# Property Investor Survey

Results October 2013

## Analysis of Results

The survey was launched on 16th October 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. In total 278 property investors took part.

Almost three quarters (73%) of investors who responded to the survey own 1-10 properties. This is very slightly less than previous surveys (74% - Feb 2013, 81% - Oct 20, 80% - Jun 2012, 75% - Feb 2012) but suggests that some investors are expanding their portfolios. Investors that own 1-10 properties are considered part-time or amateur landlords by lenders, i.e. property investment is not their fulltime or sole occupation. More than a quarter (27%) own more than 10 properties and as such would be considered professional landlords by lenders even though over half of them (54%) also earn in excess of £25k pa in addition to the income they earn from rent.

59% of respondents said they owned investment property within just 10 miles of their home and another 15% said they owned investment property within 25 miles. This reinforces common advice which suggests that investors should buy property in areas they know well. Buying close to home also works well for investors who manage their own properties rather than outsourcing this function to an agent. 15% said that they owned investment property more than 100 miles from their home.

21% (58 respondents) said they owned properties in a limited company capacity, up from 19% in the previous survey. It is interesting to note that just under a third of these 58 respondents also own investment property personally.

When asked what types of properties investors owned, 92% said they had vanilla buy to let property in their portfolio, the same figure as a year ago.

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 and ensure not only a diverse mix of properties but also a greater spread of risk. According to the Mortgages for Business Complex Buy to Let Index, Q3 2013 the average gross yield on vanilla buy to let property was 6.3%.

However, as could be expected of our client base in which we cater for landlords with varying degrees of experience, many respondents also had a variety of other property types within their portfolio. Overall the numbers of investors owning a variety of property types in addition to vanilla buy to let has risen when compared to the last survey. This is good news for tenants looking for rental accommodation.

Specifically, 23% said they owned Houses in Multiple Occupation (HMO), up from 17% in the previous survey. 28% said they had multi-unit blocks owned a single freehold (MUFB), up from 27%, 12% said they owned semi-commercial property(SCP), up from 10%, and 14% said they owned commercial property, down slightly from 16% in the previous survey.

Yields from these more complex property types are typically higher than vanilla buy to let. In Q3 average gross yields stood at 11.8% for HMOs, 7.6% for MUFBs, and 9.8% for SCPs. Gross yields for commercial property are not tracked in the index because they fall outside of residential investment criteria.

In terms of gearing, 6% of respondents said they had no borrowing. Three quarters had borrowing of less than 75% which is good news for those who need to refinance in order to expand their portfolio. Currently most buy to let and commercial mortgage lenders will lend up to c. 75% LTV.

Only 19% had borrowing of more than 75% LTV, leaving them little or no room to refinance.

When asked about their intentions over the next six months, 57% of respondents indicated that they intended to expand their portfolios but 64% of that percentage needed to refinance in order to do so. As might be expected most, 84%, were considering purchasing vanilla buy to let property. However, 20% were also considering HMOs, 14% were considering multi-unit freehold blocks, 11% were considering semi-commercial property and 9% were also considering purchasing commercial property.

The survey then asked if respondents were looking to remortgage any of their existing properties in the next 3-6 months regardless of whether they intended to use any resulting funds to expand their portfolios. 46% indicated that they did intend to remortgage up from 42% in the previous survey.

42% of respondents indicated that they earned less than £25,000 a year in addition to the rent. This is a large number particularly when the vast majority of mainstream buy to let lenders stipulate that investors must have additional income, usually in excess of £25,000 pa sometimes more. Fortunately the specialist commercial lenders don't impose this type of requirement, although they do ensure affordability.

7% of respondents had been asked to refinance their property portfolio with other lenders, up from just 3% in February. This time a larger number of lenders were involved with Mortgage Express (no longer lending) and the Bank of Ireland taking the largest share, as might be expected.

Just over two thirds (68%) of respondents felt that lenders could be doing more to support property investors, down from 79% in the previous quarter. Once again the most common suggestions were reduce rates 16%, reduce fees 16%, change criteria (60%) and lend more (8%).

