Property Investor Survey

Results & Analysis May 2016

The survey was launched on 22nd April 2016 and ran for a little over two weeks. 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 248 property investors took part.

Survey Questions and Responses

Number of investment properties owned
The largest ownership group continues to be landlords with 2-5 properties which now accounts for 36% of survey respondents, down from 38% in November 2015.

The only group to make considerable gains are landlords who own 11-20 properties which now make up 20% of respondents, up from 14%. Last year we predicted landlords with a greater number of properties would continue to increase their share of ownership and this indeed, seems to be the case.

11% of respondents own just one property, up from 8% in November 2015. It will be interesting to see if this group continues to grow now that a 3% stamp duty surcharge has been introduced on the purchase of additional homes. We believe that it will deter some would-be market entrants.

Distance from home
As with previous surveys around three quarters of respondents (76%) said that most of their properties were located within 25 miles of their home, reinforcing the belief that investors purchase investment property in locations they know well. 12% said they owned property more than 100 miles from home, up from 11% in November. It will be interesting to see how this category develops as stricter underwriting measures may force investors to seek out new areas for investment.

Limited company ownership
30% of respondents said they owned property in a limited company vehicle up from just 22% a year before. We expect this figure to continue to rise in light of the pending tax changes which will peg relief on finance costs, including mortgage interest, to the basic rate of 20% to individual tax payers. Limited companies will not be subject to this restriction. For more detailed information on buy to let lending to limited companies, please refer to the Limited Company Buy to Let Index also published by Mortgages for Business.

It is also no surprise that the number of respondents looking to purchase at least some of their buy to let property via a limited company in the future rose to 56% from 51%

Types of property owned
The majority of investors (91%) continue to own vanilla buy to let property within their portfolio. 21% of respondents said that they owned Houses in Multiple Occupation, the same percentage as in November 2015. The number of respondents owning multi-units (15%), semi-commercial (14%) and commercial (10%) property has increased since November, up from 12%, 10% and 9% respectively. These more complex properties usually generate higher gross yields than vanilla BTLs. HMOs in particular consistently return yields of around 10%, compared to 6% on vanilla property, so it is interesting to note that the number of investors

buying HMOs has not increased. This could be because HMOs typically cost more and are more time-consuming to operate.

Borrowing
There has been no change in the number of investors with no borrowing (5%) or borrowing in excess of 100% (1%) of value; however the number of investors with borrowing from 75-99% has decreased from 17% in November 2015 to just 10%. This could be because average property prices generally rose towards the end of 2015 and throughout Q1 2016 as investors and home-buyers increased buying activity ahead of the introduction of the stamp duty surcharge, creating increased competition for stock, thus bringing average LTVs down.

Mortgage type preferences
For the fifth survey in a row, investors' preference for five year fixed rates has waned – down to 21% from 26% last November, and down from 34% two years ago. It seems that the longer Bank Rate remains static, the less keen investors are to lock themselves into a longer period, despite the fact that five year fixed rates are never likely to be lower. Interestingly, it is three year fixed rates that have increased in popularity at the expense of the five year rates; 18% of respondents would choose them today up from 10% in November.

Portfolio expansion intentions
Just under two-thirds (64%) of respondents said they thought their existing properties would be affected by the Government's proposed reduction in tax relief on buy to let mortgage interest, up from 60% in November. Fewer investors (23%) think the changes won't affect them, down from 26%. Worryingly, 12% still don't know if they will be affected despite much press recommending that investors take tax advice. Only 1% hadn't heard about the changes.

With this in mind, it is no surprise that for the second survey in a row, the number of investors looking to expand their portfolios in the next six months has fallen to 41%, from 46% in November and from 65% a year ago before the tax changes were announced. The introduction of a 3% Stamp Duty surcharge on purchases of additional property is also likely to be a contributing factor to the anticipated slowdown in residential investment.

The good news is that an even smaller proportion (14%) plan to shrink their portfolios, down from 18% in November.

Despite an increase in investors keeping their portfolio size as it is now, 39% still plan to remortgage some of their properties in the next six months (down from 41% in November), although a larger proportion 18% don't know, up from 14%.

Purchasing different types of property
Of those looking to expand their portfolios, 79% said they were considering purchasing vanilla buy to let property down from 83% in November but up from 61% a year ago. Much more interesting, is the fact that there has been a sizeable shift towards more complex property types. In particular, 28% of investors said they were thinking of purchasing HMOs, up from just 10% six months ago. Commercial and semi-commercial property have also piqued the interest of investors perhaps because these asset classes do not incur the Stamp Duty surcharge imposed on residential investment property, and, like HMOs, they have been shown to generate higher yields than vanilla BTLs.

Refinancing to raise capital
59% of those looking to expand their portfolios will need to refinance to raise the necessary funds – about the same as in November (58%) which is good news for lenders, brokers and people looking for rental accommodation in the Private Rented Sector.

Investors' income
There has been an increase in the number of respondents (65%) who receive an income in excess of £25k pa in addition to the rents they receive, which positions them well for borrowing from mainstream buy to let lenders which prefer investors whose primary occupation is not from property investment but they are more likely to fall foul if interest relief changes.

Lenders helping investors
Lenders will be pleased to learn that there was a fall in respondents who felt that lenders were not doing enough to support investors, down to two third (67%) from three quarters (74%). However, when questioned further, all respondents answered more specific questions on how lenders could do more to help borrowers. Fewer respondents felt that lenders should reduce rates and fees or ease criteria than six months ago. However there was a very slight increase in the number of investors who felt that lenders could be lending more, as the table demonstrates.

What more could lenders be doing to help investors?				
	Nov 2014	Apr 2015	Nov 2015	May 2016
Ease criteria	73%	57%	48%	44%
Reduce rates	10%	20%	28%	19%
Reduce fees	12%	3%	46%	36%
Lend more	5%	20%	17%	19%

When asked for specific comments on how lenders could help investors, 15% of respondents proffered their opinions. The most common gripes were extremely similar to the response given in November's survey including:

- **Lending to limited companies**
  Many investors requested more lending options for limited companies. Several also felt that pricing should be the same or better than rates for individuals but didn't like having to give personal guarantees. They also wanted lenders to make it easier to "switch" from personal to limited company borrowing. We would expect this topic to continue to be at the forefront of investors' minds for the rest of 2016 and beyond.

