Property Investor Survey

Results October/November 2012

Analysis of Results

The survey, the third of its kind, was launched at the end of October 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 218 responses.

Eighty-one per cent of investors who responded to the survey own between one and ten properties. Typical clients range from landlords who own 1-3 properties as a part of an alternative pension strategy to professional landlords with a portfolio in excess of 10 properties. 37% of survey respondents own 4-10 properties, up 2% on the June survey. Clearly not novices, these semi-professional landlords sit midway between the part-time and professional investor.

Nearly three quarters (74%) of respondents own a property within 25 miles of 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 9% own a property more than 100 miles from home.

Only 19% of respondents said they owned investment property in a limited company, up 3% since June. 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. However the 3% increase is encouraging and reflects the fact that a few more products for limited company applicants have been launched.

When asked what types of properties investors owned, 92% said 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, Q3 2012 the average gross yield on vanilla buy to let property was 6.7%.

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, 22% said they owned houses in multiple occupation (HMO), 28% said they owned multi-unit freehold blocks (MUFB), 11% said they owned semi-commercial property (SCP), and 13% said they owned commercial property. Yields from these more complex investment property types are typically higher than for vanilla properties. In Q3 2012 average gross yields were 11.1% for HMOs, 8.8% for MUFBs and 7.1% 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, 30% of respondents have no borrowing or borrowing of less than 50%, down 9% on the previous survey results. The reason for the decrease could be that some landlords with sufficient equity have made further purchases since the last survey. However, the current results show that for 30% of landlords, there is still room for further, considerable leverage if desired. 46% indicated that they had borrowing of between 50-74%. Clearly, for some of these landlords there is also room for further leverage.

This bodes well for existing property investors as 55% of respondents indicated that they planned to expand their portfolios in the next 6 months, down 5% on the previous survey's figures. Again this figure may be down because some respondents may have already expanded their portfolios since the last survey.

Of the 55% of respondents who indicated that they planned to expand their portfolios, two thirds indicated that they would need to refinance in order to facilitate 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 to refinance at all due to insufficient equity within their existing portfolio. Consequently some 11% 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 55% of respondents who indicated that they planned to expand their portfolios, it is probably not surprising that 88% 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: 26% are considering HMOs (up 7% on the previous survey), 16% are considering MUFBs (up 2%), 11% are considering SCPs (down 1%) and 7% are considering commercial property purchases (down 3%).

Only 6% of respondents indicated that they were looking to shrink their portfolios, although it is not known why.

Regardless of whether respondents are looking to make further purchases or not, 43% are looking to remortgage in the next six months. This represents an increase of 7% on the previous survey.

Of the 45% of respondents who do not intend to expand their portfolios, a quarter still intend to remortgage within the next six months; however, a small number of them are likely to experience difficulty in doing so as their requirements are outside existing LTV lending criteria.

More than a third of respondents (39%) indicated that they had no additional income (other than from rent). This is 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.

7% of survey respondents have been asked to refinance elsewhere by lenders, down just 1% on the last survey. Most of the investors affected tend to be professional landlords with larger portfolios who have been caught up predominantly by RBS Group and the Irish banks still trying to reduce their exposure on property.

Over three quarters (76%) of respondents felt that lenders could be doing more to support property investors. 73% of all respondents made a total of 179 suggestions as to what more the lenders could be doing to support property investors.

The top four suggestions were reduce rates 27%, reduce fees 16%, lend more 12% and ease lending criteria 45%.

Reduce rates
The table below shows that average pricing for most products has reduced slightly since February, although overall the picture is 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	Nov 2012
2 year fixed	4.83%	4.84%	4.73%
3 year fixed	5.20%	5.20%	5.07%
5 year fixed	5.38%	5.57%	5.06%
2 year discounted tracker	4.32%	4.39%	4.44%
3 year discounted tracker	4.74%	5.47%	5.12%
5 year discounted tracker	5.35%	5.35%	4.85%
Loan term tracker	5.29%	5.38%	5.12%

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.

Reduce 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.

Lend more
Since February buy to let mortgage product availability has increased from an average of 442 to 456 products. Obviously the actual figure changes regularly as lenders introduce and withdraw products. Only one new credible lender has entered the buy to let arena in the latter half of 2012 – Interbay Commercial which focuses on the more complex buy to let transactions.

Data produced by the Council of Mortgage Lenders (CML) shows the value of buy to let mortgages taken out in 2012 has increased quarter on quarter and totalled £11.8 billion by the end of Q3. This represents a 19% increase advanced over the same period in 2011. Whilst very encouraging, buy to let activity is recovering from a very low base and remains subdued compared to pre-credit crunch lending. By the end of 2012 buy to let lending is expected to total a little over one third of the 2007 peak.

Ease lending criteria

The main suggestions regarding easing lending criteria were:

- Give more preference to experienced landlords, particularly those with a strong track record and larger portfolios. Landlords feel that it is perverse to offer the best rates and majority of products to the most inexperienced landlords.

- Remove the upper age limit, particularly for experienced landlords. Buy to let is a business transaction so age should not matter.

- More lenders should consider more than just vanilla property types, particularly when HMOs and multi-units generate higher yields.

- More human rather than computer based lending decisions. Each case should be judged on its own merits by humans that have a deeper understanding of property investment.

- Remove the six month refinance rule.

- Remove non-property related income requirements.

