Mortgages for Business

Property Investor Survey

Results March 2014

Analysis of Results

The survey was launched on 19th March 2014 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. We also pushed it through our social media platforms. In total 251 property investors took part.

Exactly three quarters (75%) of investors who responded to the survey own 1-10 properties, which is up slightly on the results from our last two surveys (73% - October 2013 and 74% - February 2013). The property investors that fall into this category tend to be considered as part-time or amateur landlords by lenders, meaning that property investment is not their fulltime or sole occupation. Of course this means the remaining quarter (25%) of respondents own more than 10 properties and as such would be considered as professional landlords by lenders even though nearly half of them (48%) also earn in excess of £25k pa in addition to the income they earn from rent.

There has been a slight rise in the number of property investors owning investment property within just 10 miles of their own home, with 61% in March 2014 compared with 59% in October 2013. This reinforces the common advice that suggest landlords should buy investment properties in locations they know well. Buying properties close to the landlords own home can also save on costs, as it is not necessary for the management of the properties to be outsourced to an external agent. With all this advice it is no surprise that the number of property investors owning homes more than 100 miles away has decreased from 15% to 11%.

22% of respondents said they own properties in a limited company capacity, a rise again from 21% in October 2013 and 19% in March 2013.

When we asked the investors what type of properties they own, 92% said they had vanilla buy to let property in their portfolio. Exactly the same percentage as in October 2013 and October 2012.

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, Q1 2014 the average gross yield on vanilla buy to let property was 6.4%.

However, as could be expected of the client base for which we predominantly cater (part time and professional landlords), in addition to owning a vanilla buy to let property 45% of respondents also had one or more non-vanilla properties in their portfolio.

With regard to non-vanilla property types, 20% of respondents said they owned houses in multiple occupation (HMO), 27% said they owned multi-unit freehold blocks (MUFB) and 15% said they owned commercial property.

Yields from these non-standard investment property types are typically higher than for vanilla properties. For example gross yields for HMOs averaged 9.1% in Q1 2014 according to the Complex Buy to Let Index.

In terms of gearing, 5% of respondents said they had no borrowing, down from 6% in October 2013 and a further 76% of respondents had borrowings of less than 75%, which is good news for those who may need to refinance in order to expand their portfolios, as currently most buy to let lenders will only lend up to 75% LTV, with a handful lending up to 80% and one lender offering 85% LTV.

Only 19% had borrowing of more than 75% LTV, leaving them little or no room to refinance, the exact same percentage as in October 2013.

When asked about their intentions over the next six months, 60% of respondents indicated that they intended to expand their portfolios but 47% of that percentage needed to refinance existing properties in order to do so. As expected, 82% of those who intended to expand their portfolios are considering purchasing vanilla buy to let property. However, 29% were also considering purchasing HMO, 19% were considering multi-unit freehold blocks, 15% were considering semi-commercial property and 15% were also considering purchasing commercial property. Apart from vanilla buy to lets, intentions to purchase all other property types were up quite dramatically on the results from the previous survey, suggesting investors are looking into having portfolios with more diversity.

When asked about initial mortgage rate periods, five year fixed rate products came out on top with 34% of the votes. Mortgages for Business has been promoting the benefits of five year fixed rates over the past nine to twelve months, so this may have had a bearing on the responses. It is inevitable that Bank Rate will rise sooner rather than later, so taking out five year fixed rates now will protect landlords from increases in monthly mortgage payments when rates go up.

Two-year fixed rates were only attractive to 12% of respondents which is interesting because the majority of buy to let rates available today are based on two-year money (including trackers and variables).

The investors were then asked if they were looking to remortgage any of their existing properties in the next 3-6 months regardless of whether they intended to use any funds to expand their portfolios. 45% indicated that they were intending to remortgage, up from 42% in March 2013.

41% of respondents indicated that they earned less than £25,000 a year in addition to rent. This figure is down by 1% on the previous survey results, however this figure is still quite high considering most mainstream buy to let lenders stipulate that investors must have additional income, usually in excess of £25,000 pa. Fortunately there are some specialist commercial lenders who don't impose this type of requirement, although they do ensure affordability.

Again 7% of respondents had been asked by existing lenders to refinance their property portfolio, the same percentage as in the October 2013 survey.

Lenders will be pleased to hear that fewer respondents (58%) than in the October 2013 survey (68%) felt that lenders could be doing more to support property investors. This may be due to the increase in product availability and competitive pricing.

When asked what more lenders could be doing to support property investors nearly half (47%) wanted easier lending criteria, 19% suggested reducing rates, 20% wanted reduced fees and 14% wanted more lending.

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.

- **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.

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.

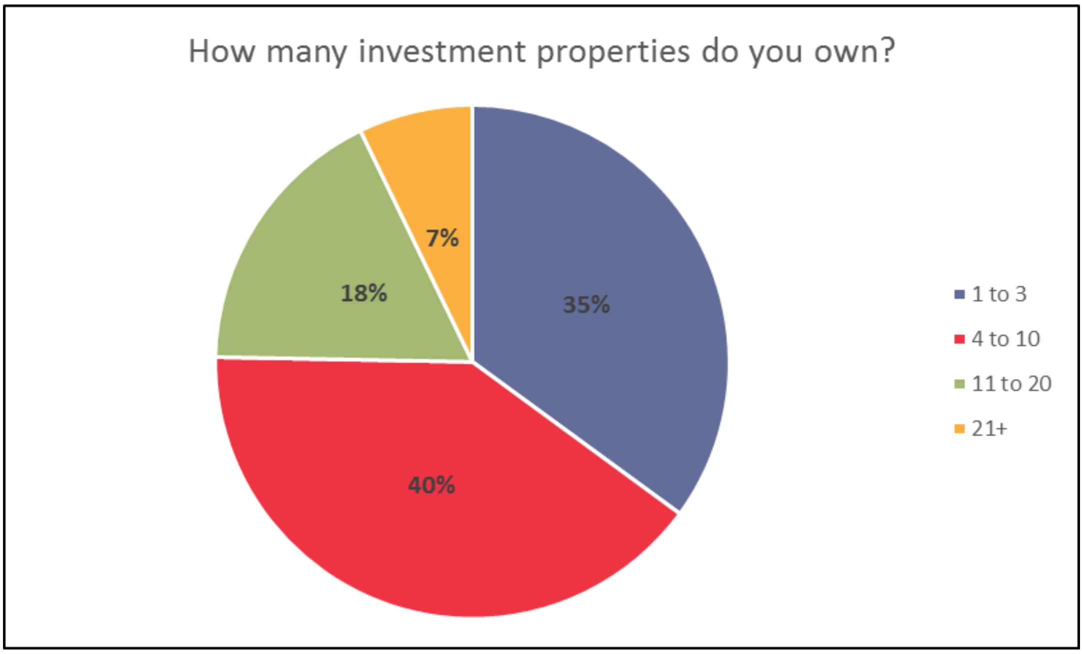
For more detailed information please see our Buy to Let Mortgage Costs Index, Q1 2014.