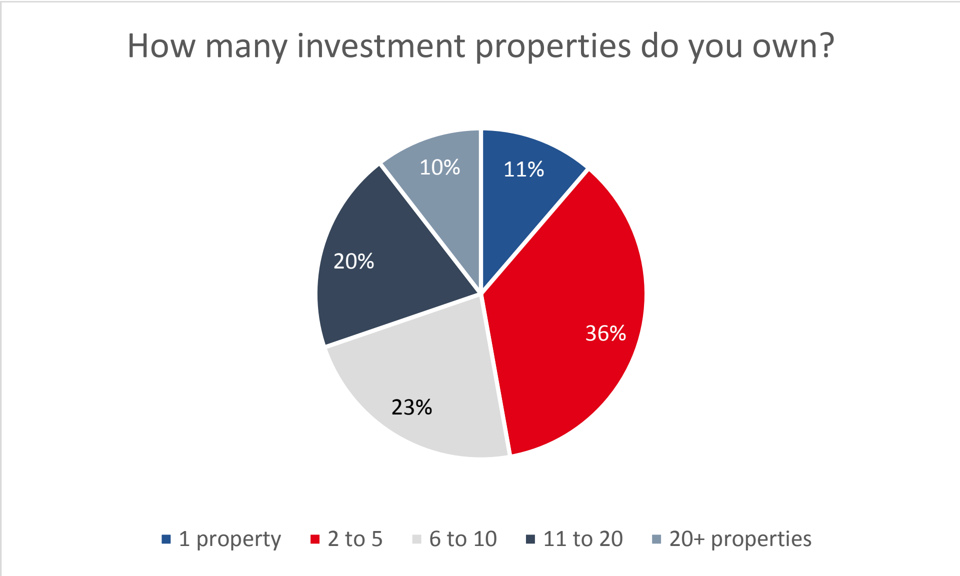
- **Upper age restrictions**
  Many respondents still feel that most lenders are discriminating against older landlords and believe that age limits should be removed because the lender has the property as security in any event.

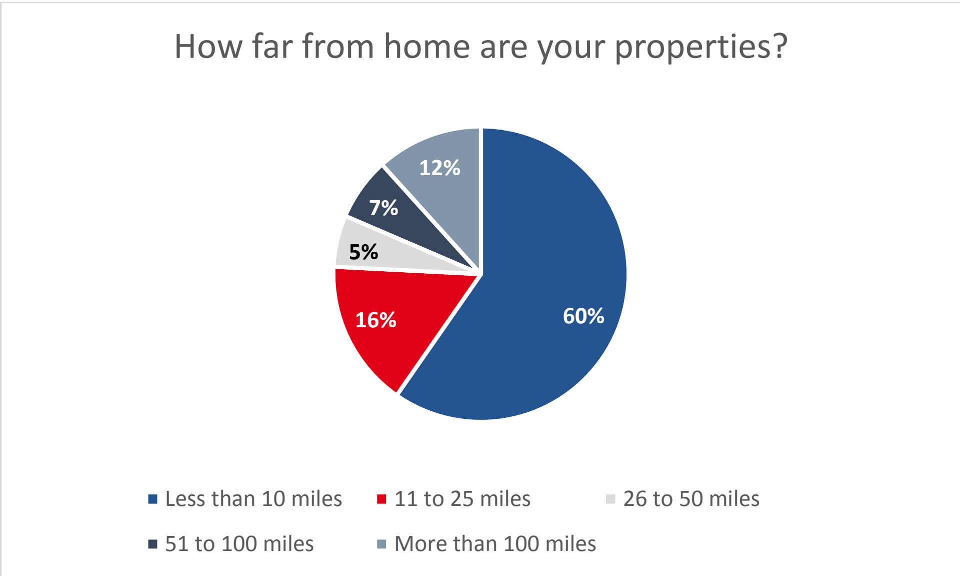
- **Computer-based lending decisions**
  Something that is still bothering investors is how lending decisions are taken. Investors would like to see a more human/common sense approach to lending rather than a "computer says no" attitude. Many specialist lenders do offer a more human approach where they look at each case and assess it individually, but this is not something that is generally seen amongst the mainstream lenders.

- **Lending to experienced landlords**
  Several respondents wanted lenders to make it easier for experienced landlords with large portfolios to borrow. In particular they would like to see lending limits removed and mortgaged properties owned in the background taken out of any lending decision.

The full survey results are detailed below. The next survey will be issued in the autumn of 2016. For more information please contact: Jenny Barrett, Marketing & Research Director on 01732 471615.

Results


How many investment properties do you own?
11%
36%
23%
20%
10%
1 property
2 to 5
6 to 10
11 to 20
20+ properties


How far from home are your properties?
60%
16%
5%
7%
12%
Less than 10 miles
11 to 25 miles
26 to 50 miles
51 to 100 miles
More than 100 miles