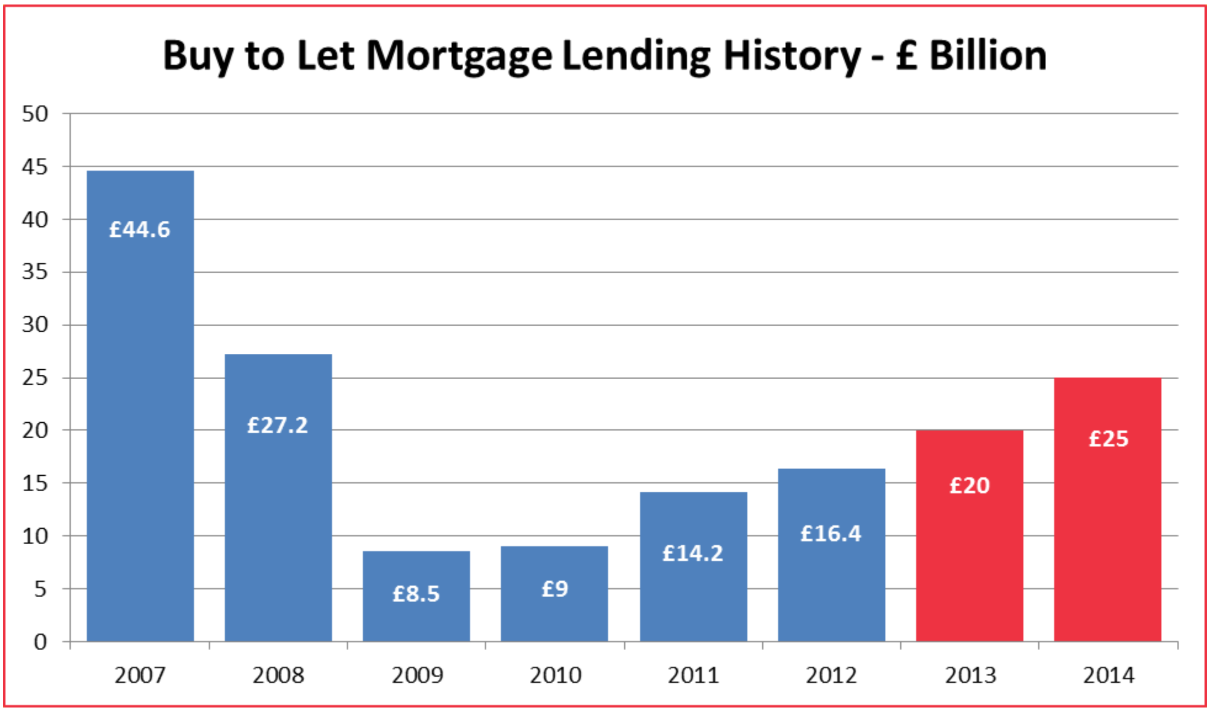
**Reduce rates and fees**

For the most part buy to let and commercial mortgage rates have come down steadily in price since early 2008. In particular, many respondents felt that margins over Bank Rate should be lower even though they did not take into consideration the cost of funds or the fact that some buy to let and commercial mortgages are linked to LIBOR and not Bank Rate.

For more detailed information please see our Buy to Let Mortgage Costs Indices, November 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 and 2013 looks like lending will reach around £20bn. Whilst this is nowhere near the 2007 figure 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 very similar to the suggestions in the previous survey and include:

- **Remove non-property related income requirements**
  Many respondents felt that this was unfair because even though buy to let mortgages are considered commercial transactions, many of the mainstream buy to let lenders apply a minimum income in addition to rent underwriting condition. It should be noted that the specialist lenders don't apply this condition but in general their rates are higher.

- **Increase LTV threshold and increase the number of products available at higher LTVs**
  Respondents who made this suggestion indicated that these restrictions were inhibiting their ability to both refinance and make further purchases.

- **Reduce the amount of computer-based lending decisions**
  This is largely the domain of the mainstream buy to let lenders. The specialist and

commercial lenders tend to take a more human approach and judge each case on its individual merits.

- **Increase buy to let product availability for limited companies**
  The majority of mainstream buy to let lenders do not lend to limited companies because these borrowers do not fit "mainstream" lending profile. Assessing limited company applications generally takes greater understanding and resources from underwriters. As such these applications tend to be the reserve of the specialist lenders.

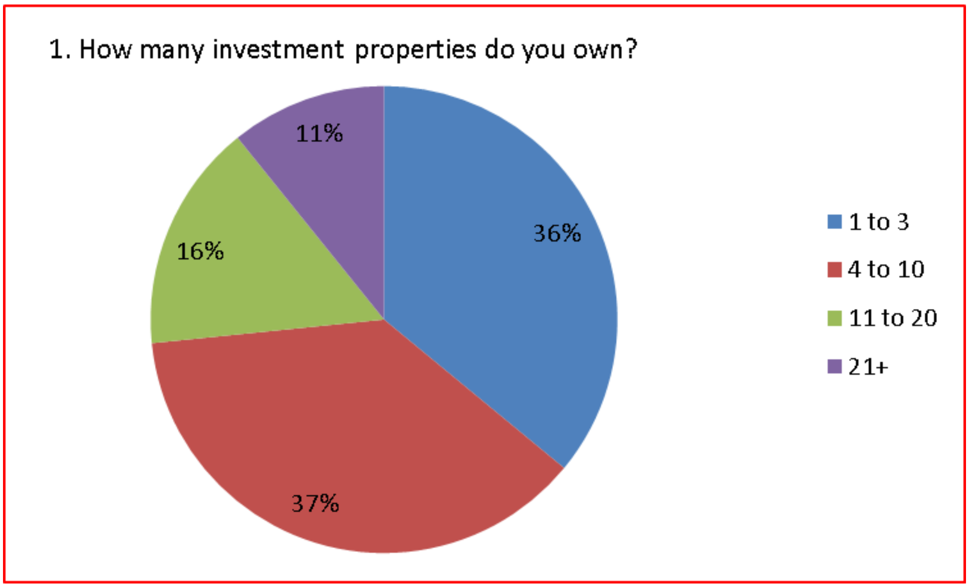
- **Introduce 10 year+ fixed rate buy to let mortgage products**
  Some respondents suggested that they would be more likely to expand their portfolios if lenders introduced fixed rate products of 10 years or more. Some also suggested that this type of pricing could lessen the boom and bust cycle witnessed by the property market in recent years.

- **Relax age restrictions**
  Many respondents felt that their borrowing ambitions were being stifled by lenders' age restrictions. Most lenders insist that borrowers be a maximum of 75 years old at the end of the mortgage term even though the average life expectancy is now more than 80.

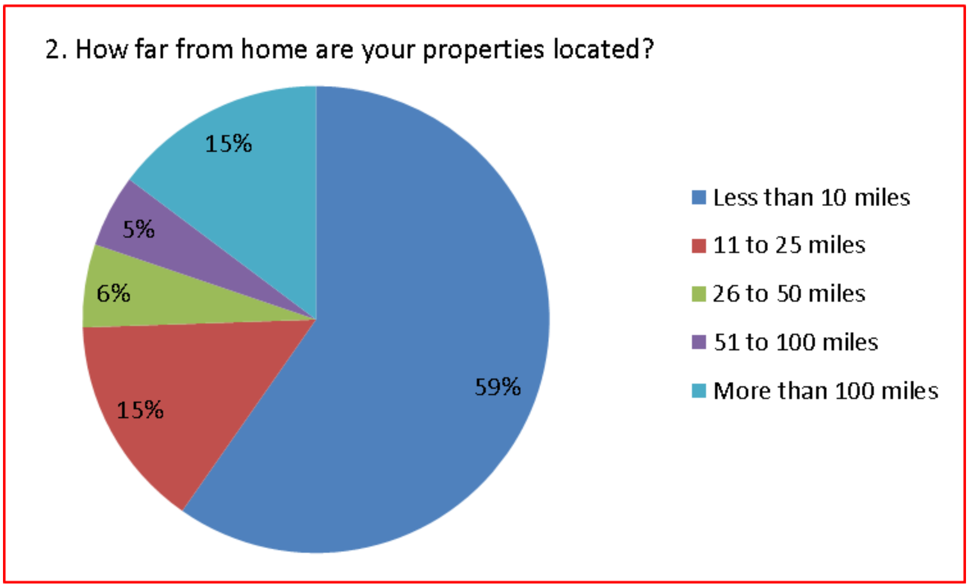
- **Relax criteria for professional landlords**
  Many respondents felt disgruntled that the mainstream buy to let lenders focus their lending activity on part-time landlords with less than 10 properties. Most didn't understand why professional landlords are considered a higher risk than those with less experience.