Lend more

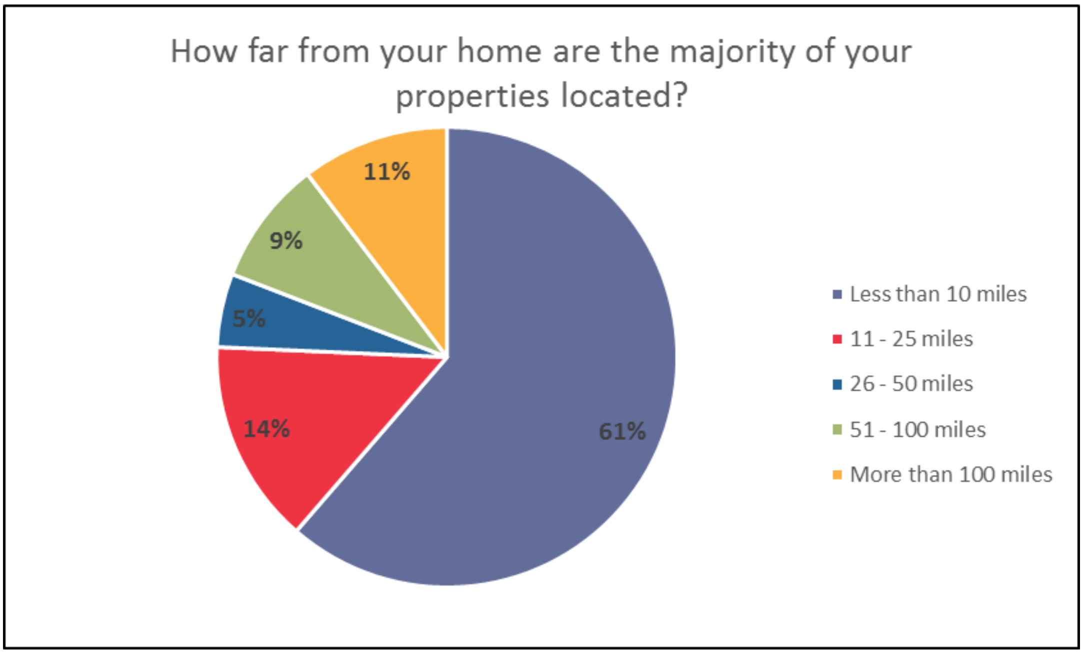
Data produced by the Council of Mortgage Lenders (CML) reveals that lenders are lending more. In 2013 lending reached £20.7bn. Whilst this is nowhere near the 2007 figure when buy to lending totalled £44bn, it remains a step in the right direction and equates to roughly 13% of overall mortgage lending in the UK. The graph below shows the estimated lending figure for 2014 predicted by Mortgages for Business.

The full survey results are detailed below. The next survey will be issued in the autumn of 2014. For more information please contact: Jenny Barrett, Head of Marketing on 01732 471615.

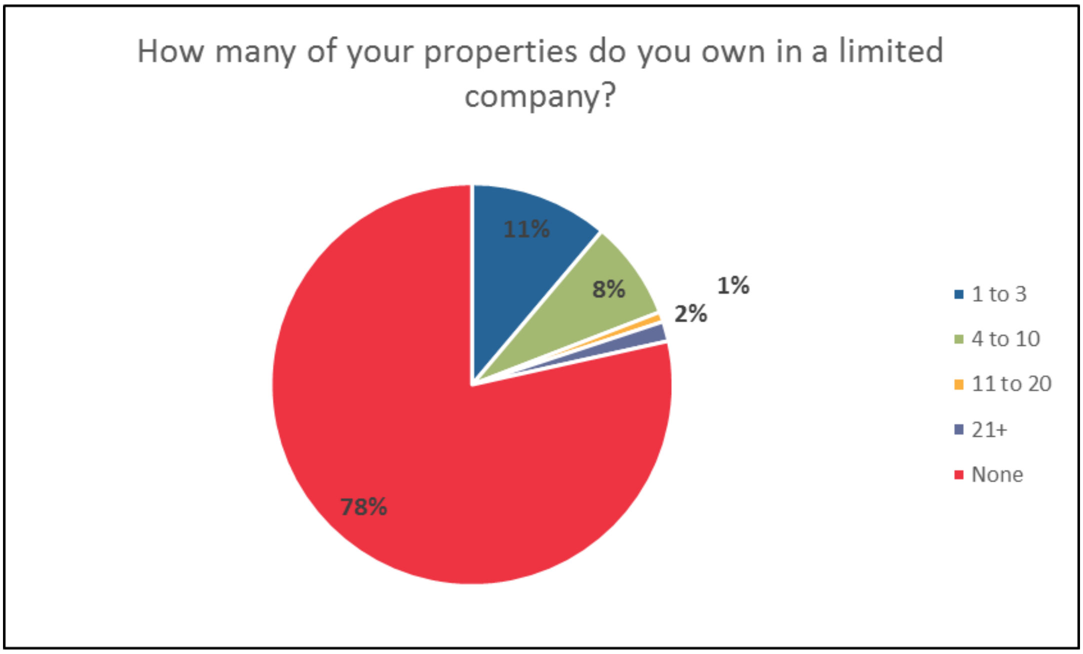
1. How many investment properties do you own?