- Offer higher loans to value in line with residential mortgage products. 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:

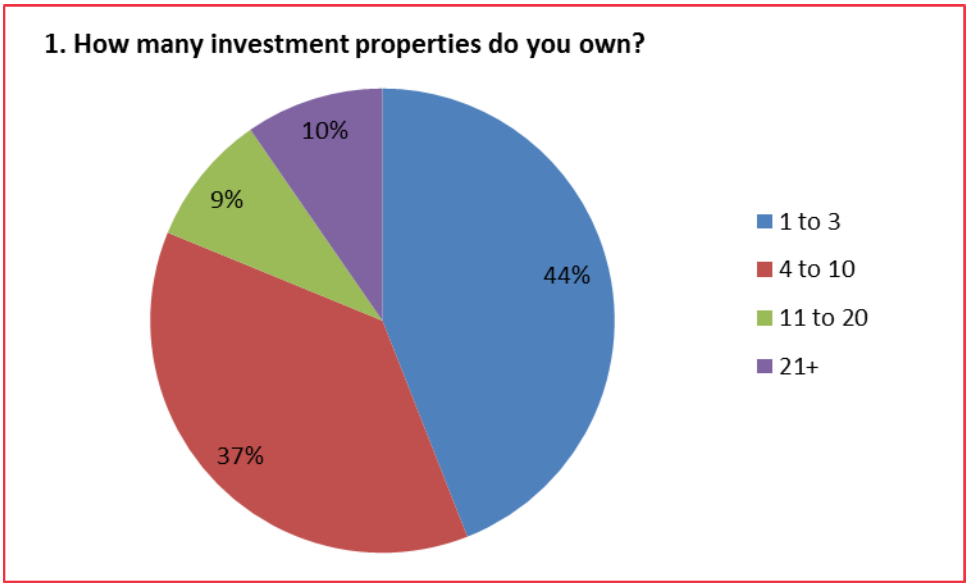
Count of Buy to Let Mortgage Products by LTV	Feb 2012	June 2012	November
Number of 75% LTV products	137	184	191
Number of 80% LTV products	27	26	29
Number of 85% LTV products	1	4	3

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

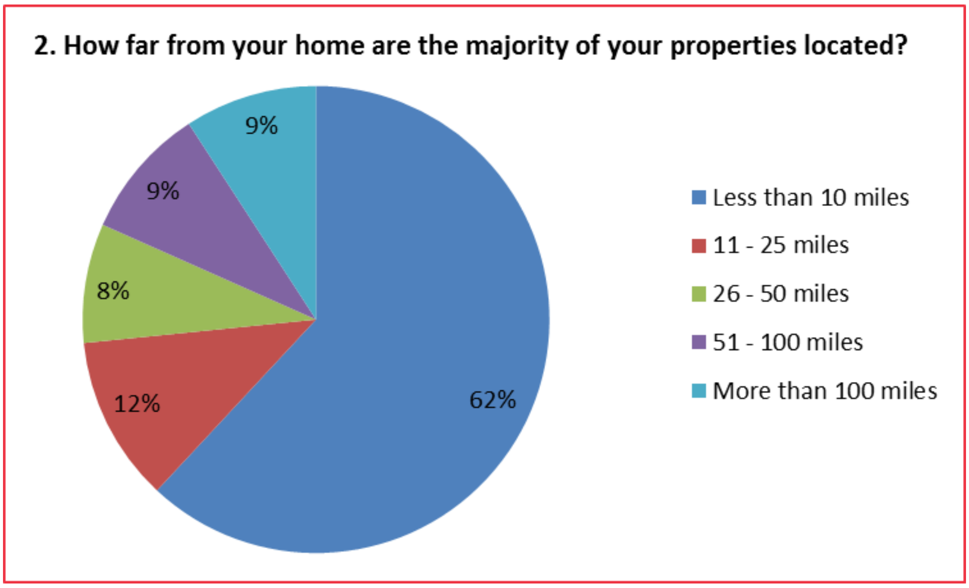
For the majority of lenders there is little incentive to ease general lending criteria because the demand for products more than meets their on-going lending targets.

The full survey results are detailed below. The next survey will be issued in the spring of 2013. For more information please contact: Jenny Barrett, Head of Marketing on 01732 471615.

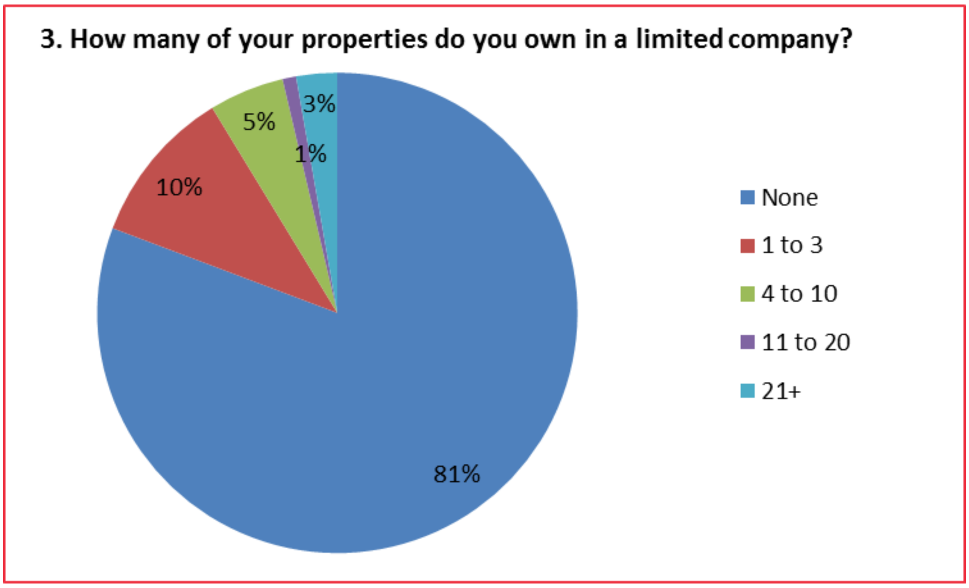
1. How many investment properties do you own?