The full survey results are detailed below. The next survey will be issued in the spring of 2014. 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?



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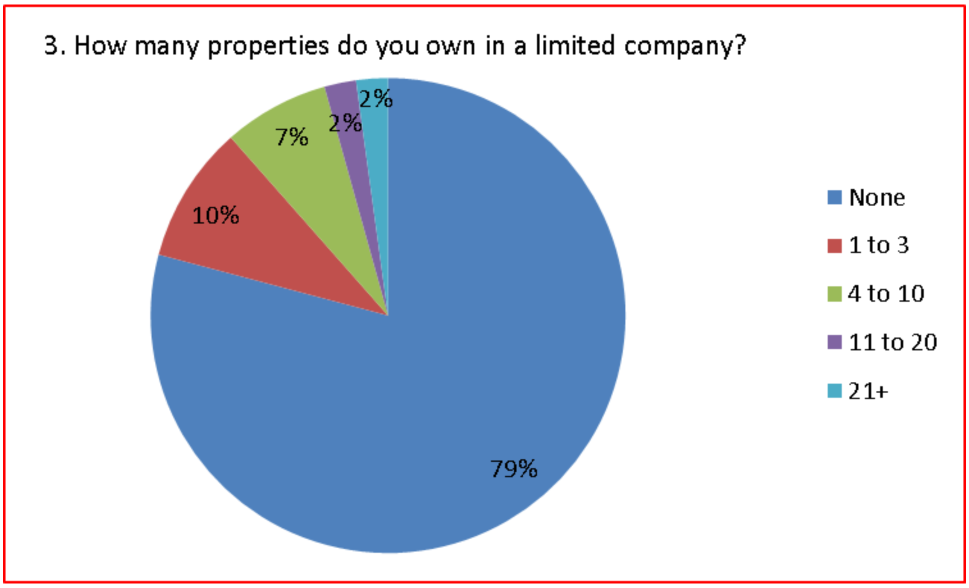
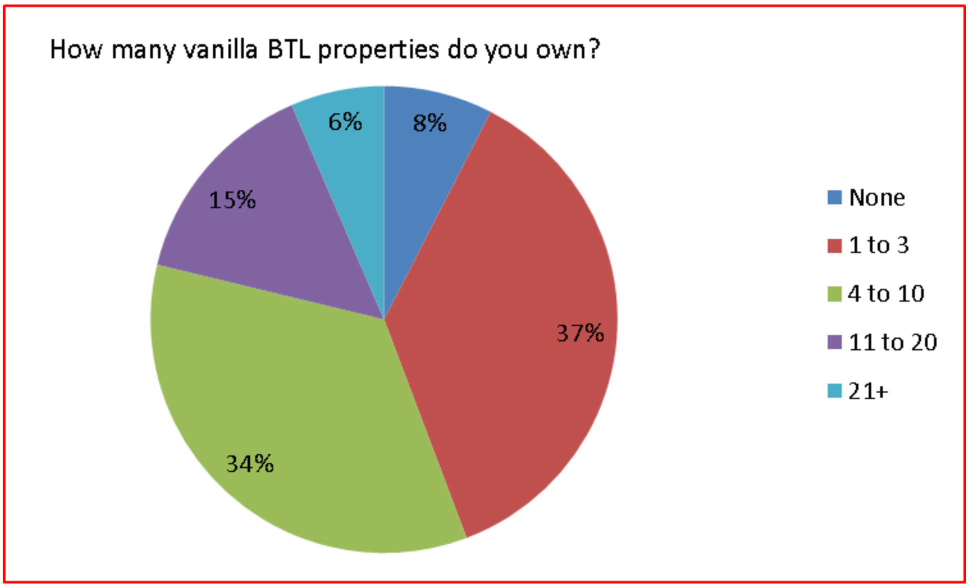
## 3. How many properties do you own in a limited company?



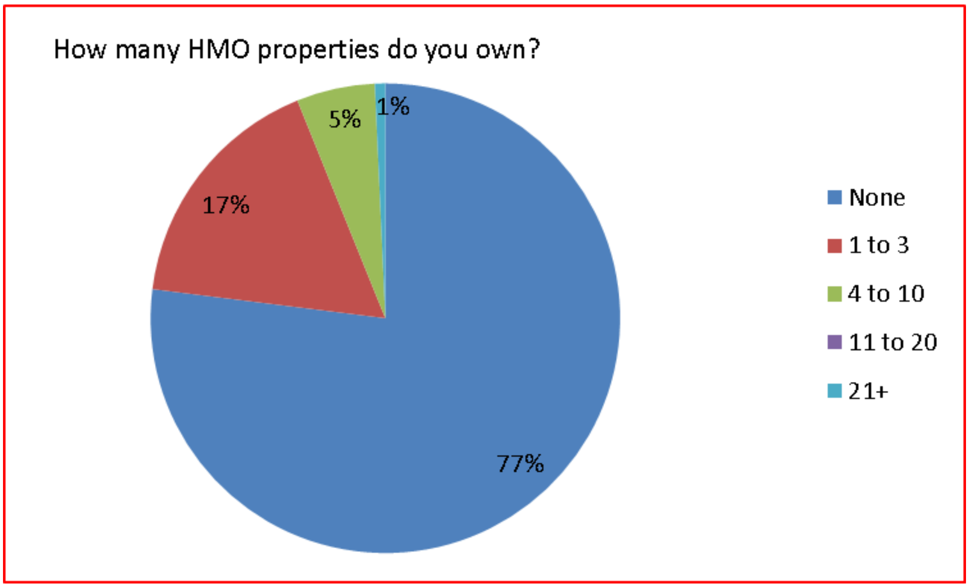

These companies tend to be Special Purpose Vehicles but some are normal trading companies or Limited Liability Partnerships.

