Mortgages for Business

# Property Investor Survey

Results June/July 2012

## Analysis of Results

The survey, the second of its kind, was launched on 25th June 2012 and ran for two weeks. In that time it was emailed to our property investor contacts database, advertised on the front page of the website - www.mortgagesforbusiness.co.uk and promoted through Facebook and Twitter. In total we received 159 responses.

Eighty per cent of investors who responded to the survey own between one and ten properties. This is probably because the majority of Mortgages for Business's clients are individual landlords (or couples) rather than institutional investors. Typical clients range from landlords who have a purchased 1-3 properties as part of an alternative pension strategy to professional landlords with a portfolio in excess of 10 properties. 35% of survey respondents own 4-10 properties, down 5% on the last survey issued in February 2012. Clearly not novices, these semi-professional landlords sit midway between the part-time and the professional landlord.

The majority of respondents (54%) own property less than 10 miles from their home and a further 18% own property 11-25 miles from home. This reinforces common advice which suggests that landlords should buy investment properties in locations they know well and believe are suited to the type of tenant they have chosen to target. Areas close to home also make sense if the landlord manages the property himself. Surprisingly, 15% own property more than 100 miles from home, up 5% on the previous survey.

As per the previous survey 16% of respondents own investment property in a limited company. Again this might be due in part to the small number of lenders willing to lend to limited companies and the tighter lending criteria attached to those that do.

When asked what types of properties investors owned, 96% said they had vanilla buy to let property in their portfolio. Properties in this category tend to be normal 1, 2 or 3 bedroom houses or flats that are easy to let to families, couples and professionals. Accessing finance is fairly straightforward as long as the borrower and the property meet the lender's standard lending criteria. This mainstream part of the market is known in the industry as vanilla buy to let and is where the majority of part-time and novice landlords operate. Professional landlords too tend to have a number of vanilla properties within their portfolio because even though they might return lower yields, they are usually easy to let and manage. According to the Mortgages for Business Complex Buy to Let Index, H1 2012 the average gross yield on vanilla buy to let property was 6.2%.

However, as could be expected of our client base in which we predominantly cater for semi-professional and professional landlords many respondents also had a variety of other property types within their portfolio. Specifically, 23% said they owned houses in multiple occupation (HMO), 30% said they owned multi-unit freehold blocks (MUFB), 15% said they owned semi-commercial property (SCP), and 19% said they owned commercial property. Yields from these more complex investment property types are typically higher than for vanilla properties. In H1 2012 average gross yields were

10% for HMOs, 6.9% for MUFBs and 7.4% for SCP. Gross yields for commercial property are not tracked in the index because they fall outside of residential investment criteria.

In terms of gearing, 39% of respondents have no borrowing or borrowing of less than 50% which suggests that in many instances there is room for further leverage if desired. This bodes well for existing property investors as 60% of respondents indicated that they planned to expand their portfolios in the next 6 months, up 2% on the previous survey's figures.

Of the 60% of respondents who indicated that they planned to expand their portfolios, 54% said that they would need to refinance existing properties in order to effect expansion. Whilst a small number of mortgages are available up to 85% loan to value, it is unlikely that respondents with gearing in excess of 75% would be able refinance at all due to insufficient equity within their existing portfolio. Consequently some 20% of those seeking to expand may have their plans frustrated through lack of equity. In general terms these figures are good news for the private rented sector as demand for property continues to outstrip supply.

Also, of the 60% of respondents who indicated that they planned to expand their portfolios, it is probably not surprising that 84% of them are considering purchasing vanilla buy to let property. More complex residential property types and commercial property was understandably less popular but the figures are still encouraging: 19% are considering HMOs, 14% are considering MUFBs, 12% are considering SCPs and 10% are considering commercial property purchases.

Only 3% of respondents indicated that they were looking to shrink their portfolios, 3% fewer than in the previous survey; although it is not known why.

Regardless of whether respondents are looking to make further purchases or not, 36% are looking to remortgage in the next six months.

Of the 40% of respondents who do not intend to expand their portfolios, 14% still intend to remortgage within the next six months; however, approximately 22% of them are likely to experience difficulty in doing so as their requirements are outside existing LTV lending criteria.

A third of respondents (33%) indicated that they had no additional income (other than from rent). Although down 13% on the previous survey this is still a large number particularly when the vast majority of buy to let lenders stipulate that investors must have additional income usually in excess of £20,000-£25,000 per annum sometimes more. Indeed 2 % of respondents proffered the suggestion that lenders should remove this requirement, even though this question was not specifically asked within the survey.

8% of survey respondents have been asked to refinance elsewhere by lenders. Most of the investors affected tend to be professional landlords with larger portfolios who have been caught up by the likes of RBS Group, Bradford & Bingley (Mortgage Express) and other banks trying to reduce their exposure on property.

Over three quarters (76%) of respondents felt that lenders could be doing more to support property investors – an increase of 14% on the previous survey. 64% of all respondents made a total of 129 suggestions as to what more the lenders could be doing to support property investors.

The top five suggestions were reducing rates (22%), reducing fees 13%, increasing the maximum loan to value 11%, easing general lending criteria 10% and increasing buy to let product availability. It is interesting to note that this top five were the same top five suggestions as the previous survey results (although not necessarily in the same order).

When looking at whether the circumstances of any of these suggestions have changed since the previous survey in February 2012 we find that:

**Reducing rates**

The table below shows that average pricing for all products has remained relatively stable. Whilst investors would like to see prices moving downwards the reality is that there remains a lack of liquidity in the market which has kept the cost of borrowing relatively high.

| Average Buy to Let Mortgage Product Pricing | Feb 2012 | June 2012 | Change |
|---|---|---|---|
| 1 year fixed | 4.05% | 3.98% | -0.07 |
| 2 year fixed | 4.83% | 4.84% | +0.01 |
| 3 year fixed | 5.20% | 5.20% | <> |
| 5 year fixed | 5.38% | 5.57% | +0.19 |
| 1 year discounted tracker | 3.99% | 3.80% | -0.19 |
| 2 year discounted tracker | 4.32% | 4.39% | +0.07 |
| 3 year discounted tracker | 4.74% | 5.47% | +0.73 |
| 5 year discounted tracker | 5.35% | 5.35% | <> |
| Loan term tracker | 5.29% | 5.38% | +0.09 |

*Source: Mortgages Flow (Mortgages for Business' bespoke buy to let sourcing software)*

When suggesting that lenders reduce rates, some respondents also felt that rates should be more akin to residential mortgage rates. This is extremely unlikey to happen because property investment is a business transaction not a personal one, so lenders feel that they can charge more.

