Property Investor Survey

Results & Analysis November 2014

Analysis of Results

The survey was launched on 12th of November 2014 and ran for two weeks. During that time it was emailed to our property investor contacts database and advertised on the homepage of our website www.mortgagesforbusiness.co.uk and via social media. In total 313 property investors took part.

In this latest survey the selections within the first question - how many investment properties do you own? - were amended in order to find out how many investors owned just one investment property, (instead of 1-3 as previously asked). 11% said they owned just one property. This figure differs greatly from the Private Landlords Survey 2010 published by the Department for Communities and Local Government which, which recorded that 78% of private landlords owned just one property for rent. Since no later figures have been issued by the Government in this regard, it can only be assumed that this figure has since decreased and more landlords have gone on to purchase more property.

77% of investors who responded to the survey own 1-10 properties, which is up again on the results from our last three surveys (75% - March 2014, 73% - October 2013 and 74% - February 2013).

In the industry, investors that own 1-10 properties are often referred to as part-time or amateur landlords by lenders, meaning property investment is not their fulltime or sole occupation. The remaining 23% of investors who took part in the survey own over 10 properties and as such would be considered professional landlords by lenders, even though over half of them (52%) also earn in excess of £25k pa in addition to the income they earn from rent.

Almost three quarters of respondents (73%) said they owned investment property within 25 miles of their own home, with 55% of all respondents owning investment property within 10 miles of their home. This reinforces the common advice that suggests investors should only purchase investment property in locations they know well. Only 14% of respondents said they owned investment property more than 100 miles away from their main residence.

22% of respondents said they owned at least one property in a limited company capacity, which mirrors the result we had in March 2014, also 22%.

91% of investors said they had at least one vanilla buy to let property in their portfolio, down slightly from 92% in March 2014. 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 2014 the average gross yield on vanilla buy to let property was 5.9%.

Many respondents also said they owned a variety of other property types within their portfolio. Yields from these non-standard investment properties tend to be higher than those from vanilla buy to let properties. 27% of respondents said they owned Houses in Multiple Occupation (HMO), which is up from 20% in our March 2014 survey. Unsurprisingly, yields for HMOs averaged 8.9%, which explains why more investors are moving into this sector.

27% said they owned multi-unit freehold blocks (MUFB) which is the same percentage as in the March survey. 11% said they owned semi-commercial property, down marginally from 12% in March. Similarly, there was only a slight downward adjustment from 85% to 84% for those who own commercial property.

In terms of gearing 5% of investors said they had no borrowing (the same figure as in the previous survey) and a further 79% had borrowings of less than 75%, up from 76% in March. This is good news for those who may need to refinance to expand their portfolios, as in the current market most buy to let lenders will only lend up to 75% LTV.

Only 16% of those asked had a borrowing of more than 75% LTV, down from 19% in March 2014. This is very positive news, as those with borrowings over 75% have very little room to refinance.

When asked about their intentions for their portfolio over the next six months, over half (55%) indicated that they intended to expand their portfolios, down from 60% in March. 65% of those who intended to expand their portfolios will need to refinance in order to do so.

Of those looking to expand their portfolios 83% said they were considering purchasing a vanilla buy to let (up from 82% in March), 18% said they were considering purchasing an HMO (down from 29% in March), 9% were considering multi-unit freehold blocks (down from 19% in March), 10% were considering semi-commercial property (down from 15% in March) and 9% were considering commercial property (down from 15% in March).

To get an understanding on the rates favoured by investors the respondents were asked what type of rate they would choose if they were to apply for a buy to let mortgage or remortgage today. The results, compared to the March survey, can be seen in the following table:

What type of rate would you choose?			
Rate Type	**March 2014**	**November 2014**	**Change**
Variable	23%	23%	=
10 year fixed	10%	8%	⇩
5 year fixed	34%	31%	⇩
3 year fixed	21%	15%	⇩
2 year fixed	12%	23%	⇧

Interestingly there has been a small change in sentiment away from five year fixed rates to shorter term fixed rates, despite our advice to fix for five years in order to protect against predicted rises in Bank Rate. In 2013 we predicted that Bank Rate would start to rise in the autumn of 2014. This date was subsequently amended to May 2015. However, since these predictions were made, unforeseen national and global factors have come into play which may well push a rise yet further away. Higher employment in the UK has been tempered by lower than anticipated productivity, some Government-planned austerity measures have yet to be implemented, a sluggish world economy and the recent collapse in oil prices all play a part in keeping Bank Rate low. It is likely that investors don't believe rates will rise any time soon and so are keen to take advantage of the extremely low pricing of shorter term fixed and variable rates. Having said all this, we maintain our recommendation to fix for longer particularly where the pricing difference between three and five year rates is narrow.

The number of investors who would favour a 10 year fixed rate, if it were available, has also fallen. Since the March survey, one buy to let lender (Skipton) has introduced a 7 year fixed rate but according to our transactions, there has been little take up from investors.

The survey then asked if the respondents were looking to remortgage any of their existing properties in the next 3 – 6 months. 54% indicated they were looking to remortgage, up from 45% in March 2014 and 42% in March 2013.

The number of those who earn less than £25,000 a year in addition to rent is down again, with only 37% of respondents falling into this category, compared with 41% in March 2014. The vast majority of mainstream buy to let lenders do require the applicant to be earning at least £25,000 per annum in addition to rent. Fortunately there are some specialist lenders available who don't impose this requirement.

Only 5% of respondents have been asked to refinance their property / portfolio over the past 6 months, which is down from 7% in March 2014 and October 2013.

The number of investors who feel that lenders could be doing more to support property investors has risen since our last survey. In March 2014, 58% of those asked thought lenders could be doing more, but this figure now stands at 64%.

