Property Investor Survey

Results February 2012

The survey was launched on Monday 6th February 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 185 responses.

As Mortgages for Business specialises in complex residential investment finance and buy to let mortgages it is not surprising that a quarter of respondents surveyed have a portfolio consisting of more than 10 properties and as such are considered to be professional property investors and landlords. Forty percent of respondents own 4-10 properties. Clearly not novices, they sit midway between the part-time and the professional landlord.

The majority of respondents own buy to let property less than 10 miles from their 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.

Only 16 per cent of respondents own buy to let property in a limited company. 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, 94 per cent said they had vanilla buy to let property in their portfolio. Properties in this category tend to be normal two or three 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, in 2011 the average yield on vanilla buy to let property was 6.9 per cent.

However, as could be expected of our client base which predominantly caters for semi-professional and professional landlords, nearly a third of survey respondents also said they own houses in multiple occupation (HMO) and multi-unit freehold blocks (MUFB). These property types typically generate higher yields than vanilla property. In 2011, average yields reached 9.6 per cent for HMOs and seven per cent for MUFBs. Generally HMOs are classed as residential properties where there are more than three non-related renters sharing accommodation. These properties are 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. Multi-unit freehold blocks tend to be either small, purpose-built blocks of flats or houses converted to flats. In both instances the whole building is owned under a single title.

Interestingly 12 per cent of respondents also own semi-commercial property (SCP). Typical properties in this subsector are shops and offices with one or two flats above which means that the rental income is subject to more than one tenancy type, i.e. a commercial element as well as standard residential shorthold tenancy agreements (ASTs). Properties in this sector yielded an average of 7.8 per cent in 2011.

Ten per cent of survey respondents also own commercial property within their portfolio. The respondents in this category were mainly professional investors.

In terms of gearing, 63 per cent of respondents have borrowing of between 25-75 per cent which suggests that in many instances there is room for further leverage if desired, particularly amongst the 20 per cent of respondents with borrowing of 25-49 per cent. This bodes well for existing property investors as 58 per cent of respondents said that they wanted to expand their portfolios in the next six months. Of those wanting to expand their portfolios, 27 per cent do not need to refinance existing property in order to expand but 63 per cent do. Only 11 per cent are unable to refinance at all due to insufficient equity within their existing portfolio. In general terms these figures are good news for the private rented sector as demand for property continues to outstrip supply.

Only six per cent want to shrink their portfolios although it is not known why.

It is probably not surprising that 81 per cent of respondents who are looking to expand their portfolios are considering purchasing vanilla buy to let properties. However, it is encouraging that 22 per cent are also considering HMOs and 16 per cent MUFBs. Interestingly, a quarter of respondents to this question are considering purchasing more than one type of property. Fourteen per cent are also considering either semi-commercial or commercial property purchases.

Regardless of whether respondents are looking to make further purchases or not, 44 per cent are looking to remortgage in the next six months. Of the 42 per cent of respondents who do not intend to expand their portfolios, 24 per cent want to remortgage within the next six months; however, roughly a third of them are likely to experience difficulty in doing so as their requirements are outside current lending criteria.

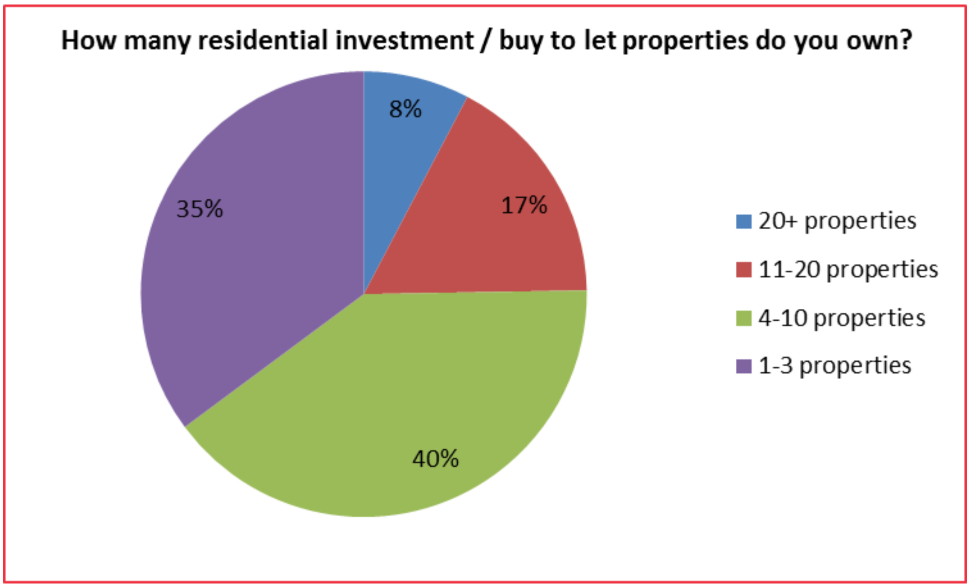
Forty-six per cent said that they had no additional income (other than from rent) above £25,000 per year. This is a large number particularly as the vast majority of buy to let lenders stipulate that investors must have additional income usually in excess of £20,000 to £25,000 per annum, sometimes more. Indeed six per cent of respondents felt that lenders should remove this requirement even though this question was not asked specifically within the survey.