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



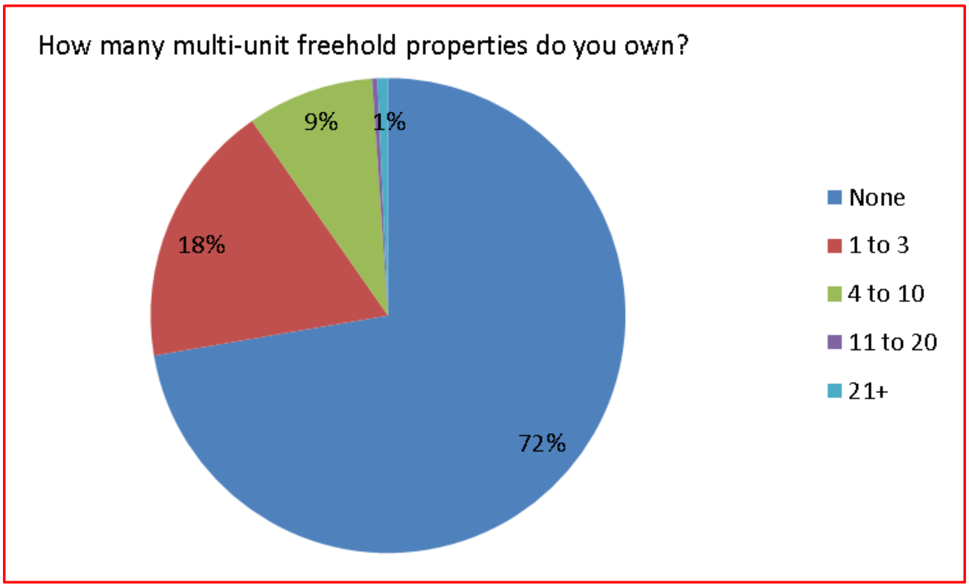

Properties in the vanilla category tend to be normal 1, 2 or 3 bedroom houses or flats that are easy to let to families, couples and professionals.

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



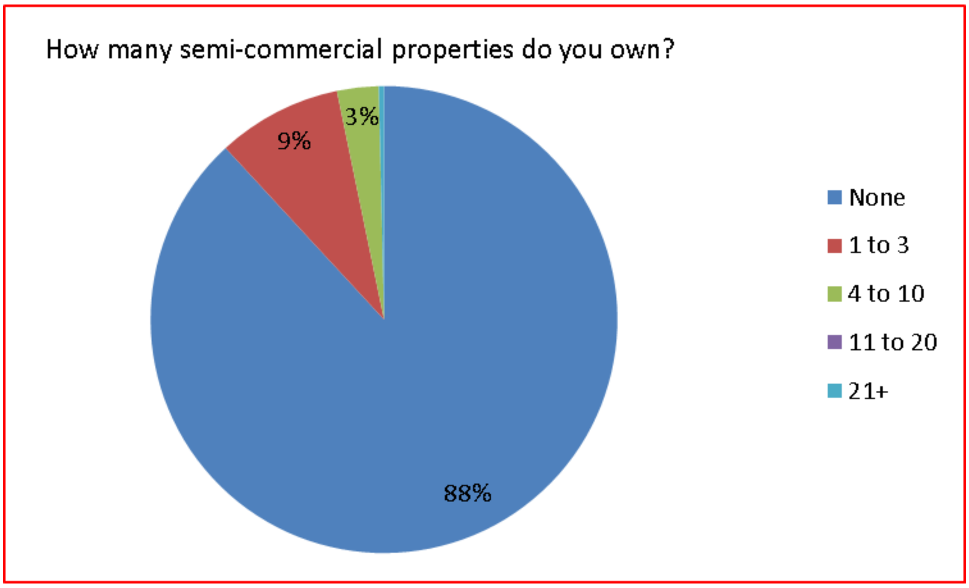

Generally HMOs are classed as residential properties where there are more than three non-related renters sharing accommodation. These properties are often required to be licensed by the local authority if the property consists of three or more storeys and the property is let to five or more unrelated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

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



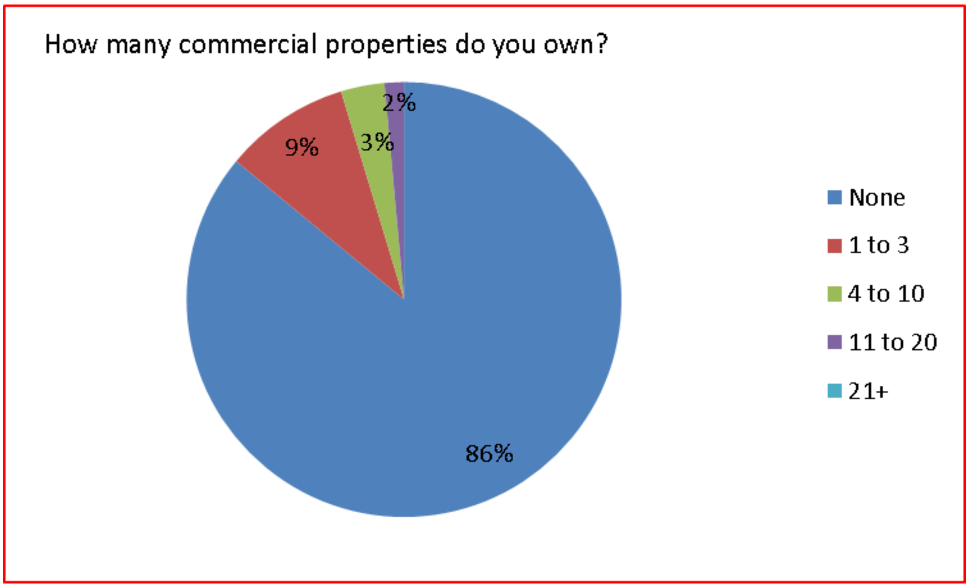

Multi-unit freehold blocks tend to be either small – medium sized, purpose-built blocks of flats or houses converted to flats where the whole building is owned under a single title.