The following table provides a breakdown of what investors feel lenders could be doing to help compared to the results in March.

What more could lenders be doing to help investors?			
	March 2014	November 2014	Change
Ease criteria	47%	73%	⇧
Reduce rates	19%	10%	⇩
Reduce fees	20%	12%	⇩
Lend more	14%	5%	⇩

Ease lending criteria
Nearly three quarters (73%) of investors wanted lenders to ease criteria including:

- **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.

- **A common sense approach to lending**
  This is largely the domain of the mainstream buy to let lenders, where a computer based lending decision is taken. Investors would like to see a more human/common sense approach to lending rather than a "computer says no" attitude.

- **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. With a handful of exceptions, 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. We find this difficult to explain too, although it probably has more to do with lenders reducing their exposure to risk on property.

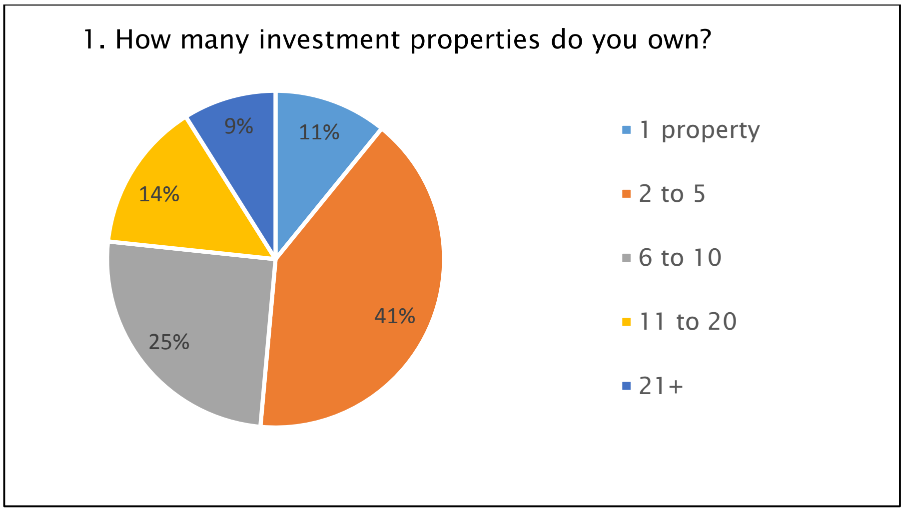
Reduce rates
Just 10% of investors wanted lenders to reduce rates, down from 19% in March. This large drop probably indicates that investors now recognise that rates are currently extremely low and that lenders may not have much more capacity to reduce pricing further

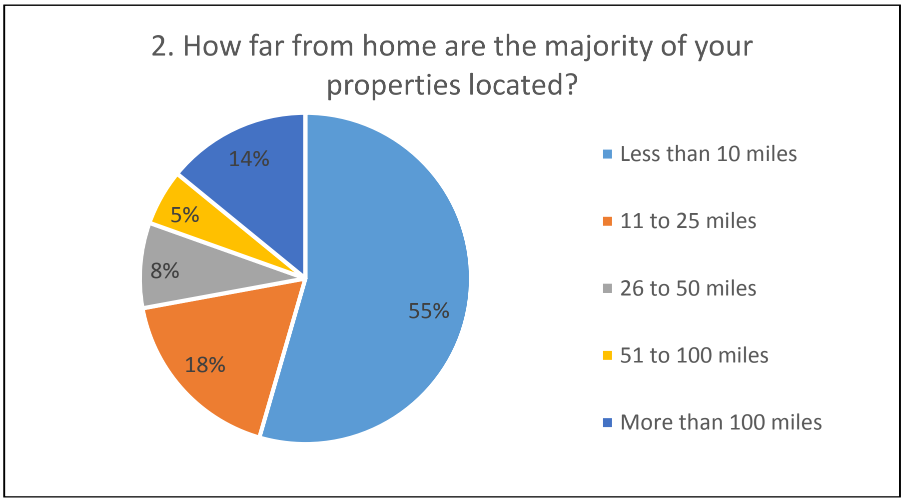
Reduce fees
The number of investors wanting lenders to reduce fees has also fallen. This could be because investors recognise that, on average, lenders have reduce their arrangement fees since the last survey. According to our Buy to Let Mortgage Costs Index Q3 2014 lender arrangement fees now average £1,346 down from nearly £1,500 in Q1 2014.

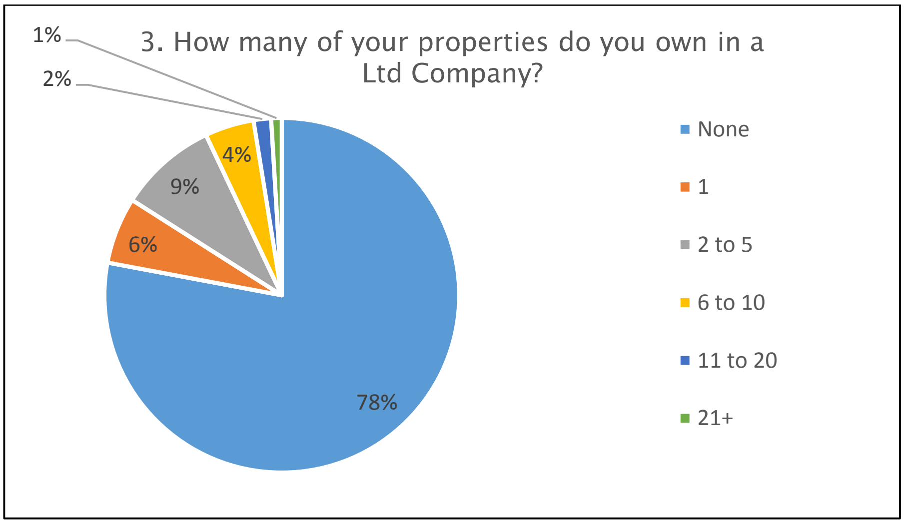
Lend more
Just 5% of investors felt that lenders should be lending more, down from 14% in the last survey. Data produced by the Council of Mortgage Lenders (CML) reveals that lenders are lending more. In 2013 lending reached £20.7bn. Whilst this is nowhere near the 2007 figure when buy to lending totalled £44bn, it remains a step in the right direction and equates to roughly 13% of overall mortgage lending in the UK.