Seven per cent 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 and the Irish banks trying to reduce their exposure on residential investment property.

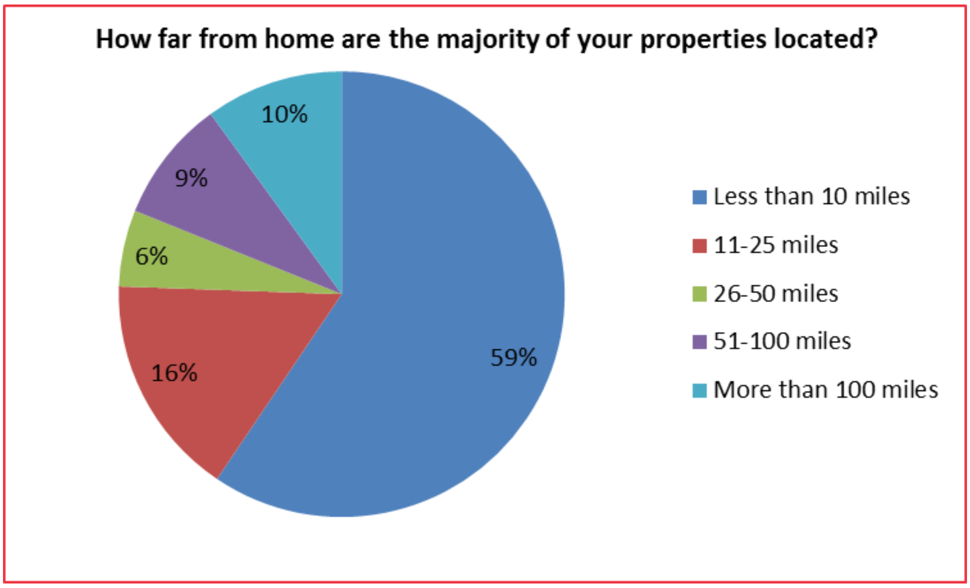
The majority of respondents - 62 per cent - believe that lenders should do more to support property investors. Twenty per cent suggested that the fees charged by lenders were too high. Eighteen per cent wanted to see a rise in loan to value, with many suggesting more products at 85 per cent LTV. Fifteen per cent suggested that lenders take more time to look at individual applications and make lending decisions on a bespoke basis rather than simply relying on credit scores and computer generated decisions.

The full results are detailed below. The next survey will be issued in the summer.

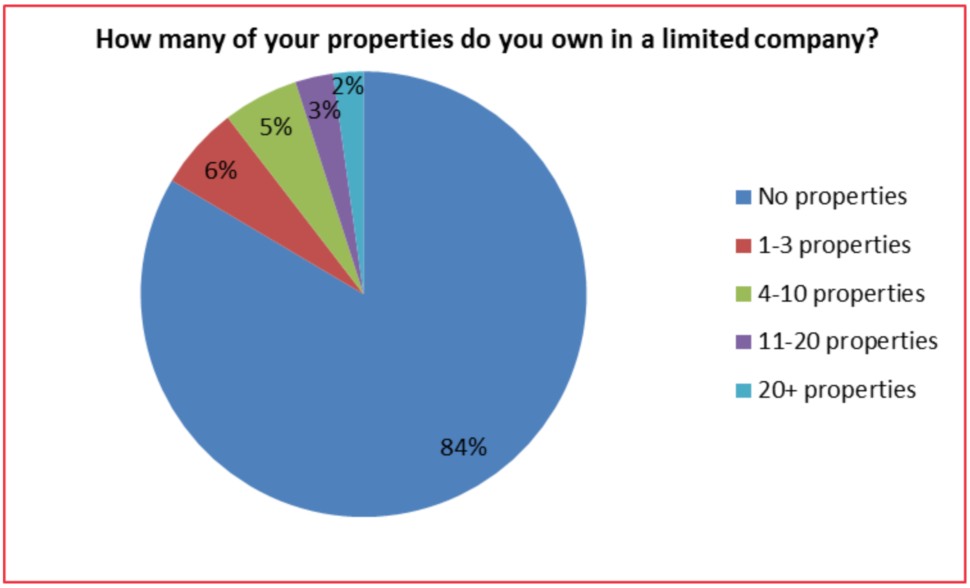
1. How many residential investment / buy to let properties do you own?