**Reducing fees**

Lender arrangement fees remain at 1-3% of the loan amount. There have been some instances of lenders offering flat rate arrangement fees and these tend to work better for investors looking to borrow higher loan amounts. However, as could be expected, when flat fees are offered, lenders usually try to build in higher costs elsewhere in compensation unless they are looking to lend out a specific tranche of money within a limited time frame.

**Increasing the maximum loan to value**

The highest loan to value remains at 85%, offered by Kent Reliance. Due to the increased amount of funds lenders are now forced by regulation to put aside to mitigate risk, it is unlikely that this figure will increase any time soon. In terms of product availability at the higher end of the LTV scale, the figures compare as follows:

| Count of Buy to Let Mortgage Products by LTV | Feb 2012 | June 2012 | Change |
|---|---|---|---|
| Number of 75% LTV products | 137 | 184 | +47 |
| Number of 80% LTV products | 27 | 26 | -1 |
| Number of 85% LTV products | 1 | 4 | +3 |

*Source: Mortgages Flow (Mortgages for Business' bespoke buy to let sourcing software)*

It is encouraging to see that the number of products up to 75% LTV has increased considerably. The total average number of lenders operating at 80% LTV or above remains at six.

**Easing general buy to let lending criteria**
For the majority of lenders there is little incentive to ease general lending criteria because the demand for products more than meets their on-going lending targets.

However, the launch of Keystone Buy to Let Mortgages in April has made some headway in easing criteria for more complex residential property investment transactions. For example, its customer paper work requirement is streamlined – it only requires four documents:

1. Application form
2. Property Schedule
3. Facing page only of Assured Shorthold Tenancy agreement
4. Proof of income

In addition it offers title indemnity insurance which not only accelerates the application processing time, it also reduces costly legal fees.

**Increasing buy to let mortgage product availability**
Although in February the average number of products was 445, nine products higher than in June, the overall trend year-on-year is rising. The nine product reduction can be attributed to the fact that lenders introduce and withdraw products on an on-going basis.

Other suggestions from respondents include:

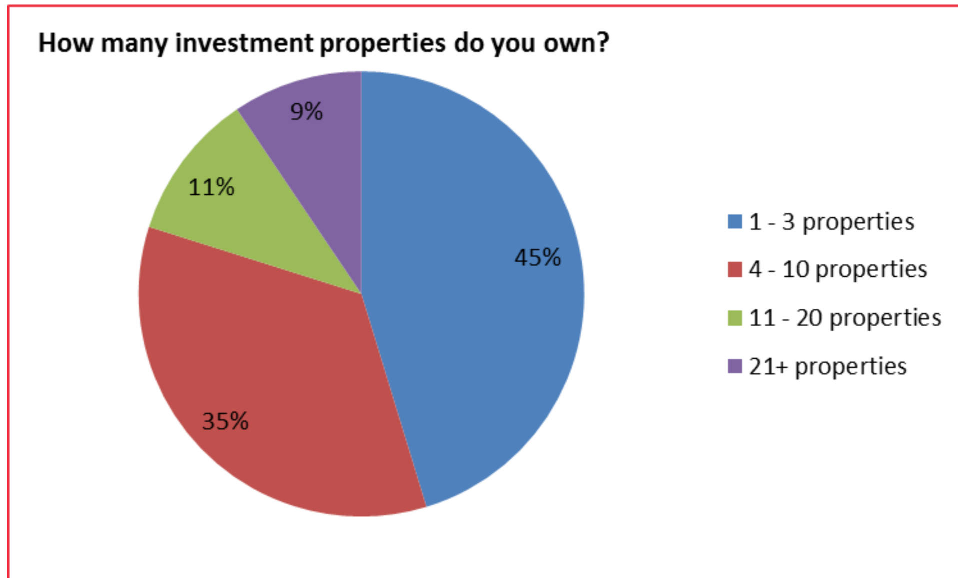
- More case by case lending decisions/be more flexible, 4%
- More lending to investors with lots of properties, 3 %
- Remove minimum income requirement (in addition to rent), 2%
- More products for limited companies, 1%
- More products for multi-units, 1%

These suggestions have been grouped together because Mortgages for Business and Aldermore Bank have made efforts to address these issues with the launch in April of Keystone Buy to Let Mortgages. It provides specific products for both multi-units and applications in a limited company capacity (both trading and SPV companies). It also accepts borrowers with larger portfolios and makes case by case lending decisions. Additionally, like only a handful of other lenders, it does not insist that borrowers have a minimum level of income in addition to rent.

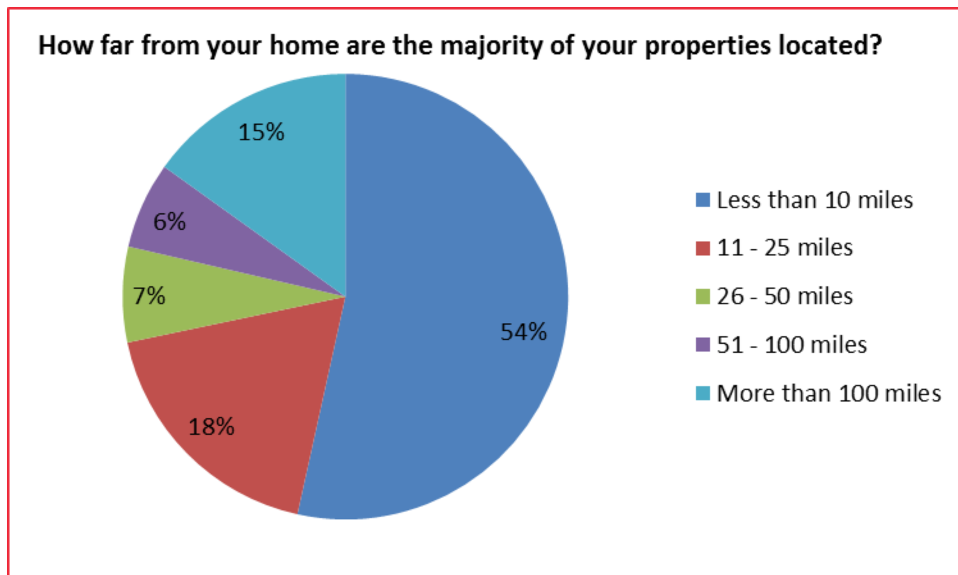
2% of respondents wanted to keep interest-only products. In the buy to let space most lenders still have interest-only products. Most have no known plans to withdraw this type of repayment facility because unlike home-owner mortgages, a recognisable exit strategy at the end of the term (ie. selling the property) is feasible.

The full survey results are detailed below. The next survey will be issued in the autumn of 2012. For more information please contact: Jenny Barrett, Head of Marketing on 01732 471615.