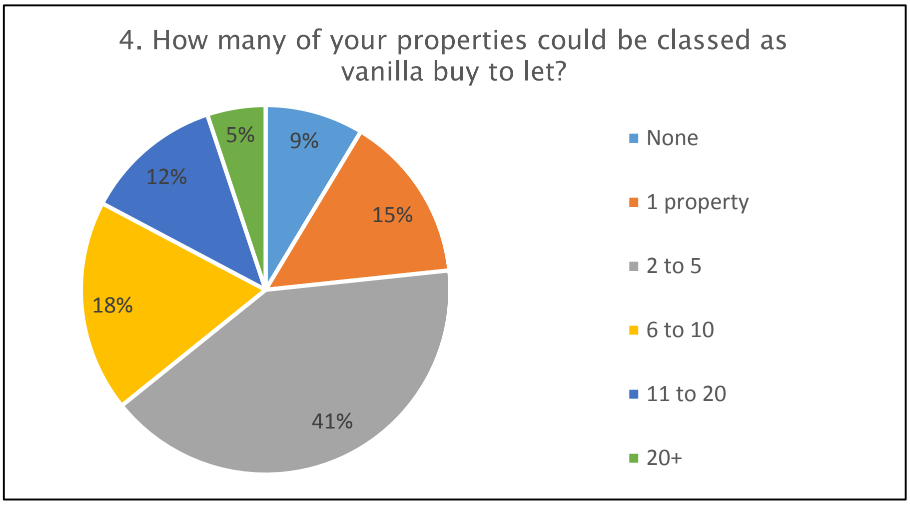
The full survey results are detailed below. The next survey will be issued in the spring of 2015. For more information please contact: Jenny Barrett, Head of Marketing on 01732 471615.