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



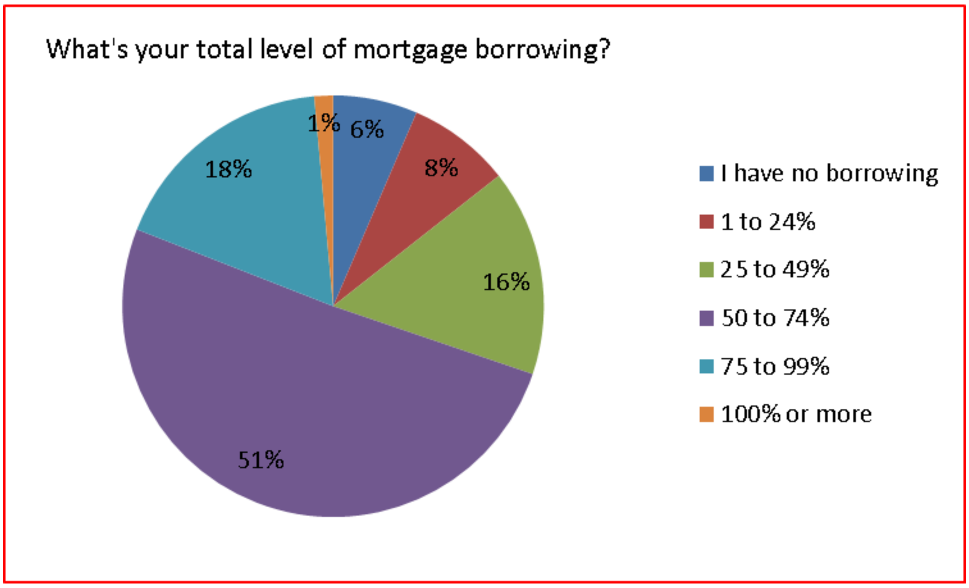

Semi-commercial properties are also known as mixed investment properties and tend to consist of flats above offices or shops.

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



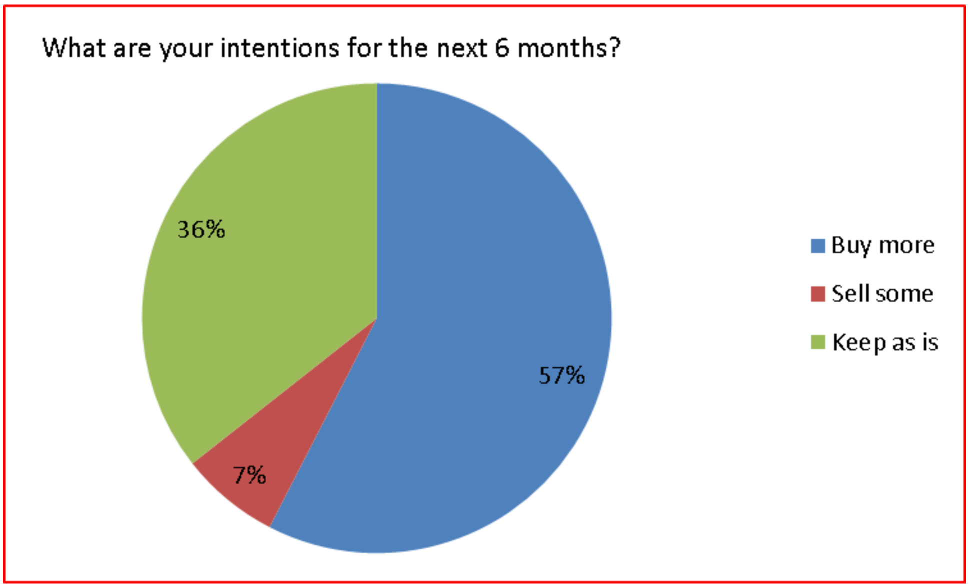

Commercial properties can be for a variety of uses including business (offices, chambers, professional practices, nursing homes, etc); leisure (restaurants, hotels, B&Bs, pubs, golf clubs, sports centres, etc); retail (shops, retail units, retail parks, etc); industrial (industrial/semi-industrial units,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