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

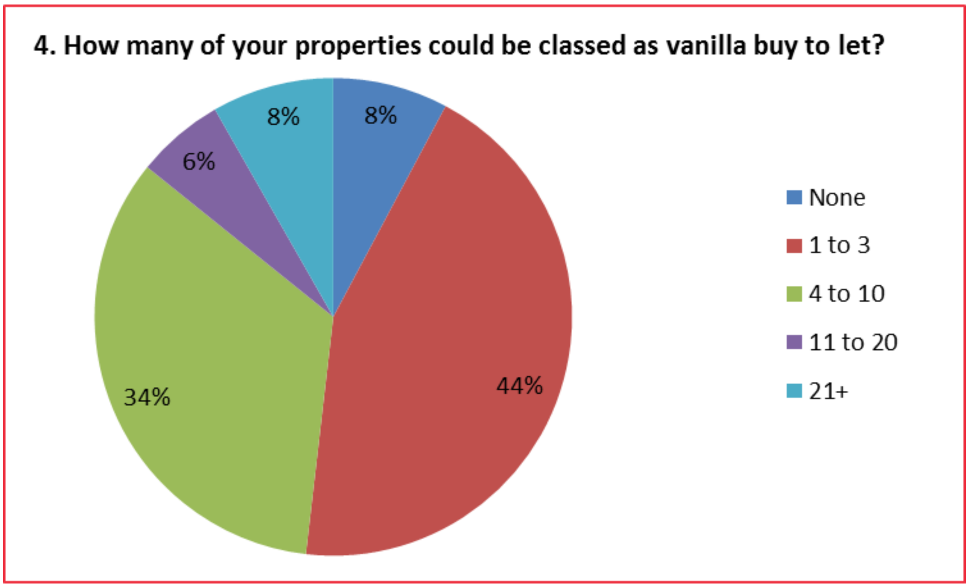


3. How many properties do you own in a limited company?



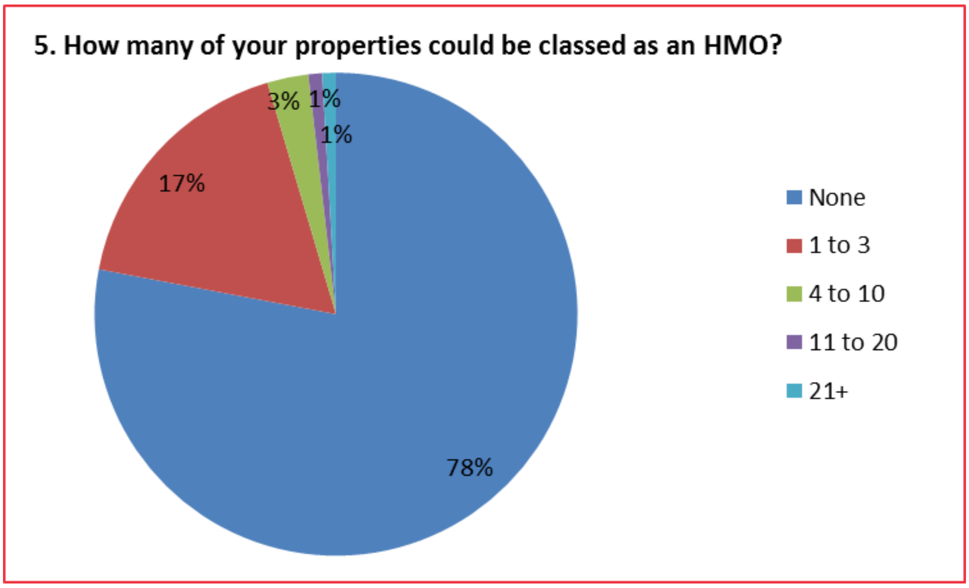
These companies tend to be Special Purpose Vehicles but some are normal trading companies or Limited Liability Partnerships.

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



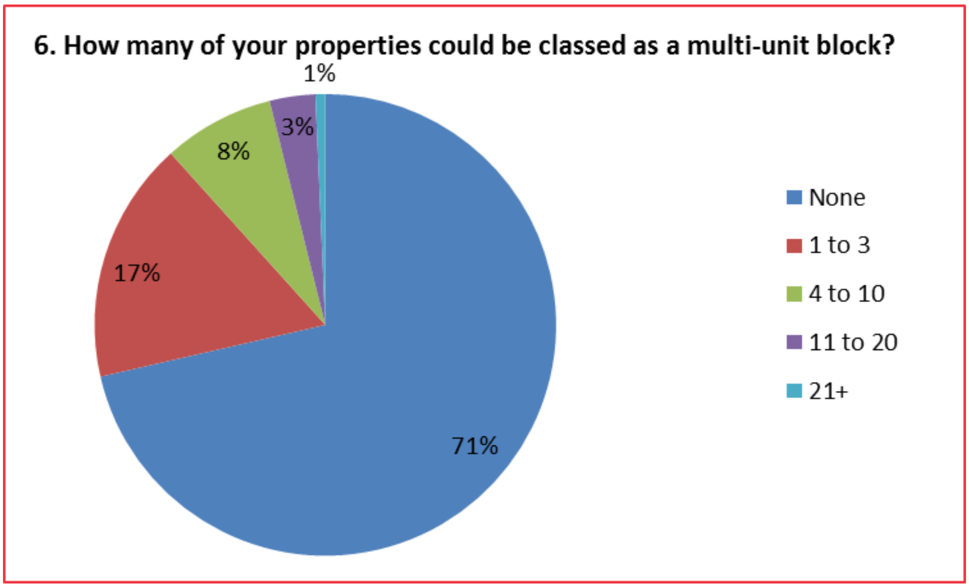
Properties in the vanilla category tend to be normal 1, 2 or 3 bedroom houses or flats that are easy to let to families, couples and professionals.