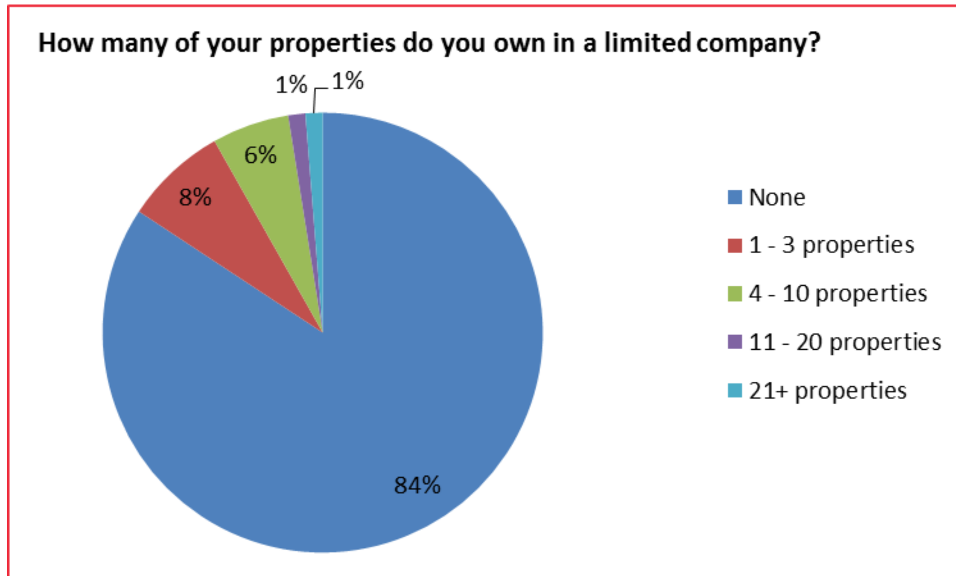
1. How many investment properties do you own?




2. How far from home are the majority of your properties located?

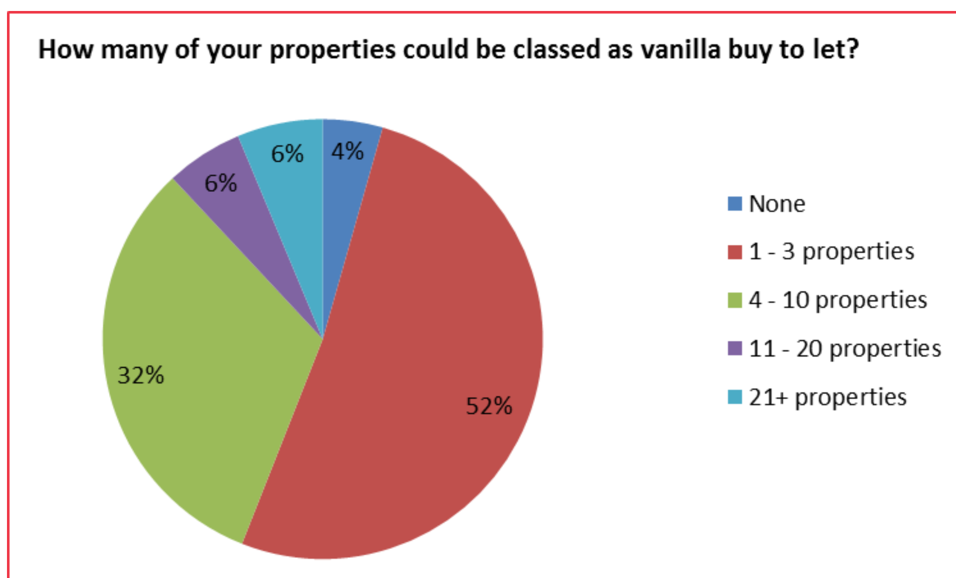


## 3. How many properties do you own in a limited company?



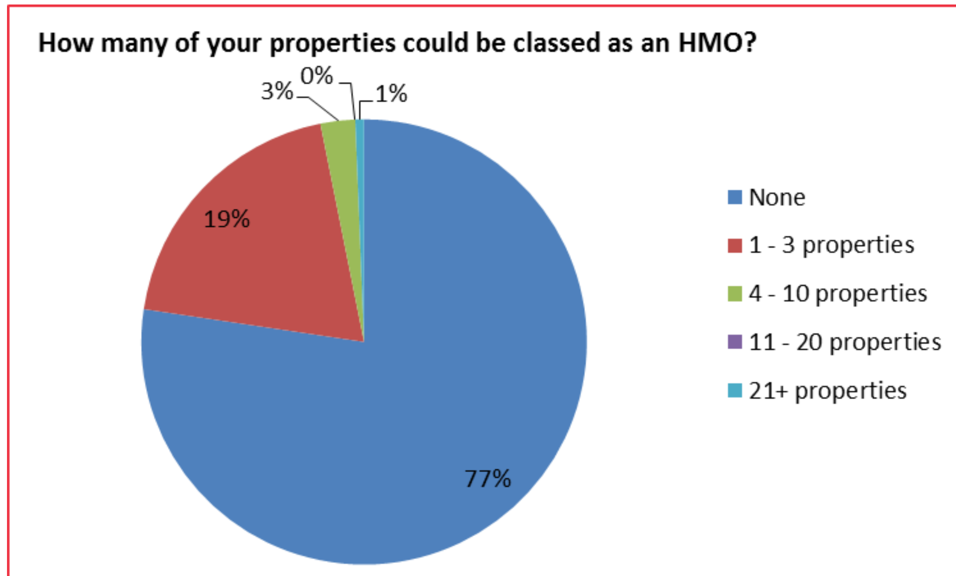

These companies tend to be Special Purpose Vehicles but some are normal trading companies or Limited Liability Partnerships.