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

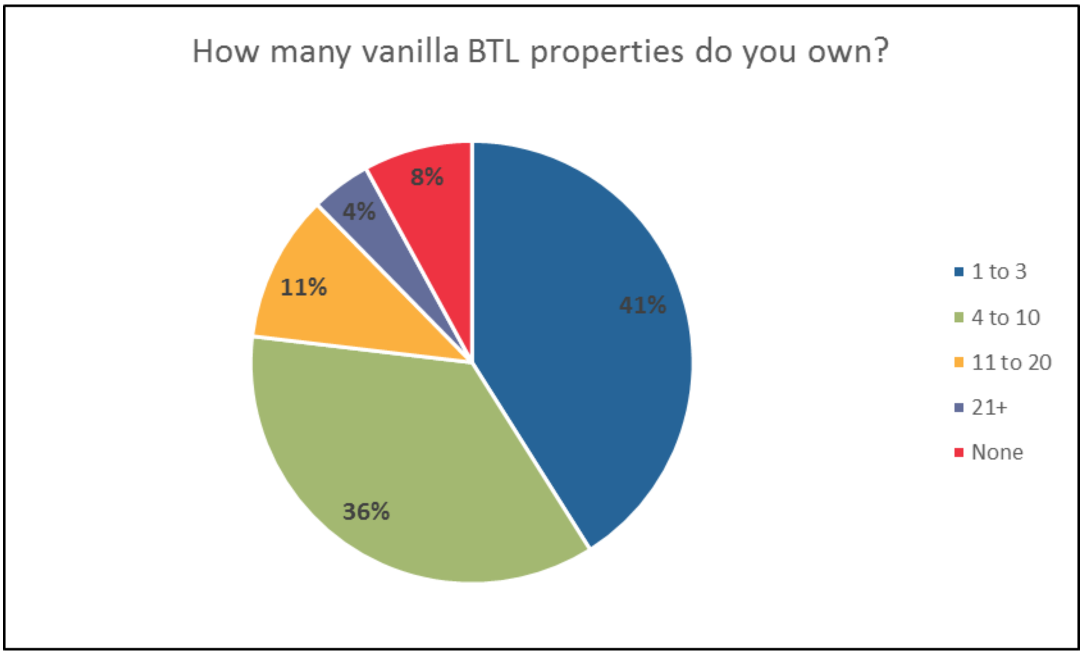


3. How many properties do you own in a limited company?



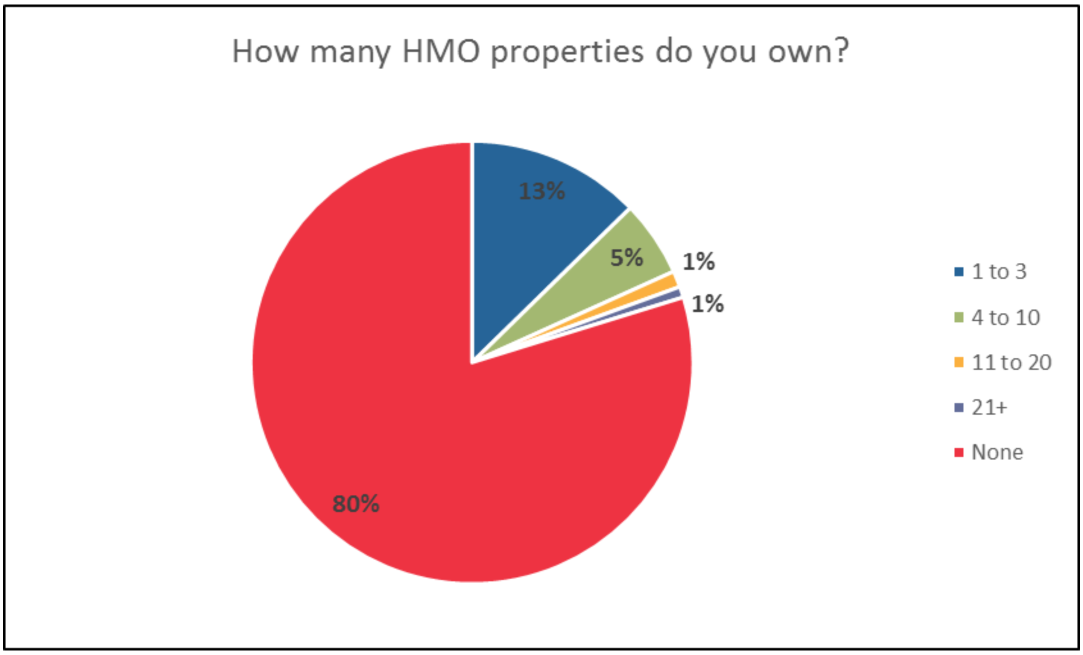
These companies tend to be Special Purpose Vehicles but some are normal trading companies or Limited Liability Partnerships.

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



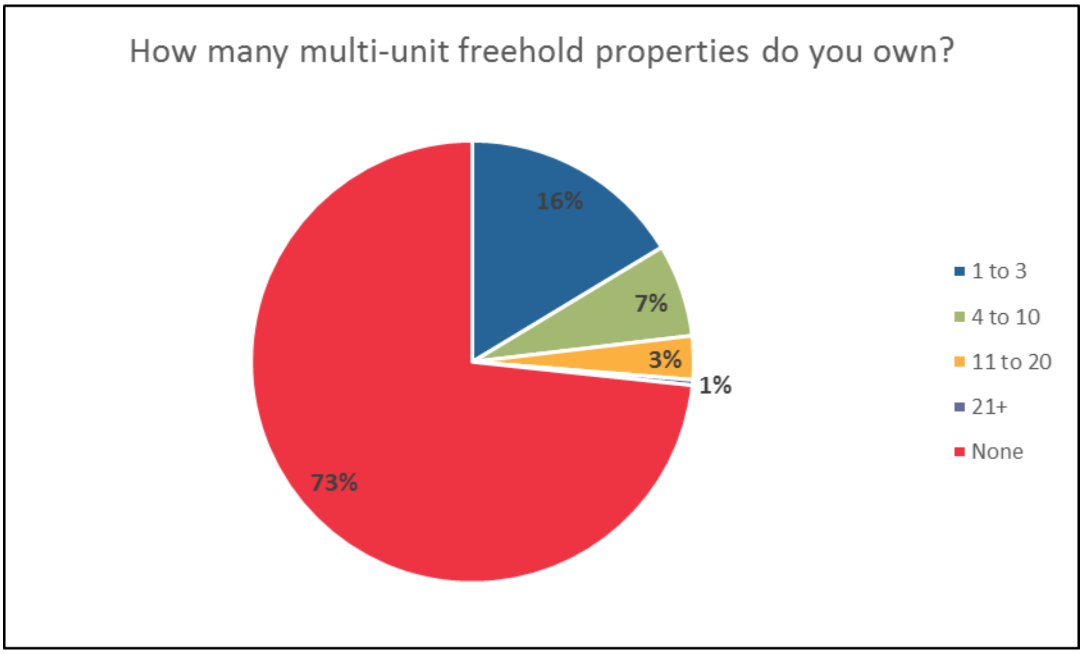
Properties in the vanilla category tend to be normal 1, 2 or 3 bedroom houses or flats that are easy to let to families, couples and professionals.

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



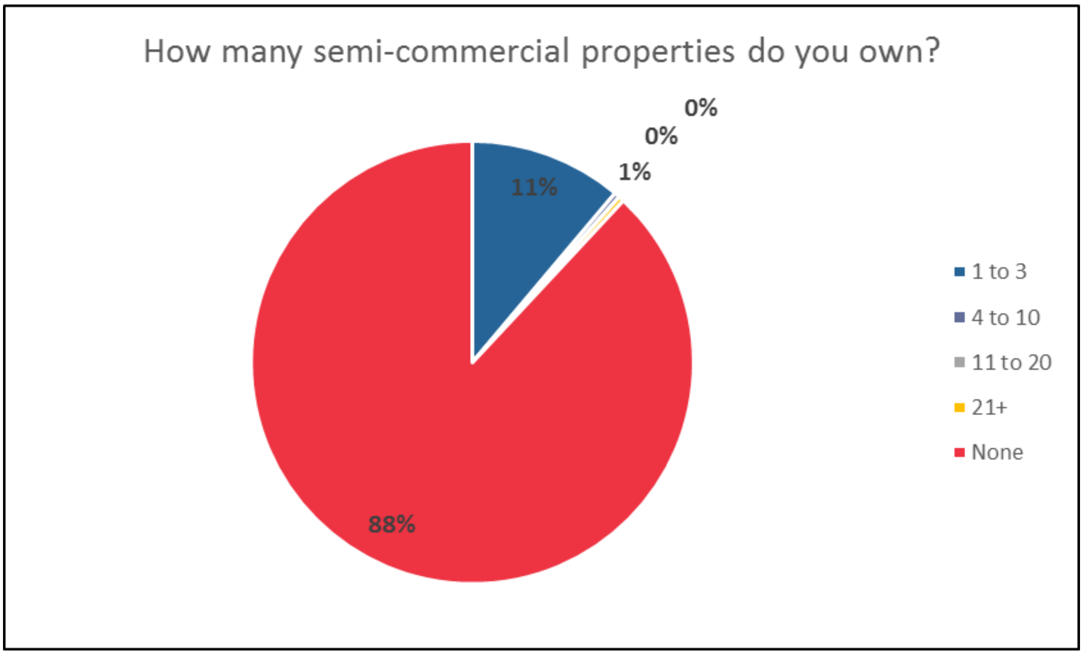
Generally HMOs are classed as residential properties where there are more than three non-related renters sharing accommodation. These properties are often required to be licensed by the local authority if the property consists of three or more storeys and the property is let to five or more unrelated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