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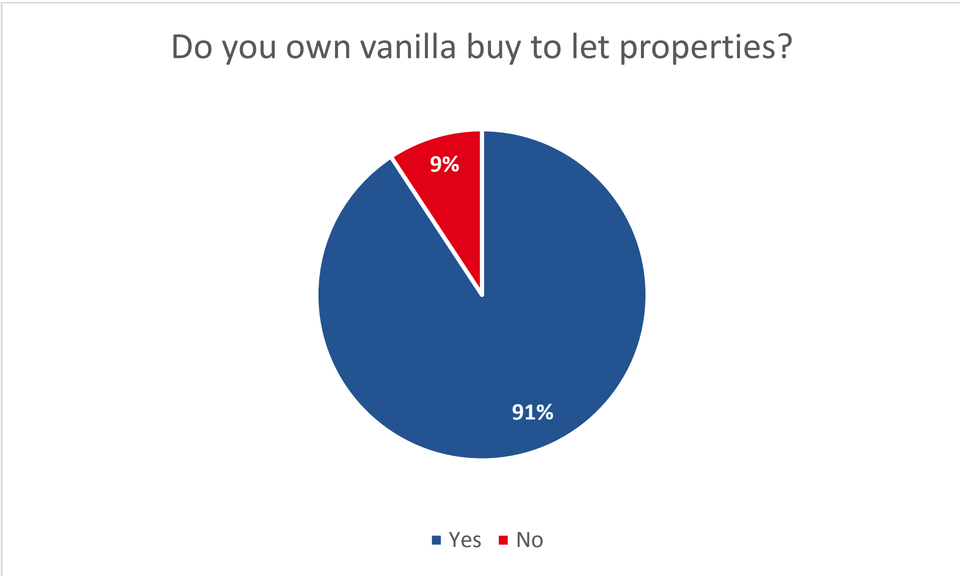

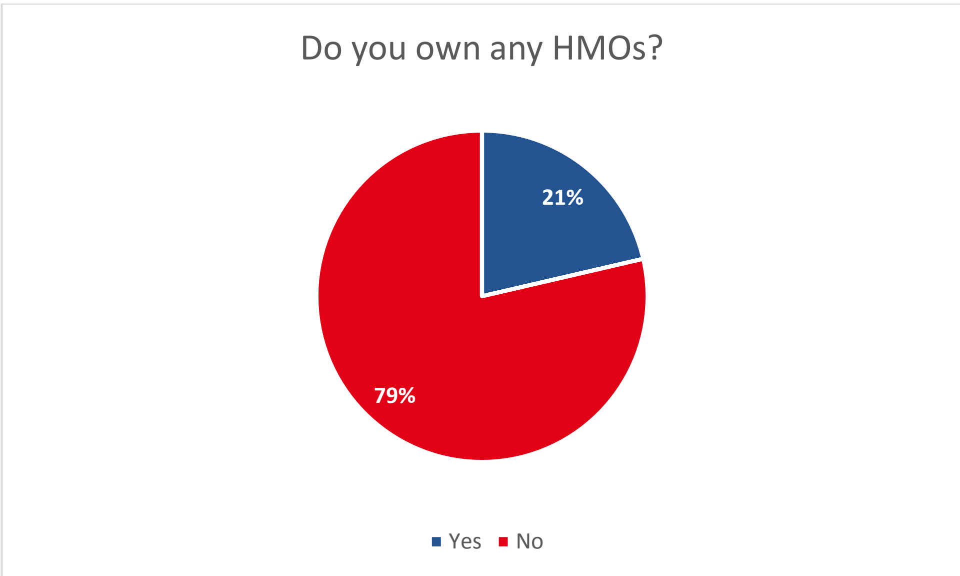

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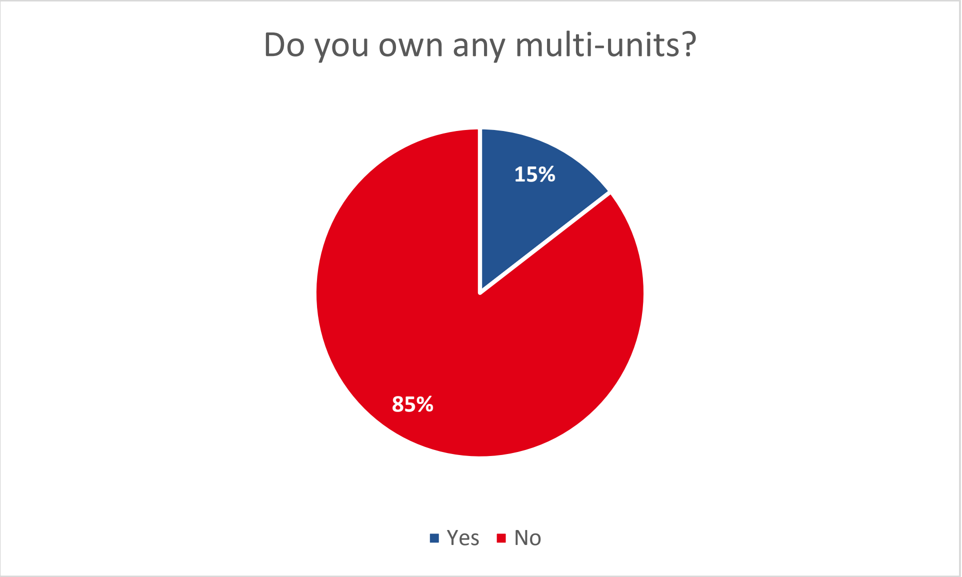

