Property Investor Survey

Results & Analysis May 2017

The survey was launched on 05 May 2017 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 186 property investors took part.

Number of investment properties owned
The average respondent still owns between four and ten investment properties, consistent with the results of the previous survey. This group accounts for 45% of respondents, followed by 19% who owned two or three investment properties and 18% who owned between 11 and 20 investment properties. 10% of respondents owned more than 20 investment properties while just 8% had a single investment property.

Types of property owned
Vanilla buy to let (BTL) investments remain most popular, with 89% of respondents owning at least one such property. This is unsurprising due to such properties being common, in demand, and easier to manage than complex alternatives. There has, however, been a moderate shift towards complex property ownership since November's survey, with HMO, multi-unit, semi-commercial and commercial properties owned by 27%, 25%, 13% and 13% of respondents respectively, compared to 21%, 11% 10% and 10% in November. This is mirrored by an increase in the proportion of respondents who own more than one property type, with 40% of respondents owning more than one type of investment property, up from 35% in November.

Distance from home
54% of respondents have invested primarily in properties within 10 miles of their own homes, down slightly from 56% in November. Meanwhile, a further 19% of respondents have most of their properties between 11 and 25 miles from home, up from 14% in November, and landlords investing chiefly between 26 and 50 miles from home have seen an increase from 6% to 8% of respondents. Nearby properties have historically been popular with investors, as they allow the landlord to apply their local knowledge during the purchase and make it easier for the landlord to manage the property thereafter.

These figures suggest that, while landlords continue to place value in these factors, they are beginning to look further afield, likely in search of greater yields. This allows the landlord to offset the effects of recent and ongoing changes to affordability calculations and finance cost tax relief. Appetite for long-distance investment remains low among those with more than 20 investment properties, with just one such investor owning most of their properties more than 100 miles away. This compares to 12% of investors with smaller portfolios. Semi-commercial property investors remain highly likely (71%) to invest primarily within 10 miles of their own homes, while 20% of HMO owners owned most of their properties at distances of over 100 miles.

Limited company ownership
Migration to limited company structures continues in earnest, with 42% of respondents now owning at least one property via a limited company, up from 32% in November. With the Q1 edition of the Limited Company Buy to Let Index revealing that 77% of BTL purchase applications are now made in limited company names it is no surprise that this figure has

increased so strongly, and we expect to see even more landlords using these structures in future surveys.

As in November, landlords who chose to invest solely in vanilla BTL were markedly less likely to invest via a limited company, at 29% of such respondents - barely up from 28% in the previous survey. The increase in incorporated landlords is therefore led by investors who own other, complex property types, with limited company ownership rising from 39% of such landlords in November to 57% in May.

Borrowing

Borrowing trends have not changed meaningfully, although there has been some migration towards the extremes from the modal 50-74% LTV group. This category has declined to 45% of respondents, down from 53% in November. As before, the next most common answer was the 25-49% LTV category, up to 30% of respondents from 25% in November. 4% of respondents had no borrowing, 11% had borrowing of between 1-24% of their portfolio value, 10% had borrowing of 75% or more and a single respondent had borrowing totalling 100% or more of his or her portfolio value.

It is unsurprising to note that half of those landlords with no borrowing against their portfolios owned a single investment property, as these investors are likely to include those who use buy to let as a supplemental rather than primary income stream, and as such are likely to have made cash purchases or else used repayment mortgages to achieve unencumbered ownership.

Examining the results of past surveys reveals that there has been a gradual reduction in high LTV lending over the course of the past five years. The proportion of landlords who have borrowed more than 75% of the value of their portfolios has reduced, from over 25% in February 2012 to just 10% in May 2017. An investor's average LTV naturally falls over time, even with interest only borrowing, due to rising property prices. Combined with tightened affordability testing, we expect to see this high-LTV category shrink further over time.

Mortgage type preferences

Landlords continue to express a preference for five-year fixed rates, with 42% of respondents preferring these deals for any hypothetical future mortgage requirements. This compares to 34% of respondents in November and 21% in May 2016. With extremely low interest rates and rising inflation, it is no surprise that we are seeing more and more landlords looking to lock in their mortgage payments while rates remain low.

Two-year fixed rates have overtaken variable rates to become the second most popular choice, preferred by 18% of respondents, up from 15% in November. Meanwhile, variable rates and three and ten-year fixes have lost popularity, chosen this time by just 14%, 5% and 6% of respondents respectively.

Over the past three surveys we can see a clear shift in landlord preferences, with three-year fixed rates being all but abandoned in favour of five-year fixes. The relative popularity of five-year fixed rates has doubled in the course of the past year, with three-year fixes falling to less than one third of their former popularity across the same period.

Plans to remortgage

There has been a slight shift in landlords' plans to remortgage since November, with 47% intending to do so within six months' time. This is up from 44% in November, although again this was strongly dependent upon a given landlord's portfolio size. 55% of landlords with four or more properties planned to remortgage within this timescale compared to just 33% of landlords with three or less properties.

Recent and forthcoming changes
A majority (61%) of respondents have existing properties that are affected by reductions in tax relief on buy to let mortgage interest (and other finance costs), while 30% of respondents do not. These figures both match well with landlords' expectations during our November survey, at 60% and 29% respectively. Worryingly, however, this leaves 8% of respondents still unclear on whether they are affected, with three respondents completely unaware of the changes. These investors are well advised to seek clarification immediately via gov.uk or a professional tax adviser.

Most landlords have received professional tax advice regarding the changes, split between 28% of respondents who already had a professional tax adviser and a further 34% who were prompted to seek advice after the changes were announced. This leaves 38% of landlords who did not choose to obtain professional tax advice.

Just over two thirds of respondents (67%) indicate a good understanding of how new PRA guidelines, in force from January, have affected personal borrowing potential, up from 60% in November. This leaves 23% of landlords having partial understanding of the implications, 7% unclear on how they may be affected, and 3% still unaware of the changes. These are all down on November's results, in which 25% of respondents expressed partial understanding, 9% did not understand and 6% were unaware of the changes.

From October the PRA will also require lenders to follow a specialist underwriting process for portfolio landlords, and most respondents believe this will make it harder for them to obtain finance, with 65% of respondents expressing this belief. This belief was, understandably, most commonly expressed by landlords who own four or more properties and may therefore meet the PRA's definition of a portfolio landlord. Among such investors, 78% expect it to become more difficult to obtain finance, with the belief also held by some smaller investors who plan to expand their portfolios.

Just 20% of respondents expect an increase in interest rates, and this may explain why so few intend to take steps to avoid the process – 9% of landlords intend to avoid specialist underwriting by refinancing ahead of the deadline, while another 9% intend to avoid the process by limiting how many mortgaged properties they own.

