

Complex Buy to Let Index Q2 2017

This quarterly industry index tracks mortgage transaction data for Vanilla Buy to Let, Houses in Multiple Occupation (HMO), Multi-unit Freehold Blocks (MUFb) and Semi-Commercial Property (SCP).

Lenders and Products				
	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Average no. products	1,120	1,238	1,167	1,220
No. of lenders*	33	35	36	36

Buy to let product availability rose across Q2, continuing the trend that began during Q1. There was an average of 1,220 products available, 53 more than in Q1, but still not quite as many as we saw during the final quarter of 2016.

Fewer and cheaper purchases by landlords

At first glance Q2 shows a slight increase in property values and loan amounts compared to Q1 2017. However, this does not tell the whole story as the Q2 results were heavily influenced by a series of high-value remortgages, particularly more expensive multi-unit properties and portfolio refinances of HMOs.

In general, remortgage activity was more prevalent than purchases which were uncommonly high in the previous quarter compared to the overriding trend of late.

Looking solely at purchases, we can see that landlords continue to opt for lower-value properties, albeit in much smaller numbers than in Q1, and that these properties bring in much greater rental yields.

Average Property Values Q2 2017				
	Vanilla	HMOs	MUFbS	SCPs
Purchases	£248,073	£210,314	£225,843	£310,000
Overall	£310,918	£307,171	£742,836	£373,333

Average Yields Q2 2017				
	Vanilla	HMOs	MUFbS	SCPs
Purchases	6.1%	10.4%	10.3%	9.8%
Overall	5.5%	8.7%	7.9%	8.7%

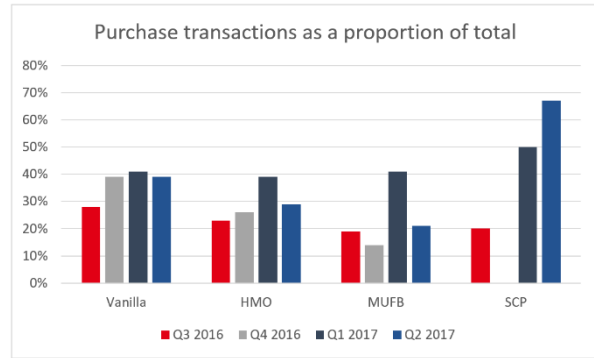
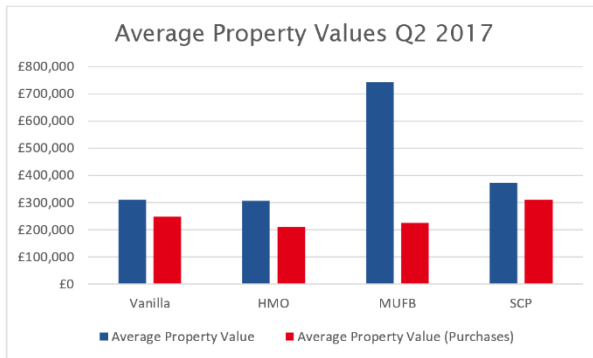
LTVs remained stable in the quarter, except for a modest (4%) drop among multi-units.

Semi-commercial yields rise to match HMOs

Gross yields on semi-commercial property rose 0.8% in Q2 making the quarter the first period since Q3 2014 when HMOs have not shown a clear lead. Indeed, HMO annual yields actually fell by 0.6% in the quarter.

Meanwhile, vanilla and multi-unit yields changed little this quarter, now at 5.5% and 7.9% respectively. This compares to 5.7% and 7.8% in Q1.

*Excludes regional and less active lenders



Vanilla BTL

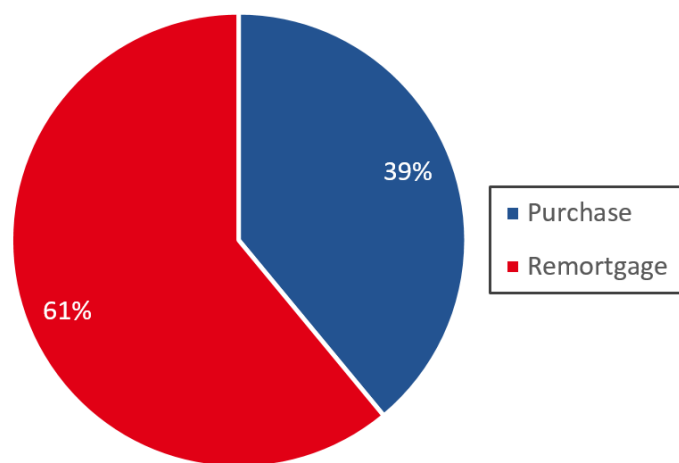
Vanilla Buy to Let				
	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Purchases	28%	39%	41%	39%
Remortgages	72%	61%	59%	61%
Average loan size	£252,964	£243,226	£196,813	£204,147
Average property value	£391,008	£413,737	£299,075	£310,918
Average loan to value	67%	67%	68%	69%
Average yield	5.6%	5.5%	5.7%	5.5%

