

## Complex Buy to Let Index Q4 2017

This quarterly industry index tracks buy to let mortgage transaction data for Vanilla Buy to Let, Houses in Multiple Occupation (HMO), Multi-unit Freehold Blocks (MUFB) and Semi-Commercial Property (SCP).

Lenders and Products				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Average no. products	1,167	1,220	1,233	1,332
No. of lenders*	36	36	36	36

Vanilla Buy to Let				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Purchases	41%	39%	41%	49%
Remortgages	59%	61%	59%	51%
Average loan size	£196,813	£204,147	£211,517	£183,202
Average property value	£299,075	£310,918	£326,611	£284,529
Average loan to value	68%	69%	69%	67%
Average yield	5.7%	5.5%	5.5%	5.6%

Houses in Multiple Occupation (HMO)				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Purchases	39%	29%	27%	33%
Remortgages	61%	71%	73%	67%
Average loan size	£224,360	£241,286	£234,217	£285,138
Average property value	£331,711	£307,171	£331,296	£434,643
Average loan to value	70%	70%	72%	68%
Average yield	9.3%	8.7%	9.2%	8.2%

Multi-unit Freehold Blocks (MUFB)				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Purchases	41%	21%	47%	29%
Remortgages	59%	79%	53%	71%
Average loan size	£322,364	£441,065	£273,558	£305,672
Average property value	£492,707	£742,836	£424,919	£439,750
Average loan to value	71%	67%	69%	70%
Average yield	7.8%	7.9%	8.6%	8.1%

Semi-commercial Property (SCP)				
	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Purchases	50%	67%	67%	40%
Remortgages	50%	33%	33%	60%
Average loan size	£167,600	£268,000	£694,375	£191,159
Average property value	£228,000	£373,333	£1,124,167	£483,000
Average loan to value	73%	72%	66%	42%
Average yield	7.9%	8.7%	6.3%	6.9%

## HMOs produce the highest buy to let yields in 2017

### Summary

Whilst HMOs generated the highest yields for landlords in 2017, vanilla properties proved to be the most consistent investment.

### Lenders and Products

There was no change in the number of lenders offering buy to let mortgage products to landlords in Q4. However, product numbers rose yet again to an average of 1,322 which is a total increase of 84 products compared to the same quarter in 2016. In fact, buy to let mortgage product availability has increased 444% since 2011 when the index was first launched.

### Purchases and Remortgages

In the final quarter of 2017, the proportion of vanilla properties being purchased rather than remortgaged grew for the second consecutive quarter, from 41% in Q3 to 49% in Q4. This almost 50/50 split bucks the trend seen in the wider buy to let lending market which, for some time, has favoured remortgaging. The reasons for the growth is not entirely understood but is thought to be due to:

- Landlords acquiring lower-value properties for the purpose of achieving higher yields (either immediately or in future)
- Landlords incorporating existing portfolios, i.e. they are selling vanilla properties they already own into their limited companies

Whether this growth continues is doubtful as we would expect remortgaging to increase in Q1 2018 as landlords near the end of 2-year tie-in periods from mortgages taken out in the run up to the introduction of the higher rate of stamp duty in 2016.

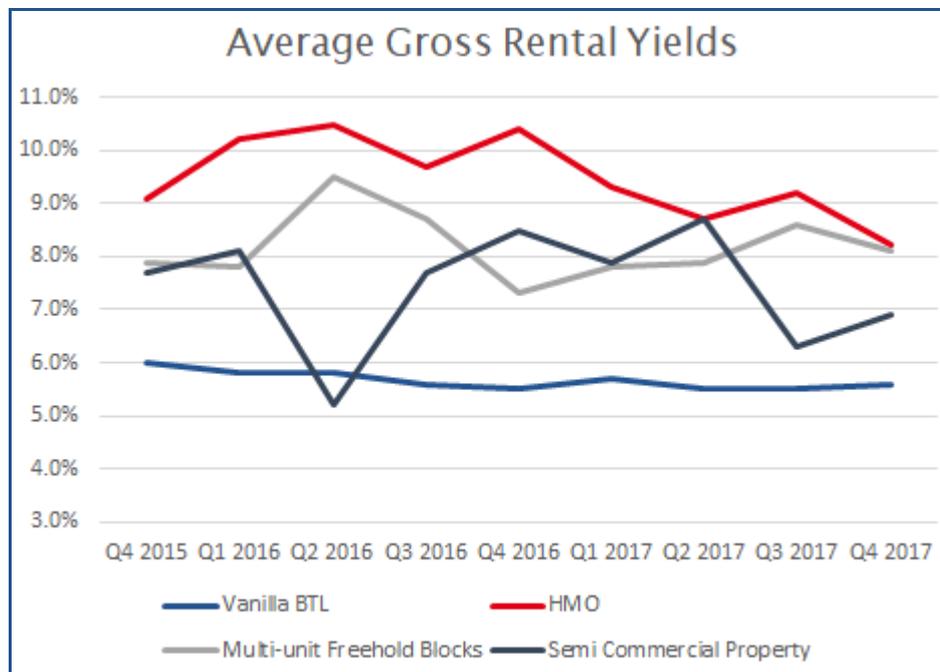
### Values and Yields

In 2017, LTVs and yields on vanilla properties remained fairly stable despite landlords choosing to finance cheaper property than in the previous year. The average value of a vanilla buy to let property in 2017 was £305,283 which is a drop on the average of £375,409 in 2016. This suggests that that landlords are seeking lower value properties and, anecdotally, we hear that they have been looking further north for their acquisitions where prices are cheaper. The benefits of this strategy include less stamp duty, scope for rental increases which thus allow for higher yields, and future capital growth.

For HMOs, whilst LTVs remained stable at an average 69% for the year, it was a different scenario for property values which increased in Q4 2017 to the highest level since 2011. This suggests that landlords are still attracted to both HMOs in the more expensive regions (i.e. the South) and to larger HMOs in the less expensive areas (i.e. further north), likely driven by the need for portfolio diversification and the appeal of consistently higher yields. Whilst HMO yields are considerably greater than those achieved on vanilla property, in 2017 they actually declined to an average of 8.9% compared to 10.2% the year before.

Average property values and LTVs are much less consistent on multi-units and semi-commercial property due to fewer numbers of landlords operating in this space and inherent

differences in location prices and the number of units within these property types. Despite this, yields remain higher typically compared to their vanilla counterparts. In 2017, yields averaged 8.1% and 7.5% for multi-units and semi-commercial properties respectively.



## Jargon Buster

### Vanilla Buy to Let

These are standard buy to let transactions. Properties in this category tend to be normal 2-3 bed houses and flats. Both borrowers and properties fit the general lending criteria for off-the-shelf products offered by the mainstream buy to let lenders.

### Houses in Multiple Occupation (HMOs)

An HMO is when unrelated tenants have exclusive access to their rooms and share part of the accommodation, such as the kitchen or the bathroom. Examples include bedsit style housing or student shared housing. An HMO may require a licence based on the number of storeys and/or the number of tenants, depending on the local authority.

### Multi-Unit Freehold Blocks (MUFBs)

This is a single building with multiple, separate, independent residential units owned under a single freehold title. Examples include purpose-built blocks of flats or Victorian houses converted into flats.

### Semi-Commercial Property

Also known as mixed investments, as both names suggest these properties are made up of part commercial and part residential elements, typically shops or offices with flat above.

**For more information:** To view previous results visit: [Complex Buy to Let Index](#)

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