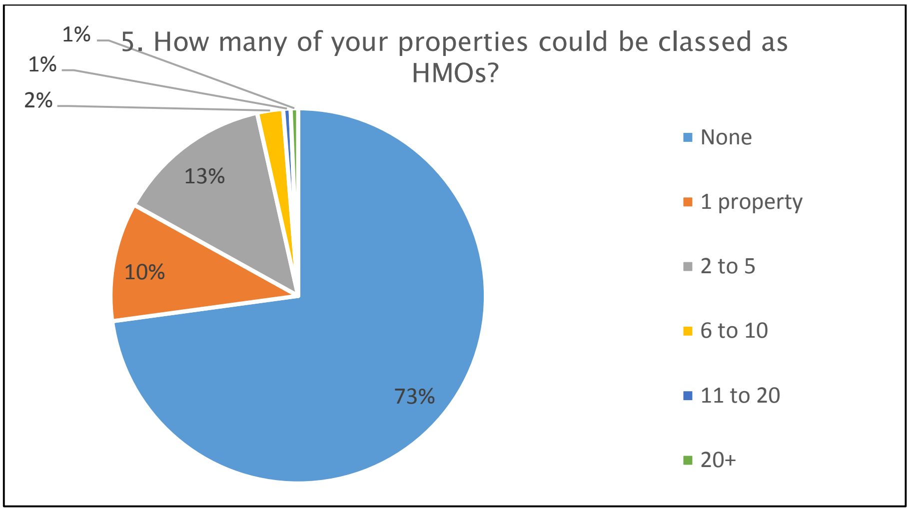
Results

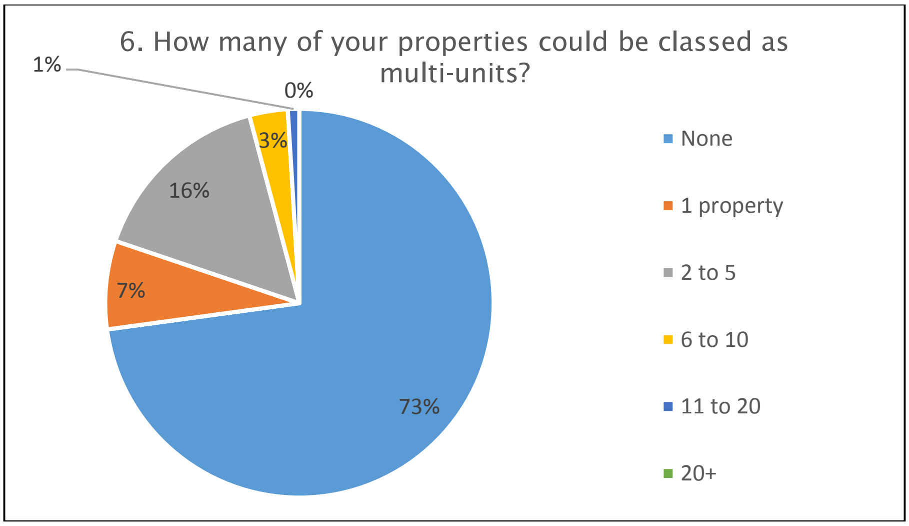

1. How many investment properties do you own?
9%
11%
14%
41%
25%
1 property
2 to 5
6 to 10
11 to 20
21+

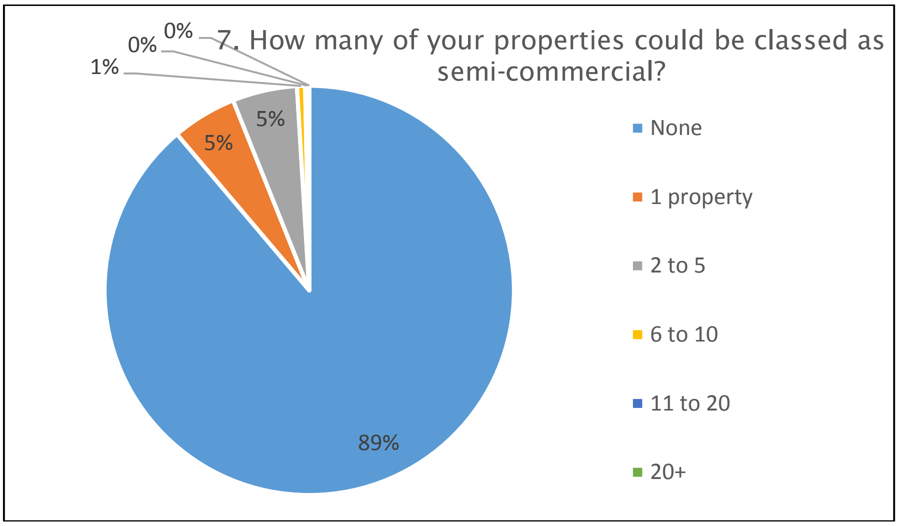

2. How far from home are the majority of your properties located?
14%
5%
8%
55%
18%
Less than 10 miles
11 to 25 miles
26 to 50 miles
51 to 100 miles
More than 100 miles

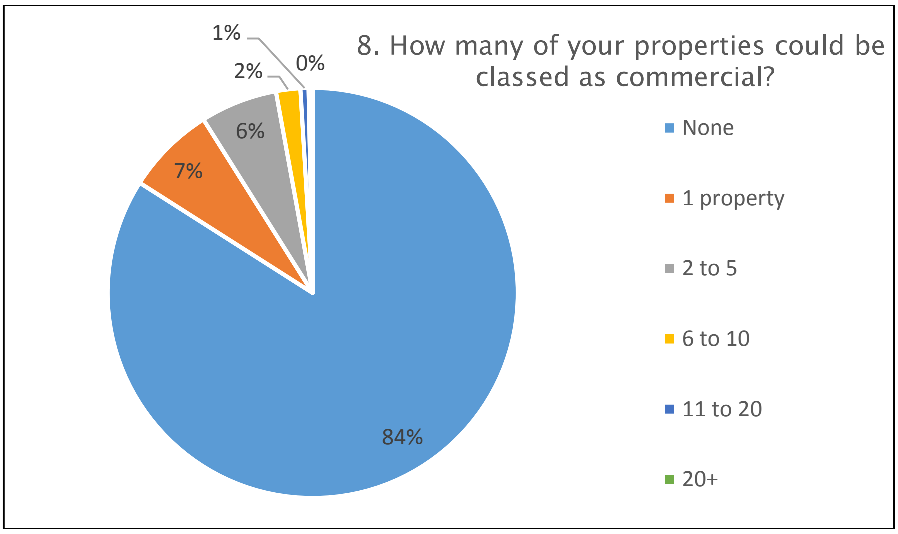

1%
2%
3. How many of your properties do you own in a Ltd Company?
4%
9%
6%
78%
None
1
2 to 5
6 to 10
11 to 20
21+

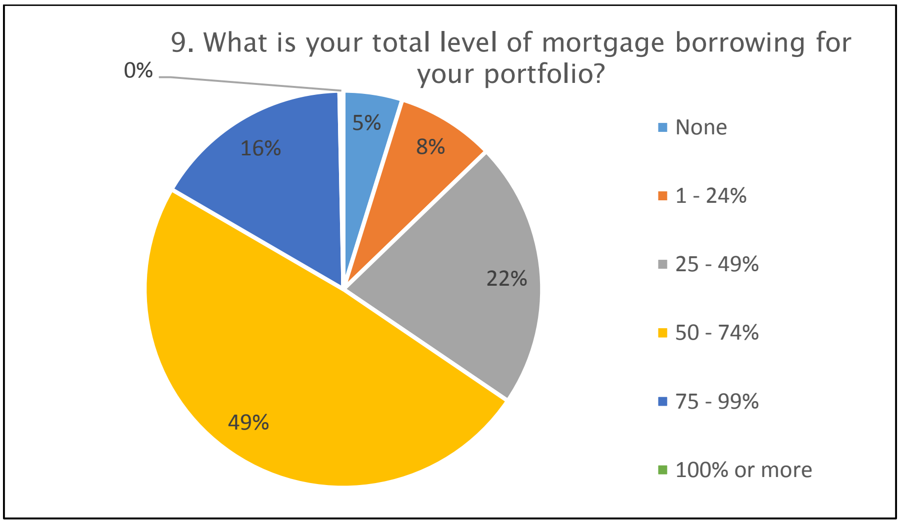

4. How many of your properties could be classed as vanilla buy to let?
9%
15%
41%
18%
12%
5%
None
1 property
2 to 5
6 to 10
11 to 20
20+


5. How many of your properties could be classed as HMOs?
1%
1%
2%
13%
10%
73%
None
1 property
2 to 5
6 to 10
11 to 20
20+