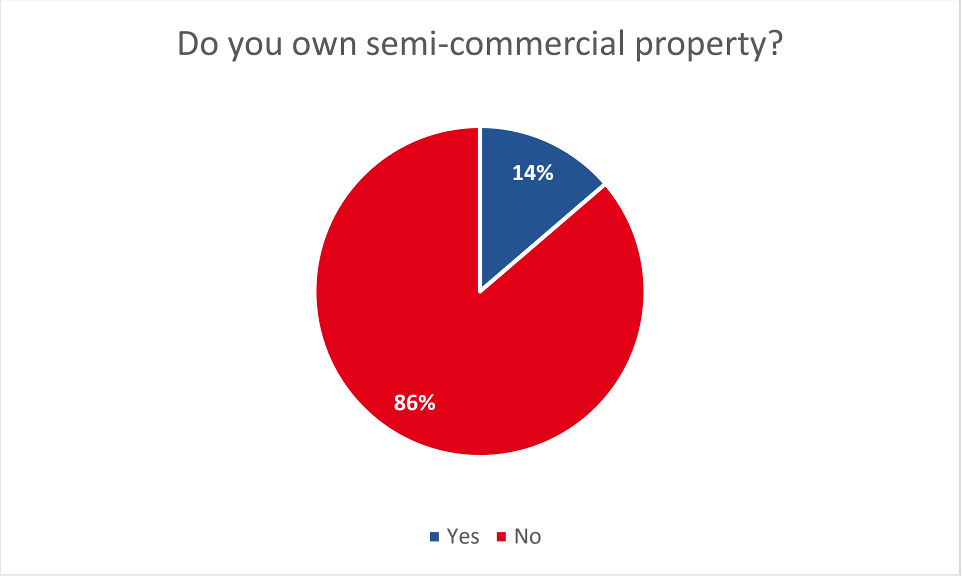

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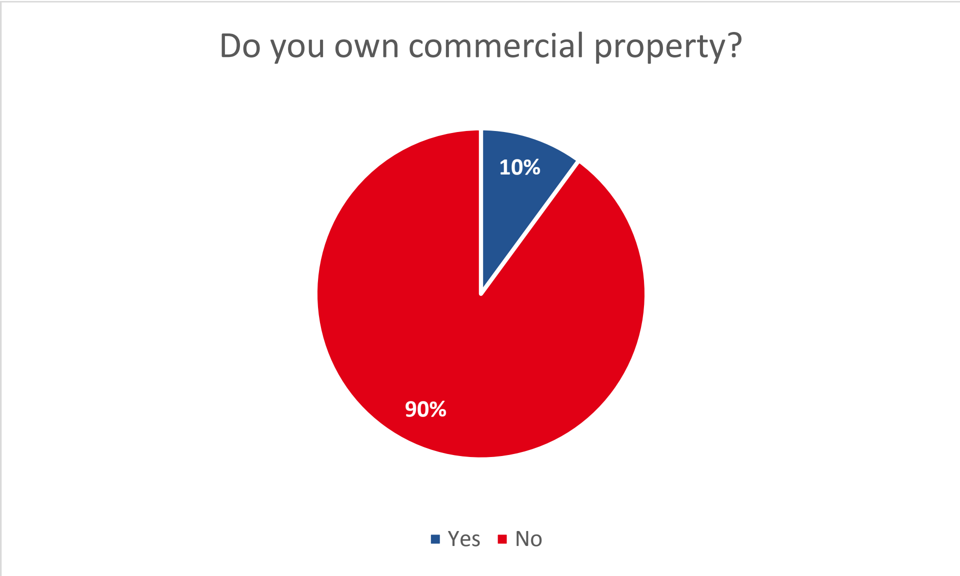

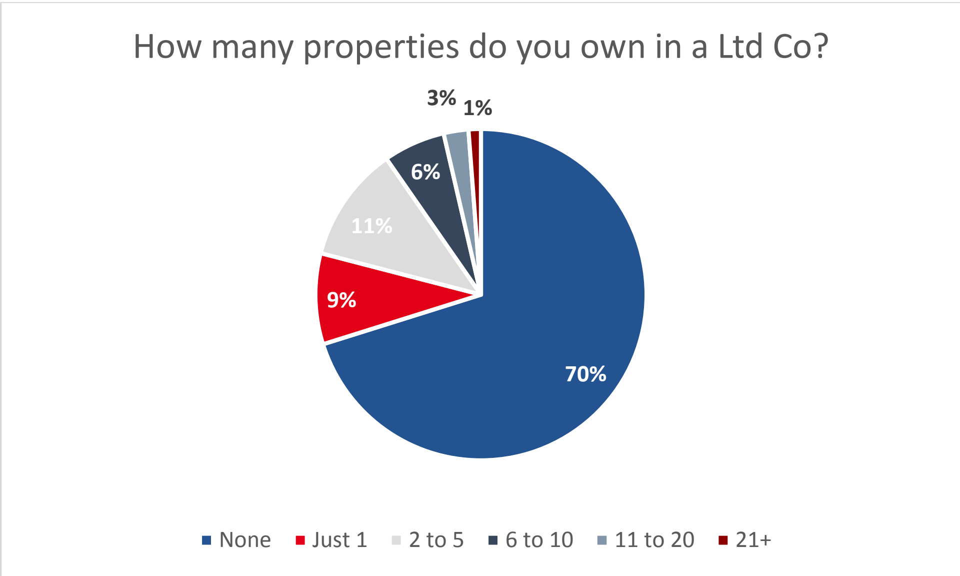

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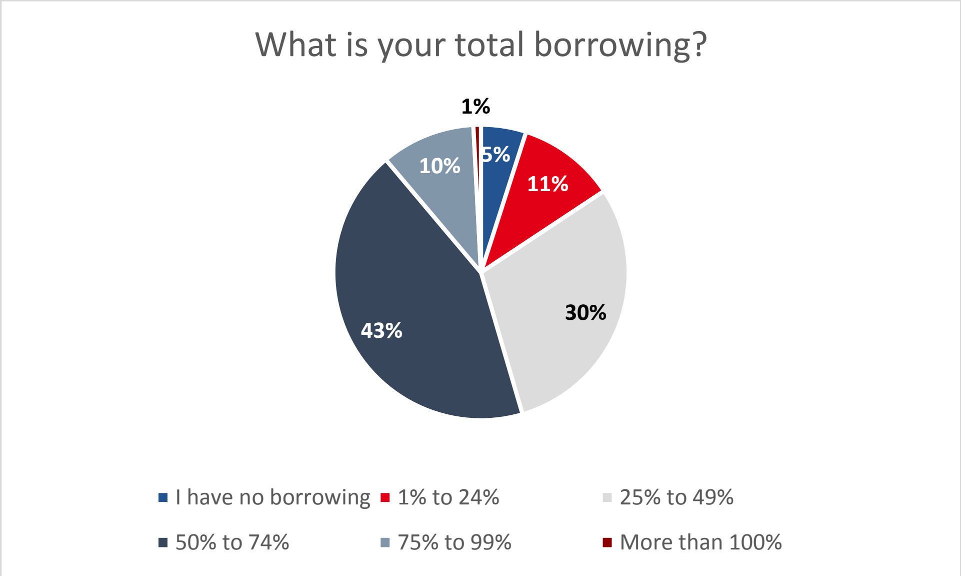

