Property Investor Survey

Results February / March 2013

Analysis of Results

The survey was launched in February 2013 and ran for two weeks. In that time it was emailed to our property investor contacts database and advertised on the home page of the website – www.mortgagesforbusiness.co.uk.

Almost three-quarters (74%) of investors who responded to the survey own 1-10 properties. The majority of these investors would be considered part-time or amateur landlords by lenders. More than a quarter (26%) of respondents own more than 10 properties and as such would be considered professional landlords by lenders, even though 25% of them earn income in addition to the rent their properties generate.

Seventy per cent of respondents said they owned investment 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. Surprisingly 14% said they owned property more than 100 miles from home, up 6% on the previous survey.

Once again 19% of respondents said they owned investment property in a limited company – the same figure as in the last survey in October 2012.

When asked what types of properties investors owned, 90% said had vanilla buy to let property in their portfolio, down 2% on the last survey which suggests that there has been a small increase in the number of investors owning more complex property types, particularly commercial property.

Properties in the vanilla category tend to be normal 1-3 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, Q1 2013 the average gross yield on vanilla buy to let property was 6.4%.

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, 17% said they owned houses in multiple occupation (HMO), 27% said they owned multi-unit freehold blocks (MUFB), 10% said they owned semi-commercial property (SCP), and 16% said they owned commercial property. Yields from these more complex investment property types are typically higher than for vanilla properties. In Q1 2013 average gross yields were 10.5% for HMOs, 7% for MUFBs and 8.2% 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, 29% of respondents have no borrowing or borrowing of less than 50%, down just 1% on the previous survey results. It is encouraging to see that nearly three-quarters of landlords who responded to the survey have room to take on more borrowing if required.

Just over a quarter of respondents have mortgage borrowing of 75% or more leaving them little or no opportunity to borrow more as most buy to let and commercial lenders will not lend more than 75% LTV (only a handful of buy to let lenders go to 80% LTV and one, Kent Reliance has a product at 85% LTV).

Encouragingly almost three-quarters of respondents have borrowing of less than 75%. This bodes well for the 56% of investors who plan to expand their portfolios in the next 3-6 months. Of the 56% of respondents who indicated that they planned to expand their portfolios, over half indicated that they would need to refinance in order to facilitate expansion.

Also, of the 56% of respondents who indicated that they planned to expand their portfolios, a quarter had not decided in what sort of property to invest.

Of those who had determined what types of property they were interested in, 79% were considering vanilla buy to let property, 33% were considering HMOs, 36% were considering multi-units, 15% were considering semi-commercial property and 12% were considering commercial property. Many of these landlords are prepared to consider a range of property in order to diversify their portfolios.

Only 5% 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, 42% are looking to remortgage in the next six months. This represents a decrease of 1% on the previous survey.

Of the 34% of respondents who do not intend to expand their portfolios, 29% 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.

Forty-one per cent of respondents indicated that they had no addition income (other than from rent), up 2% on the previous survey. 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.

Only three of respondents have been asked to refinance elsewhere by lenders down 3% on the last survey. The lenders indicated were HBOS, RBS and SPML (which is no longer lending).

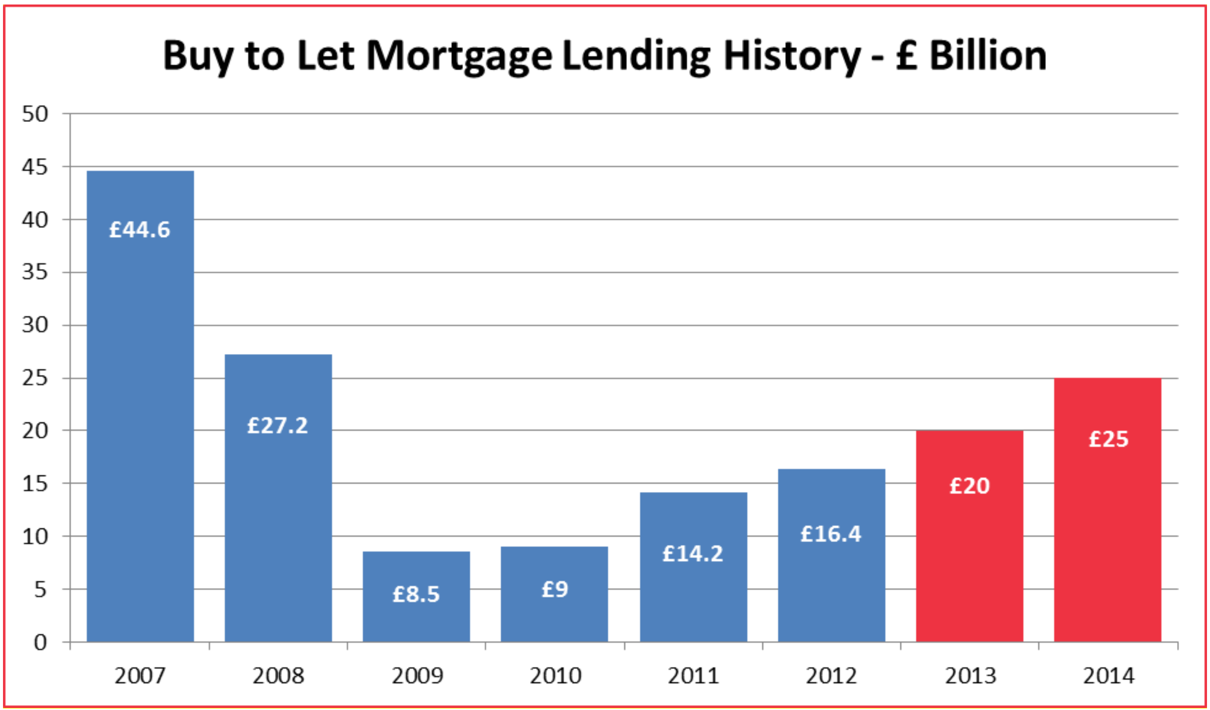
Unsurprisingly over three quarters (79%) of respondents felt that lenders could be doing more to support property investors. Once again the most common suggestions were reduce rates (18%), reduce fees (16%), change criteria (61%) and lend more (5%).