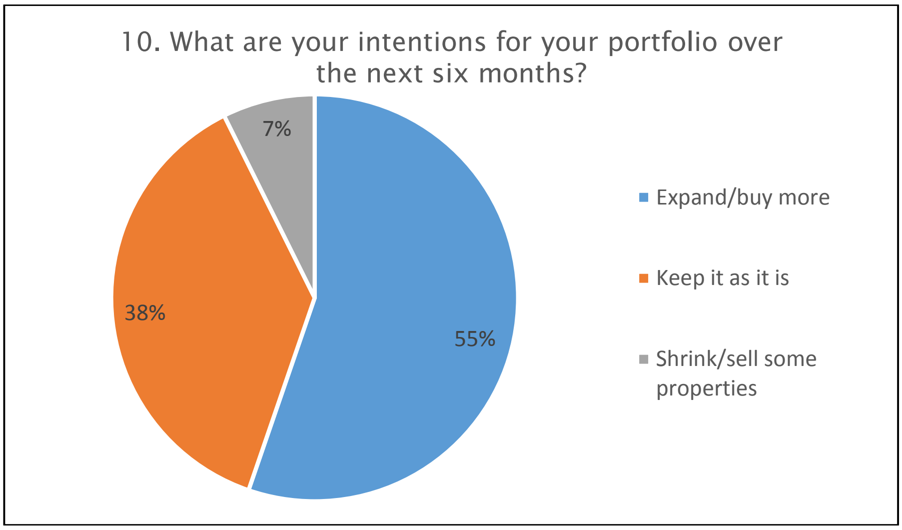

6. How many of your properties could be classed as multi-units?
1%
0%
3%
16%
7%
73%
None
1 property
2 to 5
6 to 10
11 to 20
20+

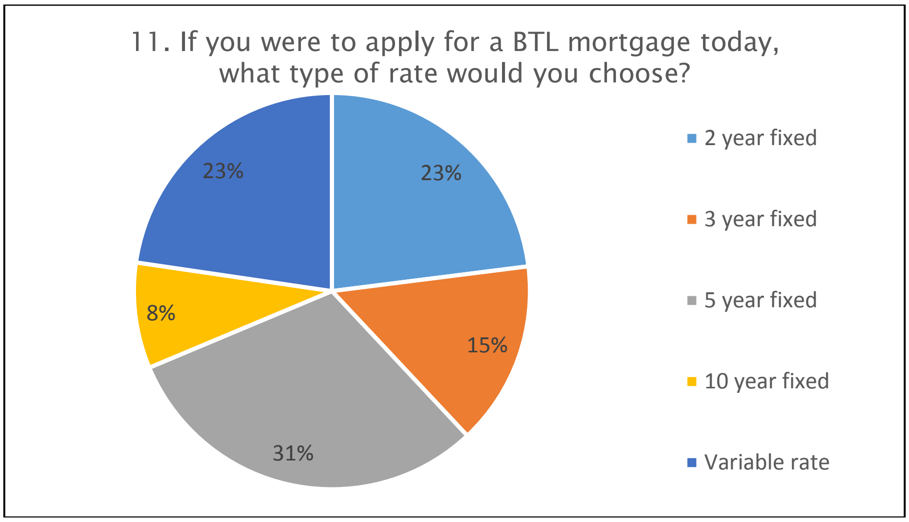

7. How many of your properties could be classed as semi-commercial?
0%
0%
1%
5%
5%
89%
None
1 property
2 to 5
6 to 10
11 to 20
20+

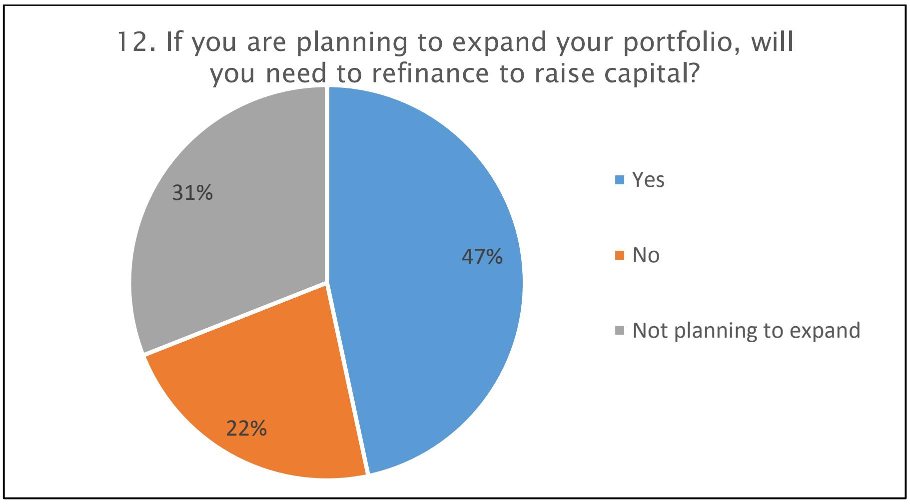

8. How many of your properties could be classed as commercial?
1%
2%
0%
6%
7%
84%
None
1 property
2 to 5
6 to 10
11 to 20
20+

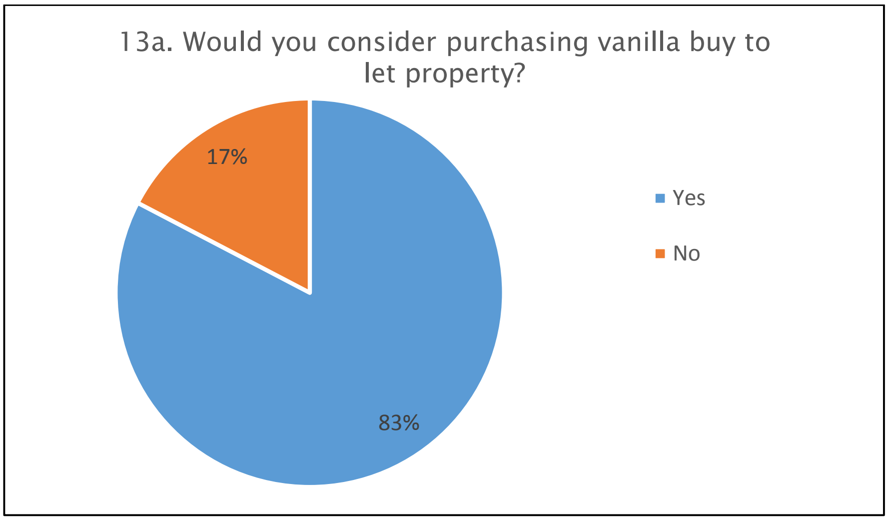

9. What is your total level of mortgage borrowing for your portfolio?
0%
5%
16%
8%
22%
49%
None
1 - 24%
25 - 49%
50 - 74%
75 - 99%
100% or more