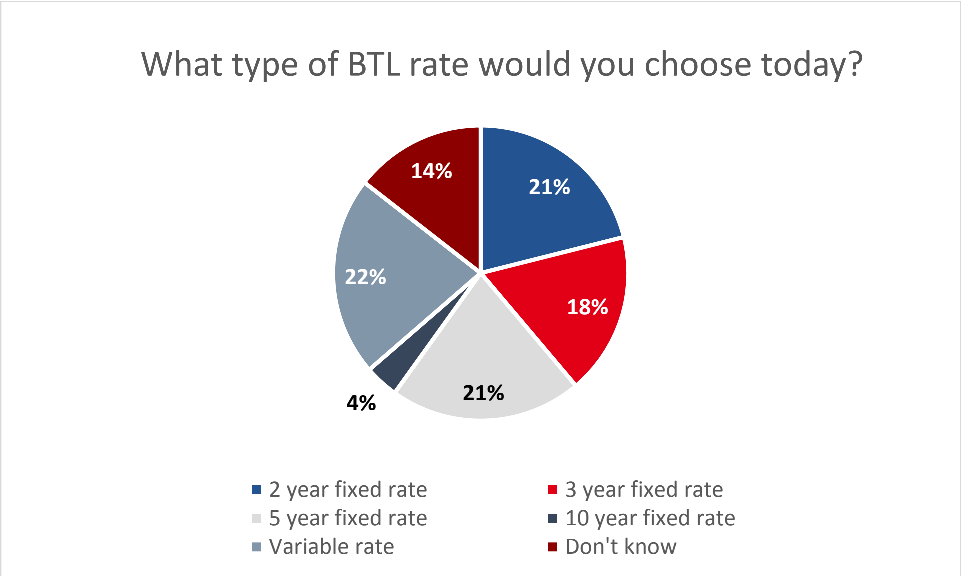

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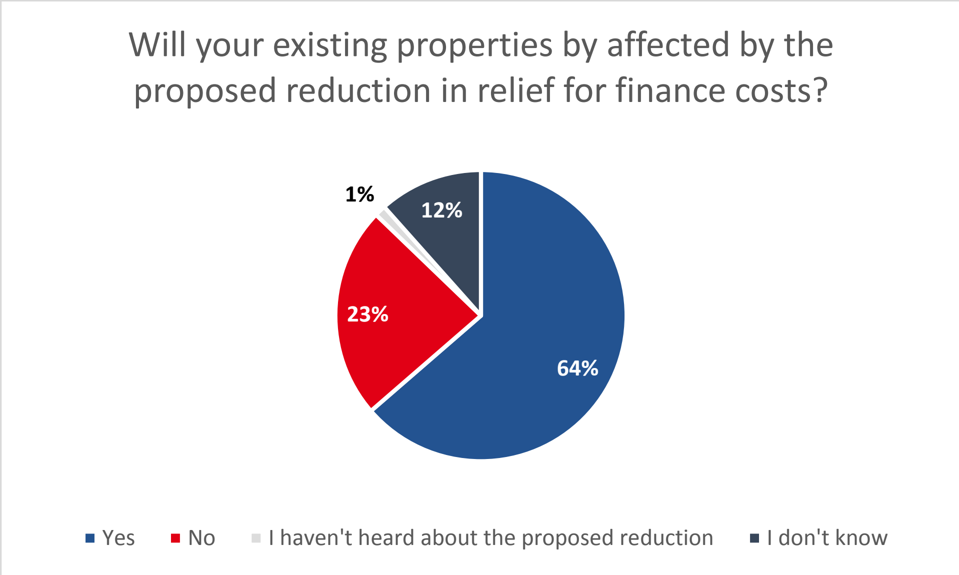