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

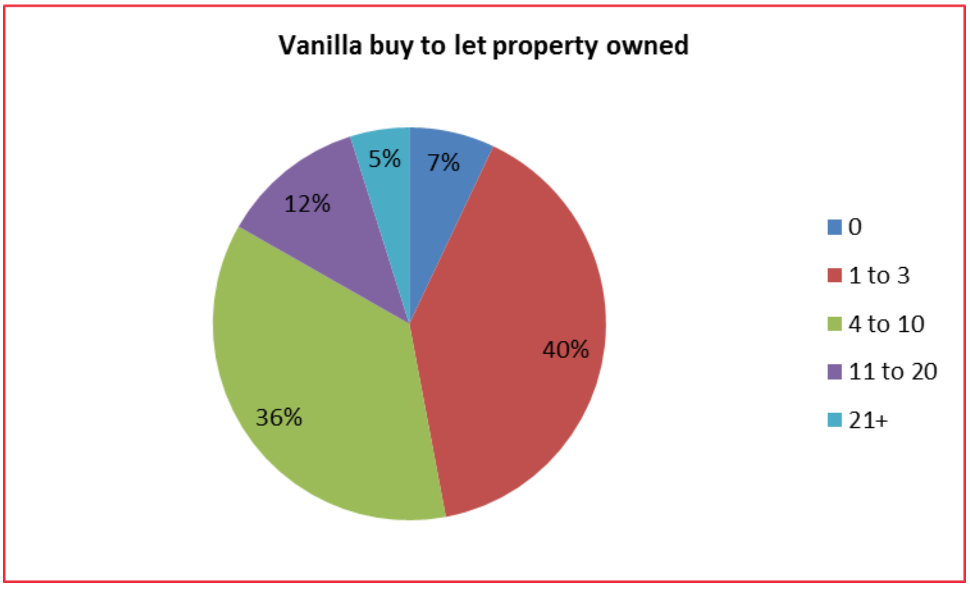


3. How many properties do you own in a limited company?

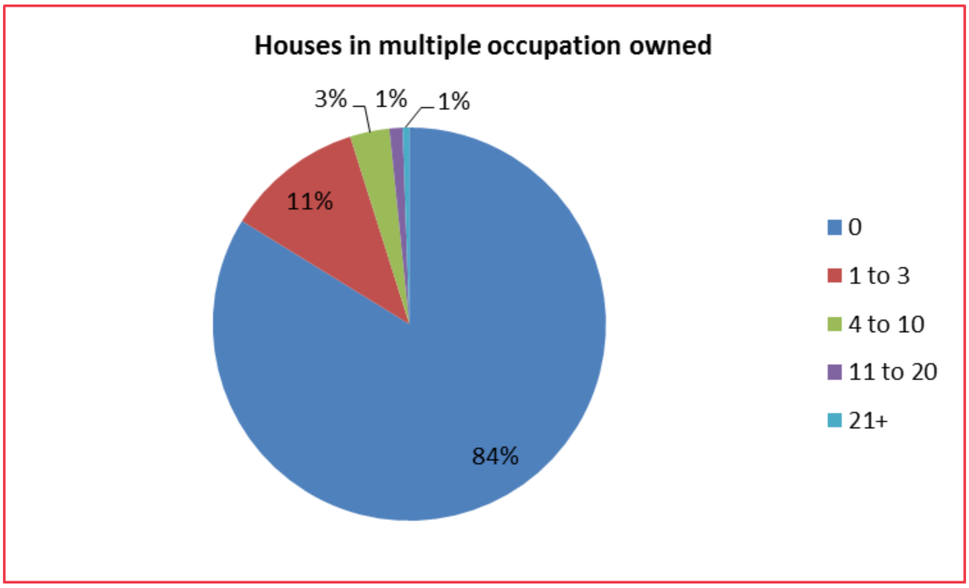


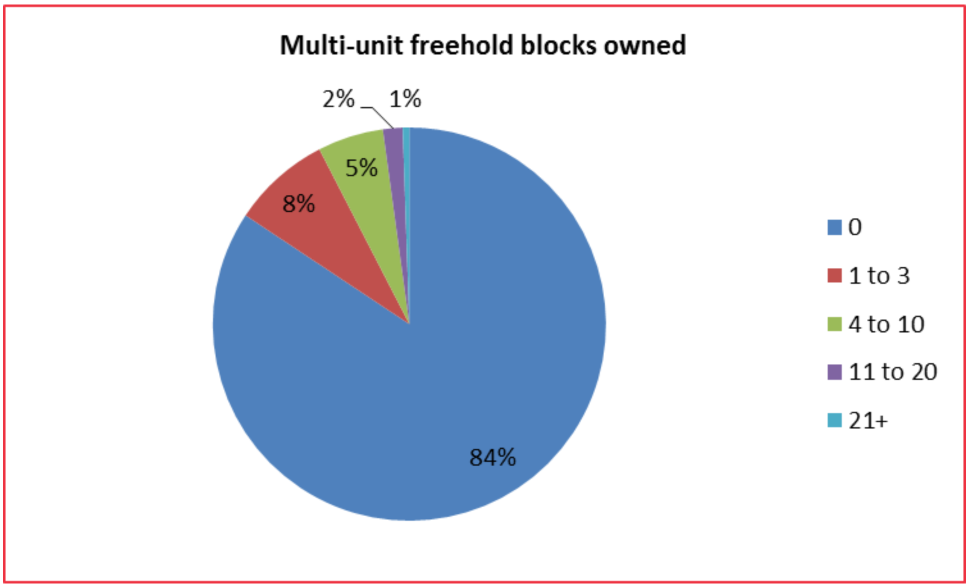
4. Types of property: How many of your properties are:

Type of property	Number of properties owned				
	0	1-3	4-10	11-20	21+
Vanilla Buy to Let	13	74	67	22	9
Houses in Multiple Occupation	155	21	6	2	1
Multi-unit Freehold Block	156	15	10	3	1
Semi-commercial Property	162	20	2	0	1
Commercial Property	166	14	4	1	0