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



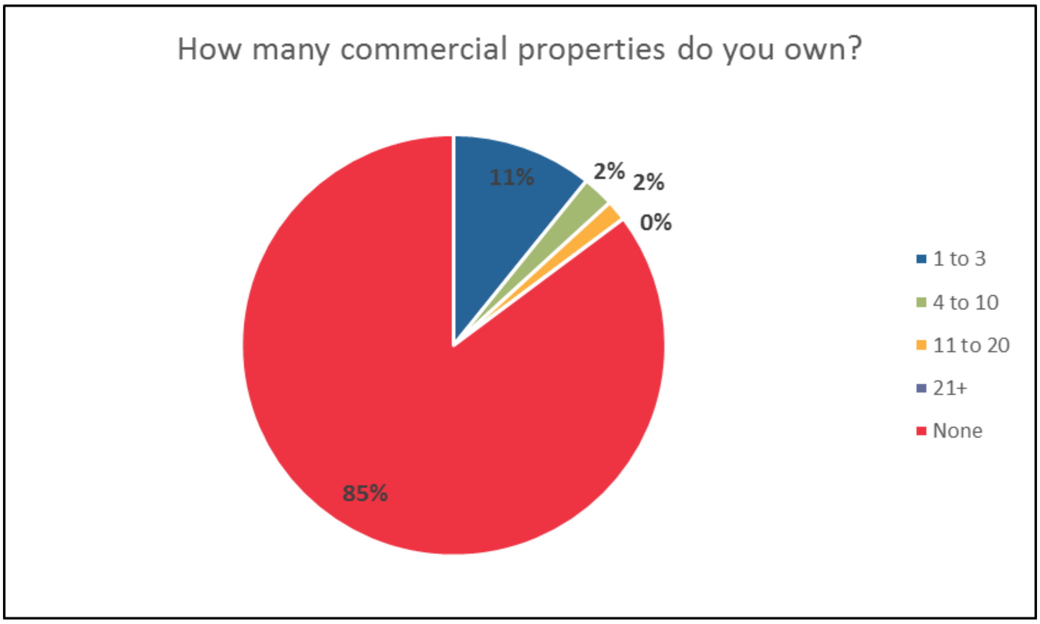
Multi-unit freehold blocks tend to be either small-medium sized, purpose-built blocks of flats or houses converted to flats where the whole building is owed under a single title.

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



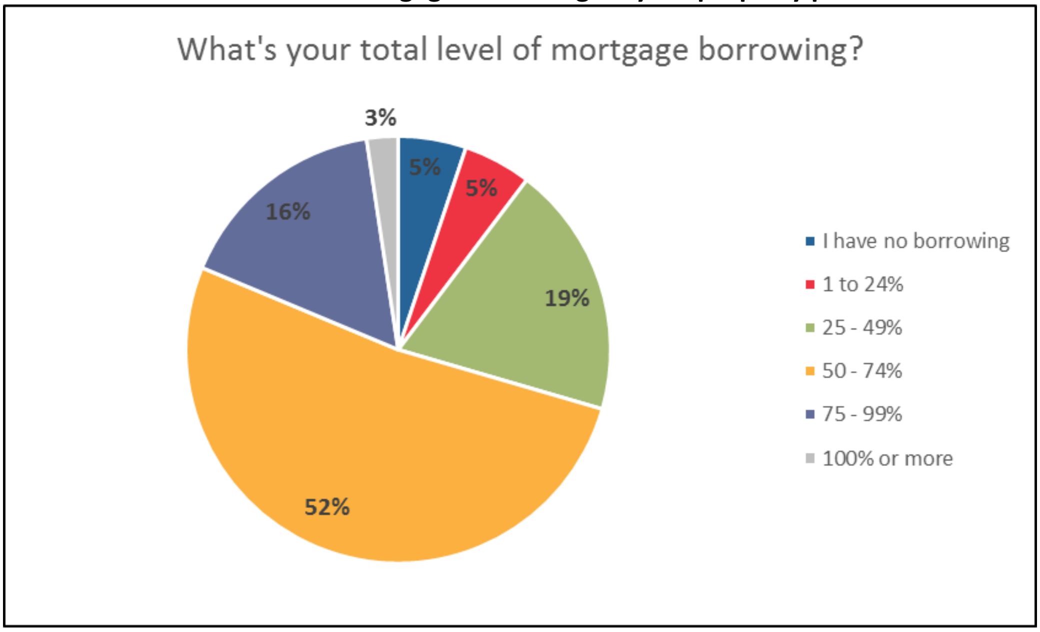
Semi-commercial properties are also known as mixed investment properties and tend to consist of flats above offices or shops.

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



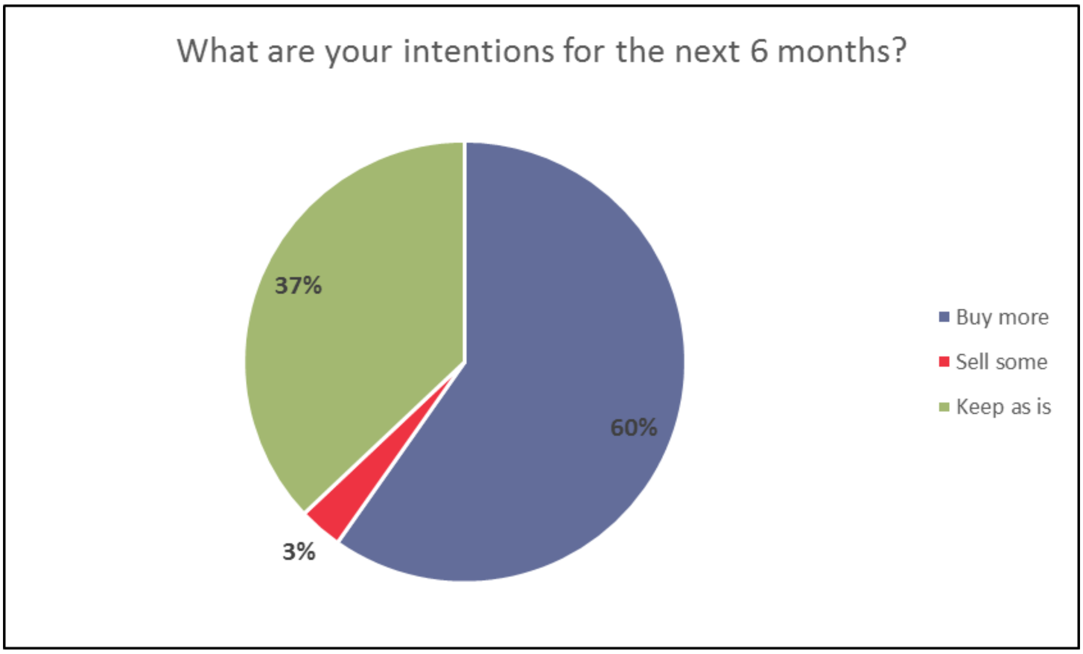
Commercial properties can be for a variety of uses including business (offices, chambers, professional practices, nursing homes, etc); leisure (restaurants, hotels, B&Bs, pubs, golf clubs, sports centres, etc); retail (shops, retail units, retail parks, etc); industrial (industrial/semi-industrial units,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