Portfolio expansion intentions
The proportion of landlords seeking to expand their portfolios in the next six months has increased further since our last survey, rising to 48% from 45% in November and 41% in May 2016. Meanwhile, the proportion seeking to reduce their portfolios has remained flat at 9%, and this remains concentrated among landlords with larger portfolios. 17% of landlords with more than twenty properties are seeking to reduce the size of their portfolio within six months – down substantially from 31% in November, but still considerably higher than the average across all property investors.

Unlike in November, portfolio expansion is now more popular among single-property landlords than those with two or three, although the difference is not great – 56% of one-property landlords wish to expand soon compared to 53% of those with two to three properties. This compares with figures from November of 48% and 55% respectively.

Comparing the results of past surveys shows that the 2015 Summer Budget, which included the announcement of changes to finance cost tax relief, had an immediate effect on landlord investment intentions. The proportion of landlords seeking to buy more properties fell by almost 20% between April and November 2015, with the change distributed evenly between landlords choosing to maintain their current portfolio and those seeking to sell some properties. With the stamp duty surcharge implemented the following April, it is unsurprising that the May 2016 survey saw a further slump in landlords seeking to invest further, but this has been recovering in the surveys since. The proportion of landlords seeking to sell some of their properties decreased in each of the two surveys in 2016, stabilising at 9%, just 1% above the result in April 2015, ahead of the Summer Budget.

While landlords continue to favour the limited company route for future purchases, with 50% of respondents indicating that this will be how they make all future purchases, this is down slightly from 54% in November. We have instead seen an increase in investors who favour a balanced approach, with 22% of landlords choosing to use both their personal names and limited company structures when making future purchases, up from 16% in November. There has also been a reduction in the number of investors preferring to continue buying in their own names, down to 9% from 15% in November, while 19% of respondents remain undecided on how to proceed.

Reasons for portfolio reductions

Among landlords seeking to reduce the size of their portfolios, the most common reason given was a reduction in profitability caused by reductions in finance cost tax relief, making up 41% of responses. A further 24% of responses indicated a desire to raise funds for other purposes, while the remainder were evenly split between a perceived difficulty in refinancing under new affordability criteria and other, unspecified reasons.

Purchasing different types of property

Landlords are interested in the same types of properties as they were in November, with similar levels of interest in each type. 77% of investors (among those wishing to buy more properties) would consider a vanilla purchase, while 27% would consider buying a HMO. These figures lie between the results of our last two surveys (76% and 25% in November, 79% and 28% in May 2016). Interest in purchasing other property types remains in the teens, with MUFBs the least likely to be considered at 13%.

As in November, landlords considering a complex purchase are likely to be open to multiple complex property types. There is particularly strong (>50%) overlap between prospective commercial and semi-commercial investors, likely because of the shared commercial element in each property type.

Refinancing to raise capital

66% of respondents who wished to expand their portfolios would need to refinance existing properties to raise the necessary capital, up from 57% in November and 59% in May 2016.

The difference between investors with different portfolio sizes was less pronounced in the previous survey, but still present – 62% of landlords with eleven or more properties would need to refinance to raise capital for further purchases, up from 40% in November. This compares with 67% of landlords with ten or less properties, also up from November when the figure was just 61%.

In November only a single respondent indicated both that he/she would need to refinance existing properties to fund future investments and also that he/she had existing borrowing totalling at least 75% of his/her portfolio value,. This time, however, 5% of those seeking to refinance for further purchases had at least this level of borrowing. 51% had borrowing totalling 50% or more of their portfolio values, up slightly from 49% in November.

Investors' income
The proportion of respondents earning at least £25k pa in addition to their rental income was 60% this time, a figure that has remained fairly stable for the past five years. As might be expected, the figure remains skewed, including proportionally more landlords who have smaller portfolios and therefore have more time to devote to their other income streams; only 47% of landlords possessing at least 11 properties and 44% of landlords with more than 20 properties also received an income of £25k pa outside of their rental income.

Lenders helping investors
The proportion of respondents who feel lenders should do more to help investors has edged up further, reaching 70% from 69% in November and 67% in May 2016. Fully half of these respondents (i.e. 35% of those who took the survey) believe that they should go about this by relaxing lending criteria.

This indicates that landlords remain dissatisfied with lenders' criteria, but no more so than in November, before stricter guidelines from the PRA came into force. In fact, there was very little change in the balance of responses at all, with each suggestion on how lenders could do more being selected at most 1% more or less often than in November.
We asked those landlords who desired criteria changes to give detailed comments on what kind of changes they would like to see, and received responses from 79% of those asked. Many responses protested at the tightening of affordability testing mandated by the PRA, both in terms of the RTI and stress test changes brought in from January 1st and the specialist underwriting standards that lenders will have to use for portfolio landlords, due to be implemented by the end of September. With lenders' hands tied by PRA guidance, however, the prospect of a reversal on these changes is doubtful at best. Other, more actionable suggestions by landlords included:

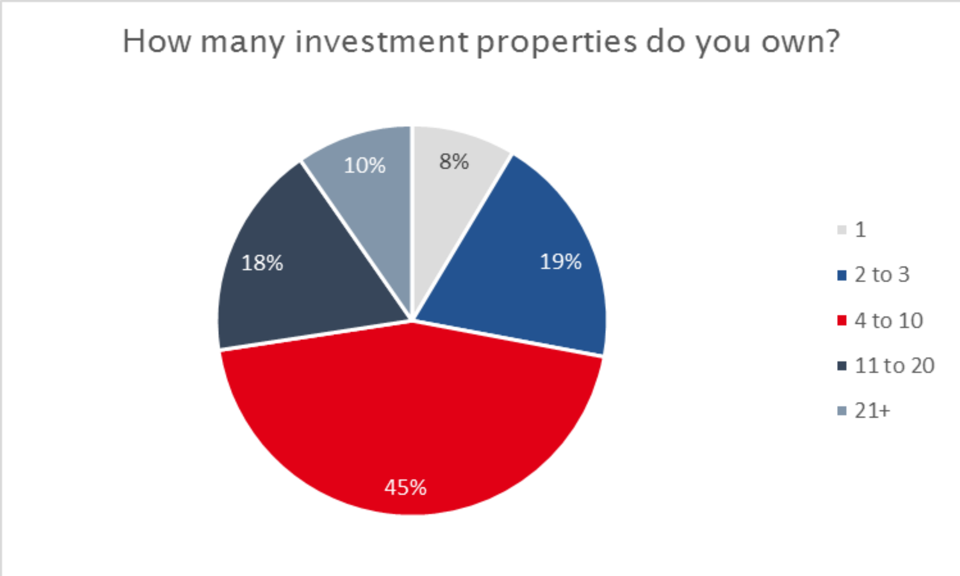
- **A flexible, holistic approach**
  Several respondents drew attention to a perceived lack of options for landlords with unusual circumstances, who could otherwise comfortably afford a mortgage. Whether by using topslicing to make up for low yields or examining the strength of a landlord's experience and whole portfolio to address concerns about potential risk factors, many landlords are asking for more lenders to consider the whole picture, rather than accept or decline an application based on strict criteria.