Reduce rates and fees

For the most part buy to let mortgage rates have come down steadily in price since early 2008. Fees too have reduced somewhat. For more detailed information please see our Buy to Let Mortgage Costs Indices, February 2013.

Lend more

Data produced by the Council of Mortgage Lenders (CML) reveals that lenders are lending more. In 2012 buy to let lending totalled £16.4bn. Whilst this is nowhere nearly the in 2007 when buy to lending totalled £44bn, it remains a step in the right direction and equates to more than 13% of overall mortgage lending in the UK. The graph below shows the estimated lending figures for 2013 and 2014 predicted by Mortgages for Business.



Source: Blue bars: Council of Mortgage Lenders. Red bars: Mortgages for Business prediction

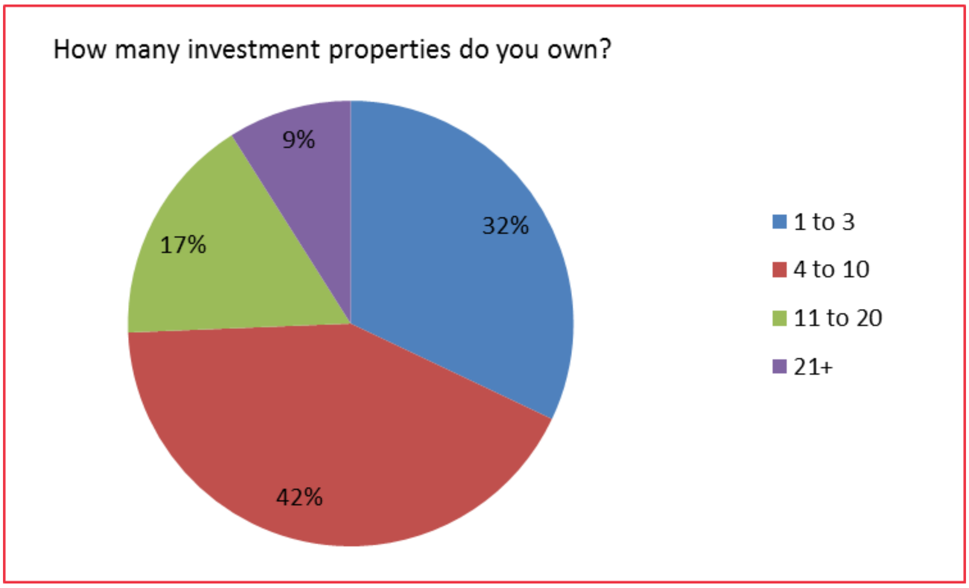
Ease lending criteria

The main suggestions regarding easing lending criteria were:

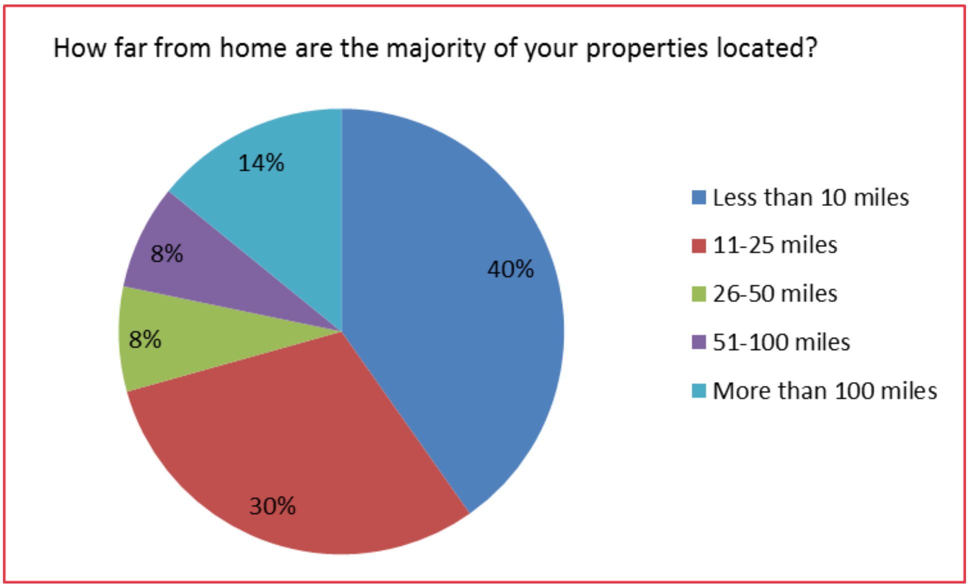
- Remove non-property related income requirements
- Increase LTV threshold and increase the number of products available at higher LTVs
- Judge each application on its own merits and reduced the amount of computer-based lending decisions.
- Increase product availability for limited companies

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

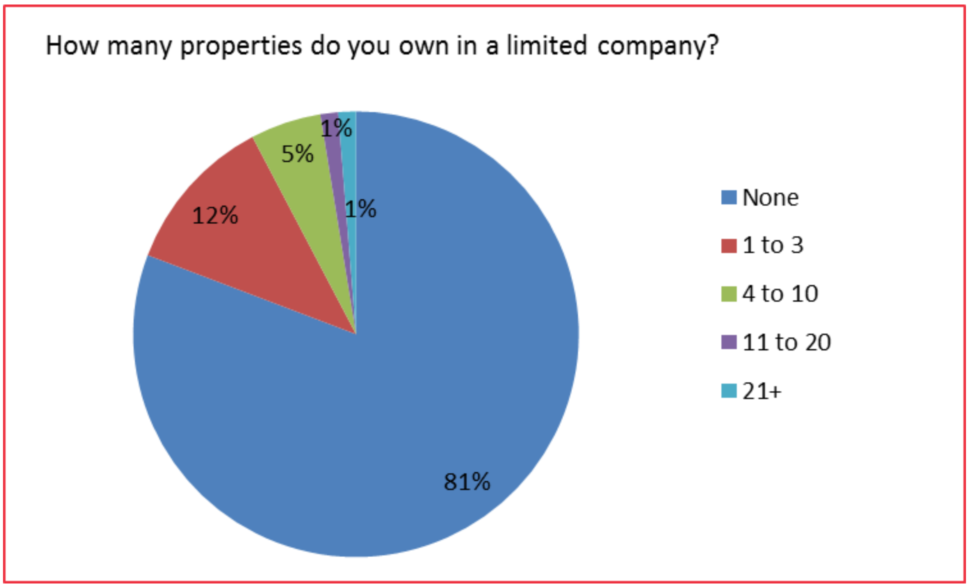
1. How many investment properties do you own?