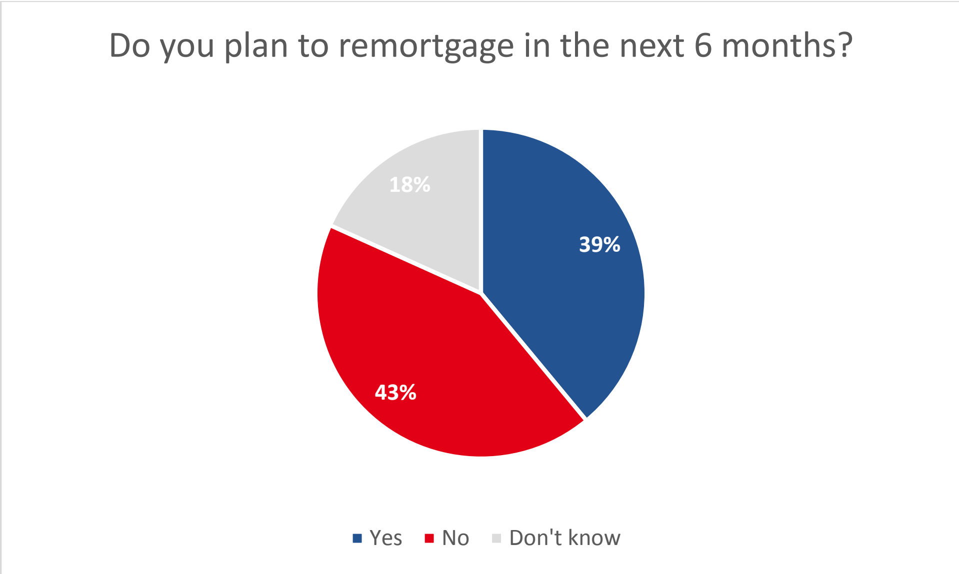

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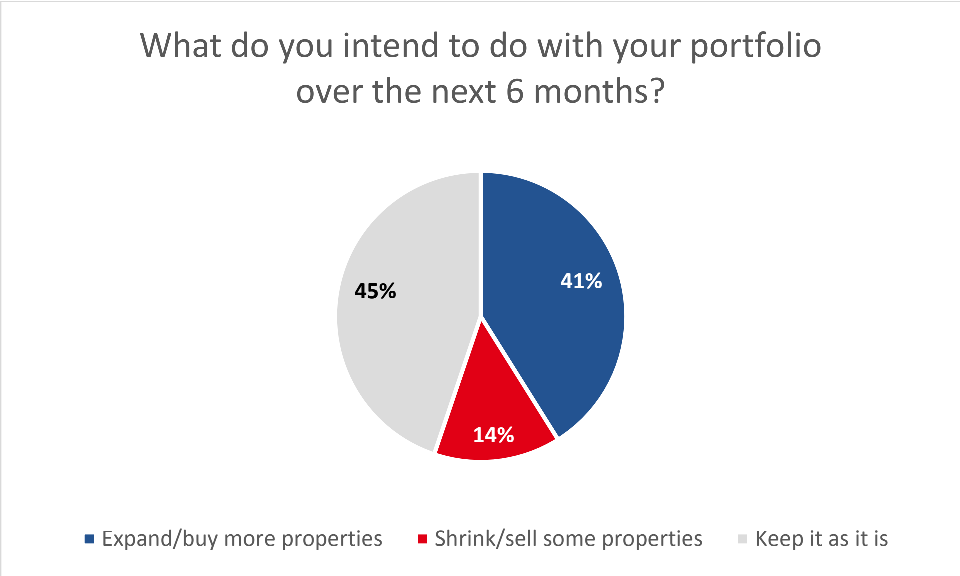

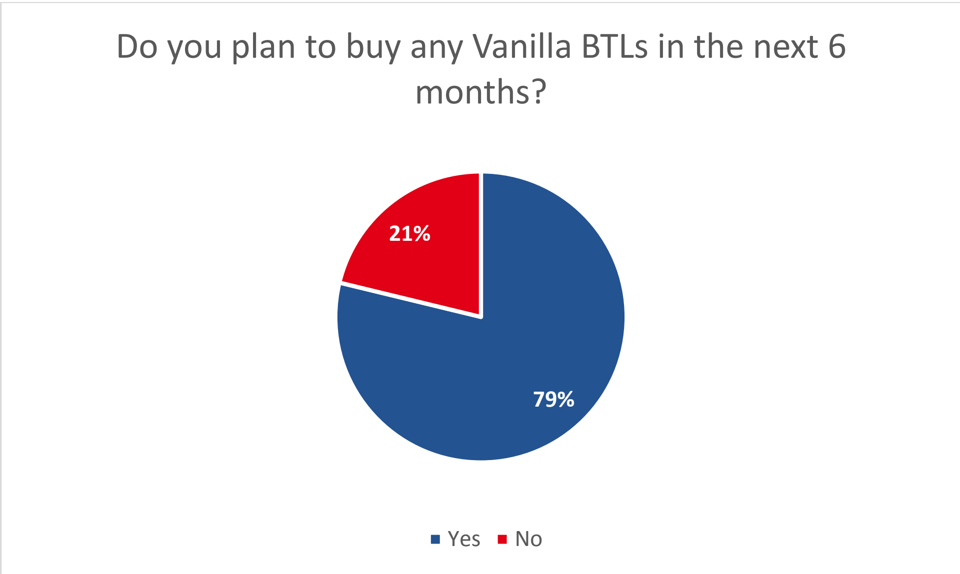

Mortgages for Business

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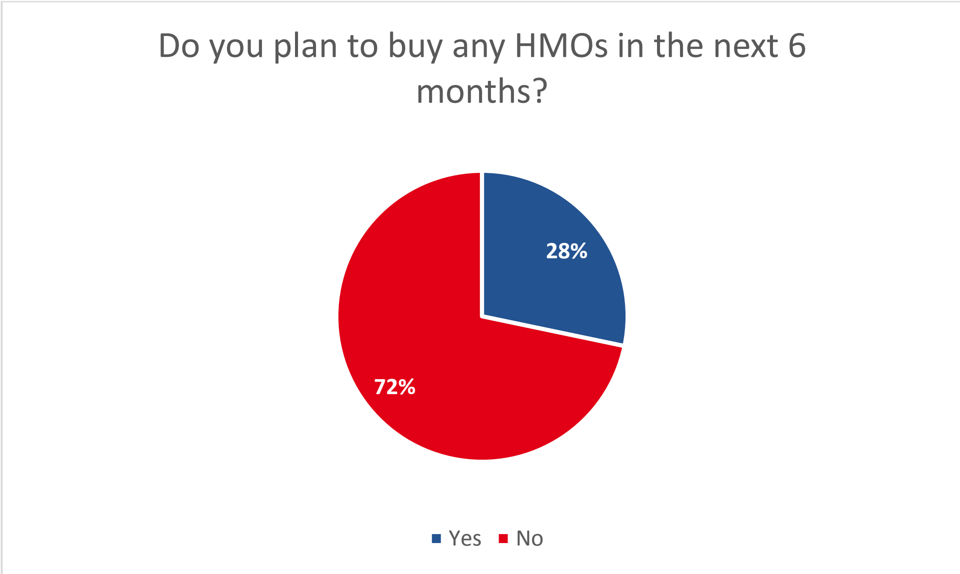

