Property Investor Survey

Results & Analysis November 2016

The survey was launched on 11 November 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 283 property investors took part.

Number of investment properties owned
The average respondent owns between four and ten investment properties, with 49% of respondents belonging to this category. Additionally, 20% own two or three properties, 12% own between 11 and 20, 10% own a single property and 9% own 21 or more.

Types of property owned
The overwhelming majority of respondents (90%) owned at least one vanilla BTL (buy-to-let) property, with 21% owning at least one HMO. Multi-unit, semi-commercial and commercial property ownership sits at 11%, 10% and 10% respectively. There is an appreciable proportion of landlords with more than one kind of property, with 70% or more of each type of non-vanilla landlord also owning at least one vanilla BTL property and also being more likely than average to possess each of the other categories of property. Overall, 35% of landlords possessed at least two types of property.

Distance from home
Responding landlords showed a strong preference for buying property close to their own homes, with 56% of respondents having purchased predominantly within a 10-mile radius and a further 14% mostly owning property within 11 to 25 miles of home. While landlords preferred local property across all demographics, there was noticeably higher appetite for long-distance purchasing among landlords with smaller portfolios, with 22% of landlords with a single property choosing to buy over 100 miles away versus just 8% of landlords with 21 or more properties primarily operating at such long distances. This is likely caused by those with larger portfolios including a number of full-time, professional landlords who prefer to manage their own property, while smaller portfolios often belong to investors who have unrelated professions and do business via an agent. There was also a noticeable link to types of property owned; owners of commercial and semi-commercial property showed a strong preference for nearby property, with 69% and 75% of such respondents owning most of their properties within 10 miles of home, while owners of multi-unit properties were more comfortable with owning properties further away.

Limited company ownership
Figures suggest that landlords are beginning to move toward limited company ownership, with 32% of respondents owning at least one property via a limited company, up 2% on May and likely to rise further in the face of coming changes to tax relief. Limited company ownership was slightly greater among investors whose portfolios include non-vanilla properties – 39% versus 28% of purely vanilla landlords. There is also a divide among respondents who own three or fewer investment properties and those who own four or more, with 26% of the former possessing property through a limited company compared to 35% of landlords with larger portfolios. Of particular interest is that uptake varies little between all landlords with more than three properties. With 62% of these investors (i.e. those with four or more properties including at least one in a limited company) also holding

mortgages worth at least 50% of the value of their portfolios, this suggests a clear category of "portfolio landlords" in line with the PRA definition.

Borrowing

Out of 283 respondents, only 15 (5%) had no mortgage borrowing, while two respondents (1%) held loans equal to or exceeding the value of their portfolios, each consisting of over 20 properties. The majority of respondents (53%) have loans of between 50% and 74% LTV (loan-to-value) against their portfolios, with a further 25% having borrowing of between 25% and 49% LTV and 9% with borrowing of up to 24% LTV. 8% of respondents had borrowing of more than 75% LTV, a further reduction since May.

Landlords with borrowing of between 75% and 99% LTV were evenly likely to have any size of portfolio i.e. we see an under-representation of landlords with average portfolio sizes at high loan-to-values. Meanwhile, borrowers with smaller total LTVs on their mortgages much more closely follow the overall distribution of landlords in each portfolio bracket. All landlords with 11 or more properties had at least some mortgage borrowing, but there were no other significant differences from the trend across all portfolio sizes.

Mortgage type preferences

When asked about what type of mortgage they would choose for a hypothetical future loan, landlords showed appetite for many different options. Five year fixed rate products are most popular with 34% of responses expressing a preference for this type of loan, a tremendous return to form after falling popularity in previous surveys. This is clear evidence of the competitive pricing we have typically seen for five year fixed rates, along with the added certainty they afford in the face of ongoing speculation about growing inflation and rising interest rates. 19% of respondents would opt for a variable rate, while two and three year fixes seem evenly matched, being preferred by 15% and 14% of respondents respectively. Finally, 10% of respondents would choose a 10 year fixed rate mortgage, a product type offered by just two providers (with current deals expiring soon!). The remaining 9% are undecided.

Landlords possessing a single investment property defied the trend, with 22% preferring a variable rate against just 19% who would choose a five year fix. This is the combined effect of the relative lack of popularity of five year rates with single-property landlords and the heavy concentration of appetite for variable rates among borrowers with 10 or less properties. Landlords with larger portfolios have likely been avoiding variable rates out of a desire to reduce the impact a rate increase could have, as these landlords often have higher borrowing. Two year fixes show the opposite trend, with the popularity of this rate being noticeably higher among landlords with 11 or more properties, suggesting increased willingness to remortgage regularly as the property portfolio becomes a greater part of the investor's income.