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

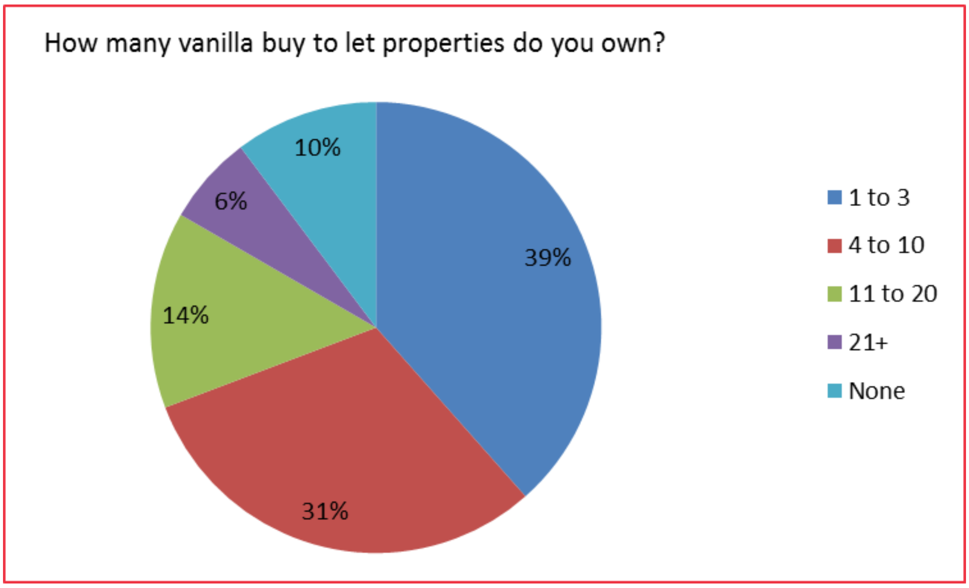


3. How many properties do you own in a limited company?



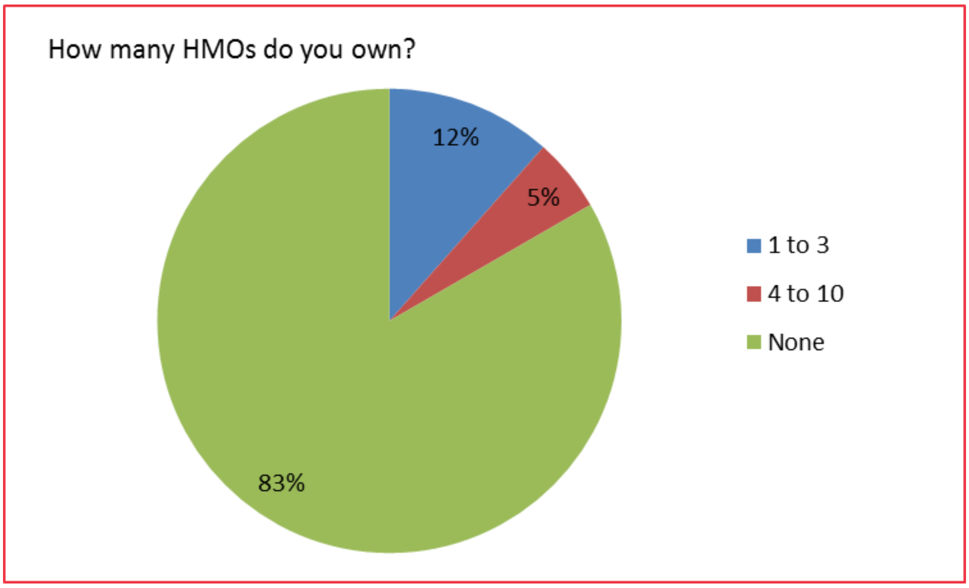
These companies tend to be Special Purpose Vehicles but some are normal trading companies or Limited Liability Partnerships.

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



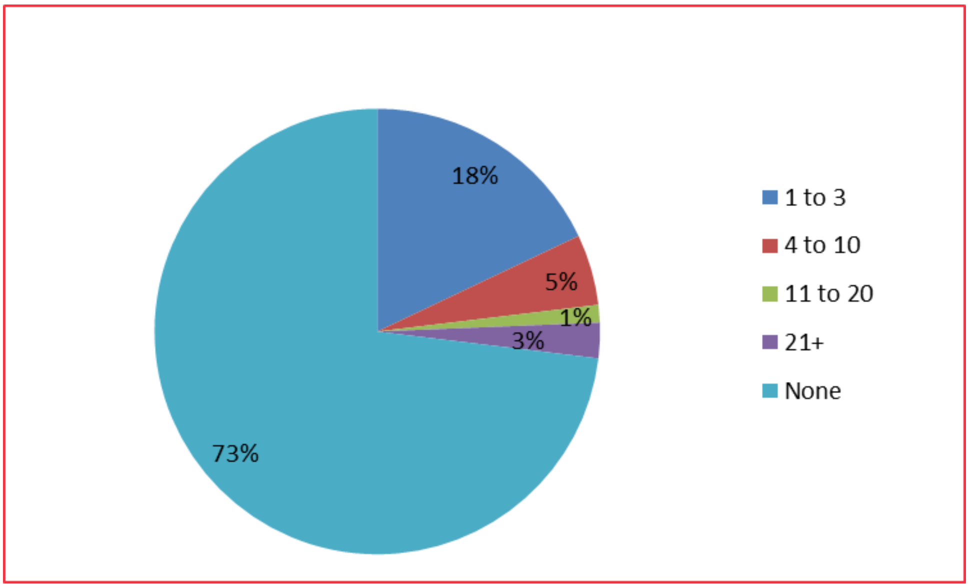
Properties in the vanilla category tend to be normal 1, 2 or 3 bedroom houses or flats that are easy to let to families, couples and professionals.