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

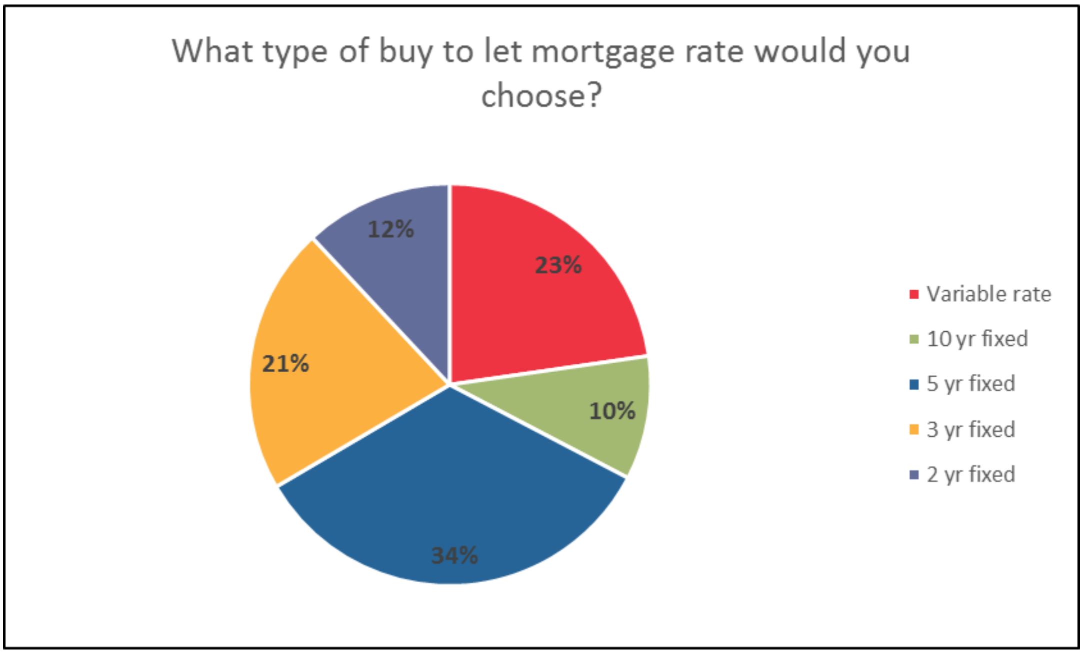


Total borrowing expressed as a percentage is calculated as follows: Total loans divided by total value of properties multiplied by 100.

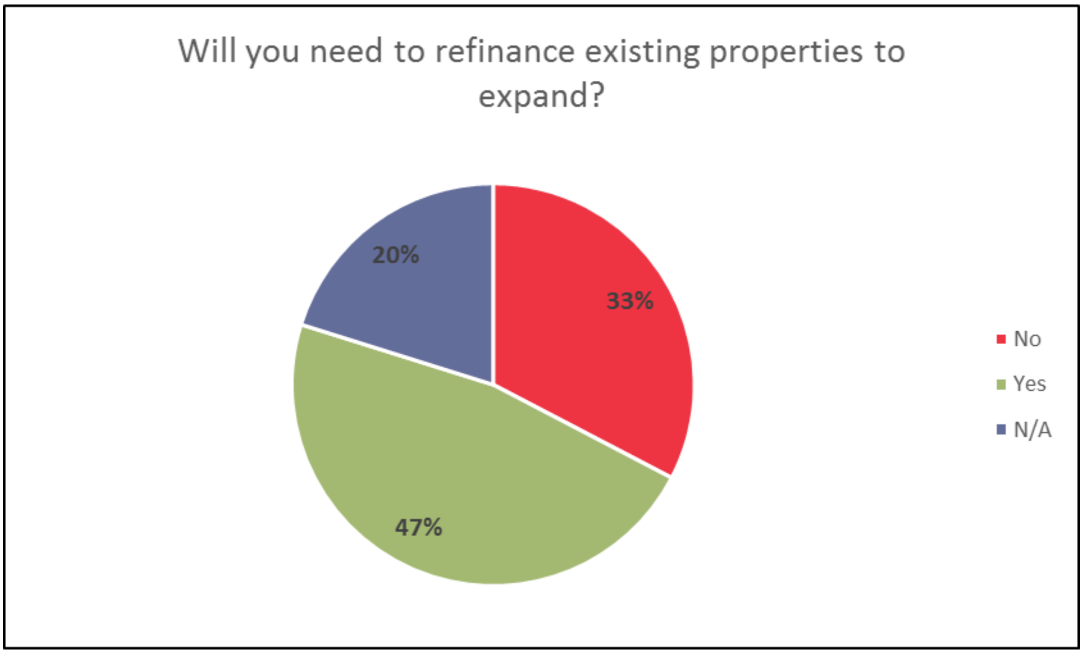
10. What are your intentions for your portfolio over the next six months?



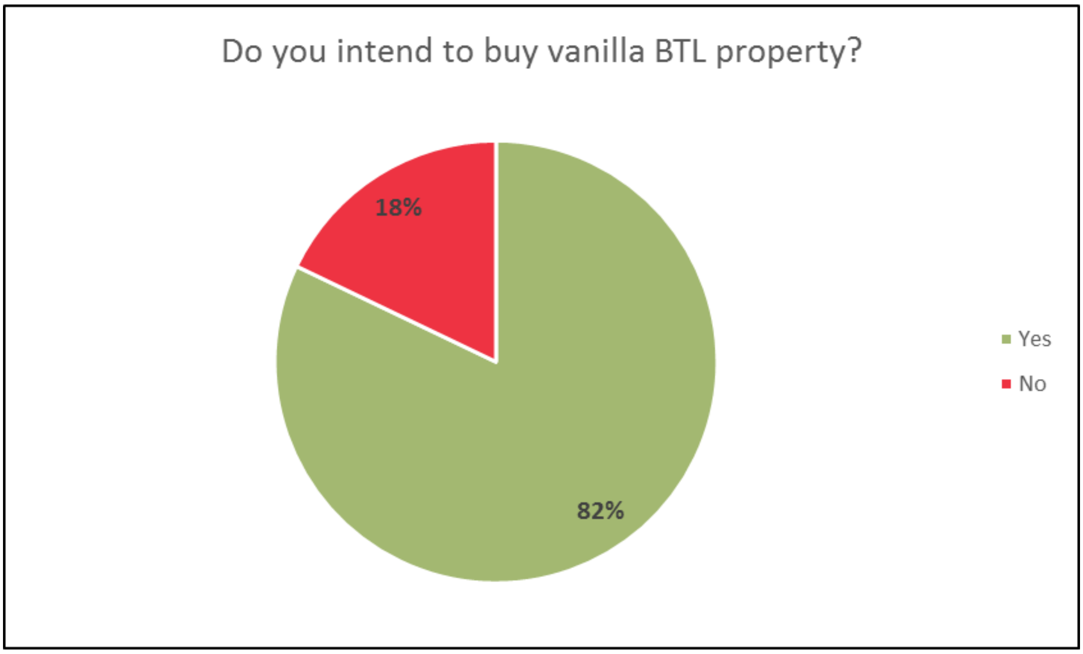
11. If you were to apply for a buy to let mortgage or remortgage today, what type of rate would you choose?