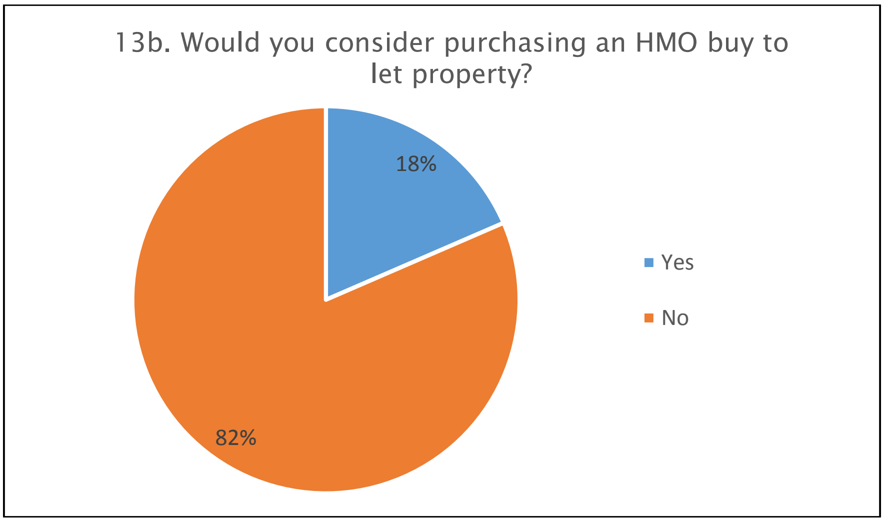
Mortgages for Business

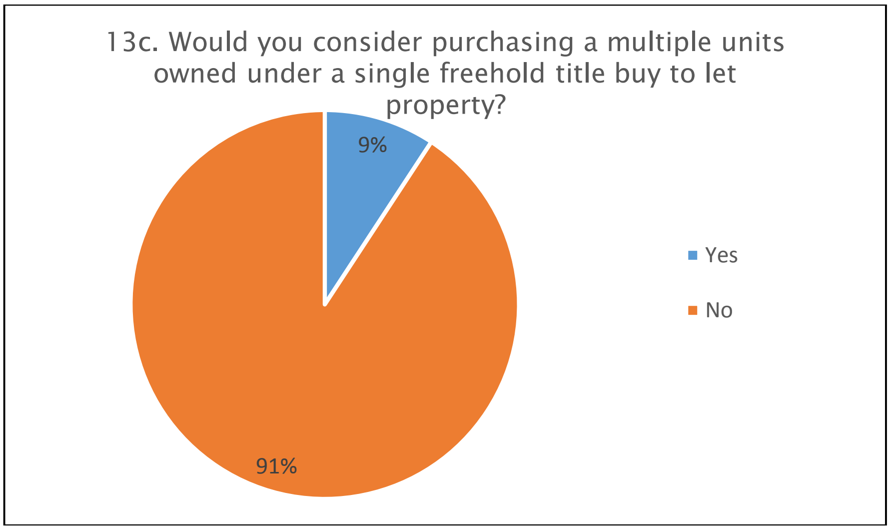


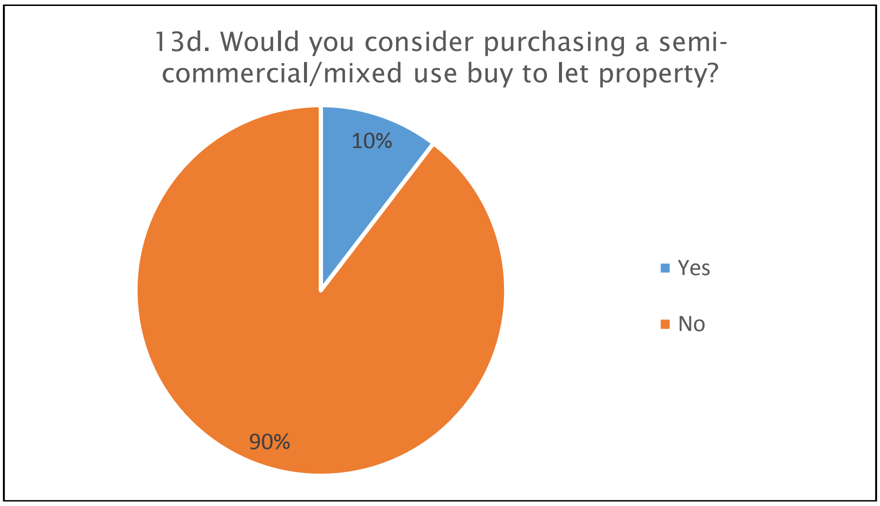


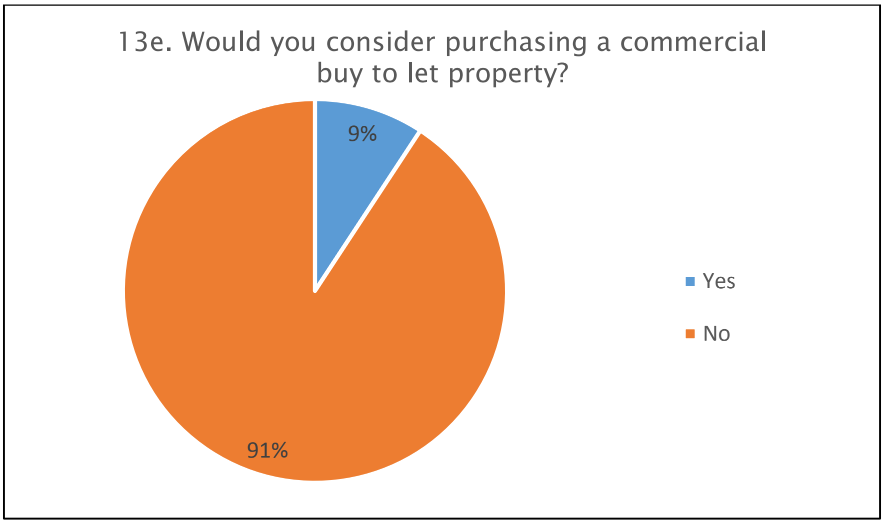


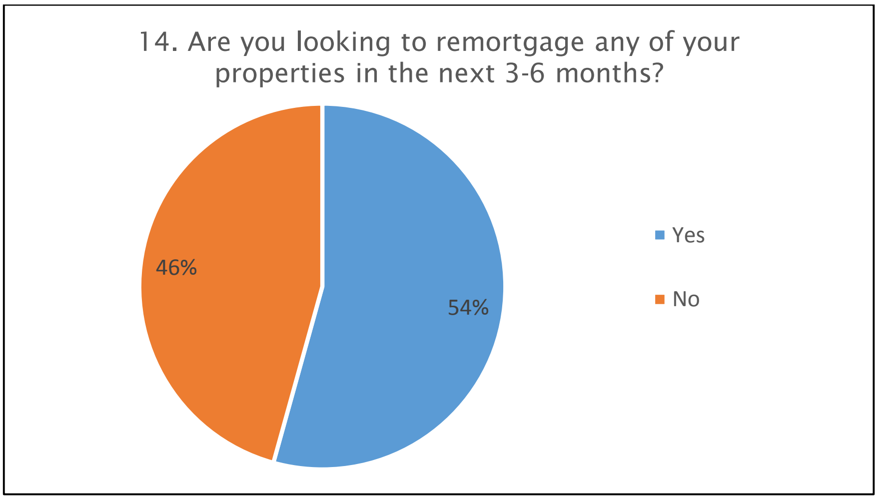

13a. Would you consider purchasing vanilla buy to let property?