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



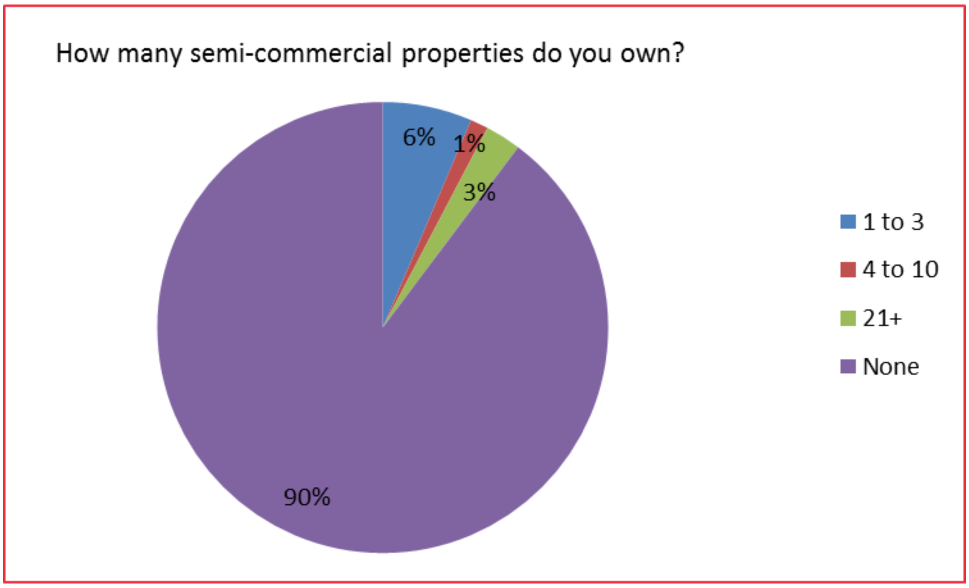
Generally HMOs are classed as residential properties where there are more than three non-related renters sharing accommodation. These properties are often required to be licensed by the local authority if the property consists of three or more storeys and the property is let to five or more unrelated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

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



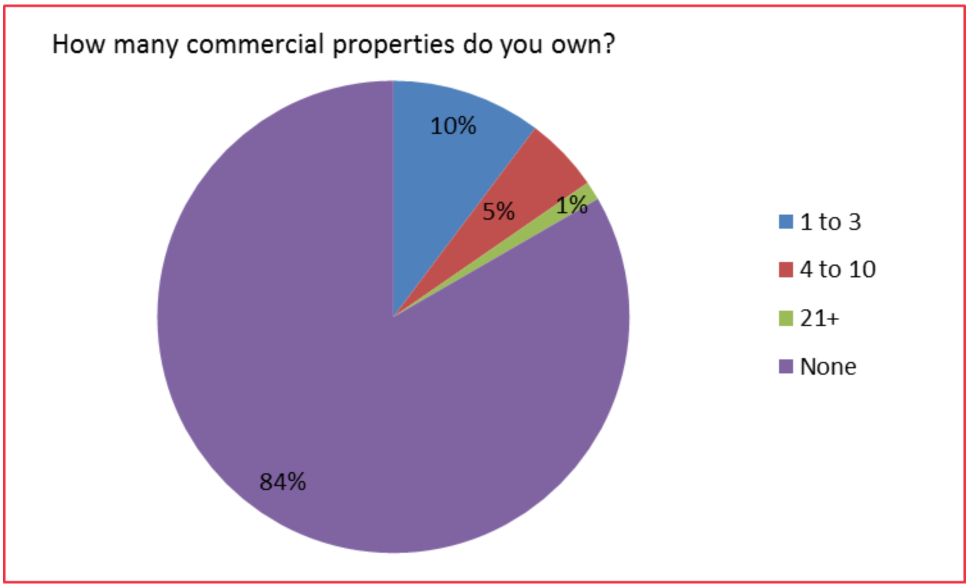
Multi-unit freehold blocks tend to be either small – medium sized, purpose-built blocks of flats or houses converted to flats where the whole building is owned under a single title.

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



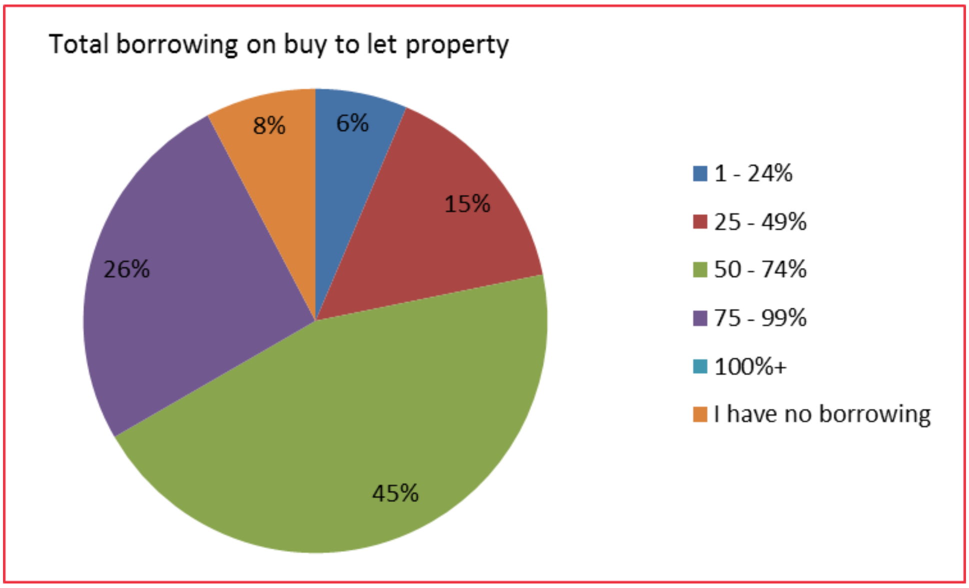
Semi-commercial properties are also known as mixed investment properties and tend to consist of flats above offices or shops.