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



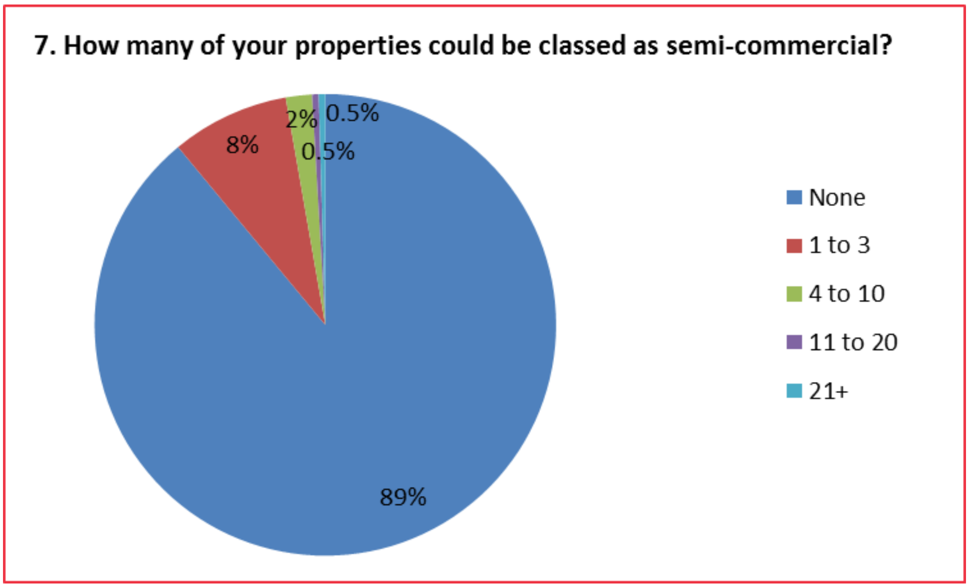
Generally HMOs are classed as residential properties where there are more than three non-related renters sharing accommodation. These properties are often required to be licensed by the local authority if the property consists of three or more storeys and the property is let to five or more unrelated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

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



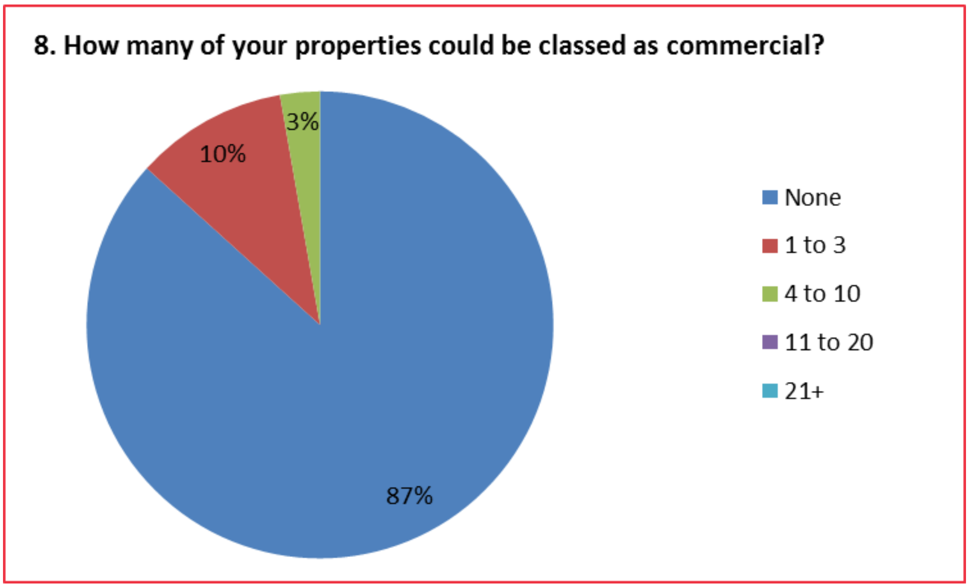
Multi-unit freehold blocks tend to be either small, purpose-built blocks of flats or houses converted to flats where th the whole building is owned under a single title.

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



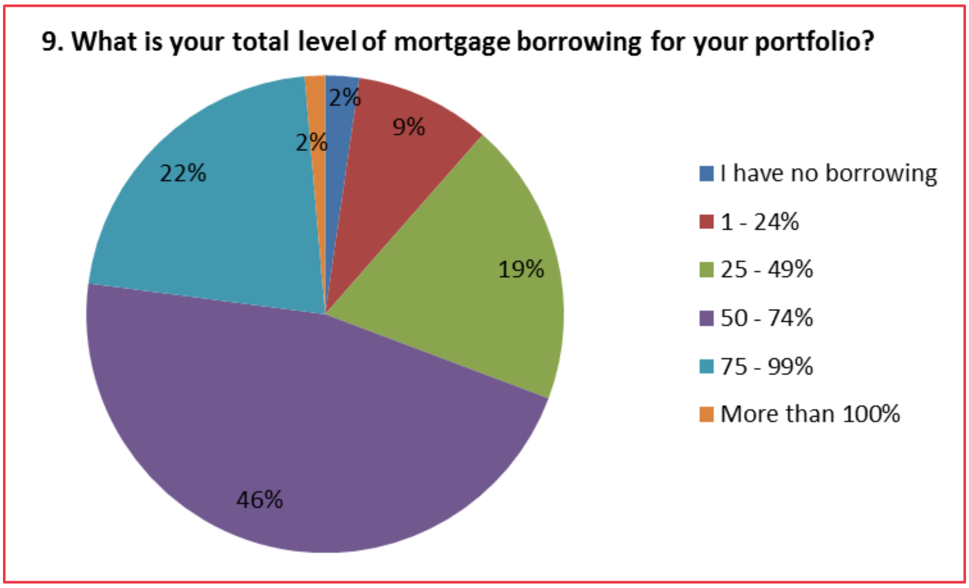
Semi-commercial properties are also known as mixed investment properties and tend to consist of flats above offices or shops.

