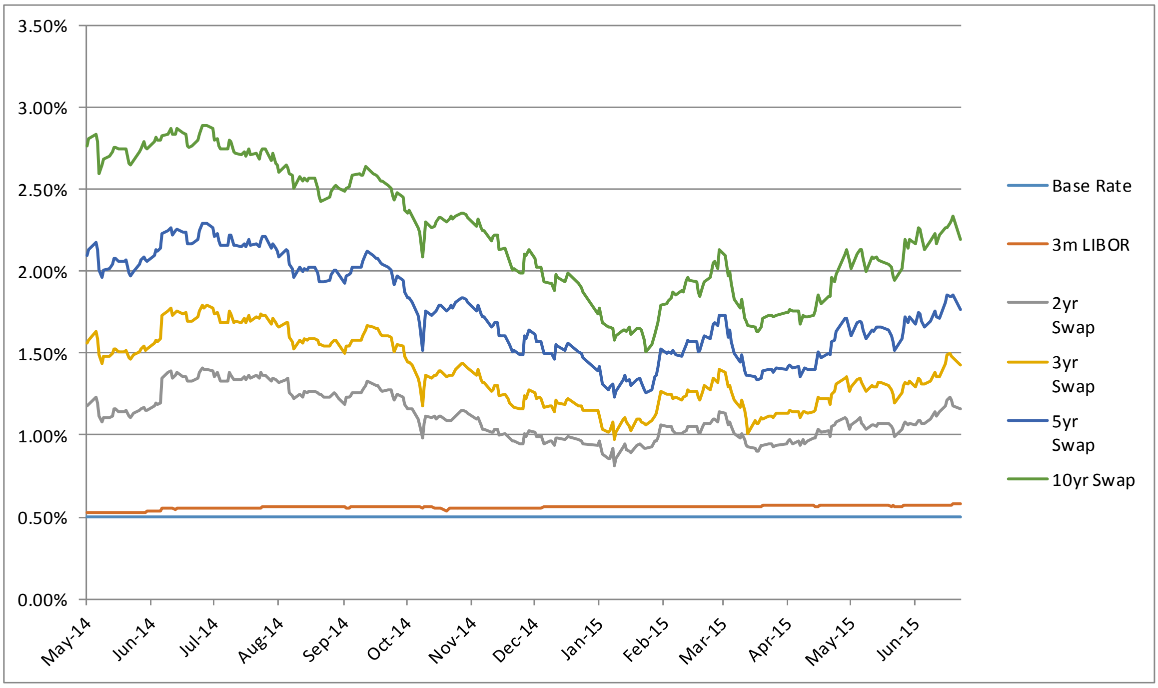
Buy to Let Mortgage Costs Index
Q2 2015

Buy to Let Product Numbers
In Q2 2015 there was an average of 679 buy to let mortgage products from 31 active lenders on the market, down 160 products on the previous quarter. This appears to have been due to lenders reducing their range of products – however this trend reversed in late June when numbers consistently exceeded 950 (peaking at 1004 on 3rd July). Following on from the Budget proposals to restrict Buy to Let interest relief for private individuals we have extended our analysis to look at products that are available to SPV Limited companies. There are ten "mainstream" lenders – excluding lenders with only short term products and retention products - offering a total of 128 mortgage products. I examine this in more detail further on in this article.

Buy to Let Product Pricing

Interest Rate Overview
Money Market Swap Rates reversed the trend of the preceding nine months and rose steadily through the quarter finishing around 0.25% higher than at the end of Q1. Then on 16th July the Governor of the Bank of England announced that the British economy's strong momentum meant the decision on when to raise rates would come into sharper focus around the end of this year – since when the rates have hardly moved other than at the short (2 year) end of the spectrum.

Swap Rates



Mr Carney said inflation pressures were now starting to firm again. British wages - a key metric for the central bank - have recorded their fastest growth in over five years, and additionally the effect of falling oil prices would drop out of the annual inflation rate around the turn of the year. But he also said that sterling's recent strength would act as a brake on higher rates, and that this was "particularly relevant" as the monetary policies of the euro zone and Britain diverge. He went on to say that the prospects for higher rates depended on wringing out the remaining slack in the economy, which would require sustained economic growth of around 0.6% per quarter.

Today's first release of Q2 growth from ONS has estimated growth at 0.7% for the quarter – this has been driven by services (as usual!) and more surprisingly by increases in North Sea oil and gas production offset by static construction and a small reduction in manufacturing. In summary just the conditions that the Governor indicated could lead to an increase in Bank Rate in the near term.