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



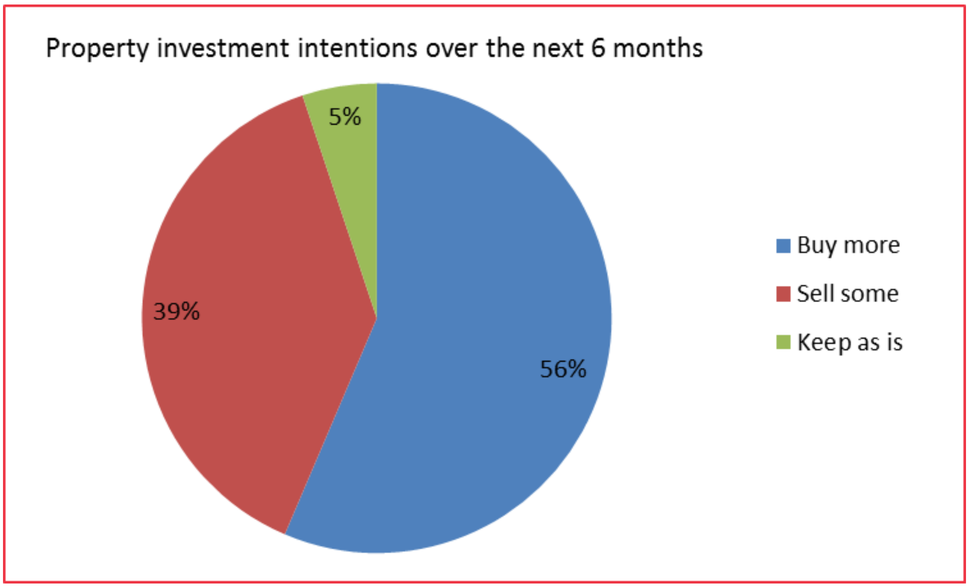
Commercial properties can be for a variety of uses including business (offices, chambers, professional practices, nursing homes, etc); leisure (restaurants, hotels, B&Bs, pubs, golf clubs, sports centres, etc); retail (shops, retail units, retail parks, etc); industrial (industrial/semi-industrial units,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

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

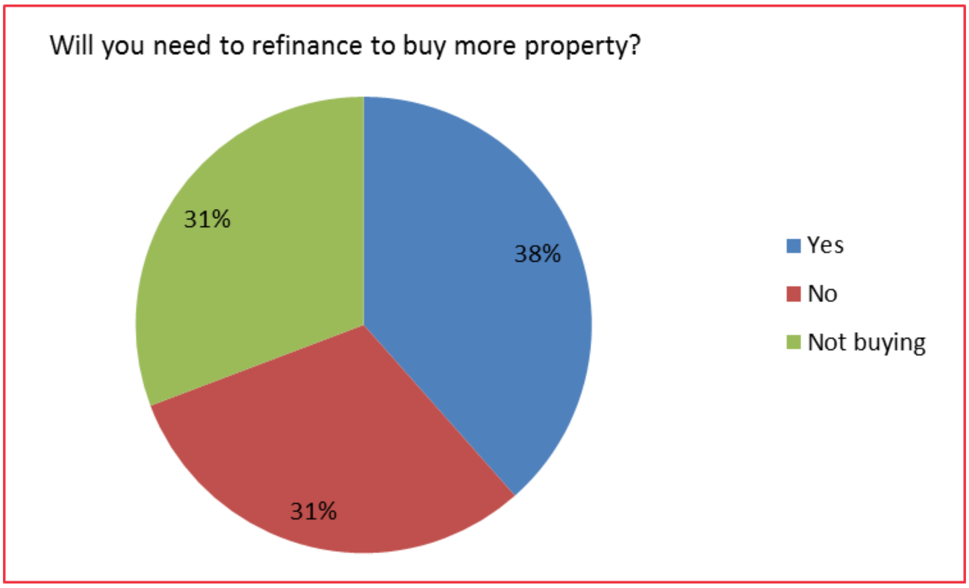


Total borrowing expressed as a percentage is calculated as follows: Total loans divided by total value of properties multiplied by 100.

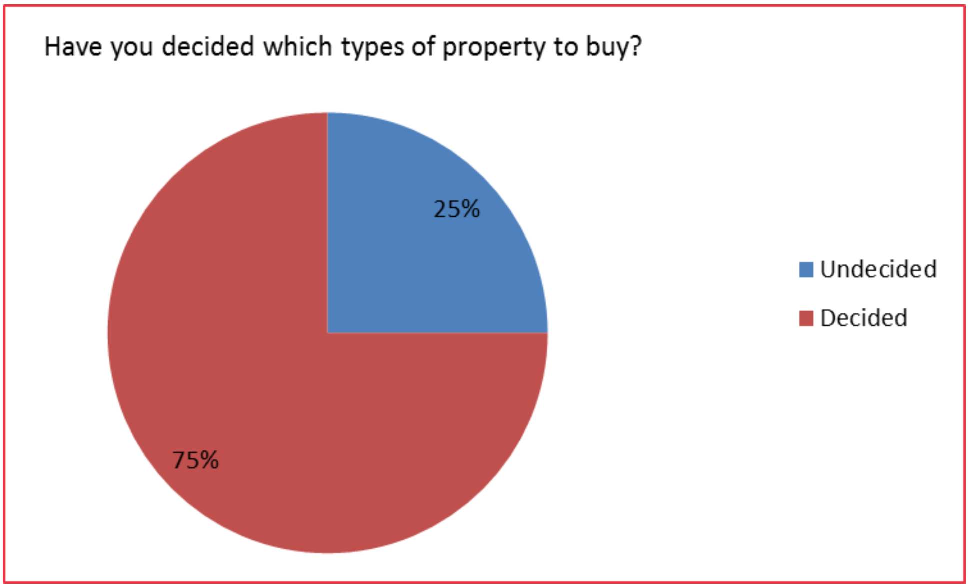
10. What are your intentions for your portfolio over the next six months?