Plans to remortgage

Respondents are fairly evenly divided regarding whether they intend to remortgage soon, with 44% intending to remortgage an existing property within six months, 42% with no such plans and the remainder undecided. However, as may be expected, this varies with portfolio size, with just 26% of single-property landlords planning to remortgage soon versus 51% of landlords with 11 or more properties planning to do the same.

Forthcoming changes

60% of respondents believe that the Government's forthcoming changes to tax relief will affect their existing properties, down from 64% in May, while 29% do not, up from 23%. Even now 11% of respondents say they still do not know if they will be affected, despite continued urging from media sources to seek advice. Only a single respondent had still not heard of the changes.

These results compare well with investor understanding of new PRA guidelines on mortgage lending, again with 60% of respondents saying the understand the impact this will have on how much they can borrow. A further 25% say they partially understand the implications, leaving 9% of respondents unaware of how this may affect how much they can borrow and 6% unaware of the changes. These respondents would be well advised to seek professional guidance and consider whether it may be appropriate to create a limited company for the purpose of future borrowing.

Portfolio expansion intentions

The proportion of landlords seeking to expand their portfolios in the next six months has risen to 45%, up from 41% in May. The proportion seeking to shrink their portfolios has fallen further to just 9%, down from 14% in May.

Again rather predictably, it is the landlords with the largest portfolios who are most likely to seek to offload properties, with 31% of landlords among those with 21 or more properties seeking to sell in the next six months. Similarly, expansion is most popular with landlords possessing two or three properties, being the goal of a whopping 55%. These landlords have shown that they are comfortable managing multiple properties but do not yet possess a large portfolio that would make further expansion difficult, leading to the high appetite seen in these results.

When asked whether they would be buying future properties in their personal or limited company names, 54% of respondents replied that they would make all future purchases via a limited company, while just 15% would continue to purchase entirely in their own names. Making allowances for the 16% of respondents who replied that they would make purchases both personal and through a limited company, and the 15% who remain undecided, these figures correlate well with our Limited Company Buy to Let Index for Q3 2016, which shows that 63% of new mortgage applications for house purchase are now being made on behalf of limited companies.

Purchasing different types of property

Investors' purchasing intentions continue to shift towards non-vanilla property, with appetite for vanilla BTL purchases falling to 76% of investors who wish to expand in the near future considering this type of property, down from 79% in May and 83% last year. Interest in HMOs has also fallen but remains strong, down to 25% from 28% in May, while interest in other property types remains below 20%.

There is of course strong overlap between categories, with those considering multi-unit, semi-commercial or commercial purchases being much more likely to also consider purchasing other types of non-vanilla property, although this does not extend to those considering HMO purchases.

Refinancing to raise capital

57% of those seeking to expand their portfolios will need to refinance existing properties to raise the required capital – similar responses to May's survey (59%) and last year (58%). Of these, the majority own ten or less properties, with 61% of landlords in this category requiring a remortgage to fund their expansion while only 40% of landlords with 11 or more properties would need to do the same. Of those who would need to remortgage, only a single respondent held less than 25% equity in their portfolio, while 51% held at least 50% equity, suggesting that refinancing should be achievable in most cases unless landlords fall foul of new affordability calculations.

Investors' income
The proportion of respondents earning more than £25k pa in addition to their rental income has dropped from 65% in May to 61%. As you might expect, 65% of the larger portfolio landlords, owning 21+ properties, earned most of their income from rent and do not have additional income of more than £25k pa. However, it is interesting to note that 61% of investors owning 11-20 properties remain well able to achieve such additional earnings.

Lenders helping investors
There has been a slight rise in the proportion of respondents who believe that lenders should do more to help investors, up to 69% from 67% in May, with the focus this time resting decisively on lending criteria.

Among landlords who feel that lenders should do more, 51% consider the easing of lending criteria to be the most important change lenders could make, and it is understandable that this should be on investors' minds as more and more lenders increase their income cover ratios and stress test notional rates ahead of the enforcement of the PRA's new underwriting guidelines from 1st January 2017. However, these guidelines do not leave lenders much room to act, with a minimum 5.5% notional rate being prescribed in all cases except where rates are fixed for at least five years. Additionally, the majority of those requesting such a change (65%) would be considered portfolio landlords under PRA rules, requiring lenders to carry out a specialist underwriting process.