## 4. How many of your properties could be classed as vanilla buy to let?



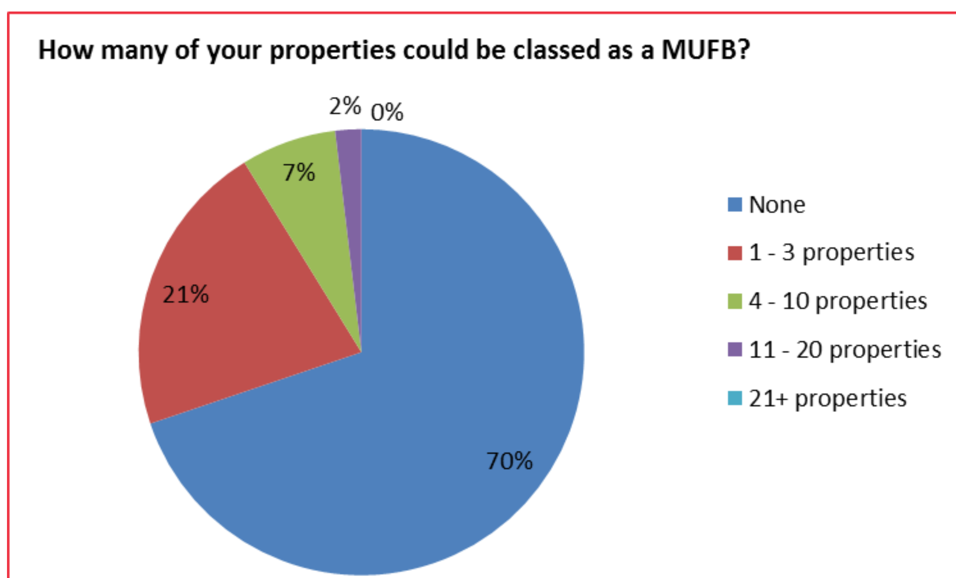

Properties in the vanilla category tend to be normal 1, 2 or 3 bedroom houses or flats that are easy to let to families, couples and professionals.

## 5. How many of your properties could be classed as an HMO?



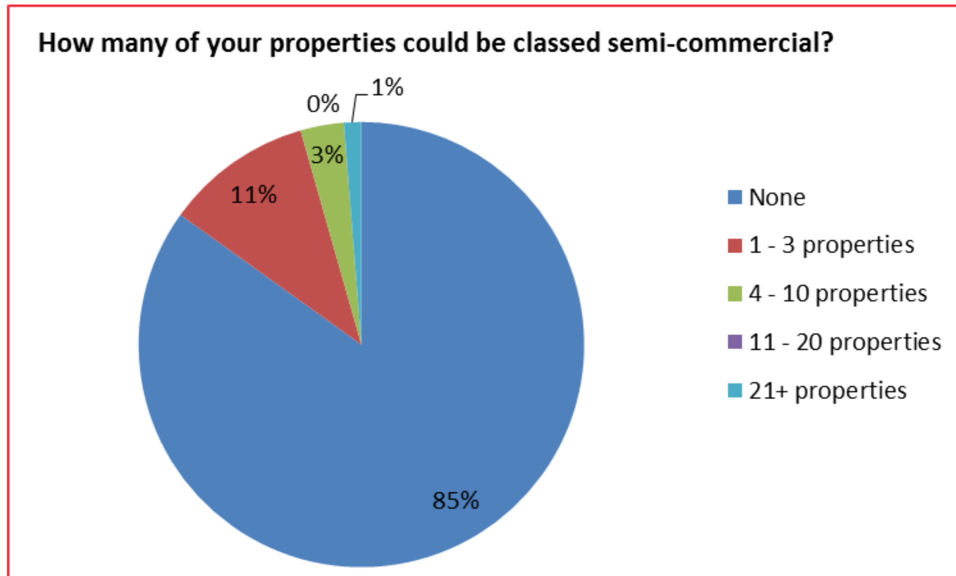

Generally HMOs are classed as residential properties where there are more than three non-related renters sharing accommodation. These properties are often required to be licensed by the local authority if the property consists of three or more storeys and the property is let to five or more unrelated tenants.

## 6. How many of your properties could be classed as multi-unit freehold block?



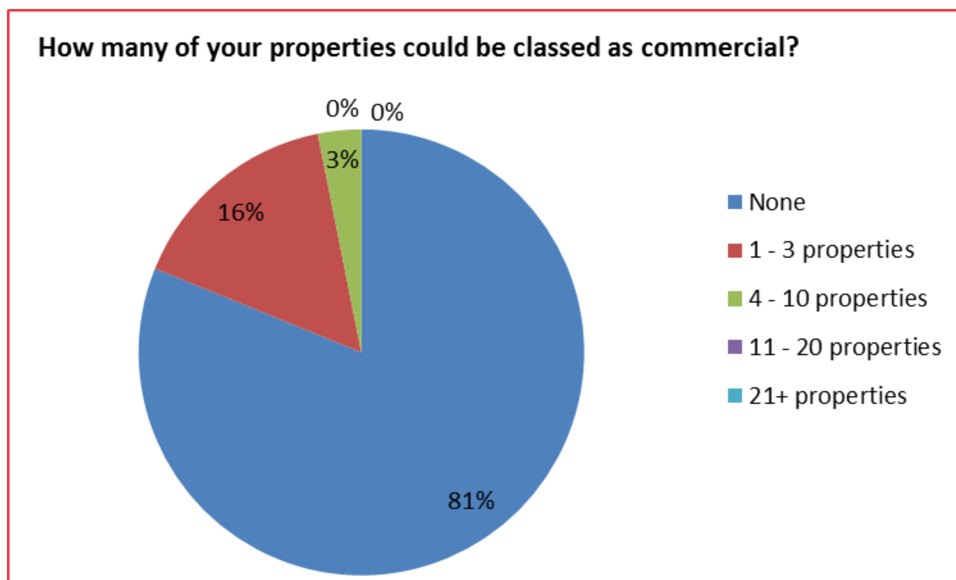

Multi-unit freehold blocks tend to be either small, purpose-built blocks of flats or houses converted to flats where th the whole building is owned under a single title.

## 7. How many of your properties could be classed as semi-commercial?



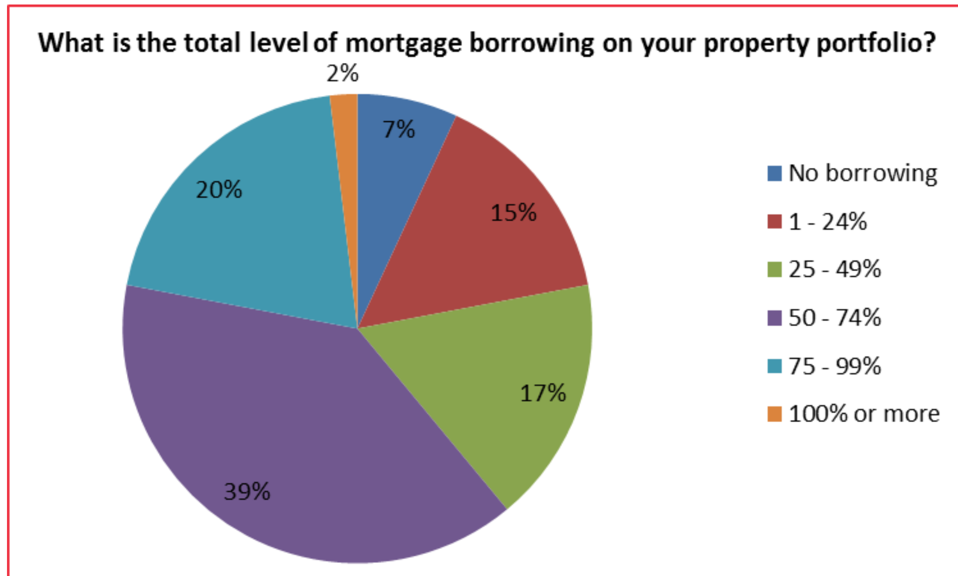

Semi-commercial properties are also known as mixed investment properties and tend to consist of flats above offices or shops.