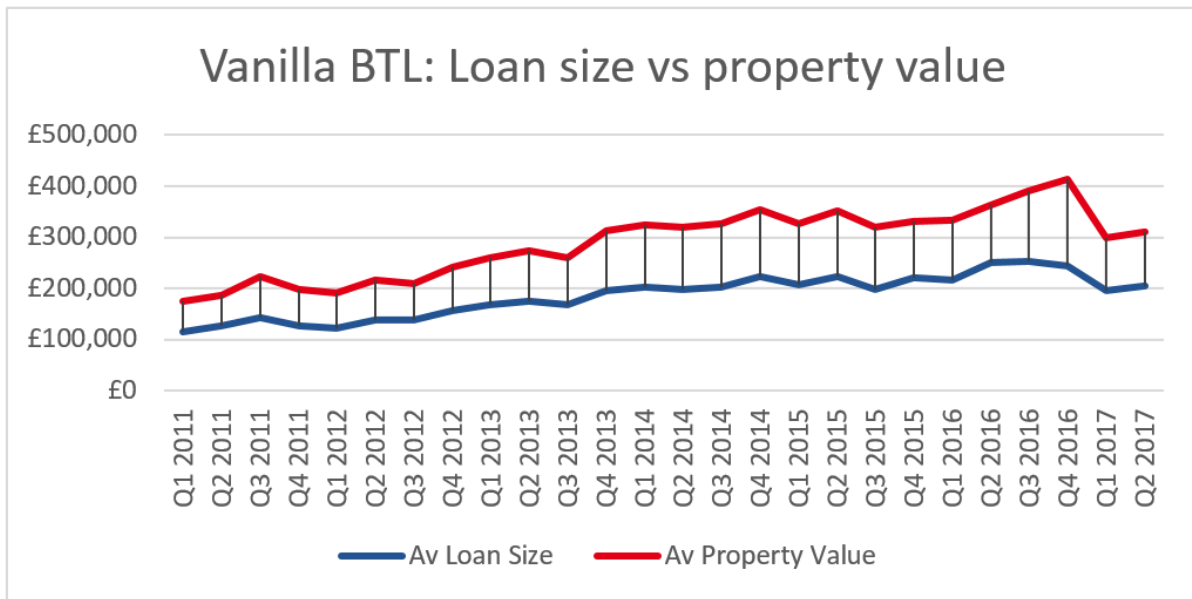
Figures for vanilla buy to let investments remain very similar to Q1, showing slight increases in average loan amounts, security values and loan to value but a small drop in average yields.

Among vanilla buy to let investments, the average requested loan in Q2 was 4% higher than in Q1, as was the average value of vanilla properties used for security. This brought the average loan amount back above £200,000, but average annual yields fell back to 5.5%, in line with figures from Q4 2016.

With no single metric showing substantial change since Q1, vanilla properties are living up to their reputation as the most stable buy to let investments.