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



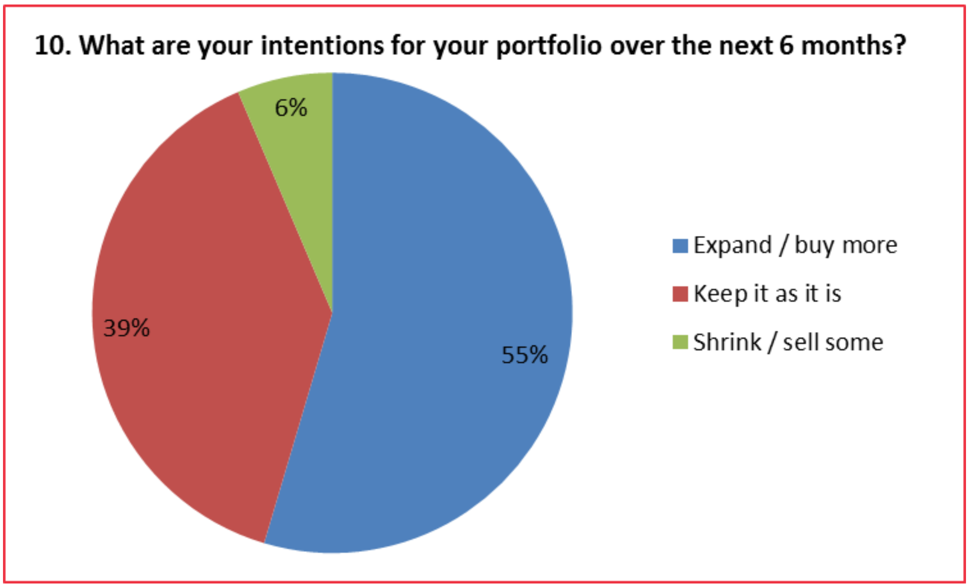
Commercial properties can be for a variety of uses including business (offices, chambers, professional practices, nursing homes, etc); leisure (restaurants, hotels, B&Bs, pubs, golf clubs, sports centres, etc); retail (shops, retail units, retail parks, etc); industrial (industrial/semi-industrial units,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

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

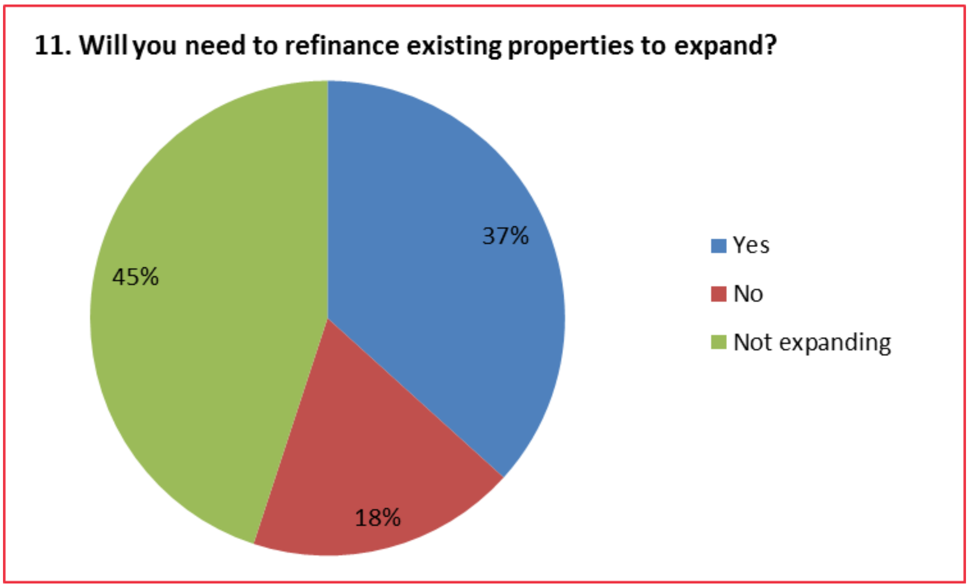


Total borrowing expressed as a percentage is calculated as follows: Total loans divided by total value of properties multiplied by 100.

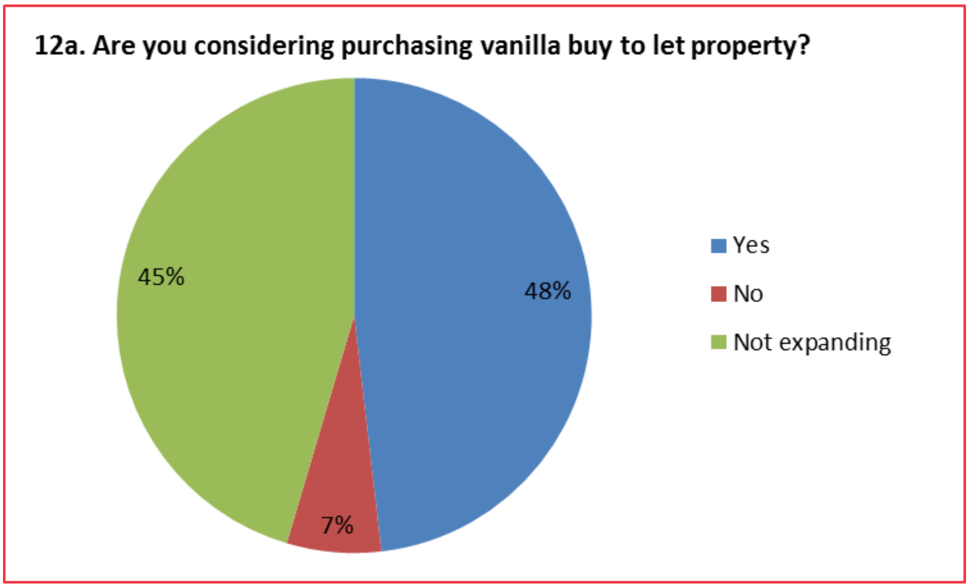
10. What are your intentions for your portfolio over the next six months?