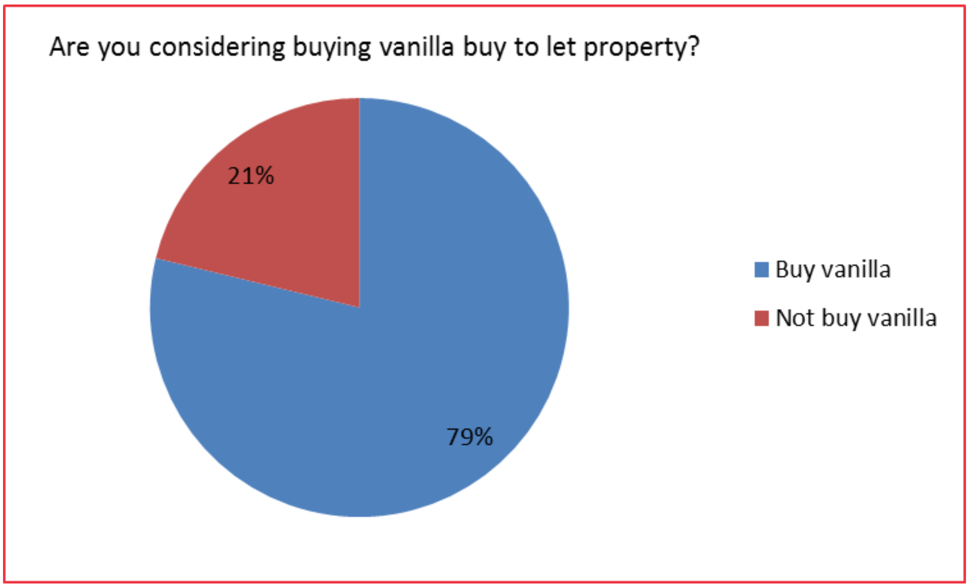
11. Will you need to refinance existing properties to expand?



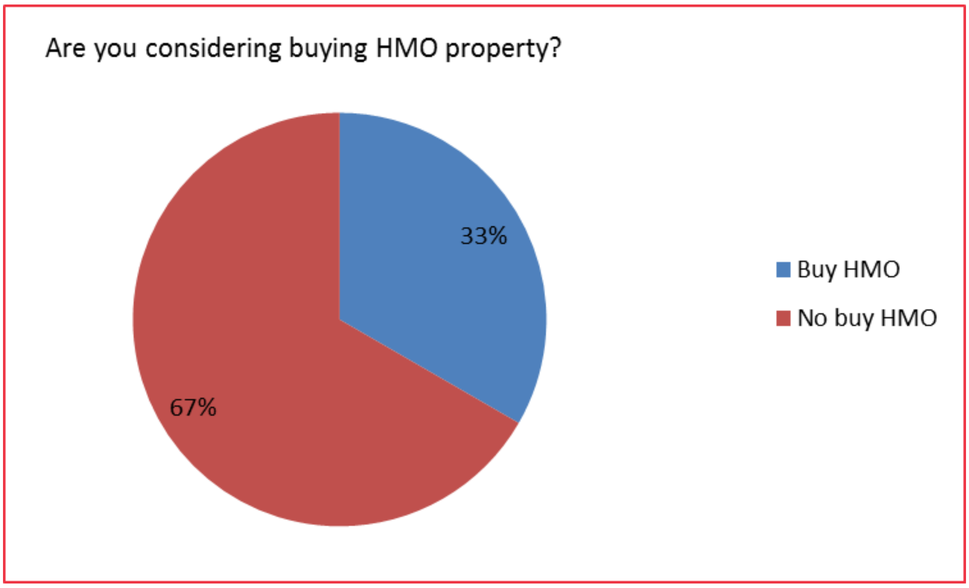
12a. For those of you that you plan to expand your portfolio, have you decided which types of property to buy?



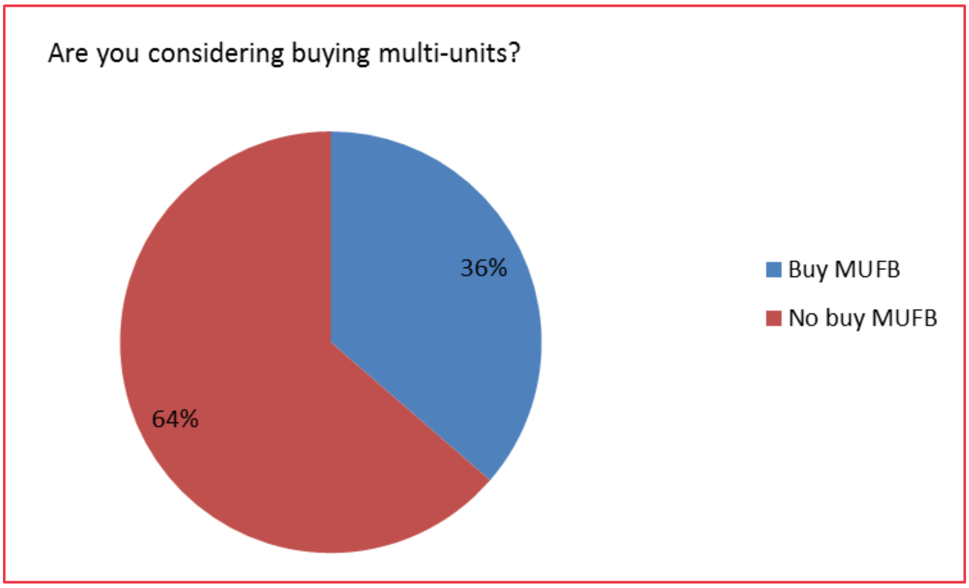
12b. Are you considering purchasing any vanilla buy to let property?