## 8. How many of your properties could be classed as commercial?



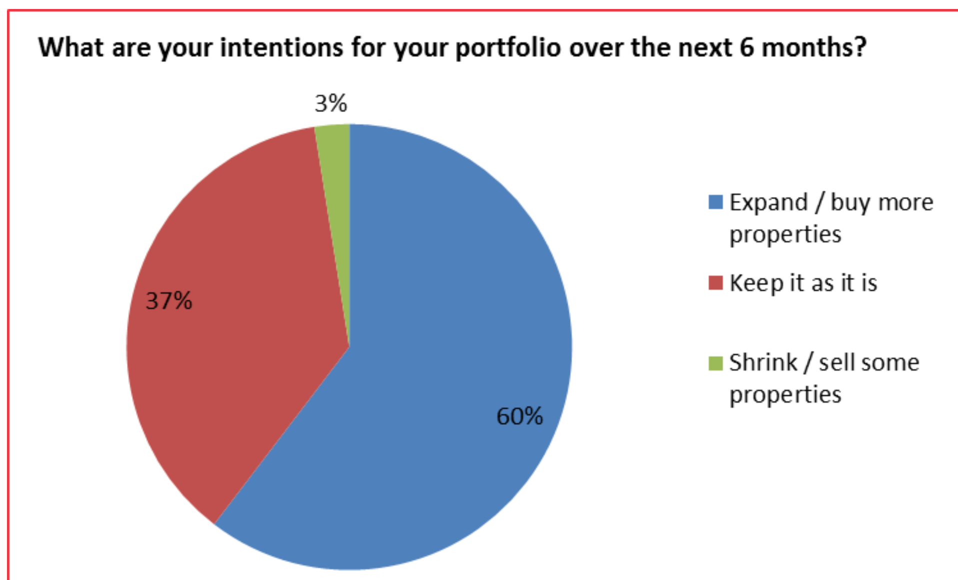

Commercial properties can be for a variety of uses including business (offices, chambers, professional practices, nursing homes, etc); leisure (restaurants, hotels, B&Bs, pubs, golf clubs, sports centres, etc); retail (shops, retail units, retail parks, etc); industrial (industrial/semi-industrial units, industrial parks, warehouses, factories, etc).

## 9. What is the total level of mortgage borrowing on your property portfolio?

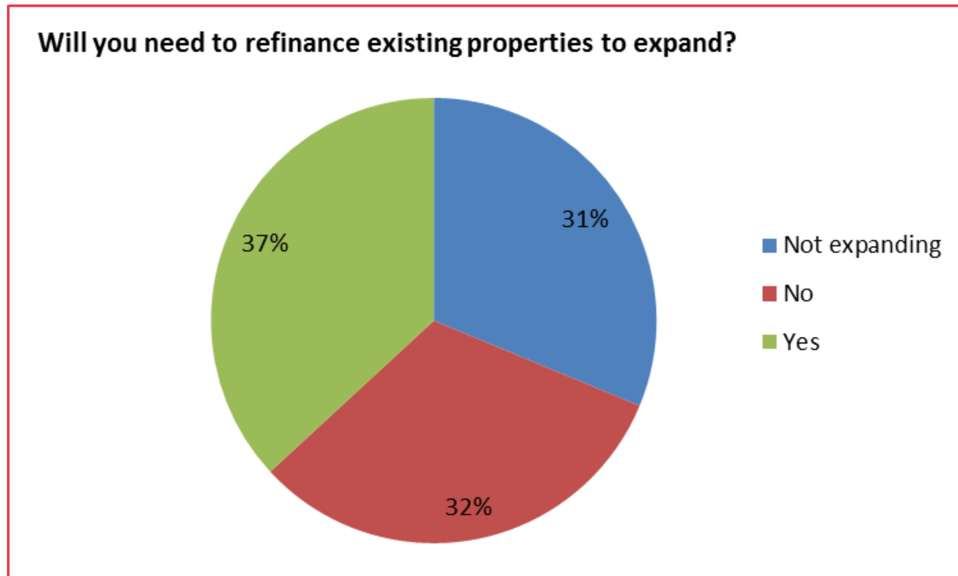



This is sometimes also referred to as gearing. To calculate your borrowing as a percentage: Total loans divided by total value of properties multiplied by 100.

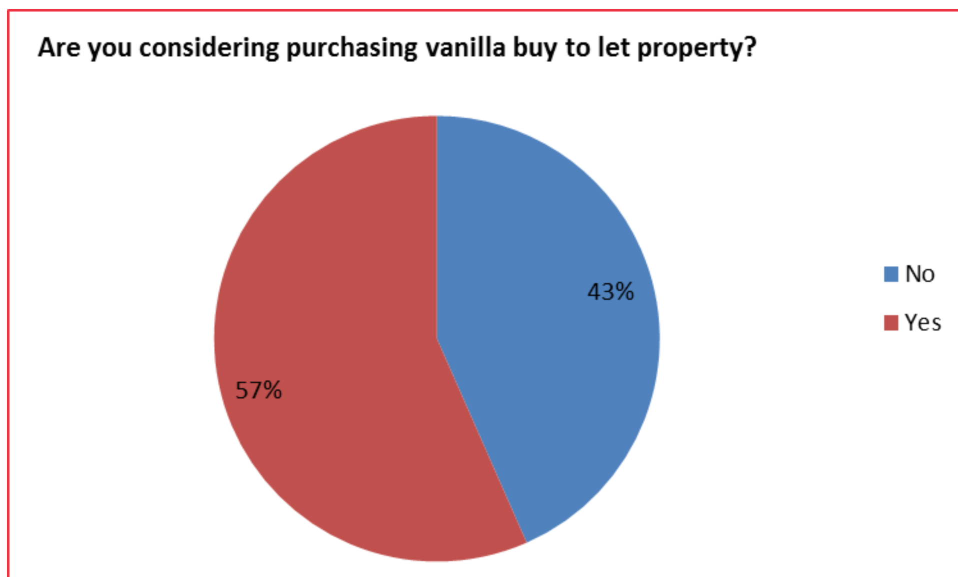
## 10. What are your intentions for your portfolio over the next six months?