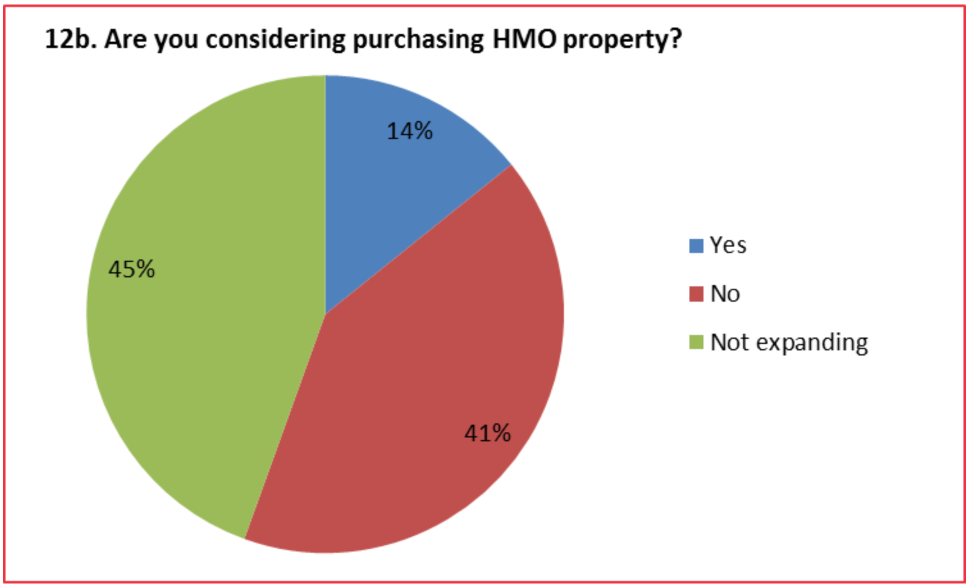
11. Will you need to refinance existing properties to expand?



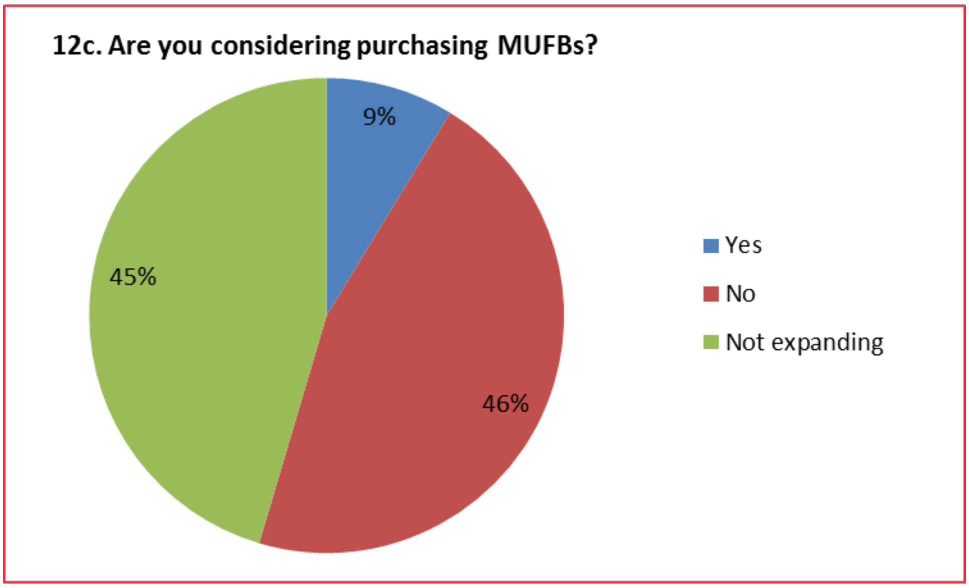
12a. Are you considering purchasing vanilla buy to let property?



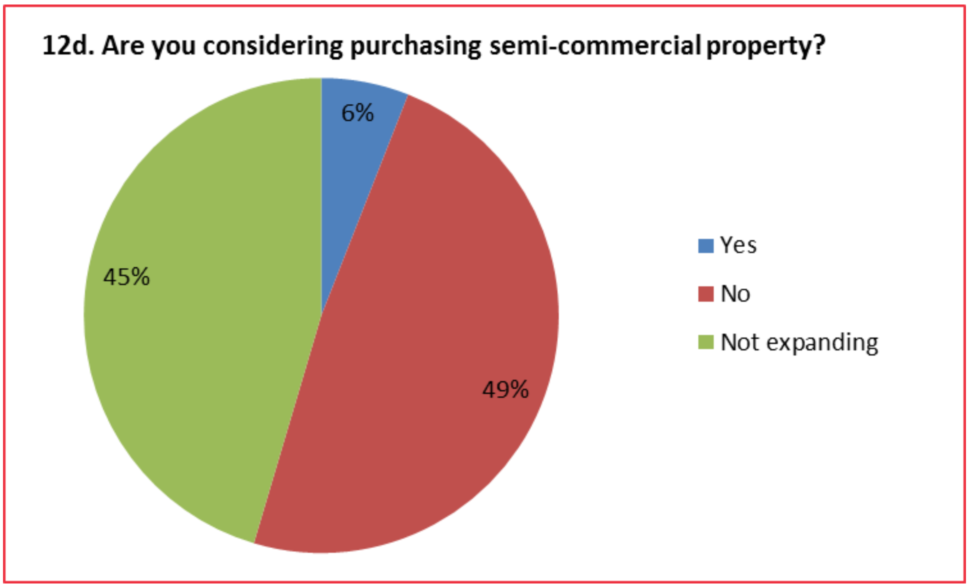
12b. Are you considering purchasing HMO property?



