

MFB Complex Buy to Let Index Q3 2011

This quarterly industry index reports on mortgage transactions for Houses in Multiple Occupation (HMO) and Multi-unit Freehold Blocks (MUFB) compared to Vanilla Buy to Let transactions.

Lenders and Products			
	Q1 2011	Q2 2011	Q3 2011
Average no. products	298	403	508
Average no. lenders	19	22	23

For the third quarter in a row we can see that the number of products and lenders has risen in an effort to keep up with demand from investors. There was only one new entrant to the market in this quarter – Accord Mortgages, a subsidiary of Yorkshire Building Society, which only distributes through a limited panel of mortgage intermediaries. One other expected entrant has now deferred until spring 2012.

Purchases versus Remortgages						
	Q1 2011		Q2 2011		Q3 2011	
	Purchase	Remortgage	Purchase	Remortgage	Purchase	Remortgage
Vanilla BTL	50%	50%	55%	45%	48%	52%
HMO	67%	33%	48%	52%	38%	62%
MUFB	41%	59%	19%	81%	37%	63%

The vanilla buy to let market continues to see a fairly even split between purchases and remortgages as landlords either continue to sit on their existing low rate or choose to remortgage to raise funds for further purchases. Remortgaging is still the name of the game for the more complex residential investments for two primary reasons. Firstly, the likes of RBS and other lenders continue to force borrowers to refinance elsewhere and secondly, we have seen an increasing interest from investors refinancing to expand their portfolios in this higher yielding sector.

Vanilla Buy to Let			
	Q1 2011	Q2 2011	Q3 2011
Average loan size	£116,238	£126,522	£144,006
Average property value	£175,819	£187,708	£224,639
Average loan to value	66%	67%	68%
Average yield*	5.6%	5.8%	6.3%

For the third quarter in a row we see increased growth in this sector as the demand for rental properties continues to outstrip supply. The continued rise in the average price of property is unlikely to be related to the stagnating cost of housing rather, we have seen investors begin to take an increasing interest in purchasing slightly larger homes to rent to families.

Houses in Multiple Occupation (HMO)			
	Q1 2011	Q2 2011	Q3 2011
Average loan size	£317,907	£321,836	£292,969
Average property value	£501,290	£573,836	£445,948
Average loan to value	63%	60%	66%
Average yield*	9.3%	10.0%	9.3%

Multi-unit Freehold Blocks (MUFB)			
	Q1 2011	Q2 2011	Q3 2011
Average loan size	£527,902	£513,197	£378,531
Average property value	£932,148	£876,075	£603,583
Average loan to value	56%	59%	64%
Average yield*	7.4%	6.6%	6.9%

Average loan sizes have dropped for both HMOs and MUFBs. This can probably be attributed to the introduction of a new offering from KRBS aimed at investors looking to purchase smaller HMOs and MUFBs. So far we have seen a keen interest in this type of mortgage. Unsurprisingly this product has helped to raise the average LTVs and lower the average price of these types of property. Obviously, the addition of smaller HMOs into the figures has brought down the average yield marginally to 9.3% which still represents a generous return in investment. Surprisingly, however, the average yield for MUFBs has risen slightly. We anticipate that this might be due to accommodation being offered at a higher price to professionals unable to get a foothold onto the housing ladder themselves.