There is, however, some good news for lenders, as landlords seem much more satisfied with the amount they are able to borrow; just 7% of respondents believe that lenders should increase lending, down from 19% in May.

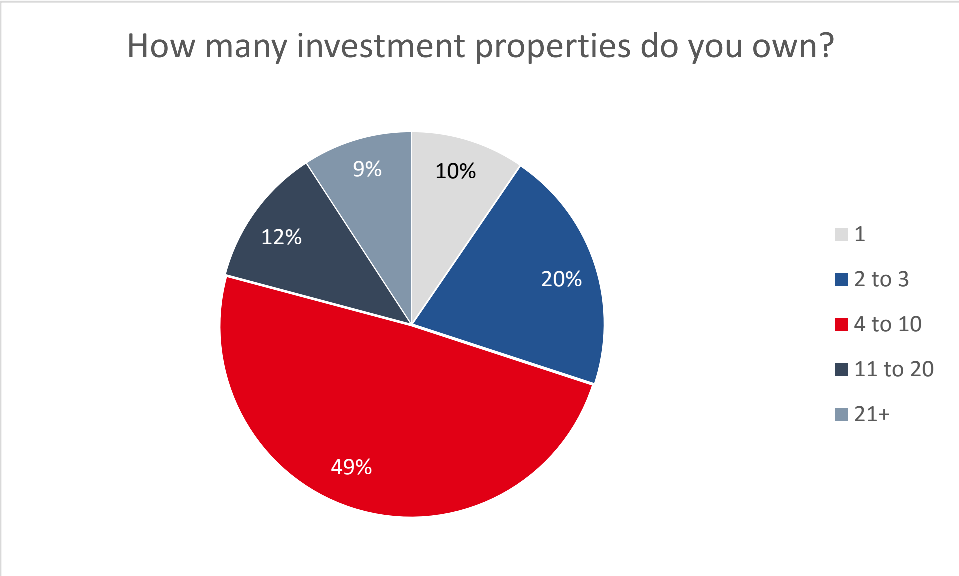
We also asked landlords for more detailed comments on what else they feel lenders could do to support investors, and received responses from 44% of those asked. Many of these singled out the implementation of PRA guidelines for attention, but we saw other issues brought to attention, including:

- **Upper age restrictions**
  Once again it appears that several investors still believe lenders are unfairly discriminating against older borrowers, requesting that upper age limits be removed from mortgage products.

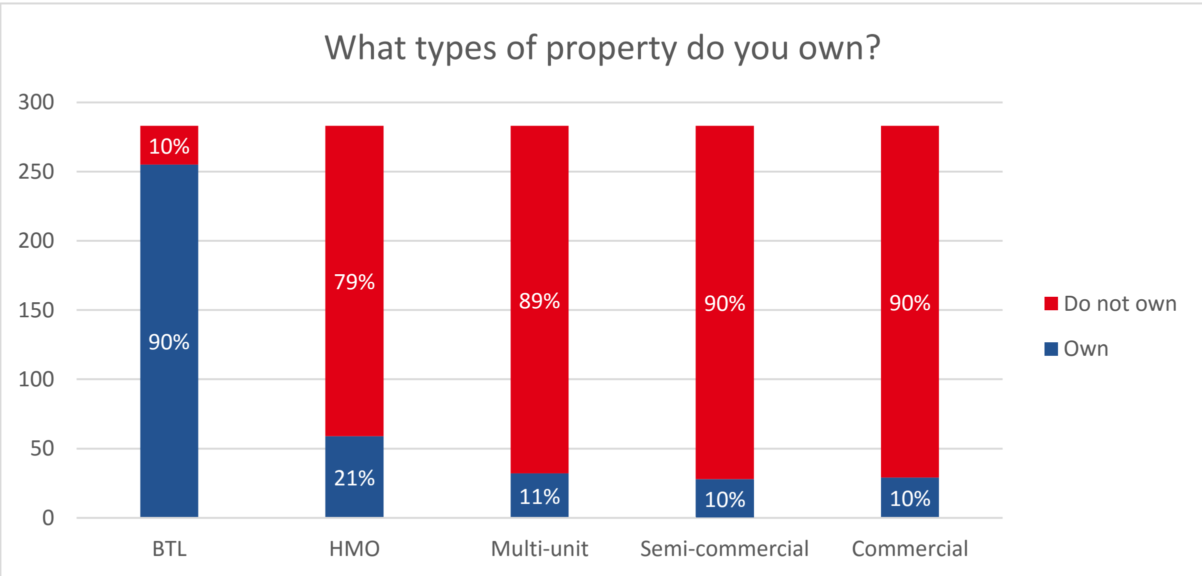
- **Greater consideration of rental income**
  Many respondents are dissatisfied with current lending practices, which often require investors to have an income of £25k p.a. in addition to their rental income in order to get the best deals. These investors feel that their experience as landlords and their expected rental incomes should be considered proof enough of the affordability of a mortgage and would like to be able to focus on managing their portfolios full time, without feeling forced to maintain an additional income.