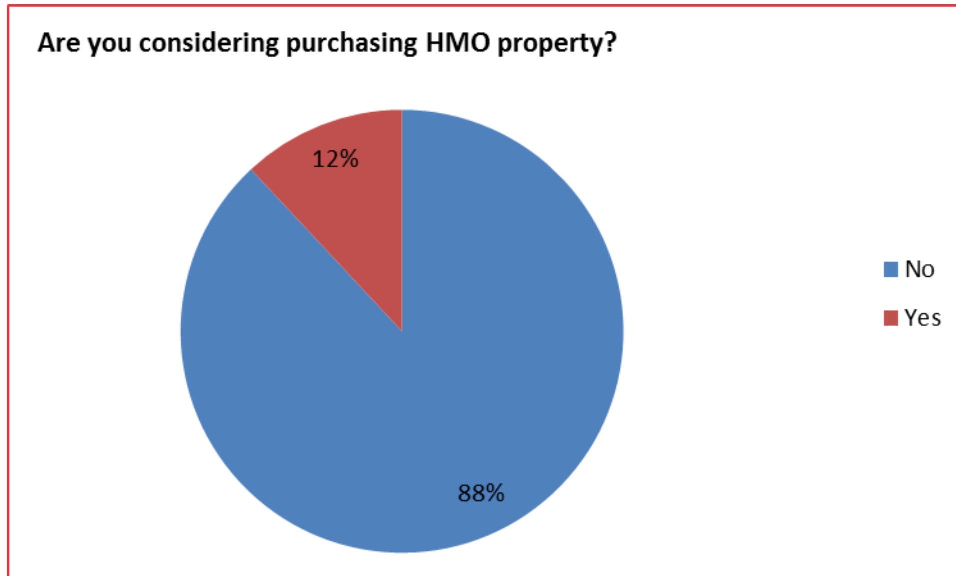
## 11. Will you need to refinance existing properties to expand?



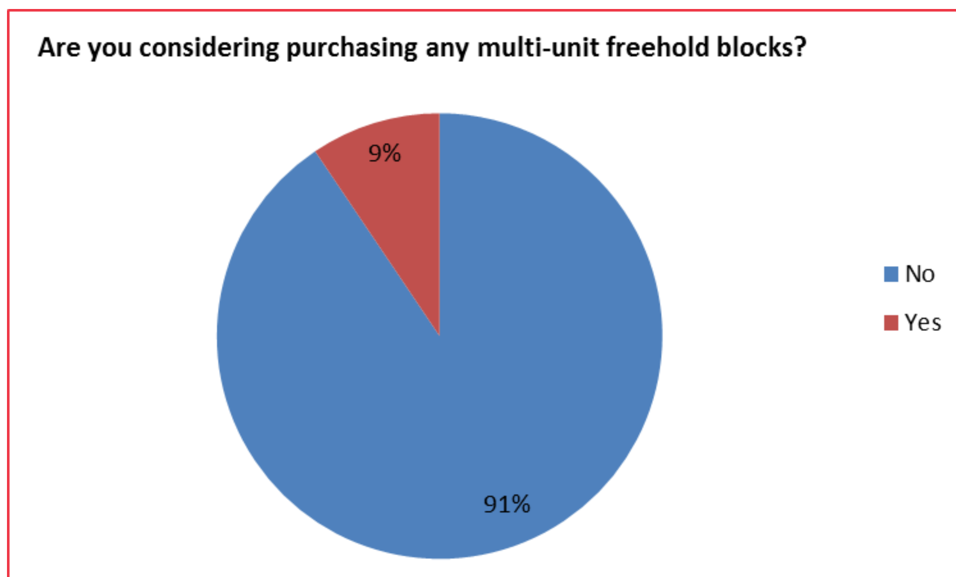

## 12a. Are you considering purchasing vanilla buy to let property?



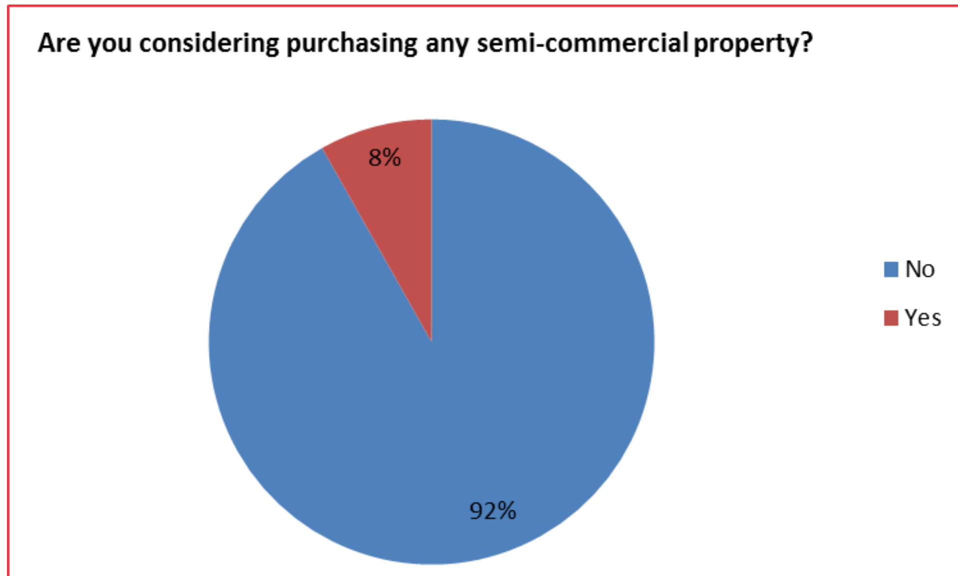
12b. Are you considering purchasing HMO property?



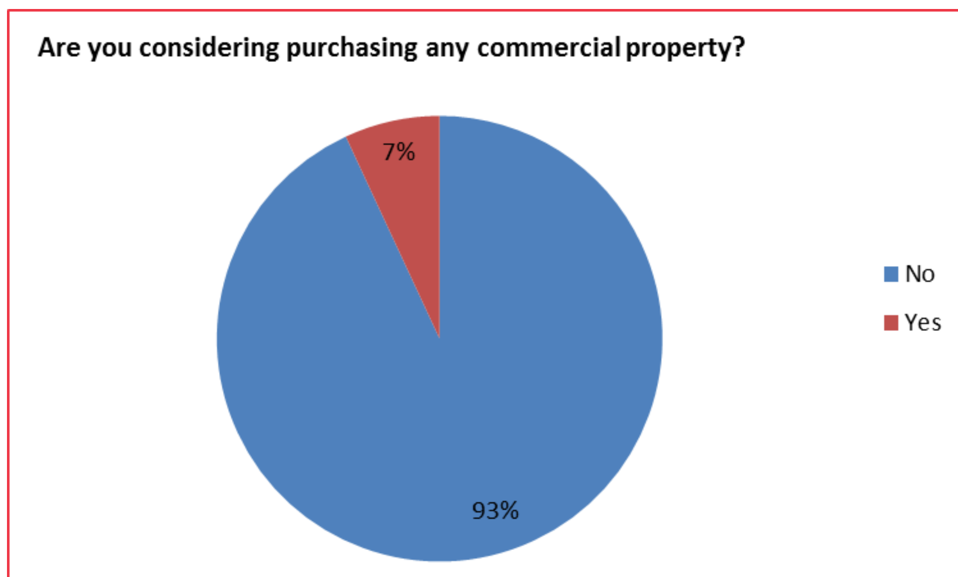

12c. Are you considering purchasing any multi-unit freehold blocks?