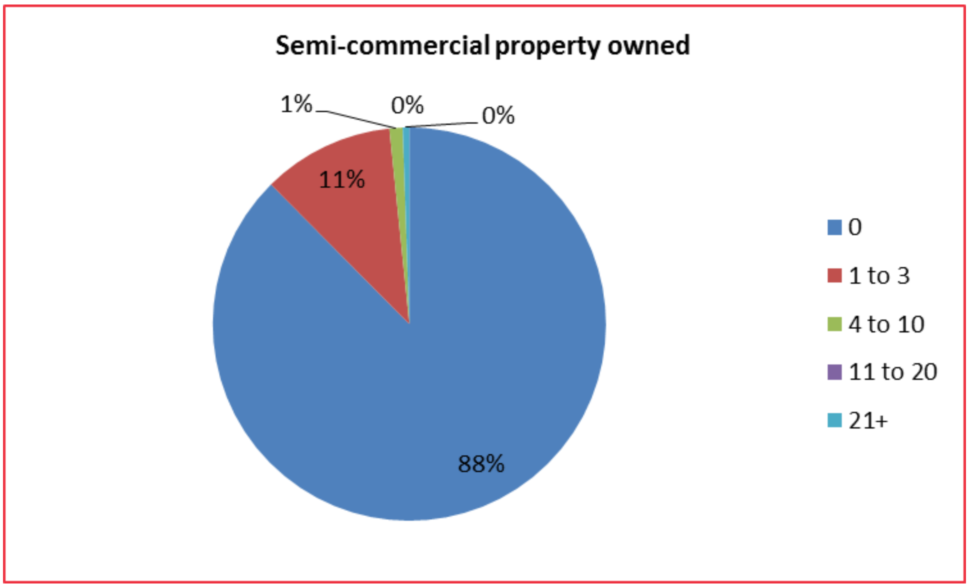


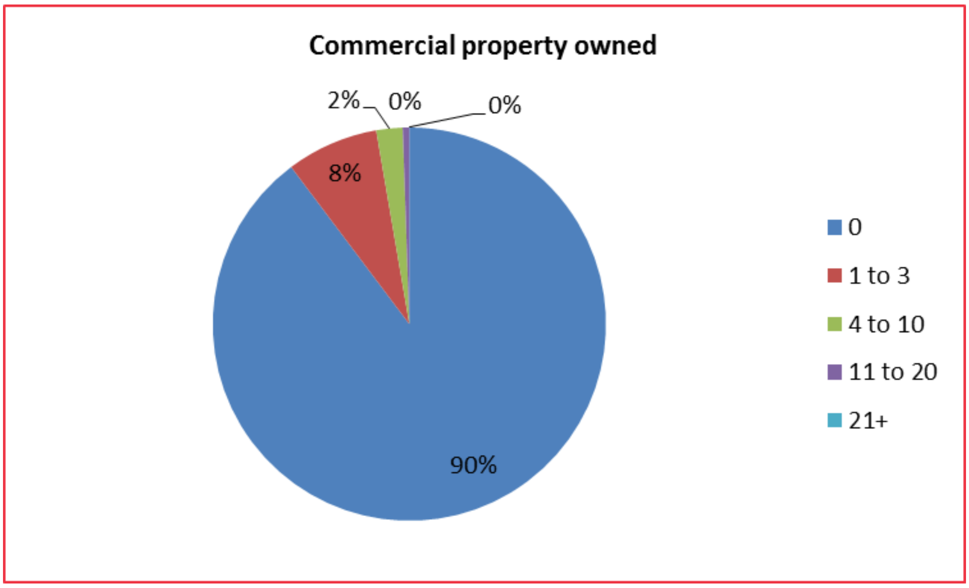
4. Types of property cont/d…





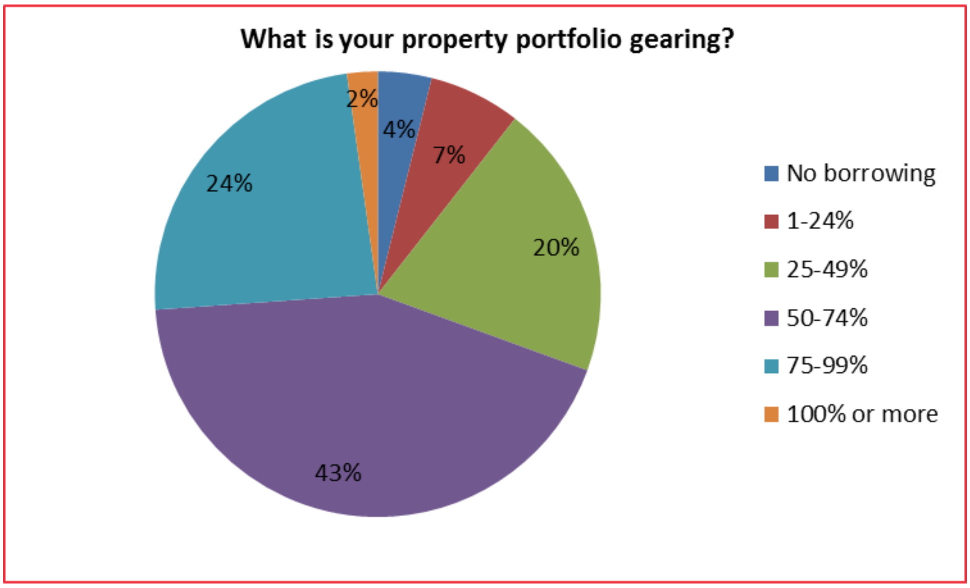
4. Types of property cont/d…