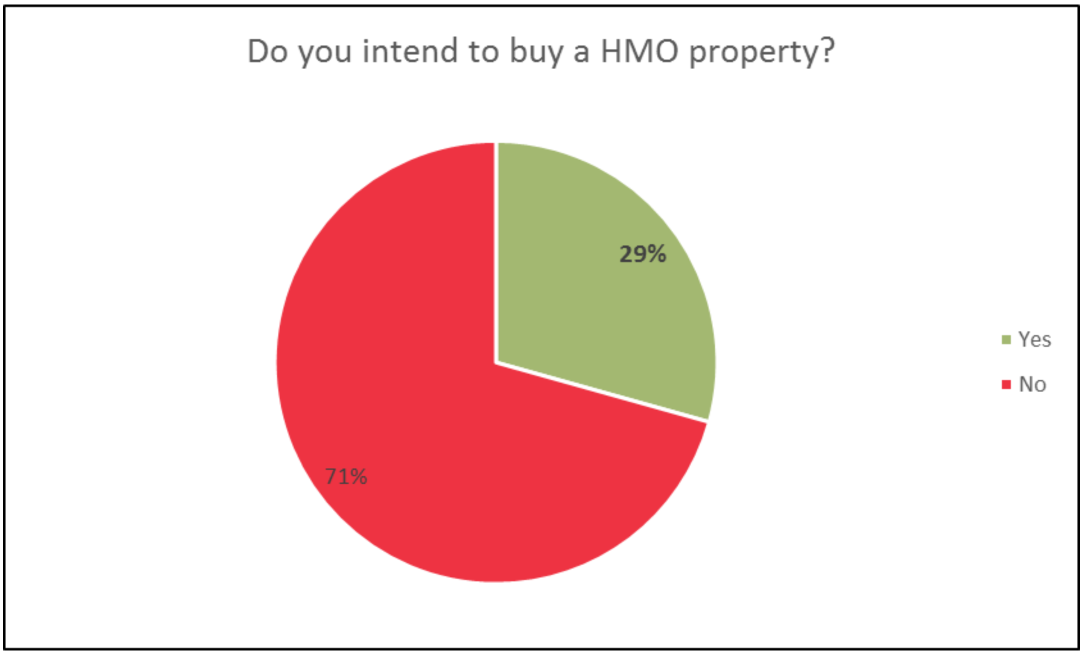
12. Will you need to refinance existing properties to expand?



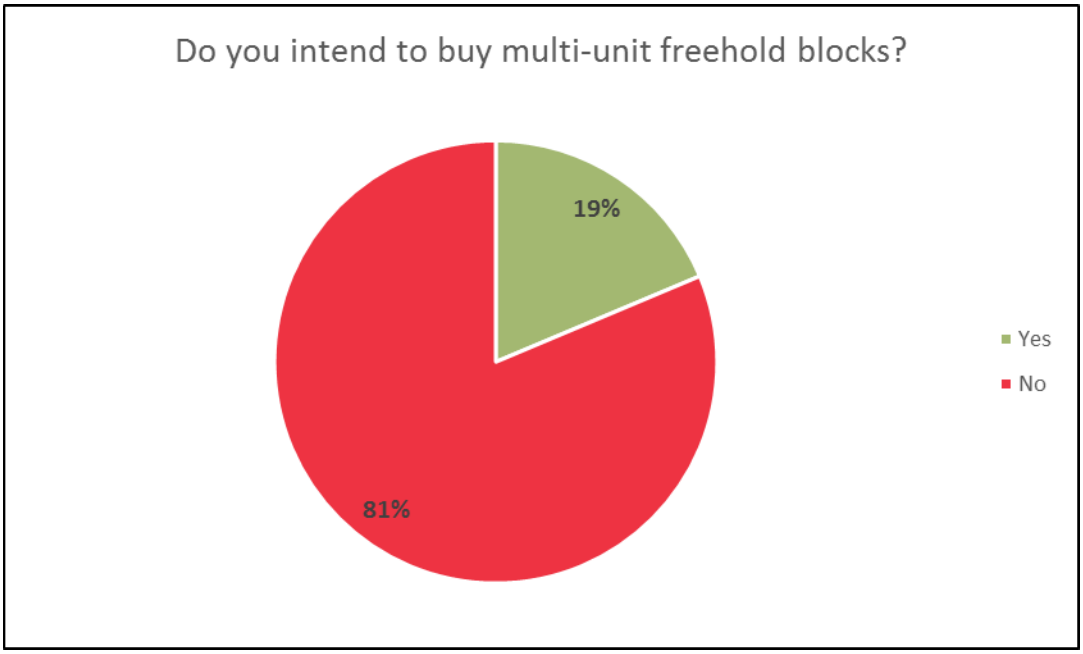
13a. Are you considering purchasing any vanilla buy to let property?



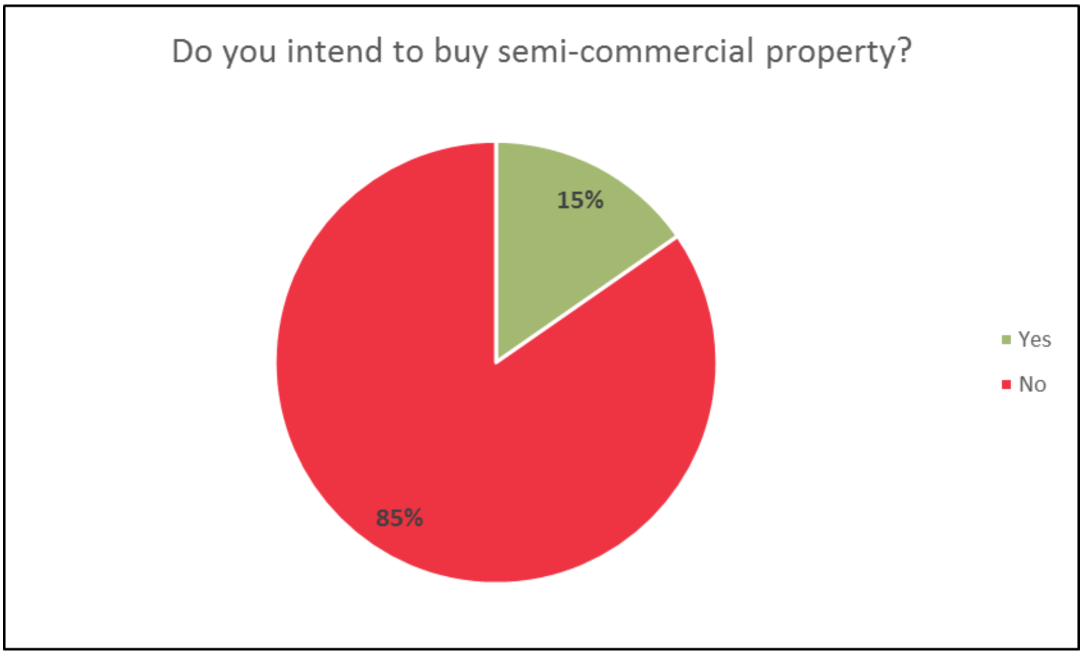
13b. Are you considering purchasing a HMO property?