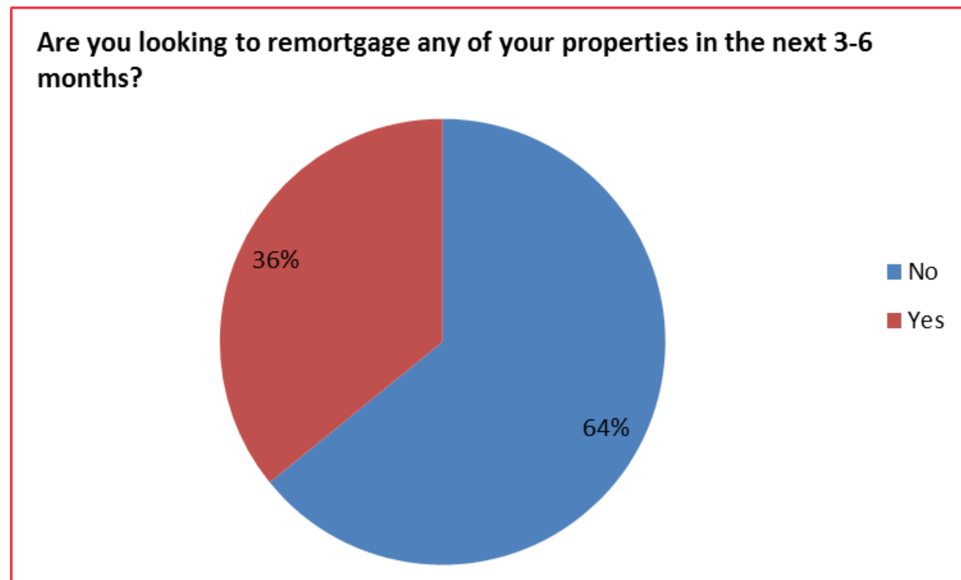
## 12c. Are you considering purchasing any semi-commercial property?



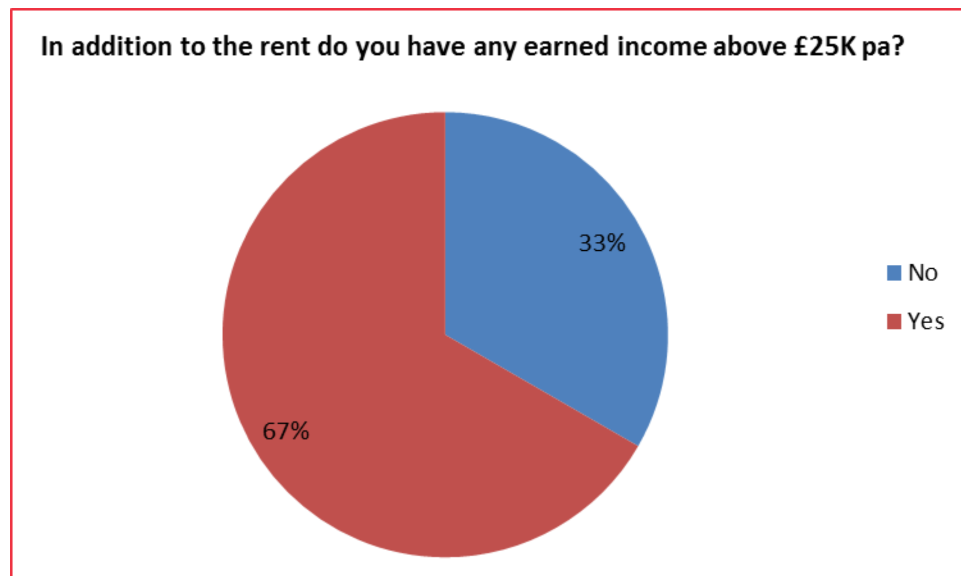

## 12d Are you considering purchasing any commercial property?



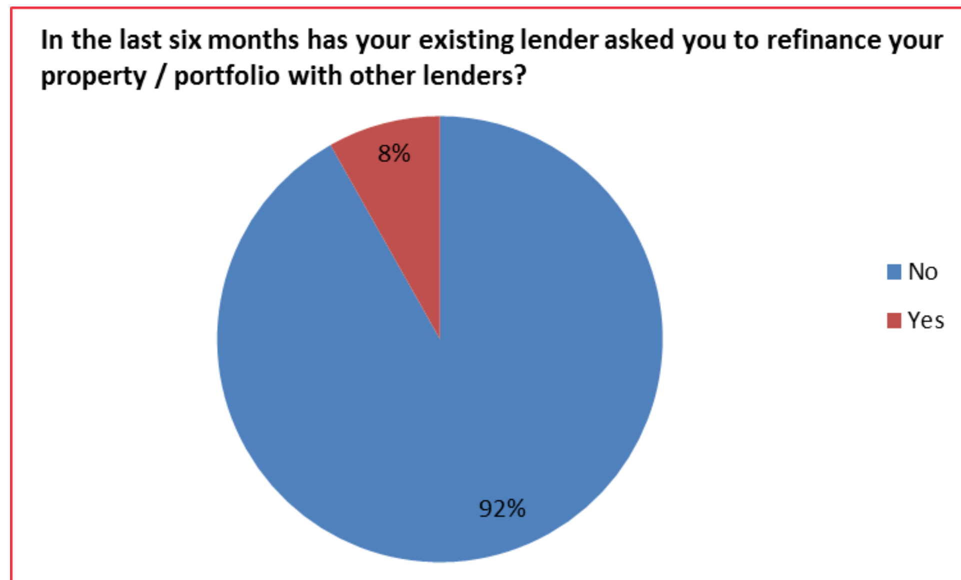
13. Are you looking to remortgage any of your properties in the next 3-6 months?