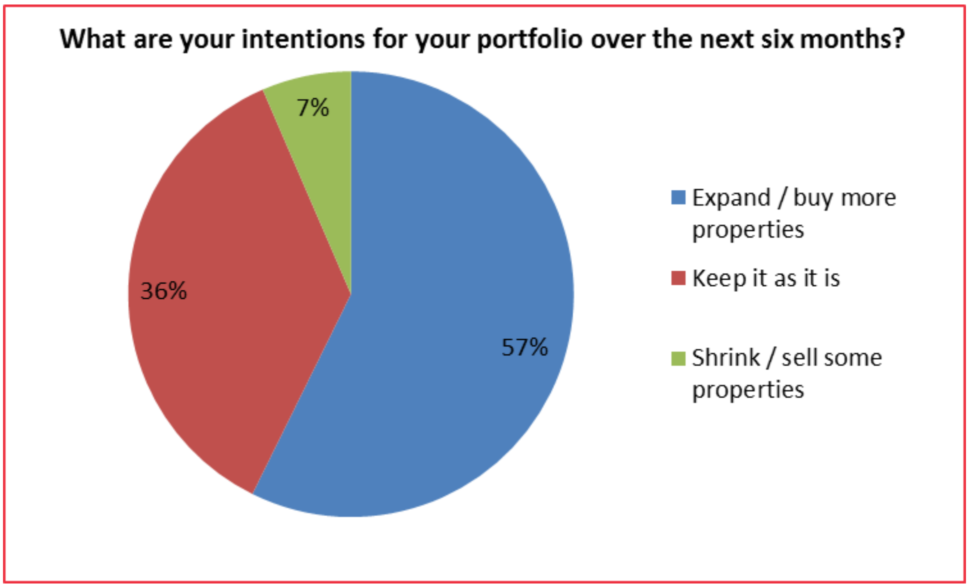


5. What is your total level of mortgage borrowing for your property portfolio?

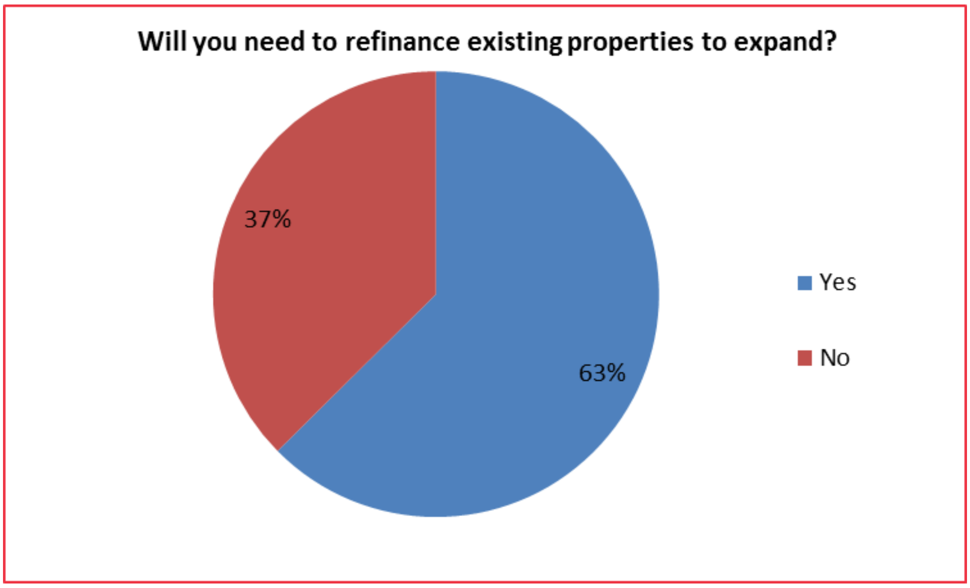