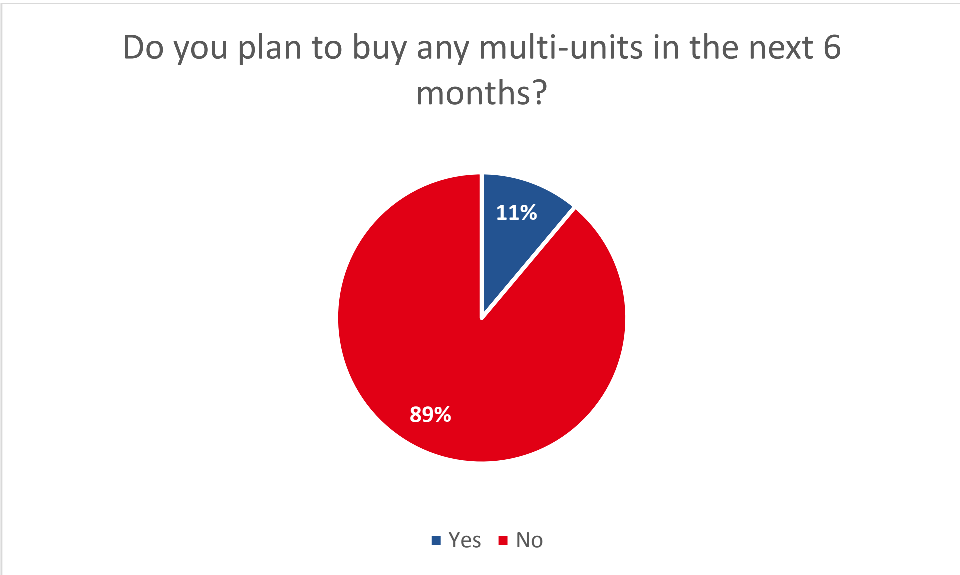

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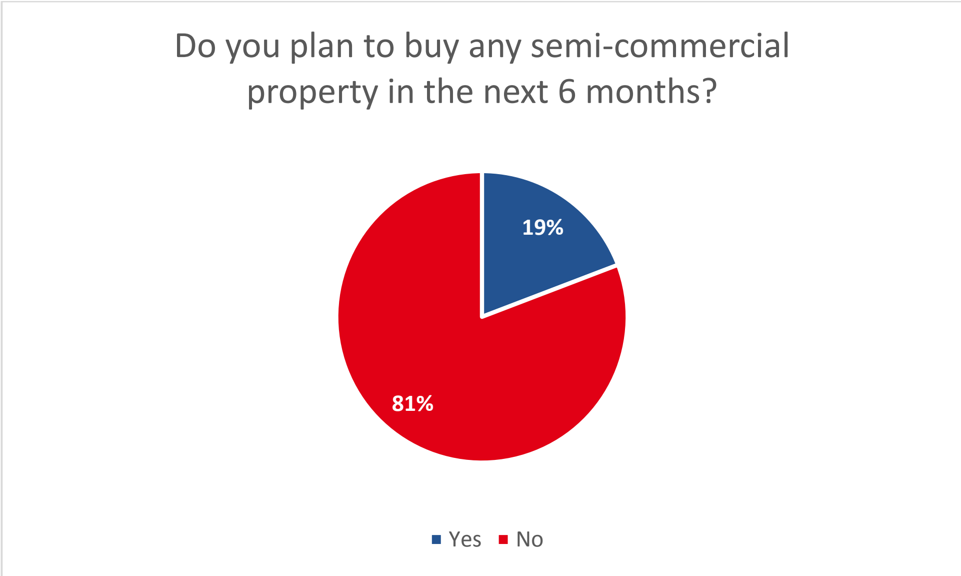

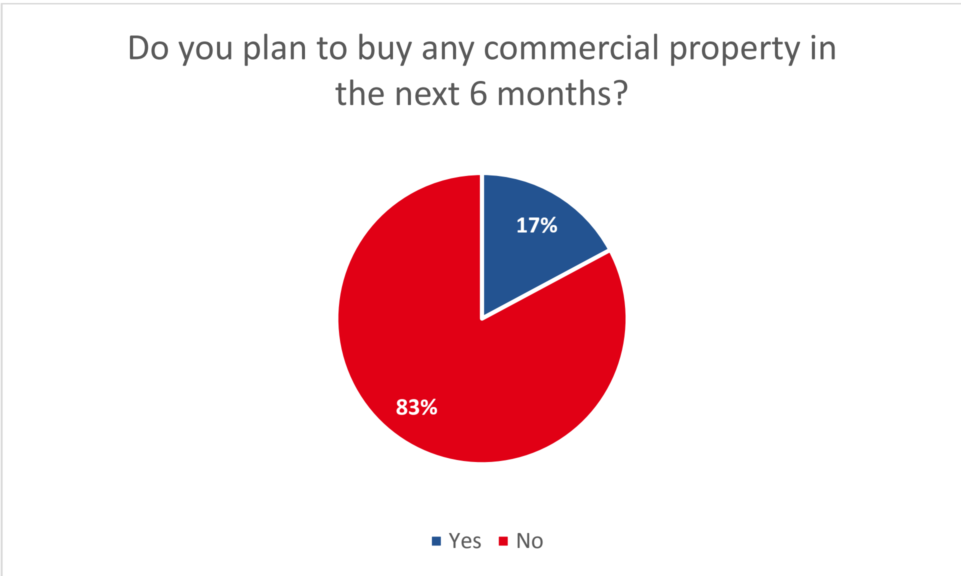

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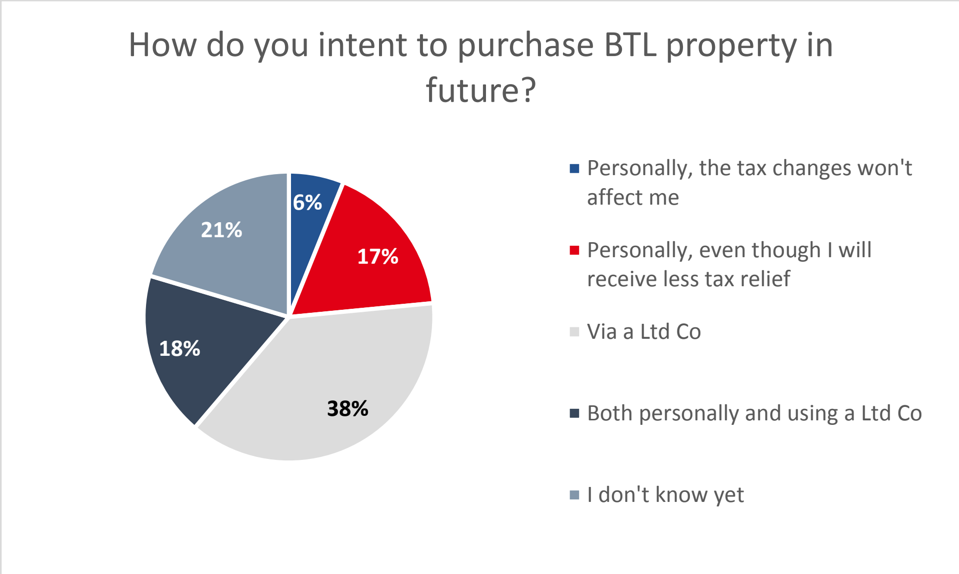