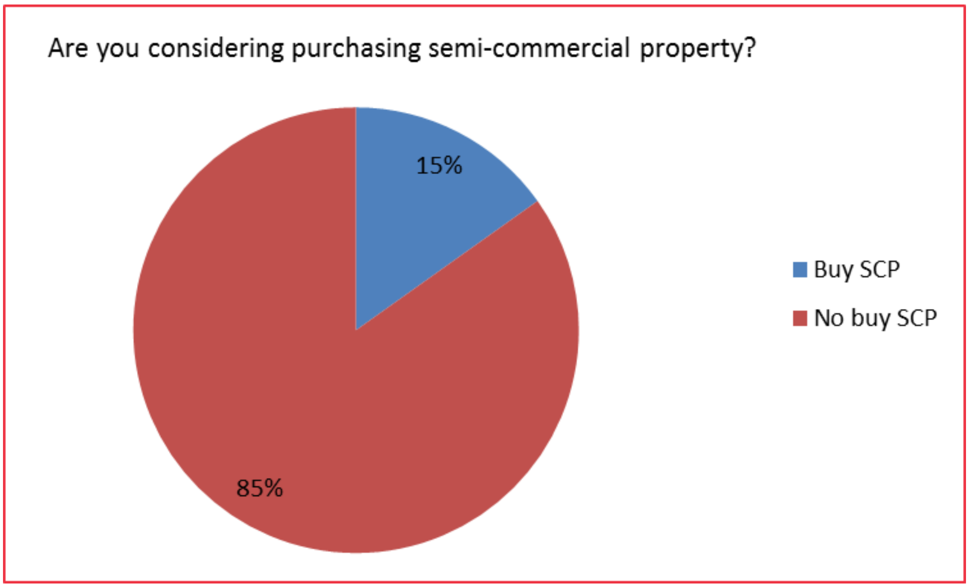
12c. Are you considering purchasing any HMO property?



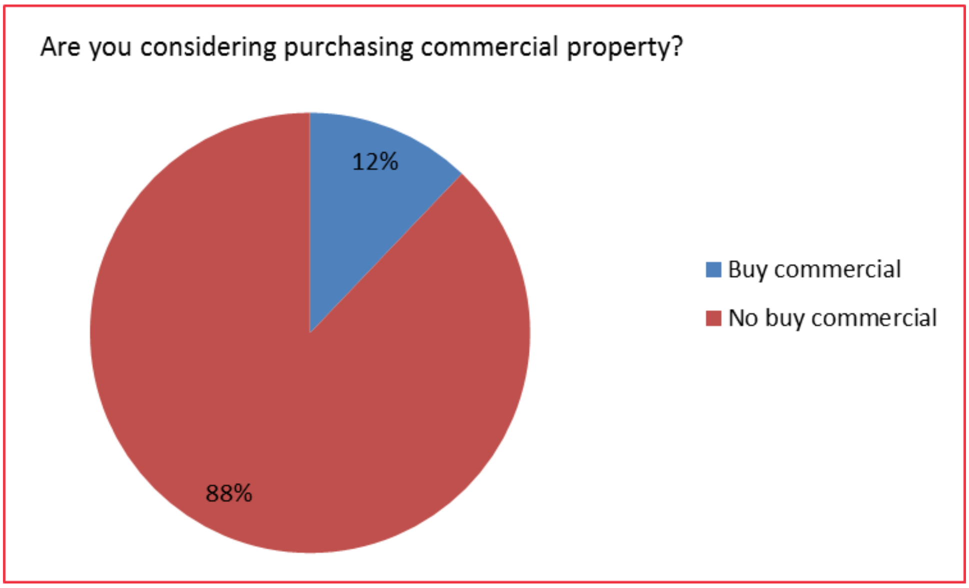
12d. Are you considering purchasing any multi-unit freehold blocks?



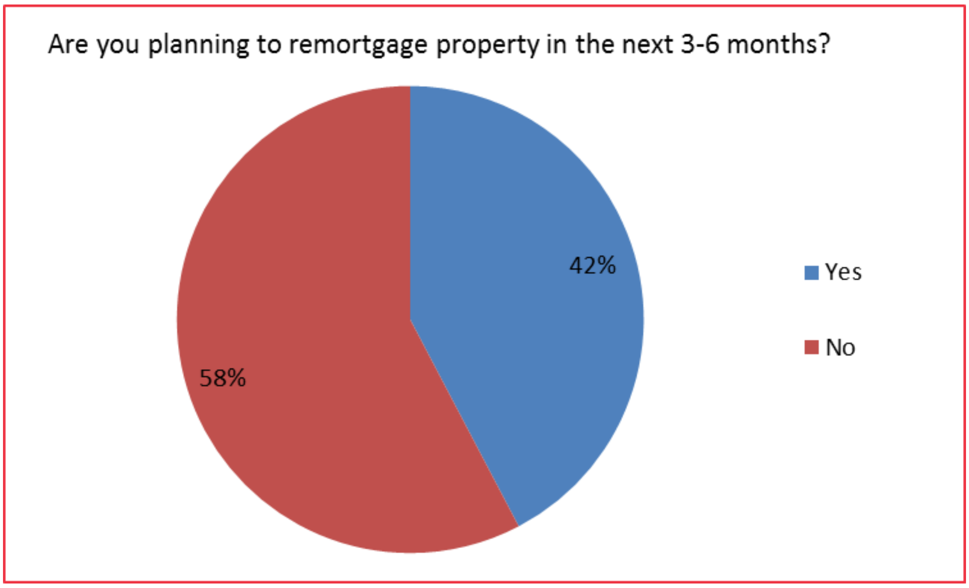
12e. Are you considering purchasing any semi-commercial property?