The full survey results are detailed below. The next survey will be issued in the spring of 2017. For more information, please contact: Graeme Wright, Data Analyst on 01732 471636.

Results



How many investment properties do you own?
10%
20%
49%
12%
9%
1
2 to 3
4 to 10
11 to 20
21+



What types of property do you own?
300
250
200
150
100
50
0
10%
90%
79%
21%
89%
11%
90%
10%
90%
10%
BTL
HMO
Multi-unit
Semi-commercial
Commercial
Do not own
Own

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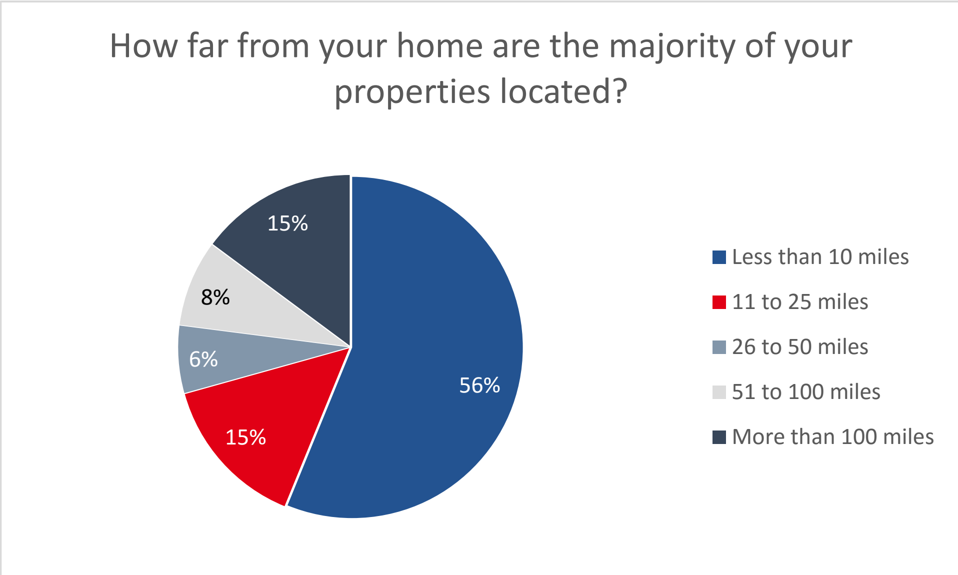