(i.e. What is your property portfolio gearing?)



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



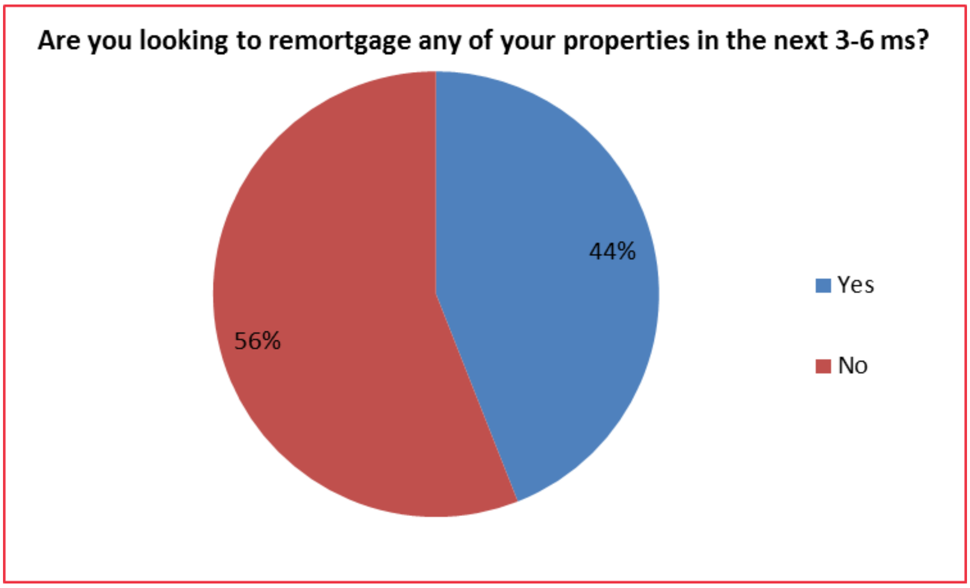
7. Will you need to refinance existing properties to expand?