17%
83%
Yes
No

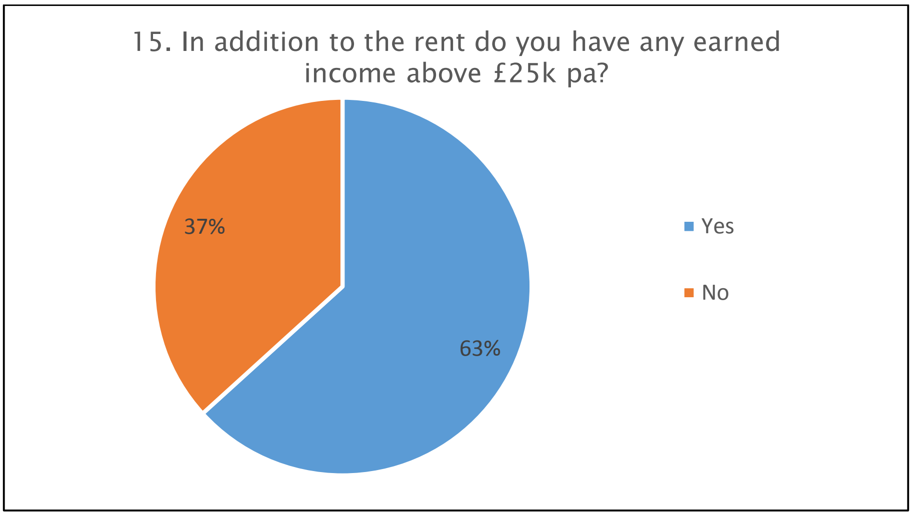

13b. Would you consider purchasing an HMO buy to let property?
18%
82%
Yes
No

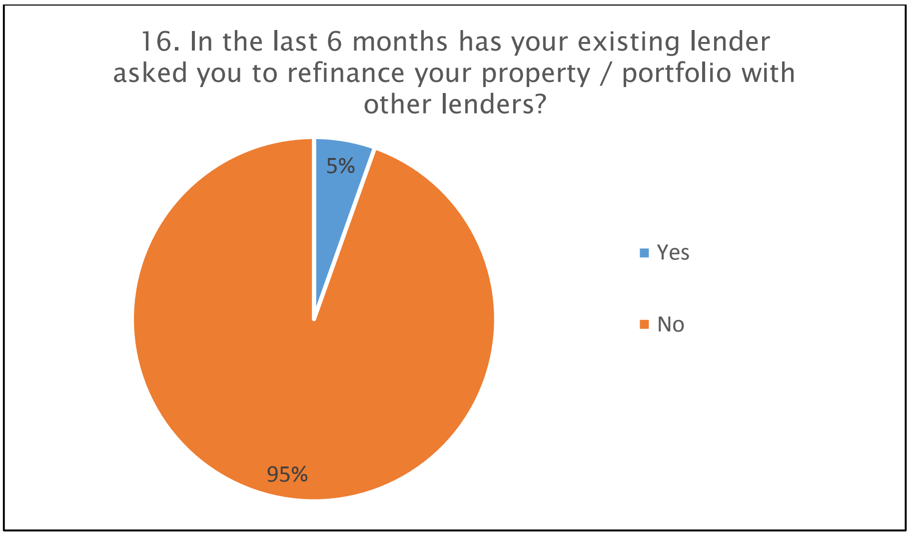

13c. Would you consider purchasing a multiple units owned under a single freehold title buy to let property?
9%
91%
Yes
No