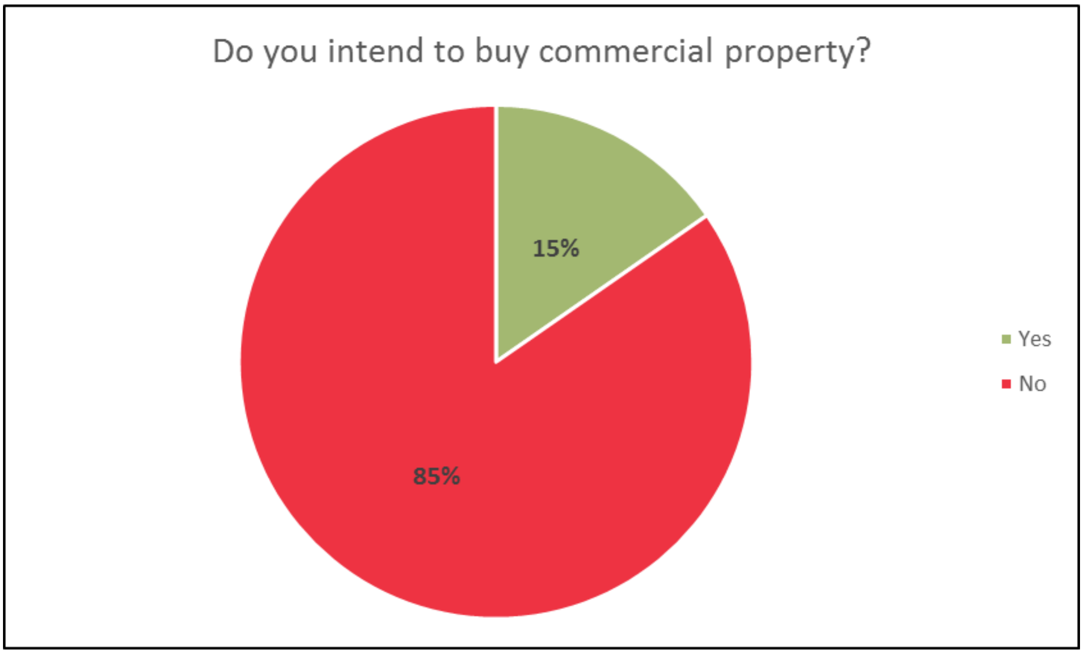
13c. Are you considering purchasing multi-unit freehold blocks?



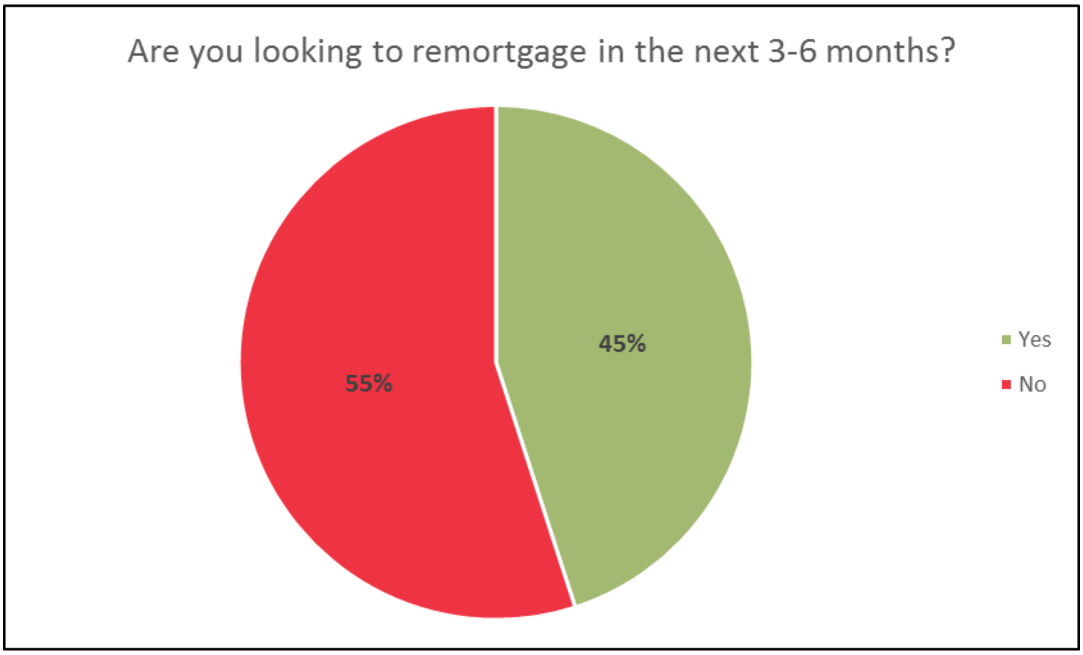
13d. Are you considering purchasing semi-commercial property?



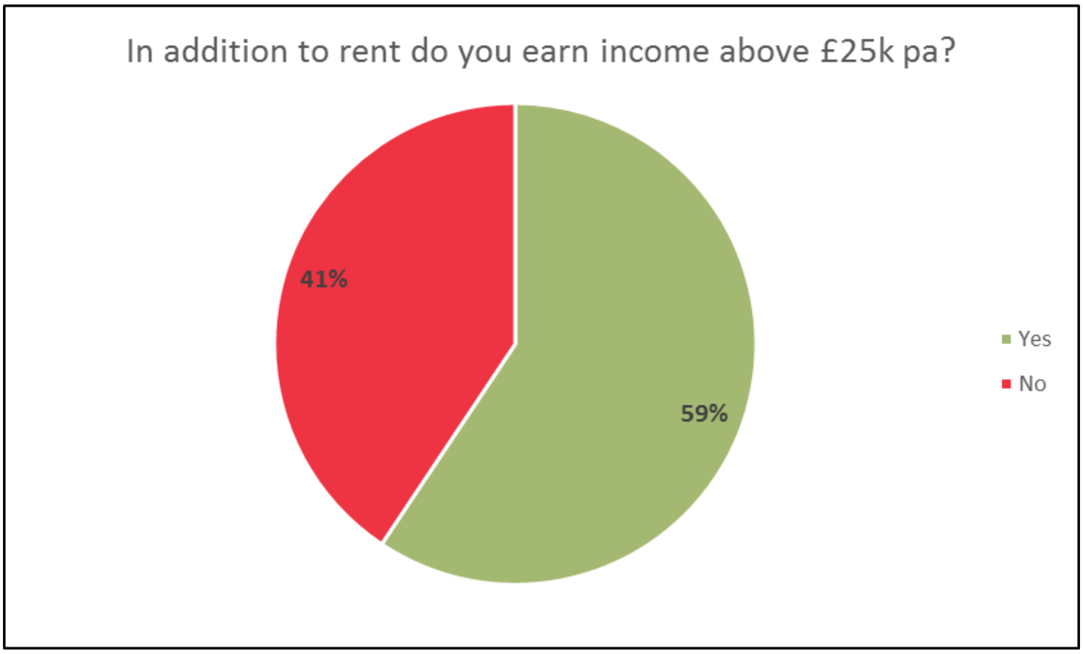
13e. Are you considering purchasing commercial property?