- **Increased limits on the number of permissible mortgages**
  Other investors are calling for more lending to landlords with larger portfolios. These landlords feel that their existing borrowing is unfairly limiting their options for future investment, a subject that is increasingly being talked about ahead of the coming specialist underwriting processes for portfolio landlords.

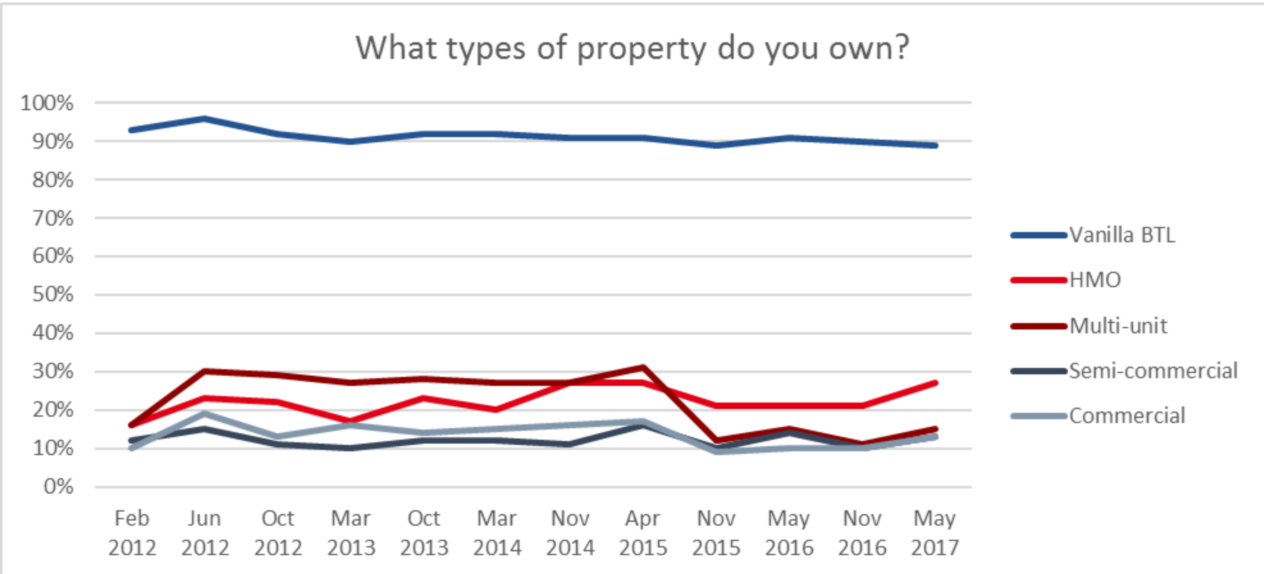
With a number of lenders having recently increased their upper age limits, this complaint is now notably absent from landlord responses, having been a common theme in November's survey results. Only a single respondent still expressed dissatisfaction with lenders' treatment of older borrowers.

The full survey results are detailed below. For more information, please contact: Jenny Barrett, Marketing and Research Director on 01732 471615.

Results

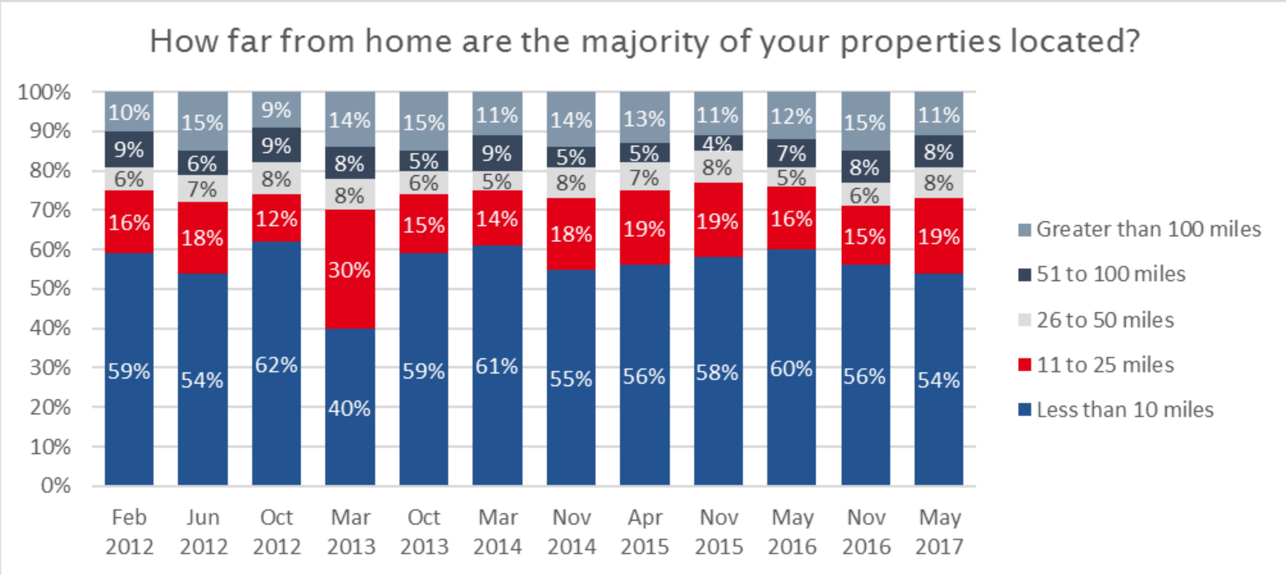


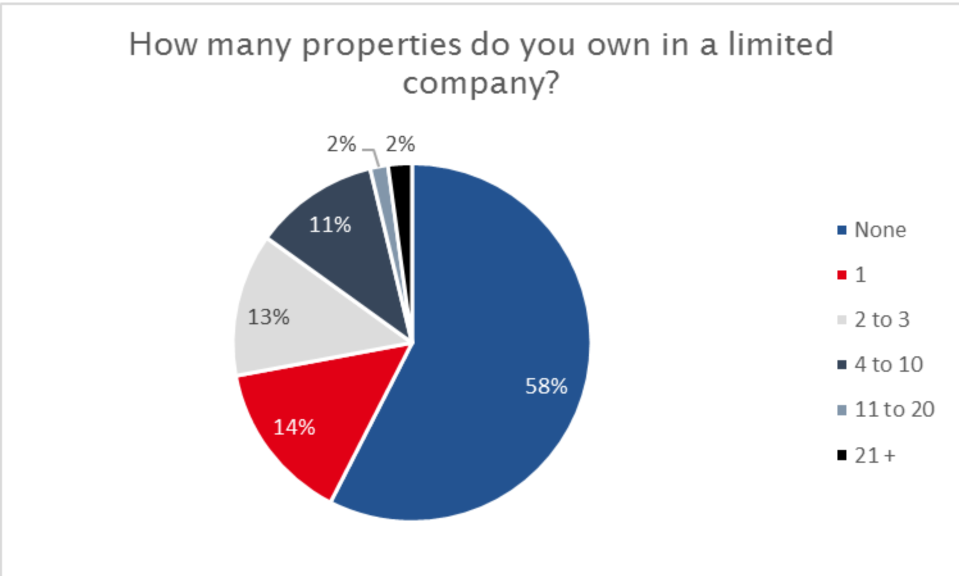
How many investment properties do you own?
10%
8%
18%
19%
45%
1
2 to 3
4 to 10
11 to 20
21+