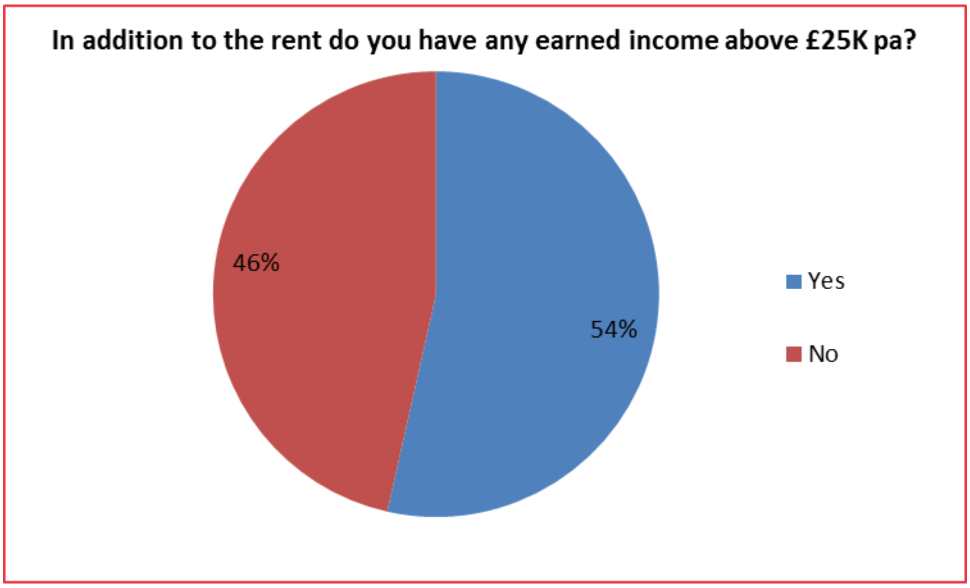
8. If you intend to expand your portfolio over the next six months, what types of property are you considering purchasing?

Property types considered	Per cent of respondents
Vanilla buy to let	81%
Houses in multiple occupation	22%
Multi-unit freehold block	15%
Semi-commercial	7%
Commercial	7%
Multiple property types	25%

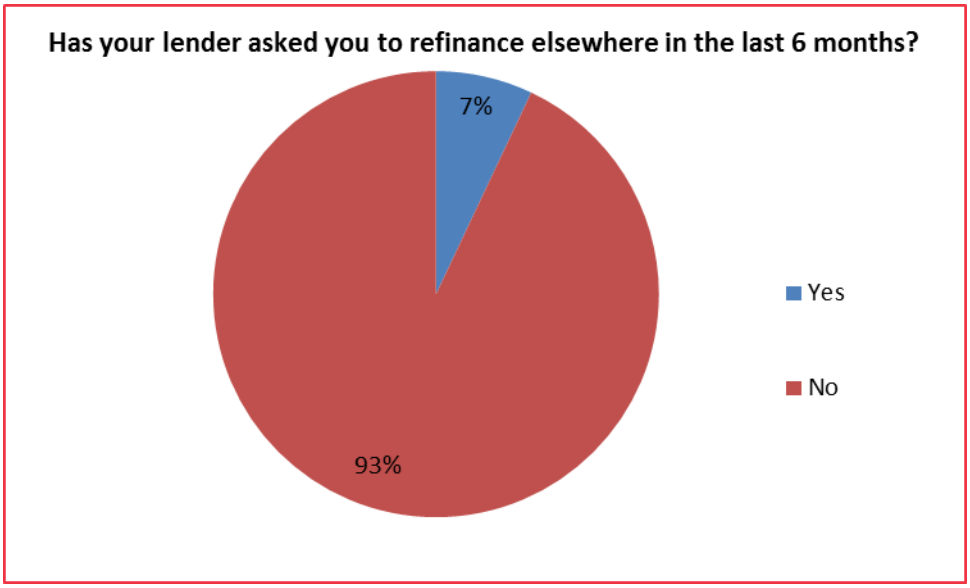
9. Are you looking to remortgage any of your properties in the next 3-6 months?