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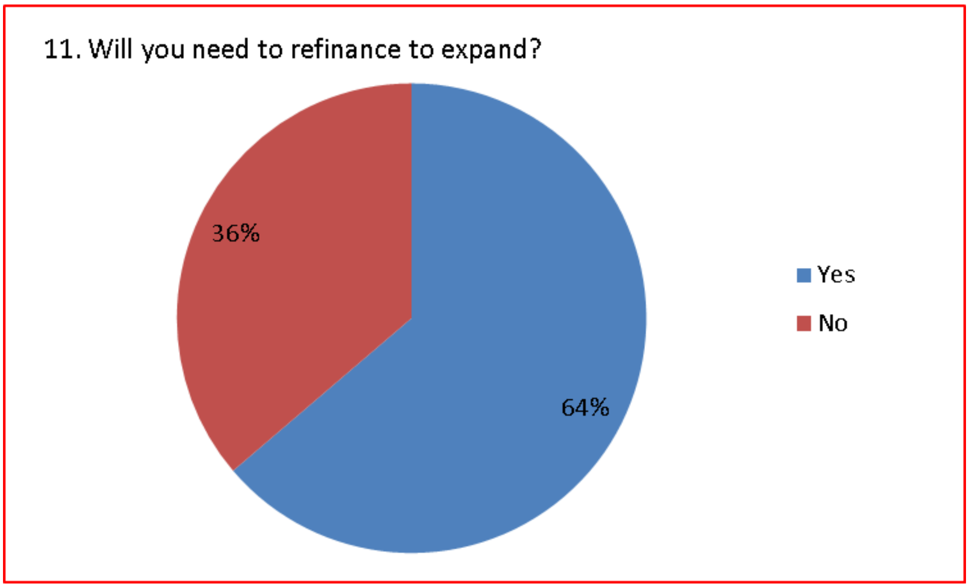
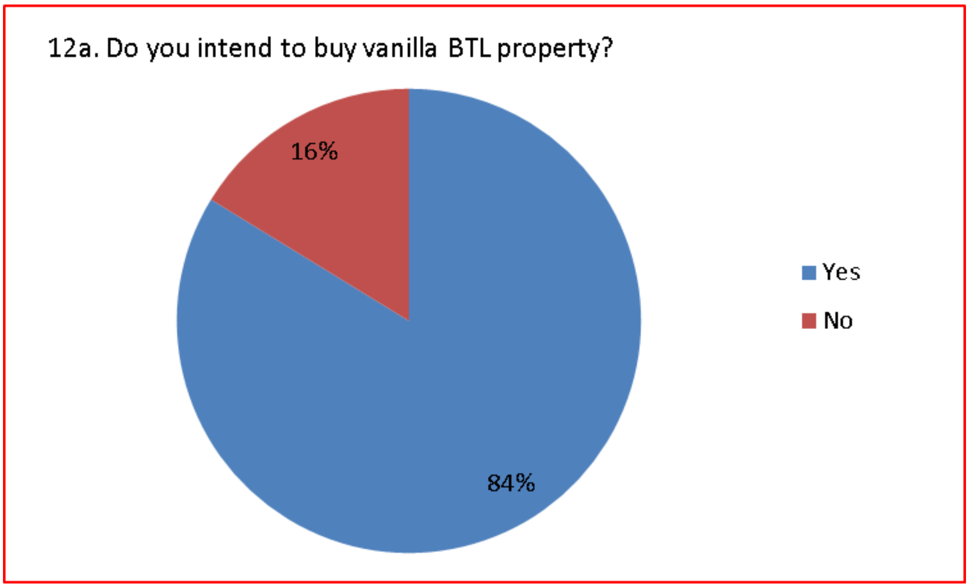
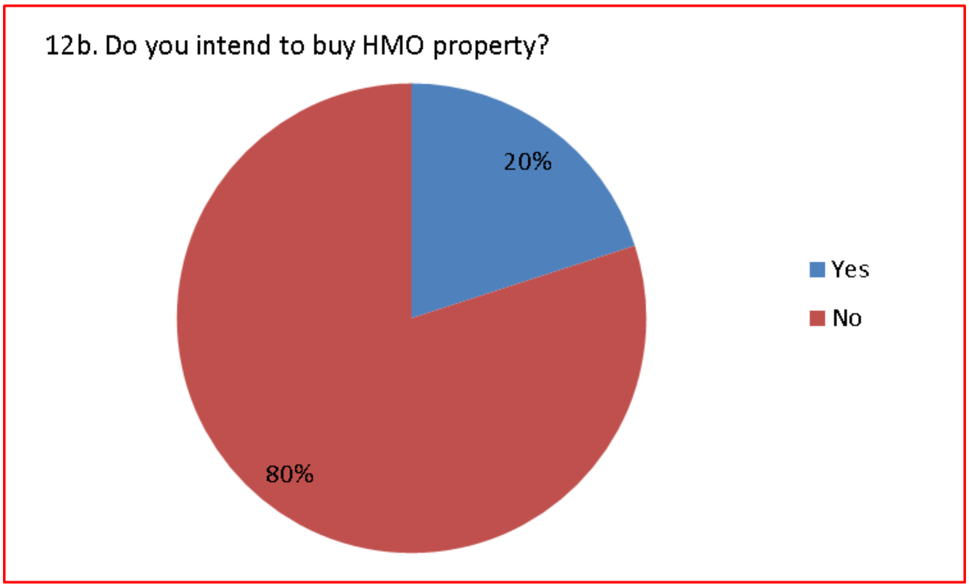
## 11. Will you need to refinance existing properties to expand?



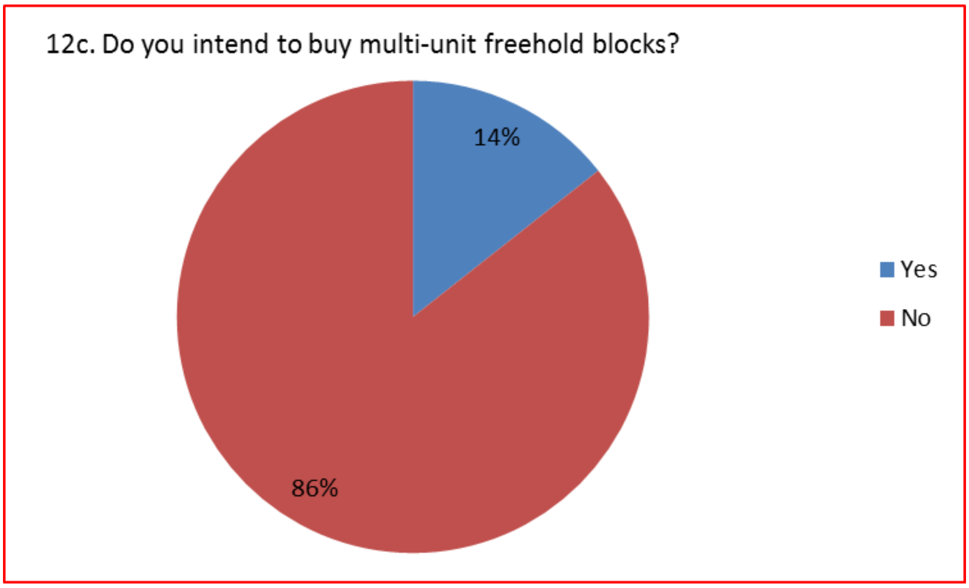

## 12a. Are you considering purchasing any vanilla buy to let property?



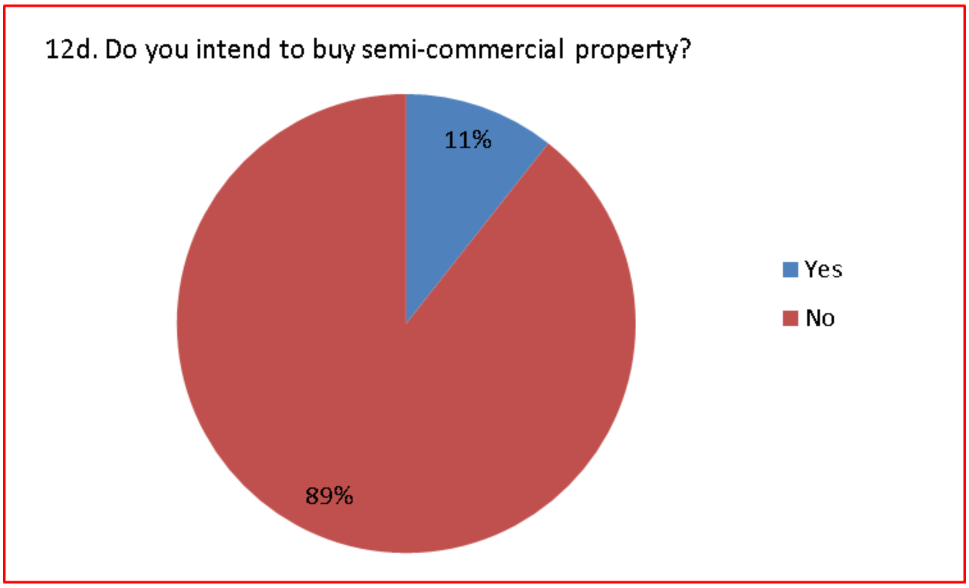
12b. Are you considering purchasing any HMO property?