Vanilla BTL Mortgages





HMOs

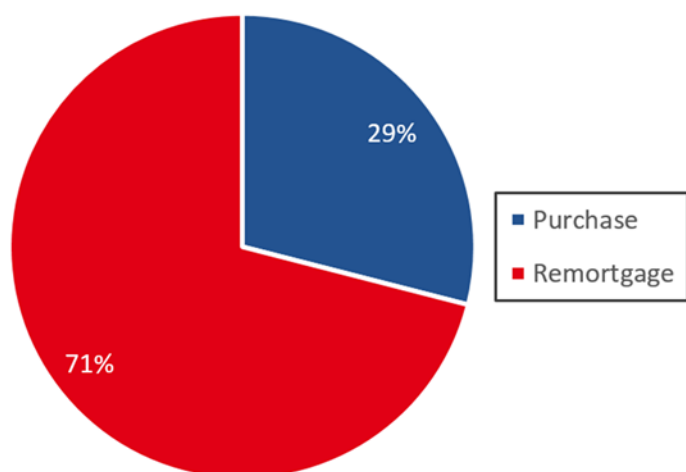
HMO					
	Q3 2014	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Purchases	23%	23%	26%	39%	29%
Remortgages	77%	77%	74%	61%	71%
Average loan size	£222,894	£261,099	£242,744	£224,360	£241,286
Average property value	£313,360	£365,685	£355,087	£331,711	£307,171
Average loan to value	71%	72%	70%	70%	70%
Average yield	8.9%	9.7%	10.4%	9.3%	8.7%

Q2 saw HMO investments swing back towards remortgages, which made up 71% of all HMO mortgages in the quarter.

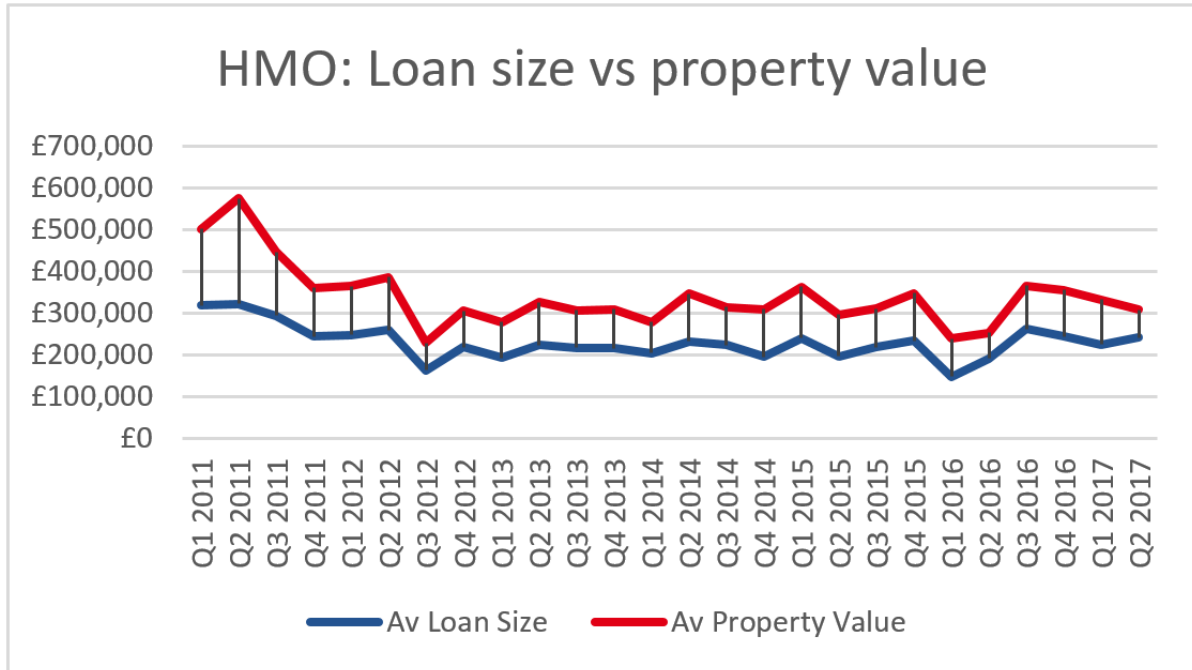
The average value of HMO mortgages increased in Q2, recovering to similar levels as were recorded in Q4 2016, but the average property value fell a further 7%. This was because of a number of portfolio mortgages for lower-value HMO properties during the quarter. Because of the way these loans are treated, they bring the average loan size up much higher than might be expected from the average property value and loan to value.

For example, if a client borrows £750k via a portfolio mortgage secured against five properties worth £200k each, the average loan size is £750k. This is because the portfolio mortgage is a single loan. The combined value of the securities is £1m, so the LTV is £750,000 divided by £1,000,000 which is 75%. However, the average property value is still just £200k. In this way, portfolio mortgages can inflate the average loan size even when all the properties are of low value.

HMO BTL Mortgages



Despite the lower average property values, the average annual yield for HMOs was the lowest in the history of the index, at just 8.7%. Since the beginning of 2011, HMO yields have fallen below 9.0% just once before, dropping to 8.9% in Q3 2014.