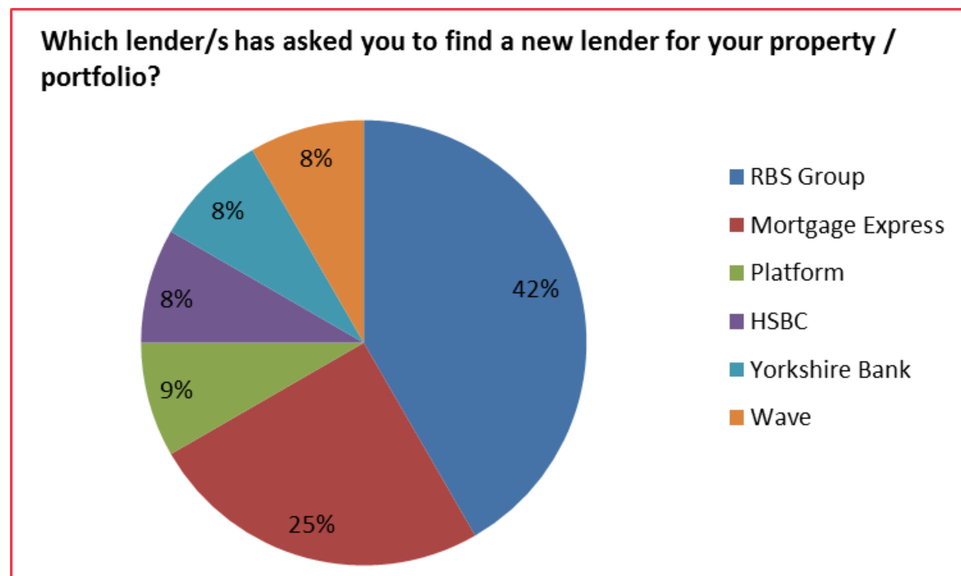

14. In addition to the rent do you have any earned income in excess of £25,000 per annum?



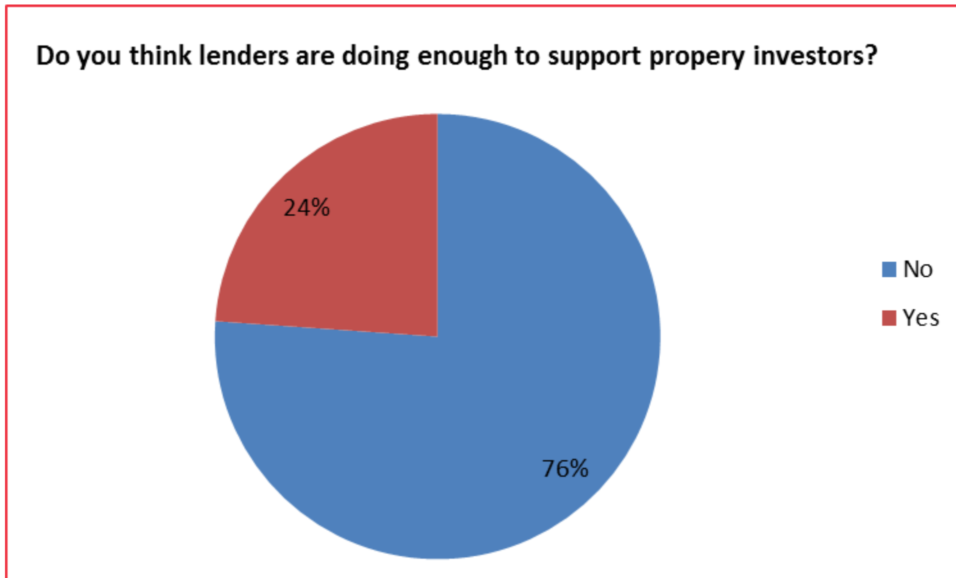
15. In the last six months has your existing lender asked you to refinance you property / portfolio with other lenders?



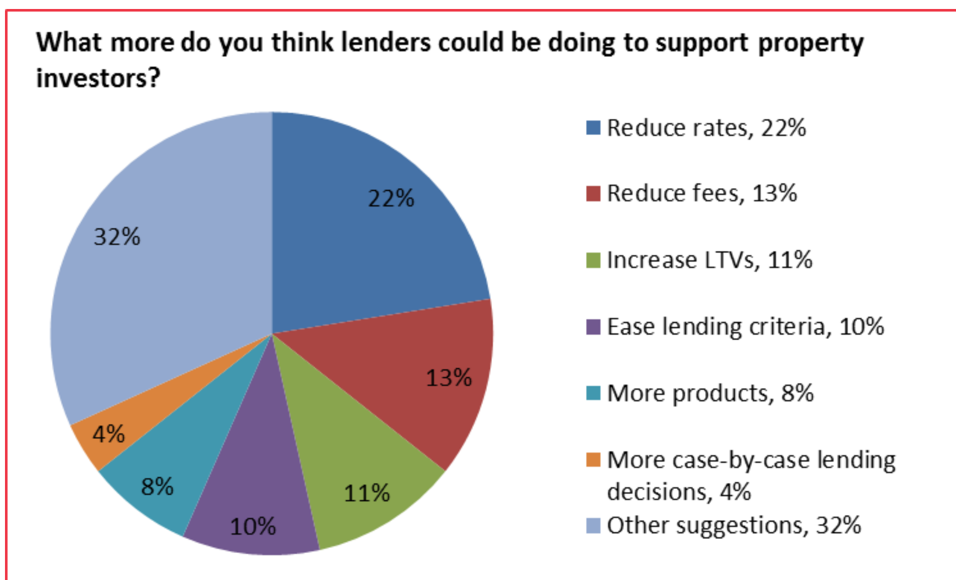

16. Which lender/s has asked you to find a new lender for your property / portfolio?



17. Do you think lenders are doing enough to support property investors?




18. What more do you think lenders could do to support property investors?




*Cont/d overleaf*

| What more do you think lenders could do to support property investors? | % |
|---|---|
| Reduce rates | 22% |
| Reduce fees | 13% |
| Increase LTVs | 11% |
| Ease criteria | 10% |
| More products | 8% |
| More case by case lending decisions/be more flexible | 4% |
| Longer term fixed rate products | 3% |
| More portfolio products | 3% |
| Remove 6 month rule | 3% |
| More lending to investors with lots of properties | 3% |
| Stop forced refinance | 3% |
| Remove upper age limit | 2% |
| Remove minimum income requirement (in addition to rent) | 2% |
| Keep interest only products | 2% |
| More lending to ex-pats | 2% |
| Lend on properties in Northern Ireland | 2% |
| Tighten criteria | 1% |
| More products for holiday lets & multi-units | 1% |
| Remove proof of income requirement (eg tax returns) | 1% |
| Better valuers/regulate valuers | 1% |
| More development finance | 1% |
| More products for limited companies | 1% |
| Allow LHA tenants | 1% |
| Improve lender/borrower relationship | 1% |
| Allow occasional payment holidays | 1% |