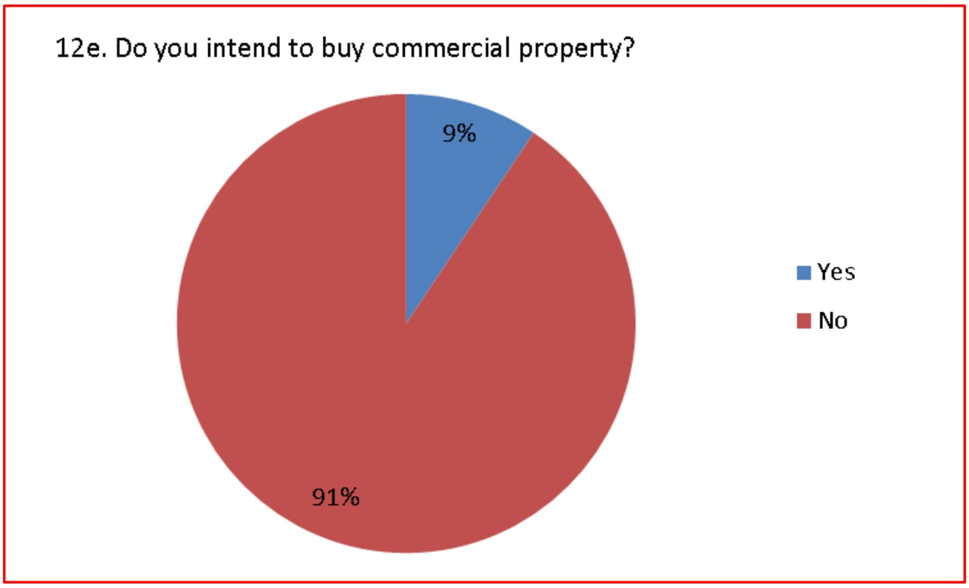

12c. Are you considering purchasing any multi-unit freehold blocks?



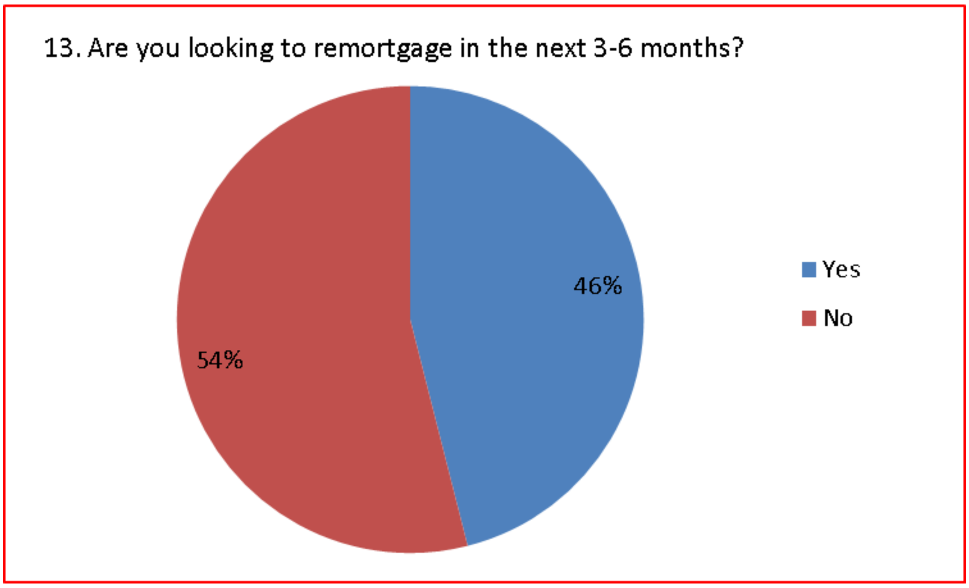
12d. Are you considering purchasing any semi-commercial property?



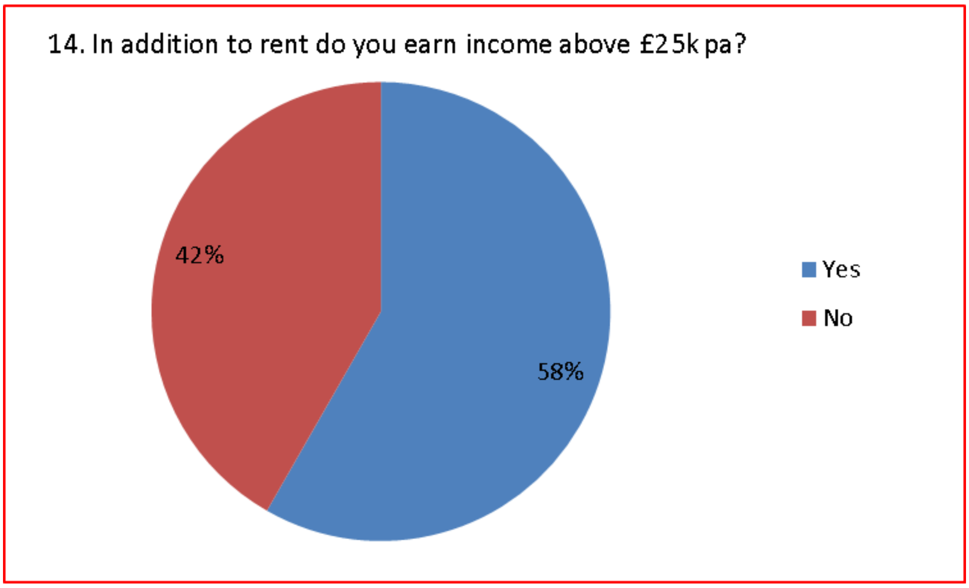

12e. Are you considering purchasing any commercial property?