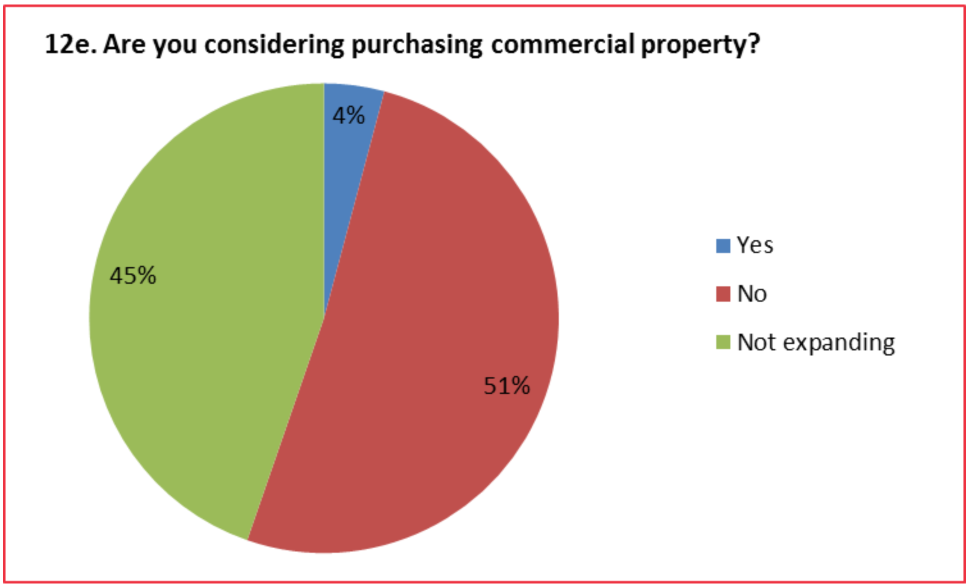
12c. Are you considering purchasing any multi-unit freehold blocks?



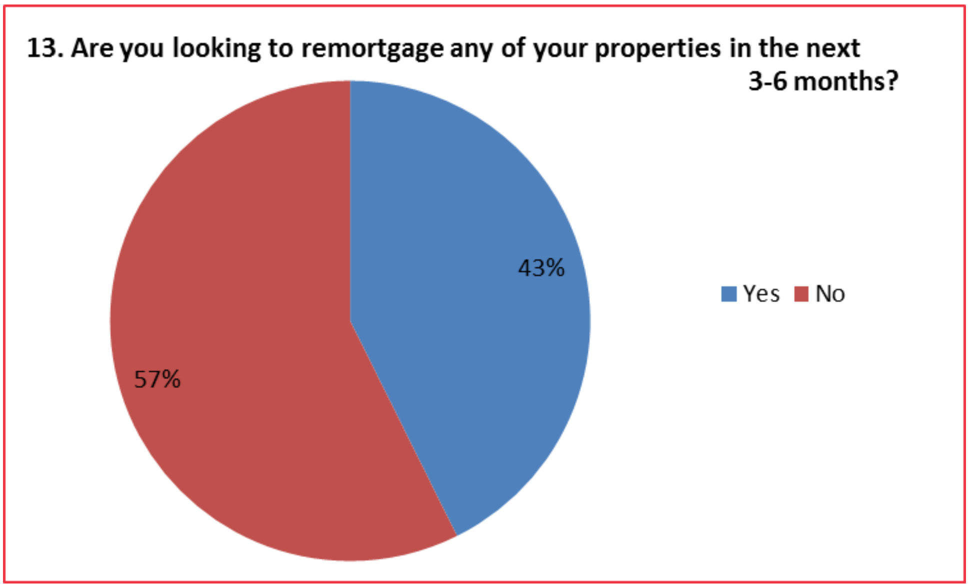
12d. Are you considering purchasing any semi-commercial property?



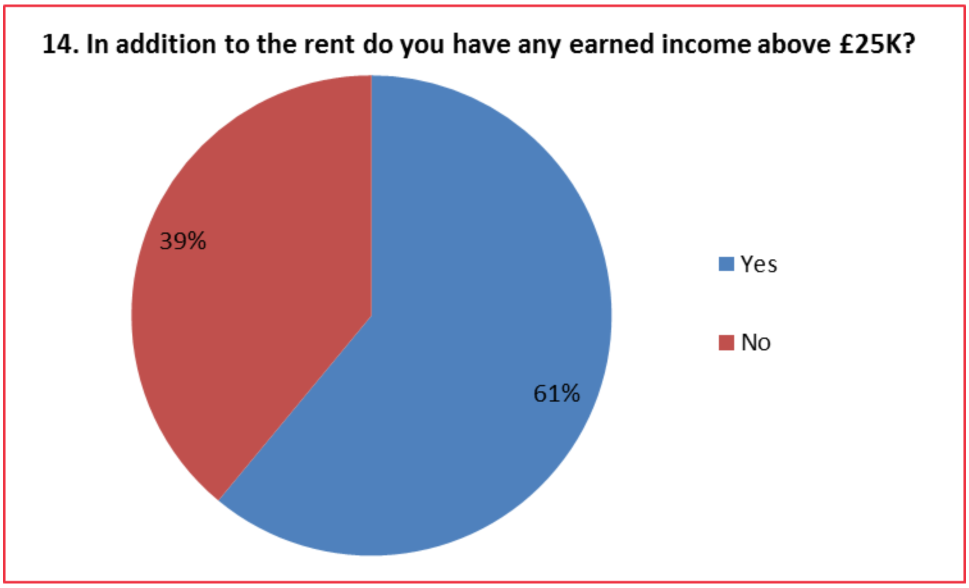
12e Are you considering purchasing any commercial property?



