (IMLA), the National Landlords Association (NLA) and the Association of Residential Letting Agents (ARLA) Lender Panel.

FOR FURTHER INFORMATION PLEASE CONTACT:

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