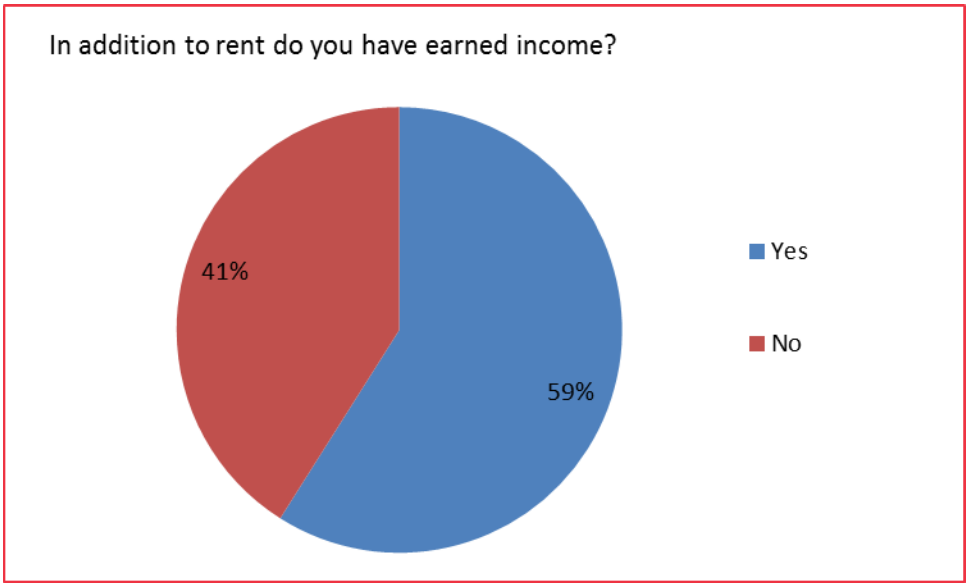
12f. Are you considering purchasing any commercial property?



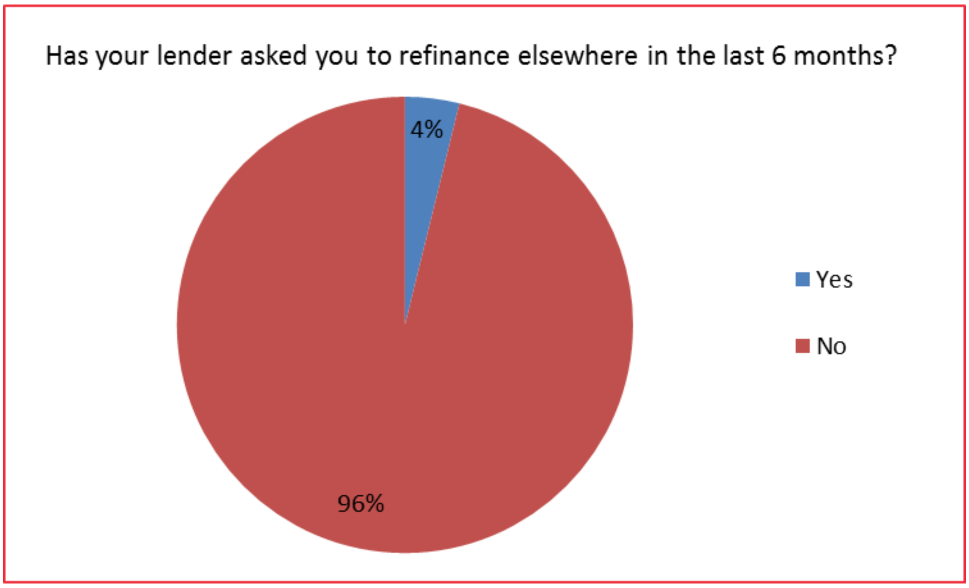
13. Are you looking to remortgage any of your properties in the next 3-6 months?



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



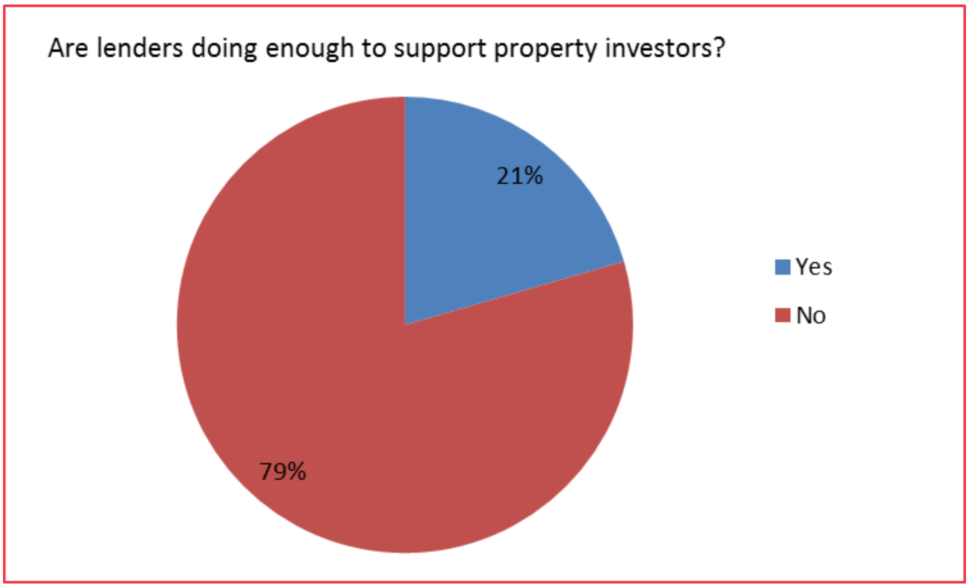
15. In the last six months has your existing lender asked you to refinance you property / portfolio with other lenders?



Only three investors were asked to refinance. The lenders were:

1. Southern Pacific Mortgage Loans (SPML). No longer open to new business.
2. HBOS. Part of the Lloyds Banking Group which owns the brands Halifax and Bank of Scotland.
3. Royal Bank of Scotland (RBS) which owns the brands NatWest and Ulster Bank.

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



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