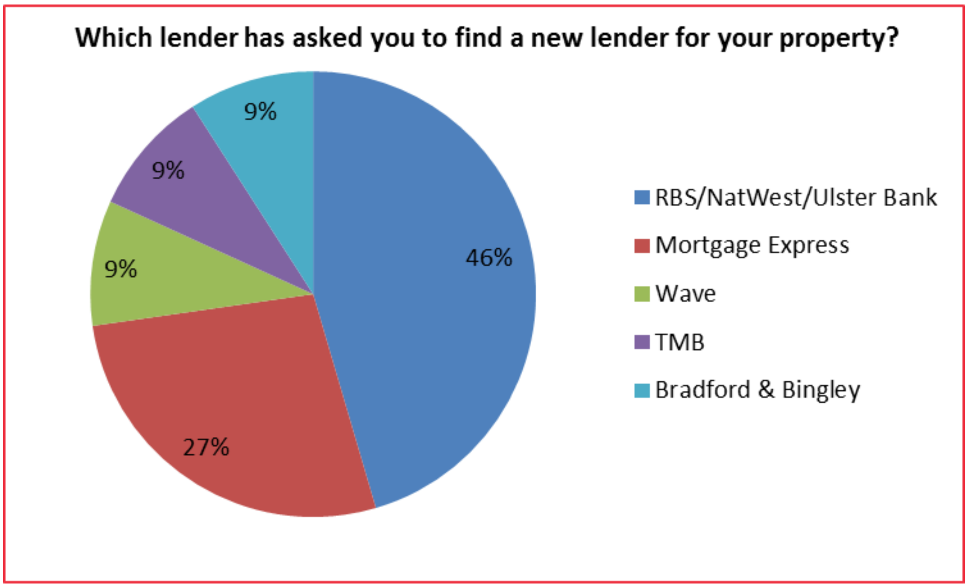
10. In addition to the rent do you have any earned income above £25,000 per annum?



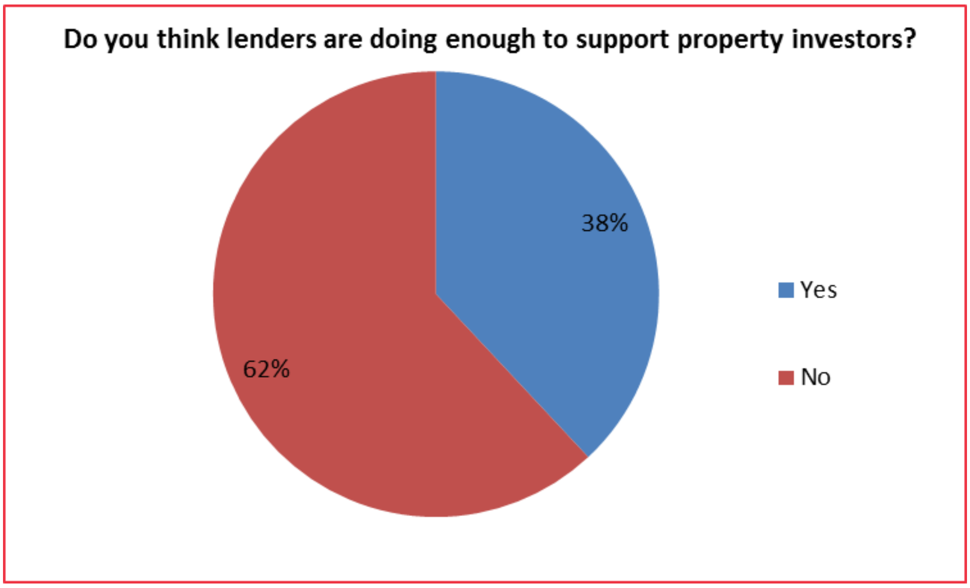
11. Has your lender asked you to refinance elsewhere in the last six months?



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



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



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

Response	%
Reduce fees	20%
Increase LTVs	18%
More case by case lending decisions (not just by computers or credit scores)	15%
Reduce rates	14%
Ease general lending criteria	12%
Remove additional income requirement	6%
Lend to investors with 10+ properties	4%
More products	4%
More development finance	3%
Remove upper age limit on lending	3%
More lending to limited companies	3%
Scrap the 6 month rule	2%
Get rid of broker fees	2%
Other responses each totalling less than 1%	6%