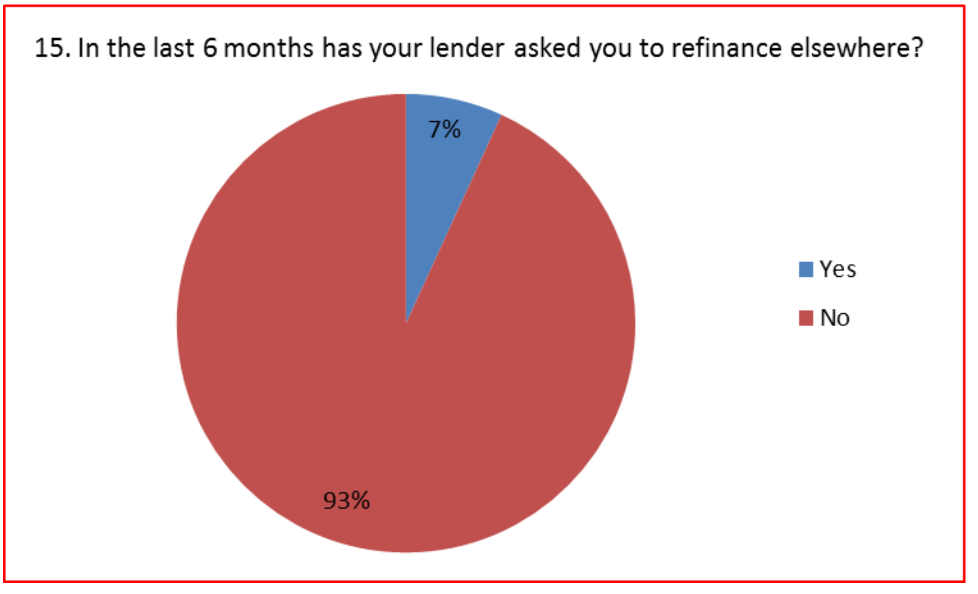
## 13. Are you looking to remortgage any of your properties in the next 3-6 months?



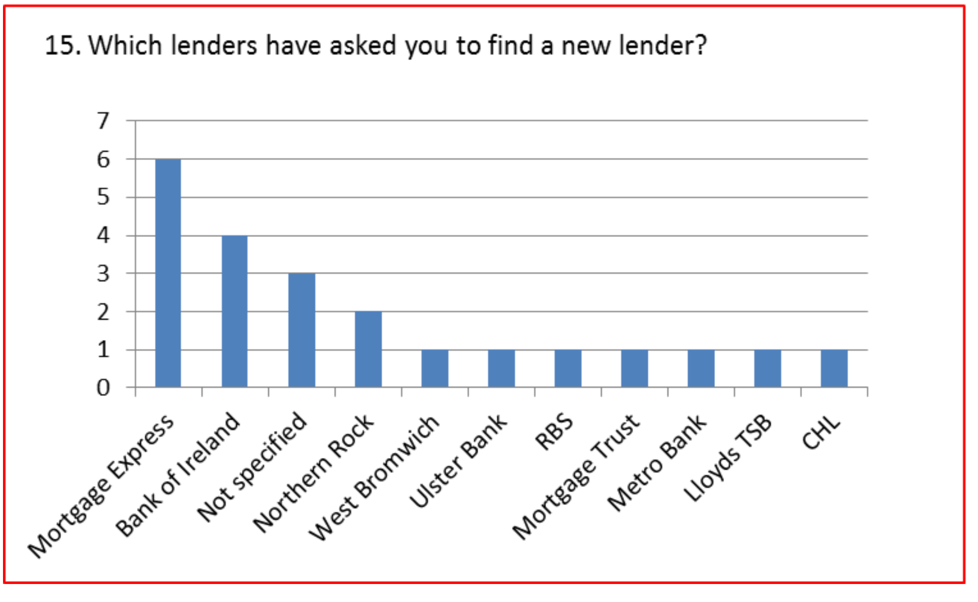

## 14. In addition to the rent do you have any earned income in excess of £25,000 per annum?



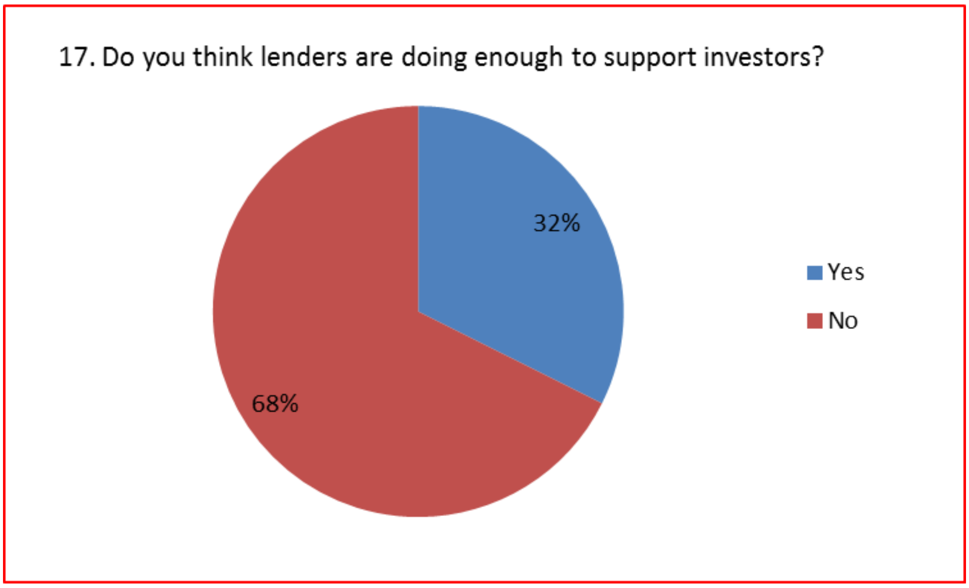
## 15. In the last six months has your existing lender asked you to refinance your property / portfolio with other lenders?




## 16. Which lenders have asked you to find a new lender?



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?