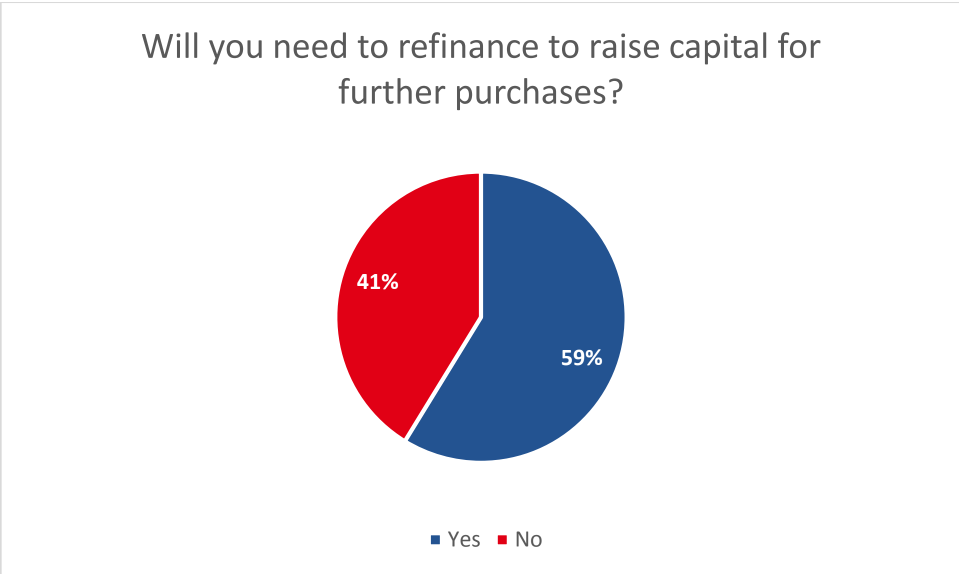

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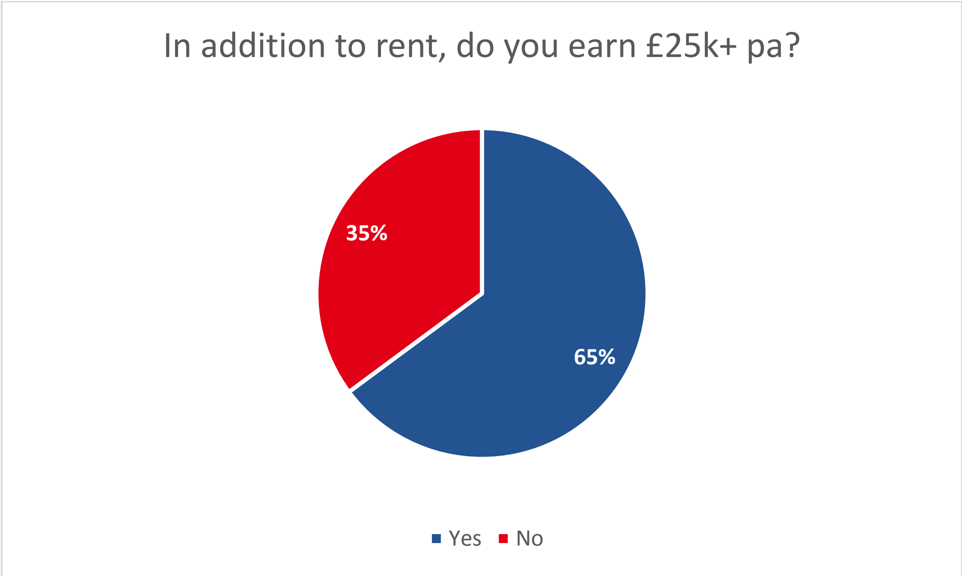

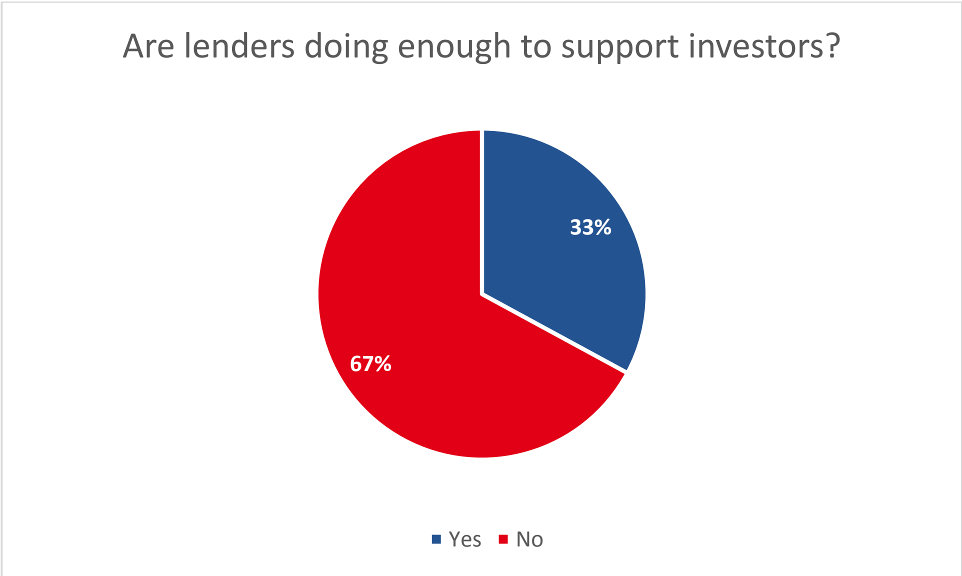

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