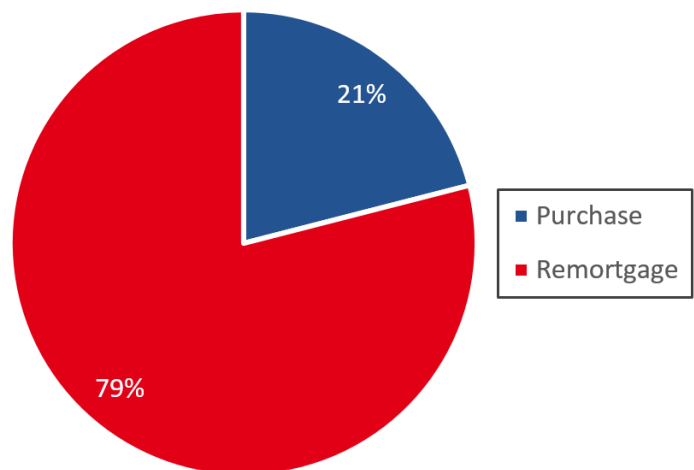
Multi-Unit Freehold Blocks

MUFB				
	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Purchases	19%	14%	41%	21%
Remortgages	81%	86%	59%	79%
Average loan size	£254,093	£411,768	£322,364	£441,065
Average property value	£458,267	£665,222	£492,707	£742,836
Average loan to value	67%	68%	71%	67%
Average yield	8.7%	7.3%	7.8%	7.9%

As with vanilla properties and HMOs, the balance of purchases and remortgages with MUFBs returned to a more typical mix after elevated purchase activity in Q1.

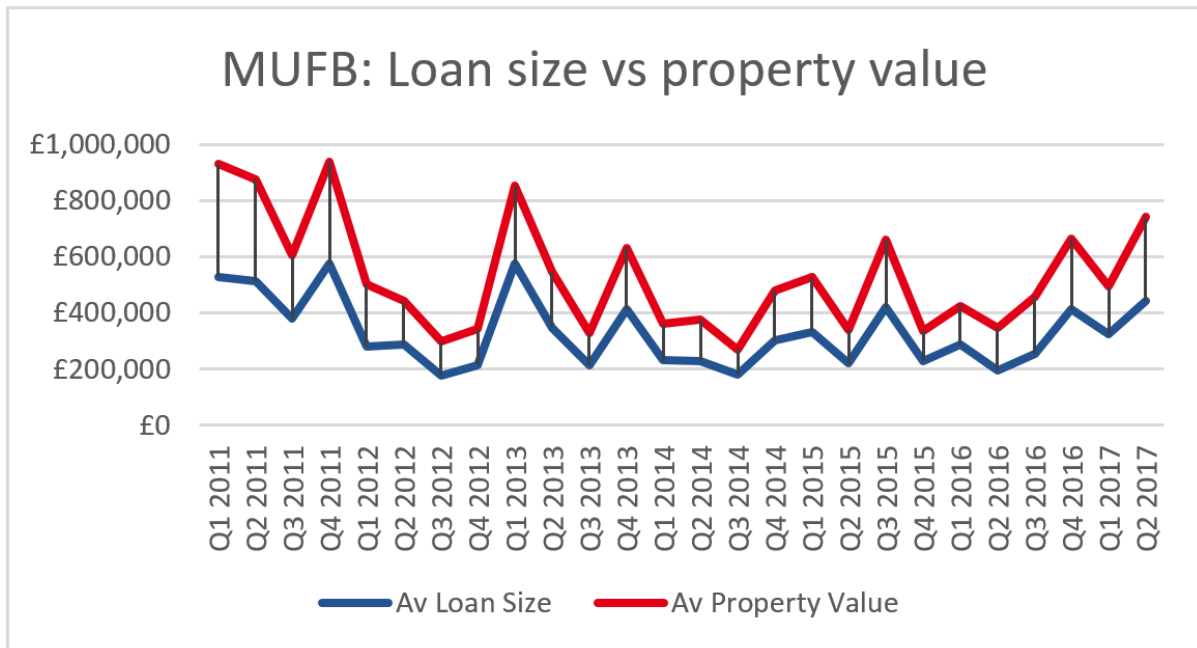
The buy to let mortgage for a multi-unit property was 37% higher than in Q1, at £441,065, and the average property value was 51% higher at £742,836. These are both unusually high and, as in Q4 2016, this was caused by a large volume of high-value transactions during the quarter. 16% of mortgages for multi-unit properties in Q2 were against properties worth at least £1m, of which one third were worth more than £4m. By comparison, properties

MUFB BTL Mortgages



worth at least £1m made up just 12% of our MUFB cases in Q1 and we did not see any worth £2m or more.