What types of property do you own?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Feb 2012
Jun 2012
Oct 2012
Mar 2013
Oct 2013
Mar 2014
Nov 2014
Apr 2015
Nov 2015
May 2016
Nov 2016
May 2017
Vanilla BTL
HMO
Multi-unit
Semi-commercial
Commercial

Results cont/d





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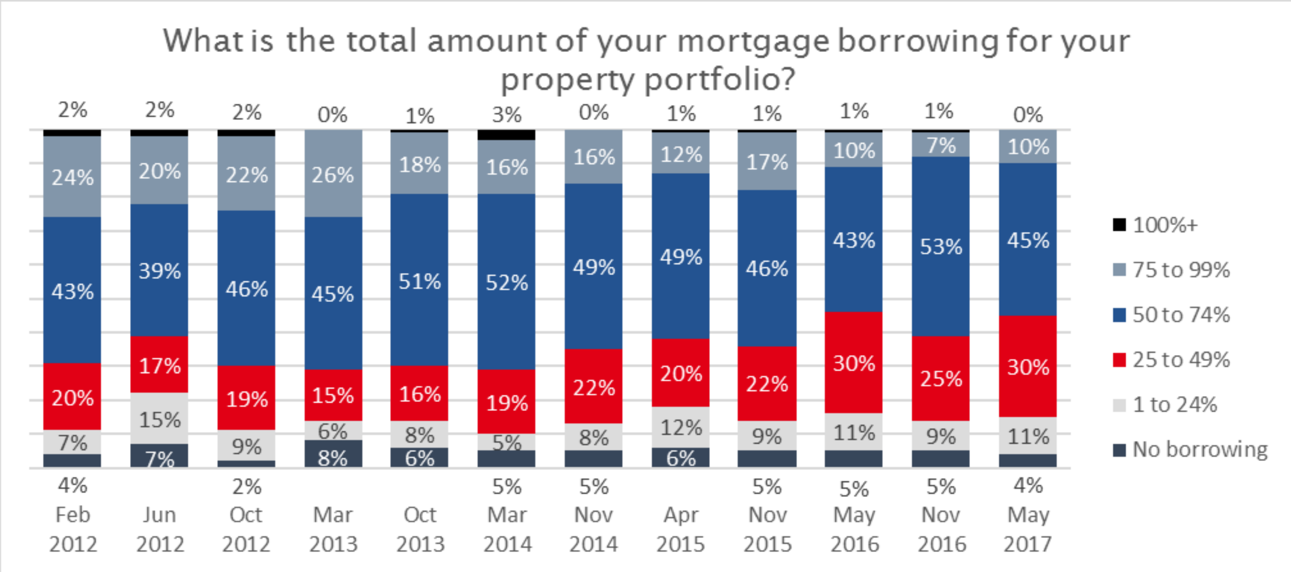

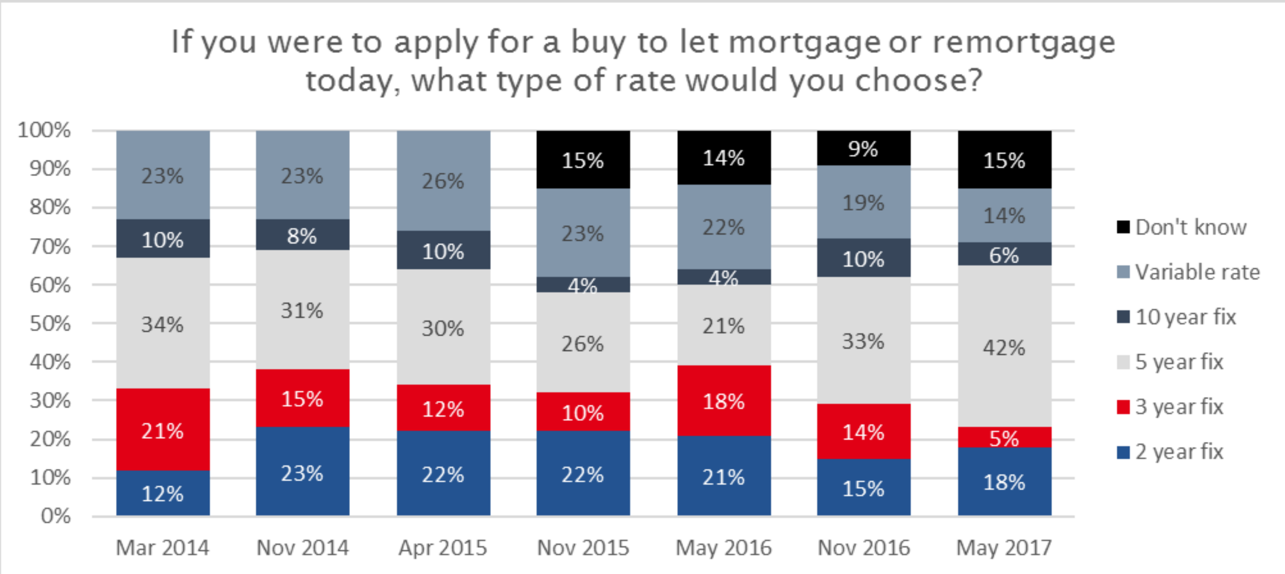

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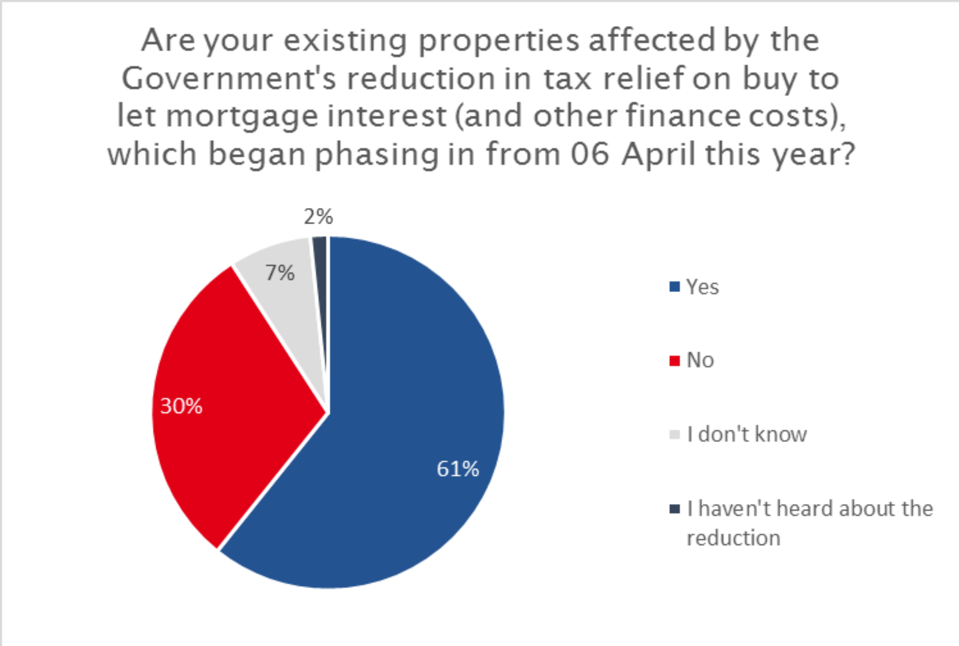