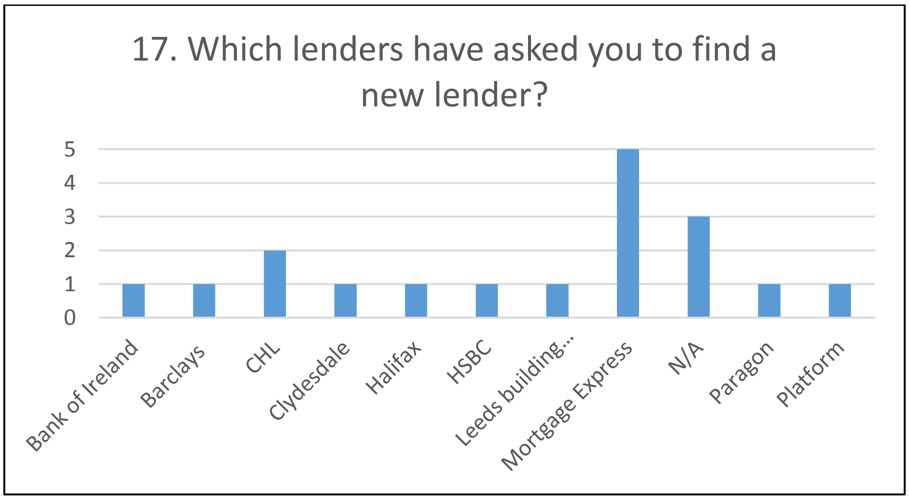

13d. Would you consider purchasing a semi-commercial/mixed use buy to let property?
10%
90%
Yes
No

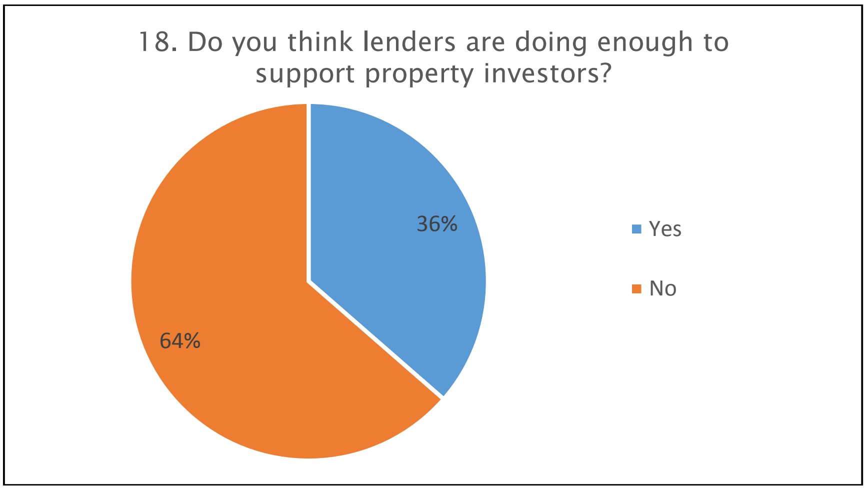

13e. Would you consider purchasing a commercial buy to let property?
9%
91%
Yes
No

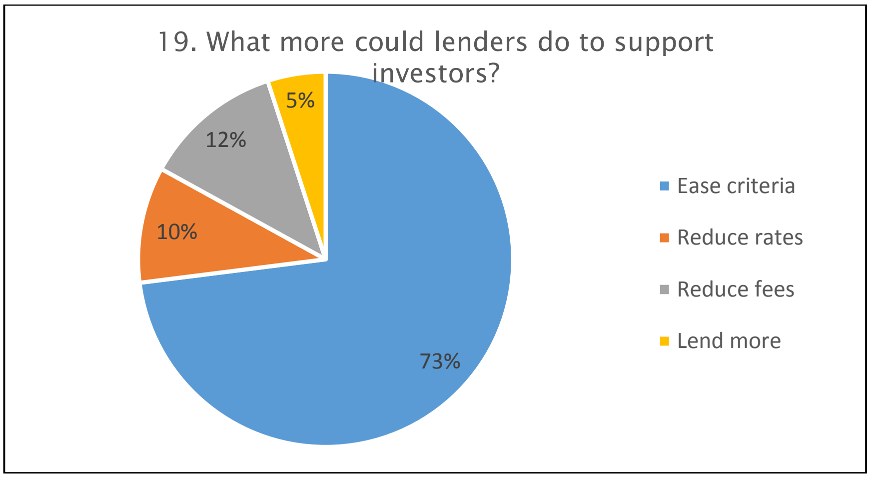

14. Are you looking to remortgage any of your properties in the next 3-6 months?
46%
54%
Yes
No


15. In addition to the rent do you have any earned income above £25k pa?
37%
63%
Yes
No


16. In the last 6 months has your existing lender asked you to refinance your property / portfolio with other lenders?
5%
95%
Yes
No


17. Which lenders have asked you to find a new lender?
5
4
3
2
1
0
Bank of Ireland
Barclays
CHL
Clydesdale
Halifax
HSBC
Leeds building...
Mortgage Express
N/A
Paragon
Platform


18. Do you think lenders are doing enough to support property investors?
36%
64%
Yes
No


19. What more could lenders do to support investors?
5%
12%
10%
73%
Ease criteria
Reduce rates
Reduce fees
Lend more

- ENDS -