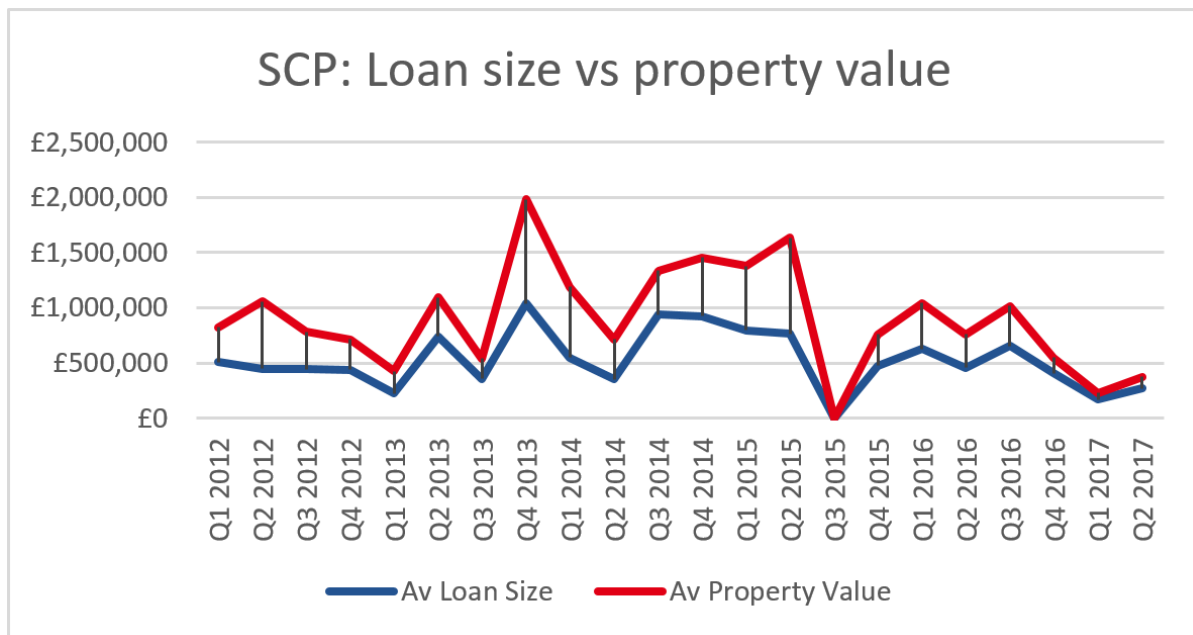
The average LTV for this type of investment property was a very typical 67%, while yields are largely unchanged from Q1 at 7.9%.



Semi Commercial Properties

SCP				
	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Purchases	20%	0%	50%	67%
Remortgages	80%	100%	50%	33%
Average loan size	£652,180	£405,288	£167,600	£268,000
Average property value	£1,014,620	£549,000	£228,000	£373,333
Average loan to value	69%	62%	73%	72%
Average yield	7.7%	8.5%	7.9%	8.7%

Always a less common investment, semi-commercial properties show rapidly fluctuating results due to limited volume of business. Semi-commercial investments in Q2 combined aspects of the previous two quarters. Q2 saw property values and loan amounts rise considerably from Q1 while remaining low by historical standards. Meanwhile, the average LTV for this property type remains high at 72% and yields increased to 8.7%, slightly ahead of where they were in Q4 2016.