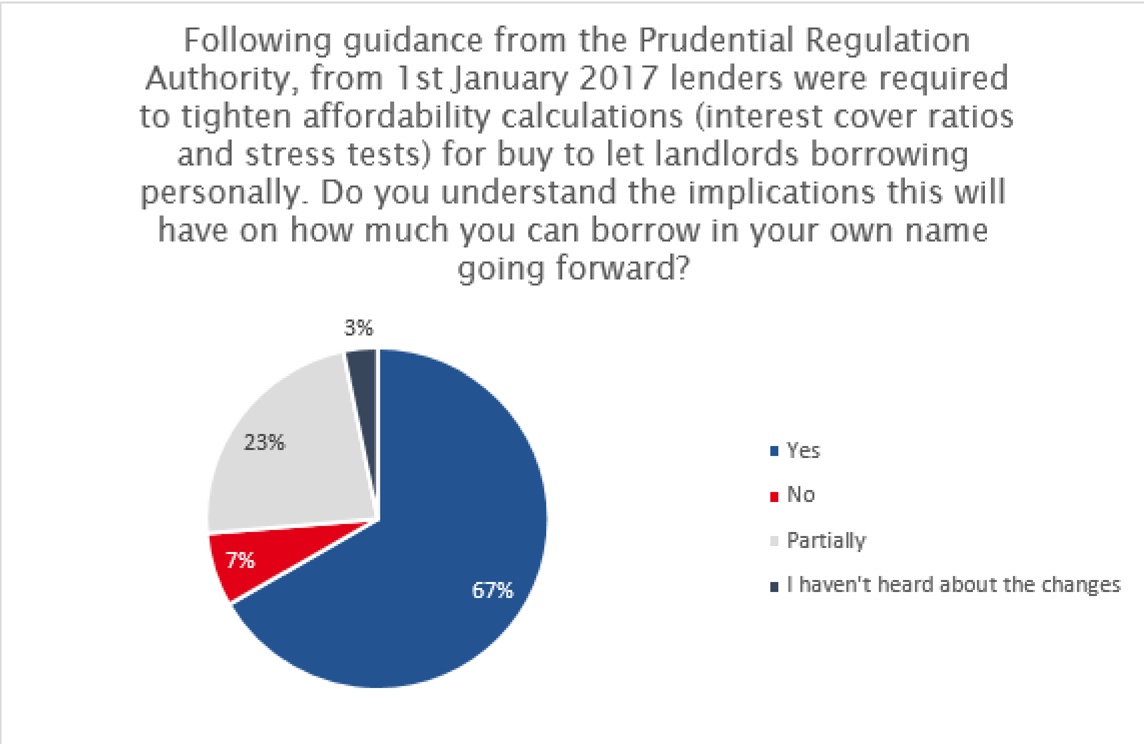

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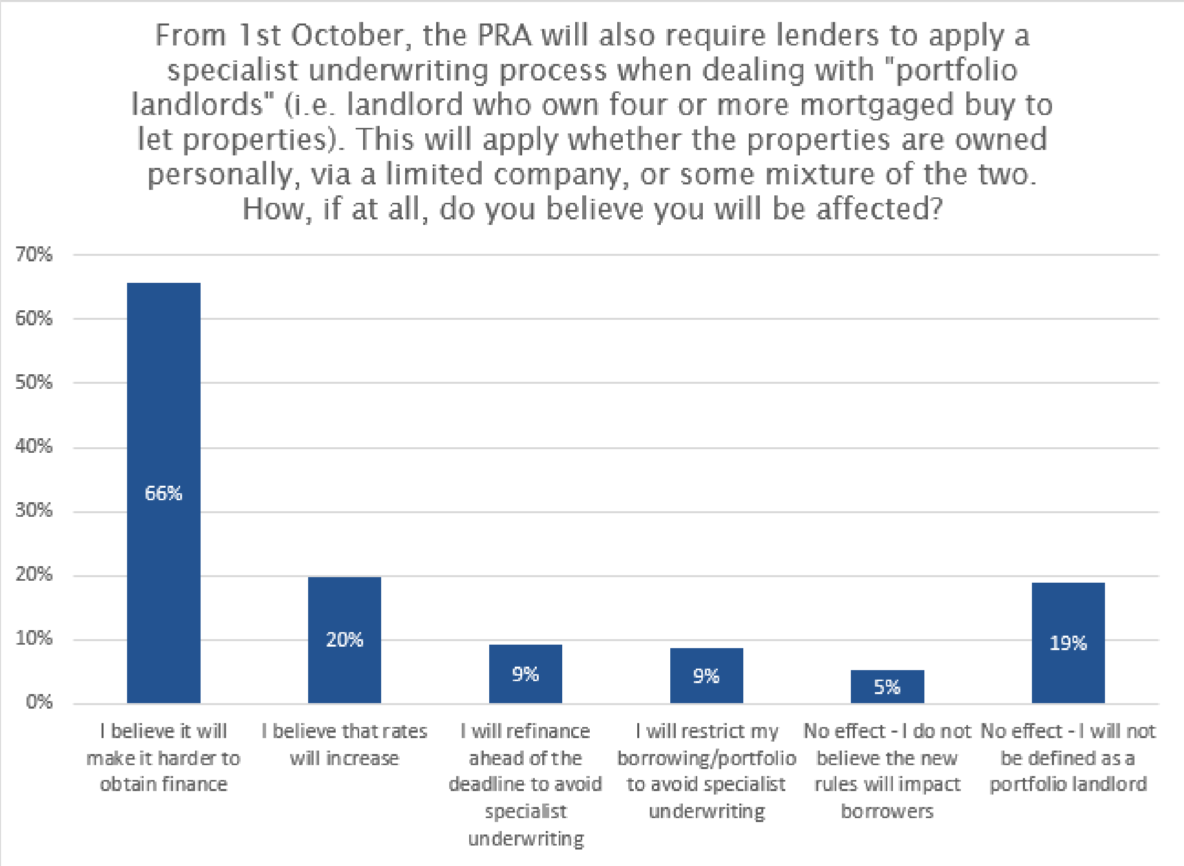