Crucially for the plans of longer term Buy to Let investors, Mr Carney predicted that, in the medium term, Bank Rate would probably rise to a level about half as high as its historical average of around 4.5%. Even if this turns out to mean 2.5% this would still be markedly lower than at any other time in the past century - with the exception of the Great depression era through to the start of the 1950s when it was 2%. This would appear to re-affirm his statement in Summer 2013 that longer term "the equilibrium real interest rate, which has been negative for much of the period since the crisis, will eventually turn positive again, but it is likely to remain well below historical norms" – so even when rates rise we can reasonably expect that they will not revert to a real rate above 2 ½% for the foreseeable future.

Whilst the decision not to raise Bank Rate had been unanimous, various members of the MPC (including outgoing member of the MPC, David Miles) have since hinted that they were only swayed not to vote for an increase by the (then?) ongoing Greek crisis allied with uncertainty over the Chinese economy. Accordingly it must be highly likely that the decisions taken this Autumn / Winter will be far more balanced and, I believe, most likely to lead to a rate rise sooner than has been forecast by most commentators.

Product Ranges – Limited Company Products

With the proposed restriction on buy to let interest relief for private individuals there is a clear incentive for investors to buy properties through a limited company. We have therefore set out below a summary of the buy to let mortgage products available to limited companies in July. In preparing this analysis we have excluded products that are available as "retention" or short term/ bridging.

	Limited Company			**Entire Market (July)**	
	No.	Av. Cost		No.	Av. Cost
Trackers / Discounts	64	5.4%		265	4.8%
2 Year Fix	16	5.1%		275	4.0%
3 Year Fix	26	5.8%		207	4.8%
5 Year Fix	16	5.1%		198	4.6%
Total	**122**	**5.4%**		**945**	**4.6%**

The average cost of 5 year mortgages has been heavily influenced (in particular) by a very attractively priced range of 5 year products from Metro Bank.

It can be seen that limited company mortgages are averaging around 0.8% p.a. more expensive than the market as a whole. However there are some products (which do carry restrictions on availability) that are more attractively priced – consequently it is more important than ever for investors to take advice on the best mortgage for their limited company.

Conclusion

There is an increasing likelihood of interest rate rises and thus it is getting ever more important to consider obtaining a fixed rate mortgage. However the proposed changes to interest relief for taxation may mean that clients will want to consider how best to structure their portfolio – and this will include considering incorporating their business within a limited company. It is therefore important to consider the extra cost of obtaining a mortgage within a limited company.

Buy to Let Mortgage Products by Initial Term

Buy to Let Mortgage Products					
Product	**Q2 2014**	**Q3 2014**	**Q4 2014**	**Q1 2015**	**Q2 2015**
1 year	1%	1%	1%	1%	1%
2 year	57%	54%	52%	49%	46%
3 year	19%	17%	19%	18%	18%
5 year	15%	19%	18%	22%	24%
Loan term	8%	9%	10%	10%	11%

The absolute numbers of products available in each category are still rising – but growth in the number of 5 year fixed rate products has been particularly marked.

Buy to Let Mortgage Charges

There has been only minimal change in the effect of costs of raising a mortgage in the quarter – with just a second consecutive small reversal of the increasing charges on high LTV mortgages.

Effect of Charges on Buy to Let Mortgages				
	Low LTV	**Medium LTV**	**High LTV**	**Average**
2013 Q1	0.62%	0.70%	0.71%	0.67%
2013 Q2	0.59%	0.64%	0.77%	0.64%
2013 Q3	0.58%	0.65%	0.73%	0.64%
2013 Q4	0.56%	0.61%	0.75%	0.61%
2014 Q1	0.54%	0.59%	0.75%	0.60%
2014 Q2	0.50%	0.59%	0.76%	0.58%
2014 Q3	0.41%	0.56%	0.84%	0.54%
2014 Q4	0.39%	0.53%	0.90%	0.52%
2015 Q1	0.39%	0.53%	0.84%	0.51%
2015 Q2	0.39%	0.54%	0.77%	0.52%

The proportion of products with percentage based fees has reverted to the level seen in Q2 2014 with a decline in no fee and flat fee products.

	Buy to Let Mortgage Charges				
Fee type	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2105
Flat fee	50%	54%	53%	51%	47%
No fee	11%	12%	15%	15%	13%
%-based fee	39%	34%	32%	34%	40%

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