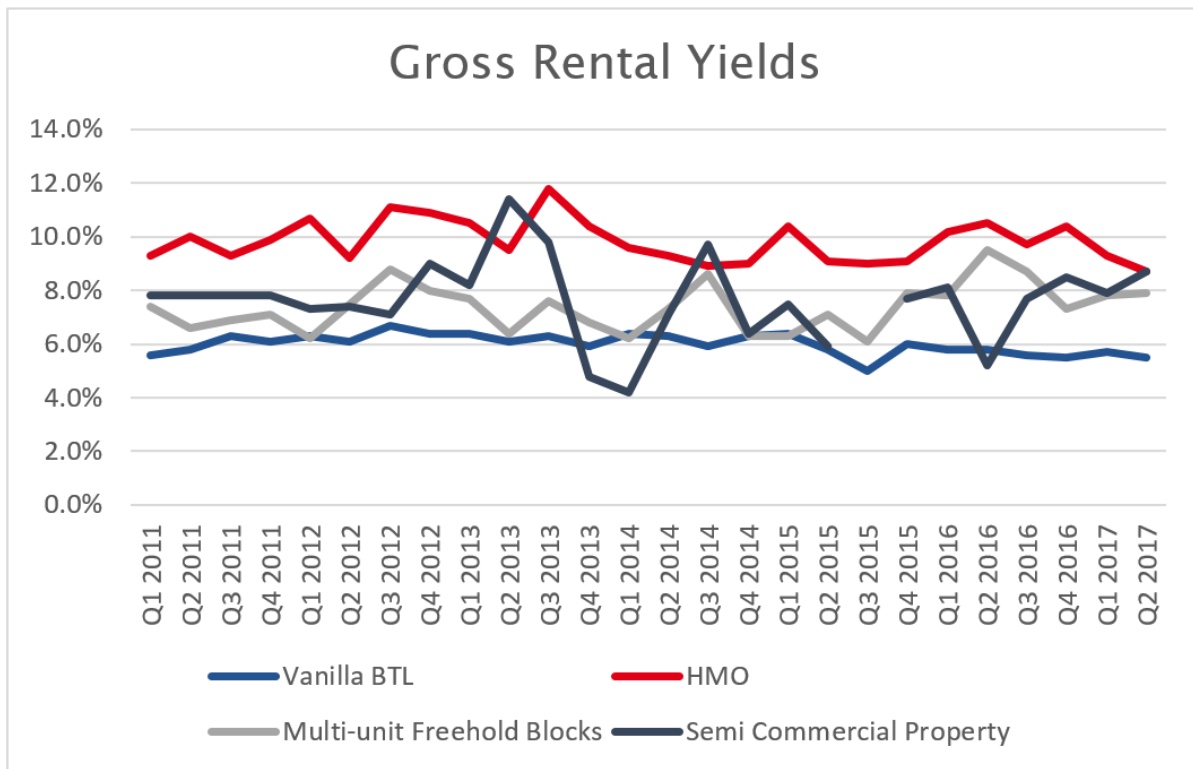


Detailed yield comparison

This quarter saw HMO landlords borrowing against lower-yielding properties than usual, with an average gross yield of just 8.7% per year. While still appreciably higher than most other property types, this was matched in Q2 by semi-commercial properties, the first time since Q3 2014 that HMOs have not achieved a clear lead in rental yields.

The average multi-unit property being mortgaged this quarter achieved a rental yield of 7.9%, a very similar result to the 7.8% average among such properties in Q1. MUFBs therefore remain in third place for rental yields.

Finally, vanilla buy to let investments achieved an average of 5.5% annual yield, the lower rental income being offset by less stringent lending criteria, ease of management and typically lower overheads.



Jargon Buster

Vanilla Buy to Let

These are standard buy to let transactions. Properties in this category tend to be normal 2-3 bed houses and flats. Both borrowers and properties fit the general lending criteria for off-the-shelf products offered by the mainstream buy to let lenders.

Houses in Multiple Occupation (HMOs)

An HMO is when unrelated tenants have exclusive access to their rooms and share part of the accommodation, such as the kitchen or the bathroom. Examples include bedsit style housing or student shared housing. An HMO may require a licence based on the number of storeys and/or the number of tenants, depending on the local authority.

Multi-Unit Freehold Blocks (MUFBs)

This is a single building with multiple, separate, independent residential units owned under a single freehold title. Examples include purpose-built blocks of flats or Victorian houses converted into flats.

Semi-Commercial Property

Also known as mixed investments, as both names suggest these properties are made up of part commercial and part residential elements, typically shops or offices with flat above.

For more information

To view previous results visit: [Complex Buy to Let Index](#)

Jenny Barrett, Marketing & Research Director

Tel: 01732 471 615

Email: jennyb@mortgagesforbusiness.co.uk

Graeme Wright, Data Analyst

Tel: 01732 471 636

Email: graemew@mortgagesforbusiness.co.uk