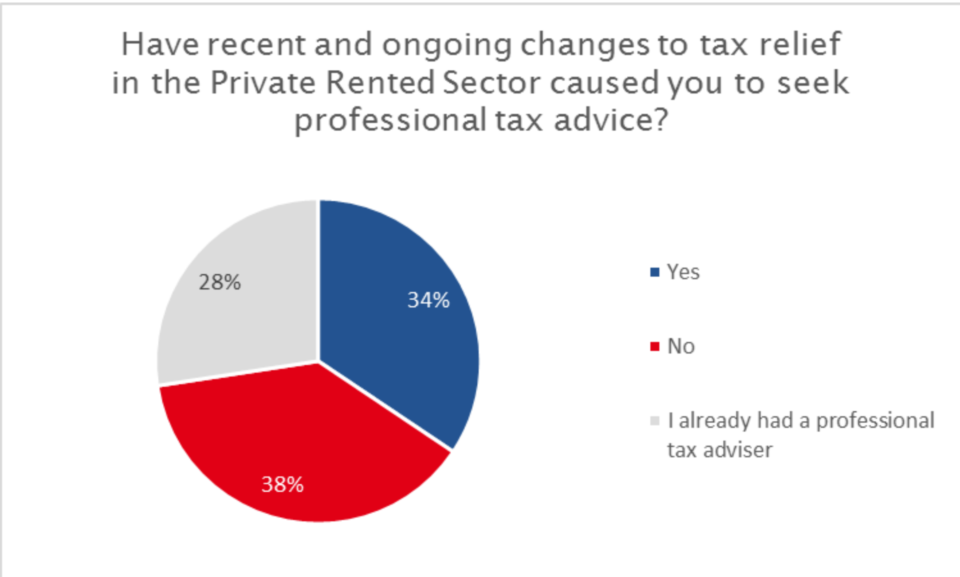

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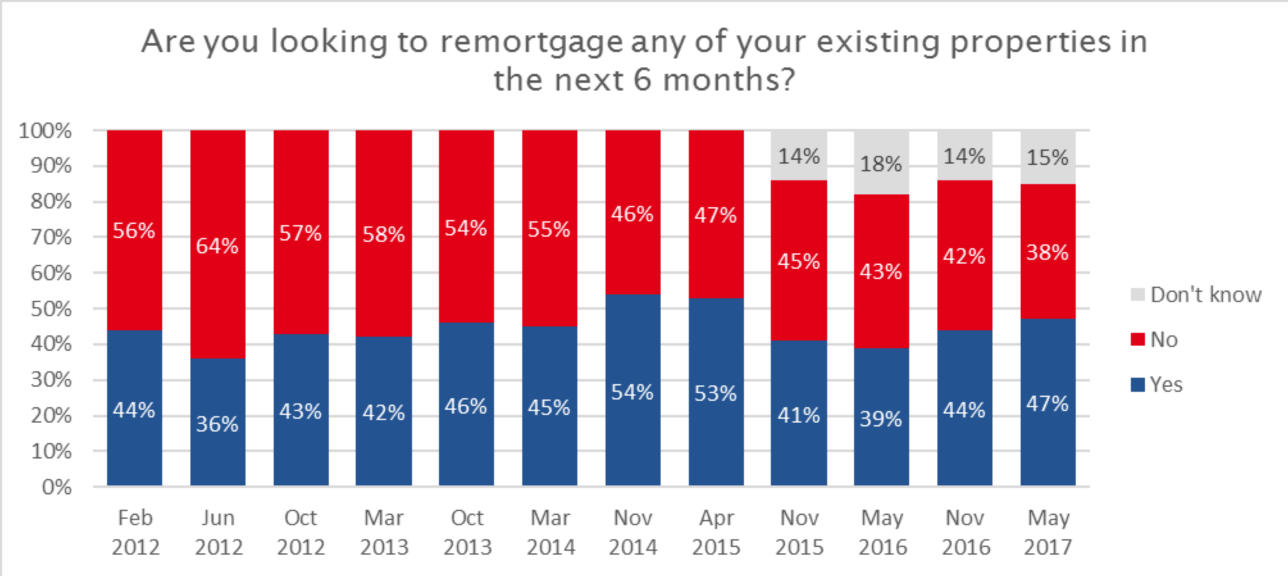