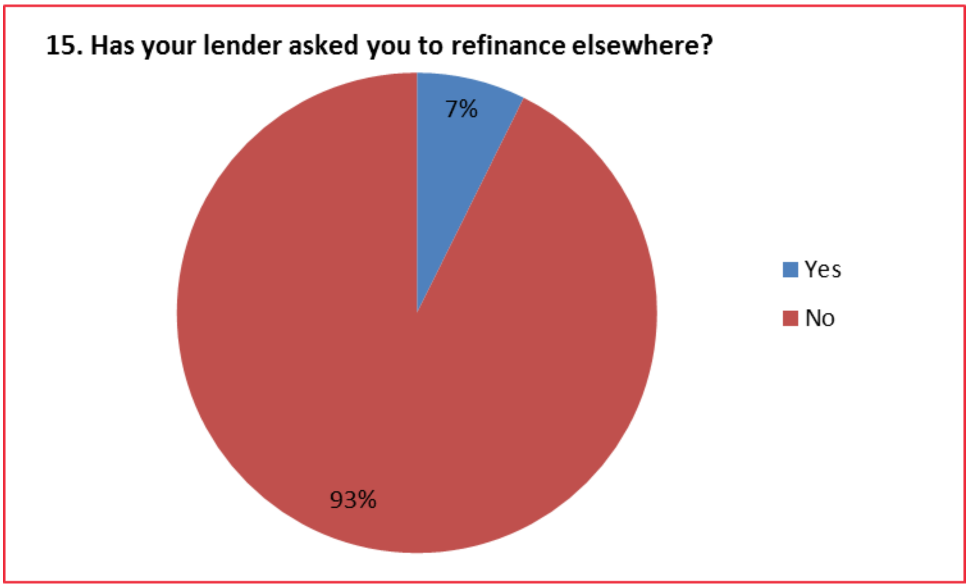
13. Are you looking to remortgage any of your properties in the next 3-6 months?



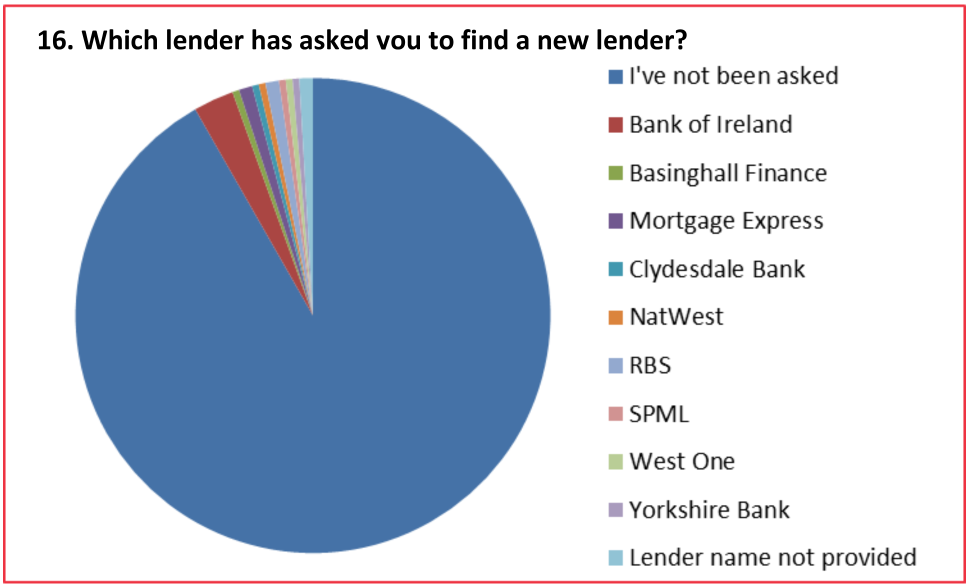
14. In addition to the rent do you have any earned income in excess of £25,000 per annum?



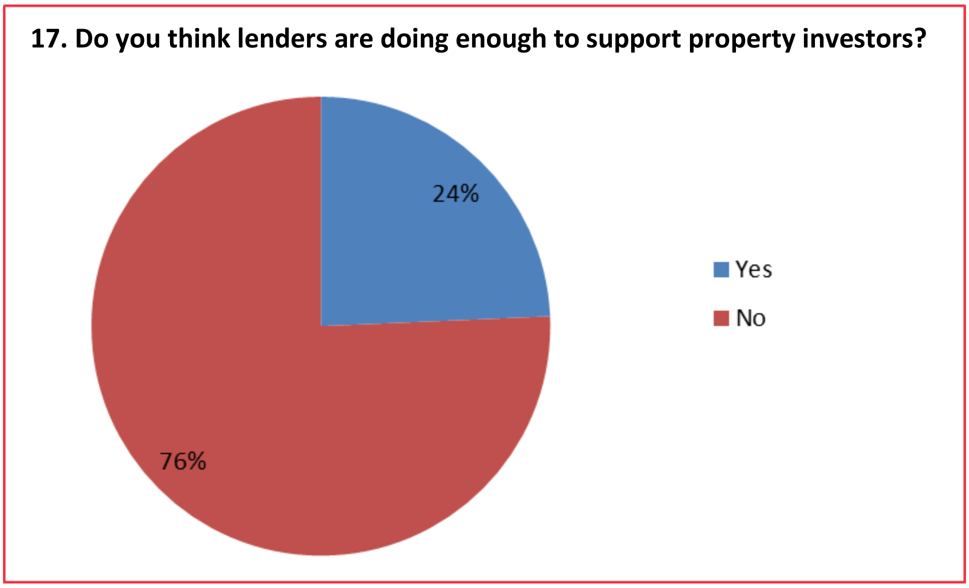
15. In the last six months has your existing lender asked you to refinance you property / portfolio with other lenders?



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?