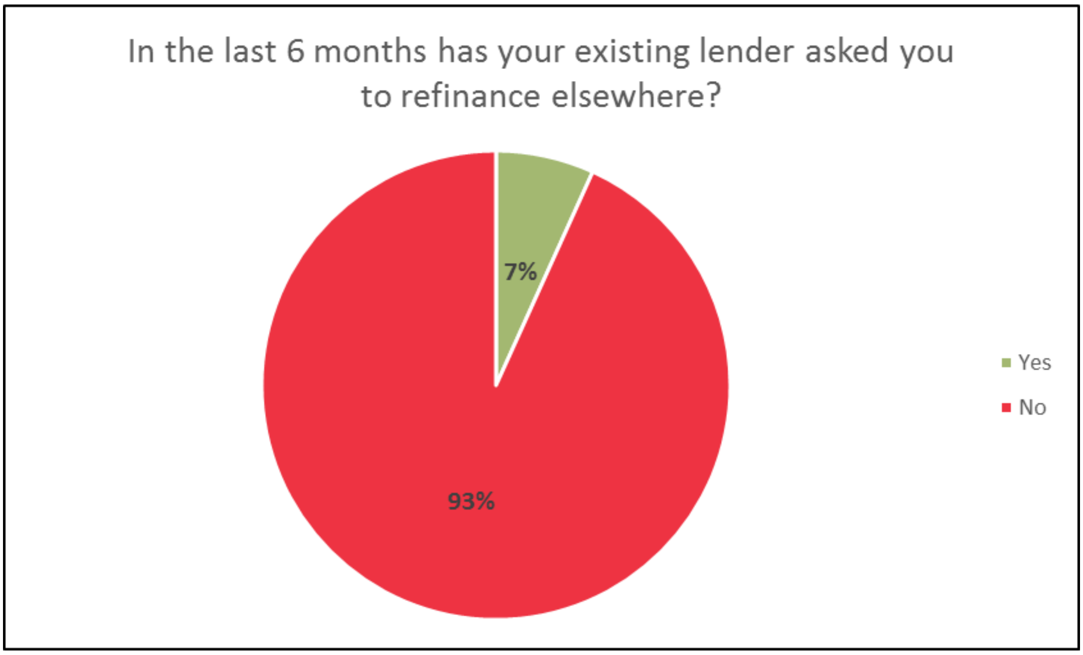
14. Are you looking to remortgage any of your properties in the next 3 – 6 months?



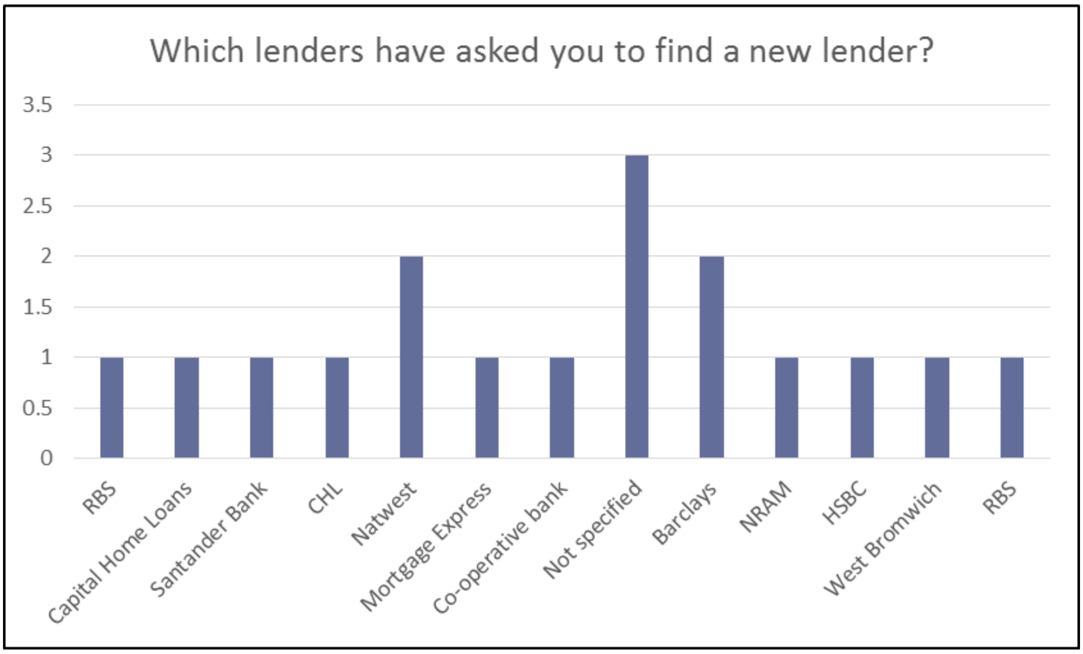
15. In addition to rent do you have any earned income above £25k pa?



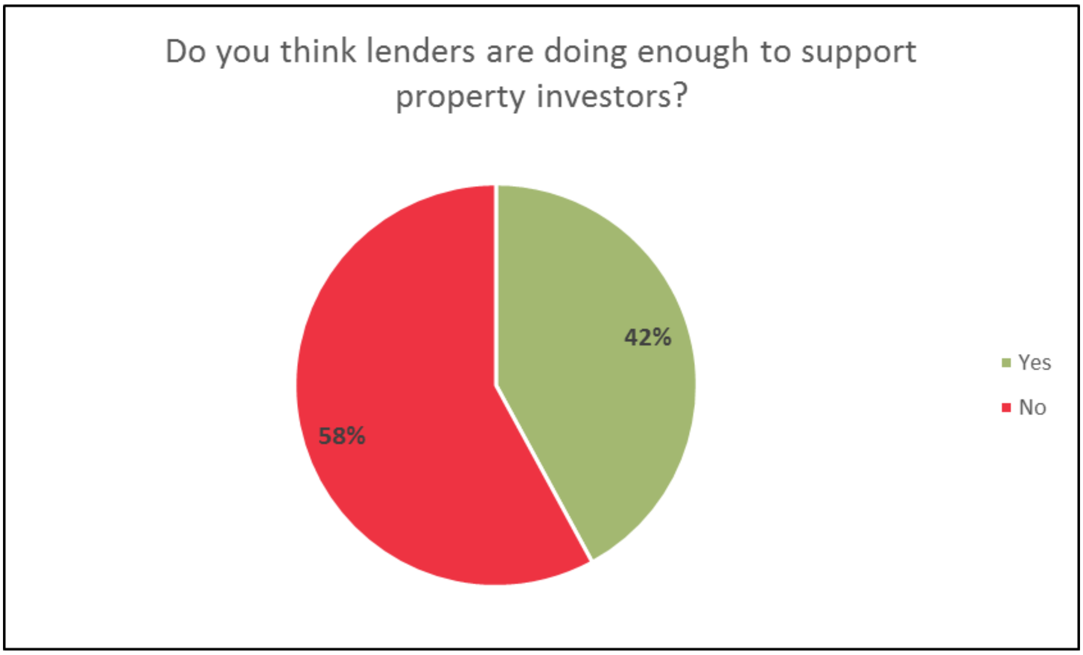
16. In the last 6 months has your existing lender asked you to refinance elsewhere?



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



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



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