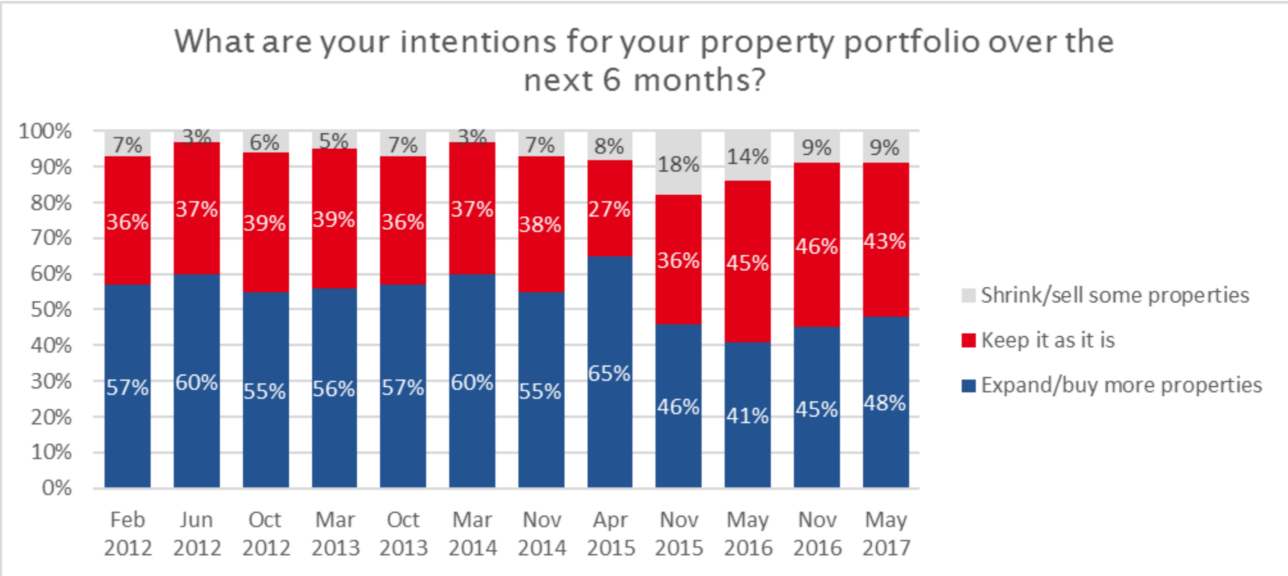

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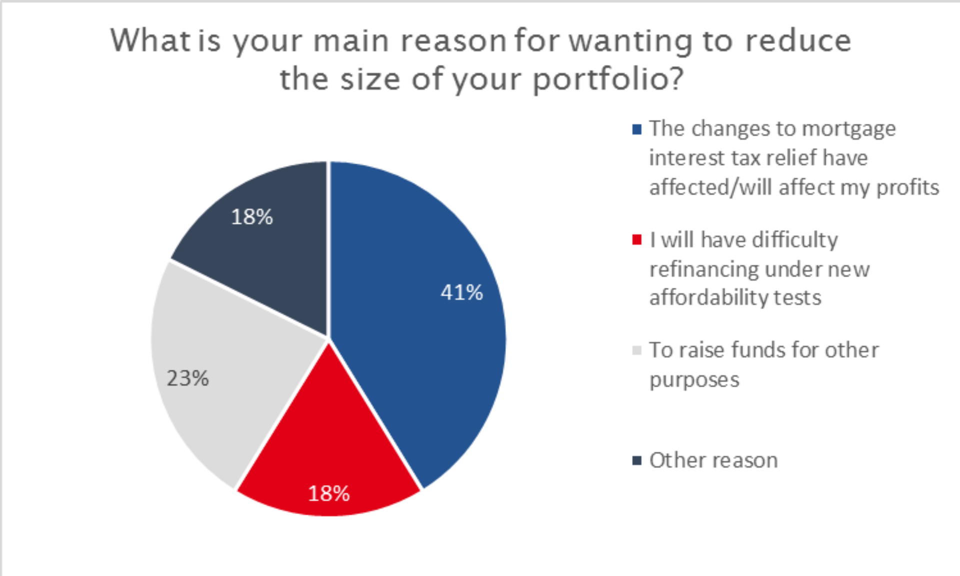
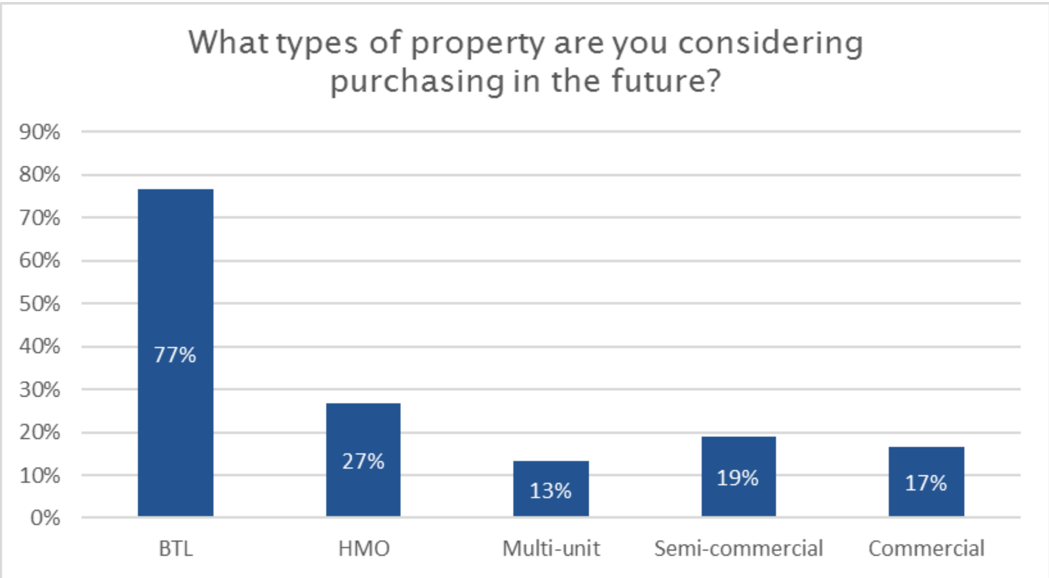
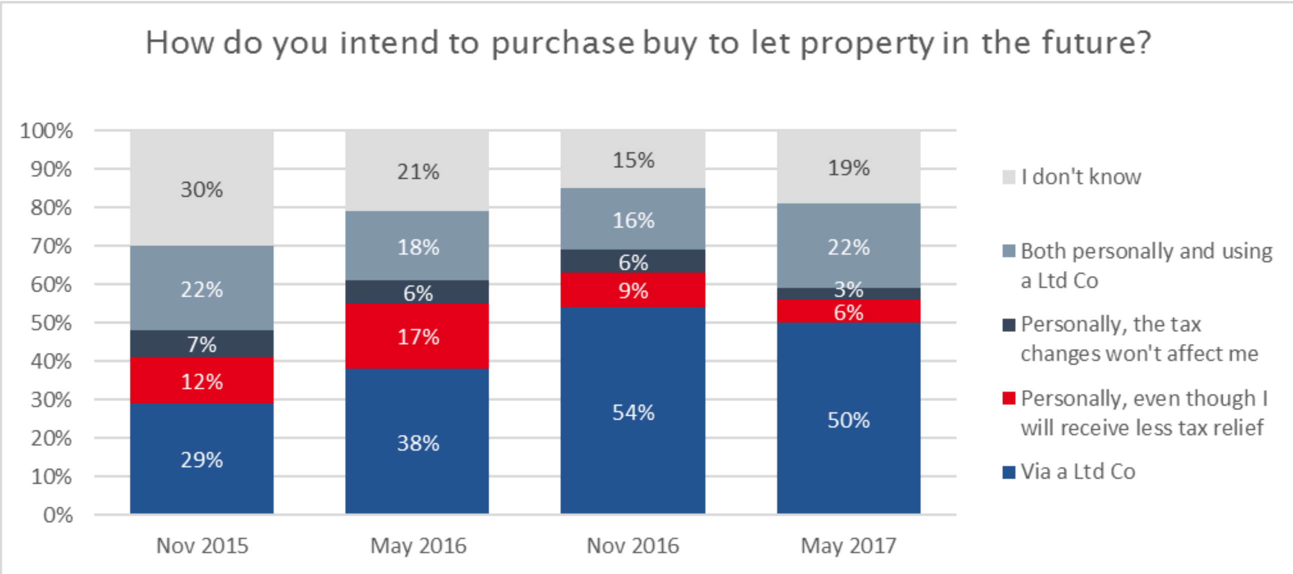
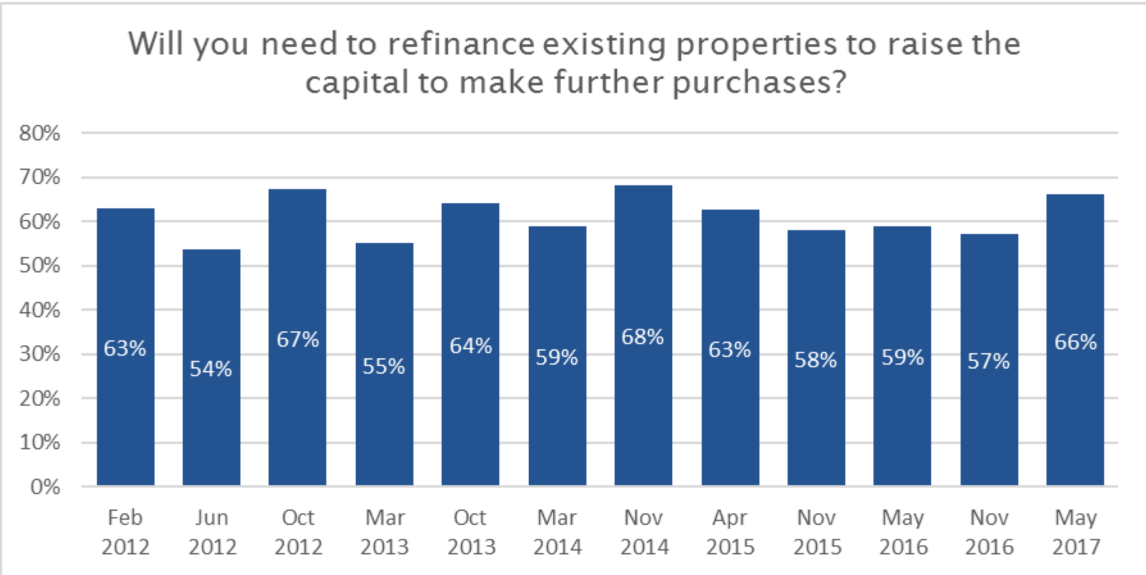


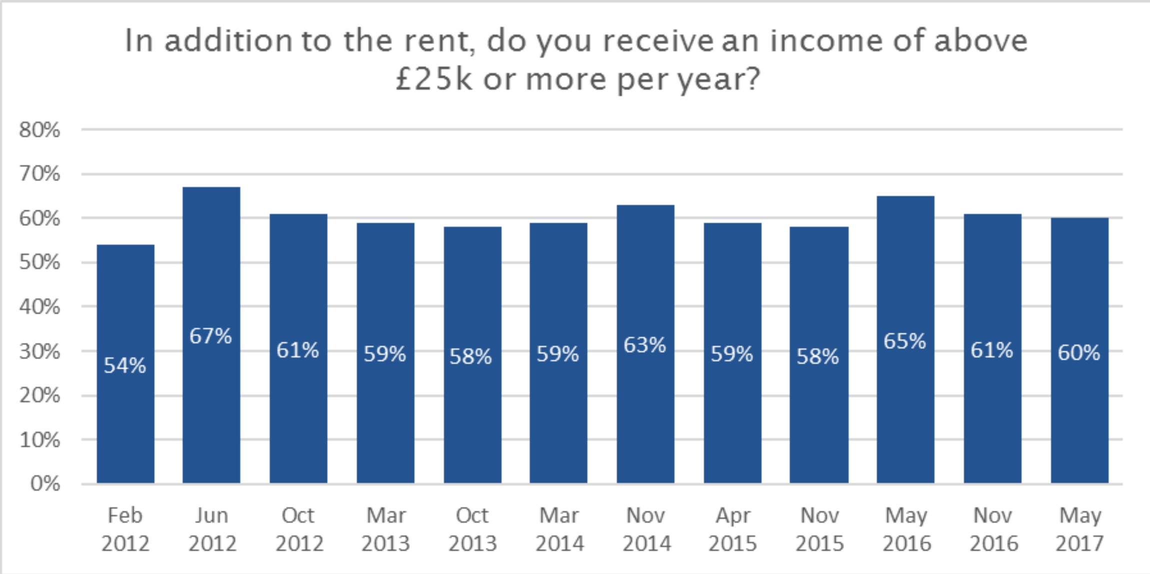


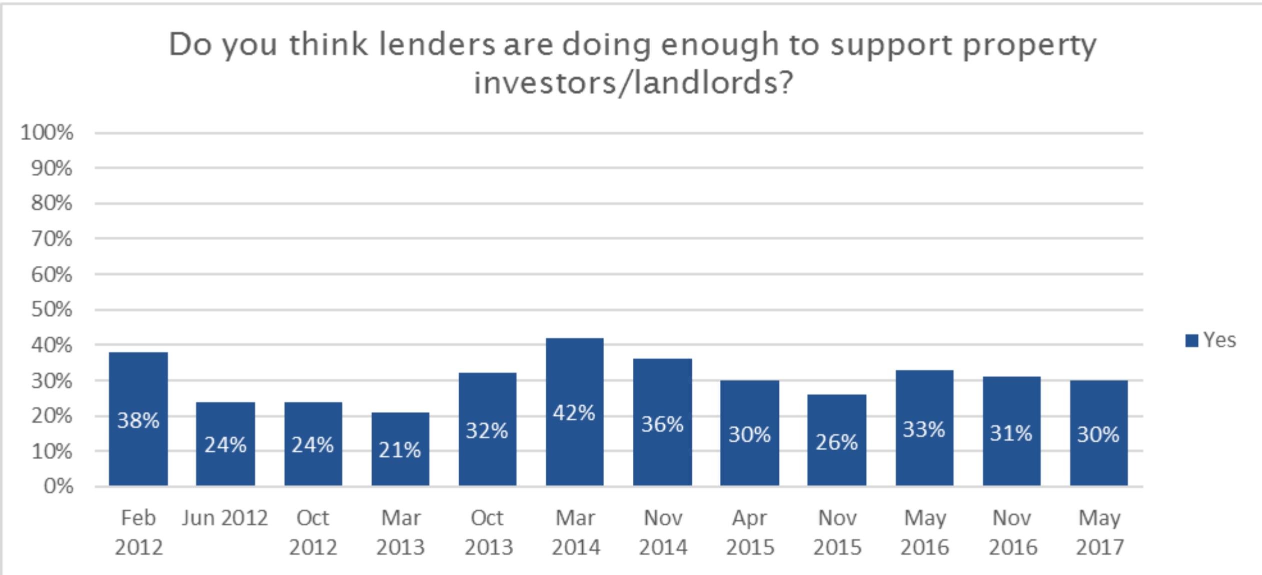
Mortgages for Business

Results cont/d






In addition to the rent, do you receive an income of above £25k or more per year?
80%
70%
60%
50%
40%
30%
20%
10%
0%
54%
67%
61%
59%
58%
59%
63%
59%
58%
65%
61%
60%
Feb 2012
Jun 2012
Oct 2012
Mar 2013
Oct 2013
Mar 2014
Nov 2014
Apr 2015
Nov 2015
May 2016
Nov 2016
May 2017


Do you think lenders are doing enough to support property investors/landlords?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
38%
24%
24%
21%
32%
42%
36%
30%
26%
33%
31%
30%
Feb 2012
Jun 2012
Oct 2012
Mar 2013
Oct 2013
Mar 2014
Nov 2014
Apr 2015
Nov 2015
May 2016
Nov 2016
May 2017
Yes

Results cont/d