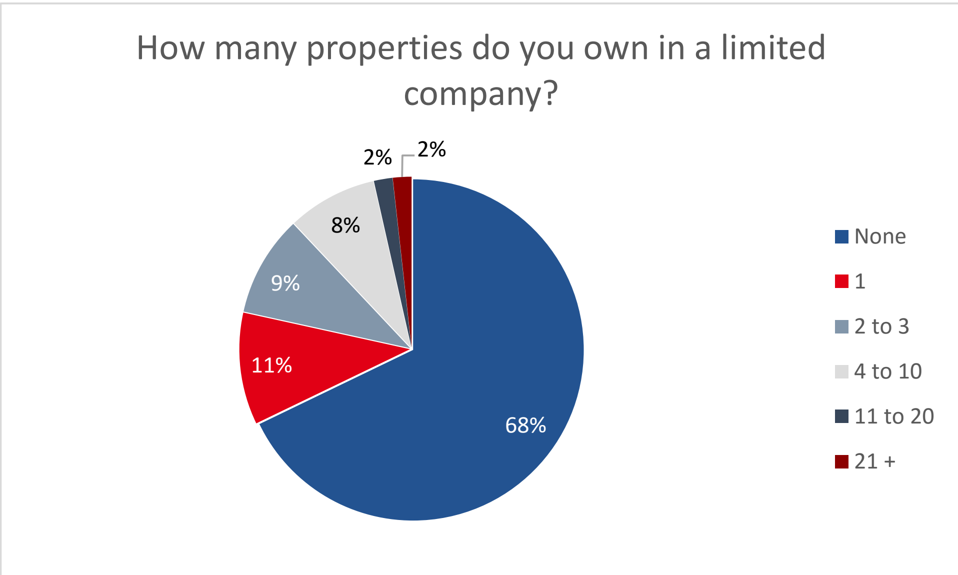

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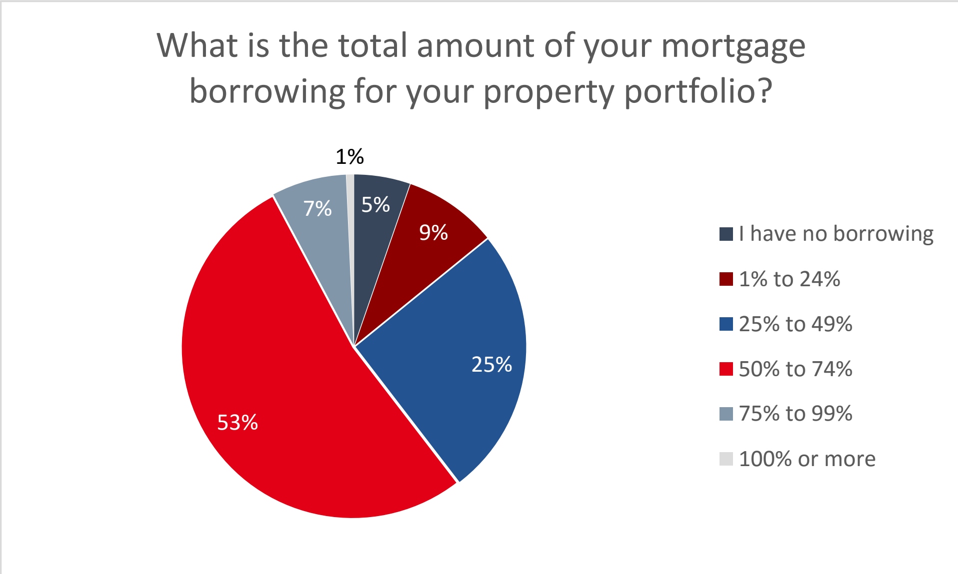

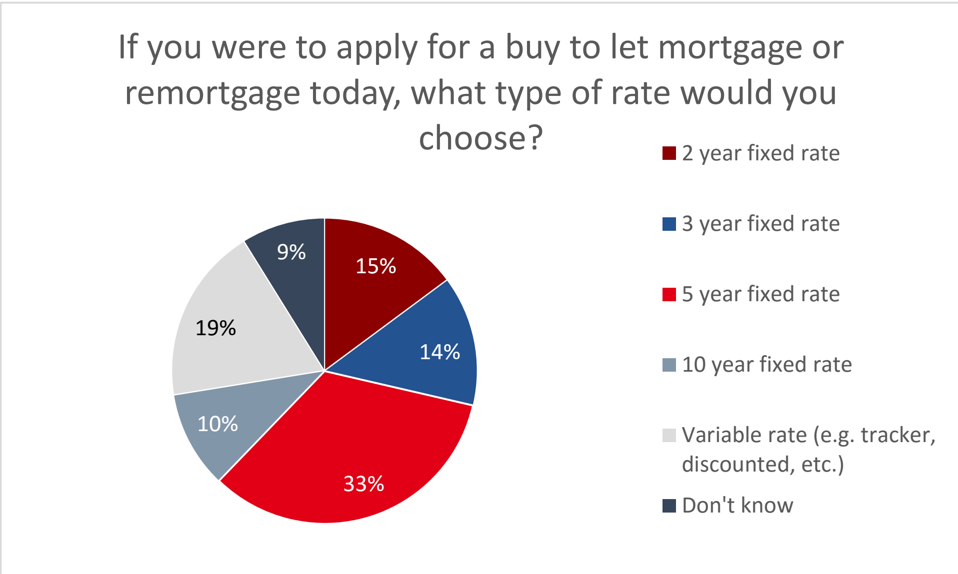

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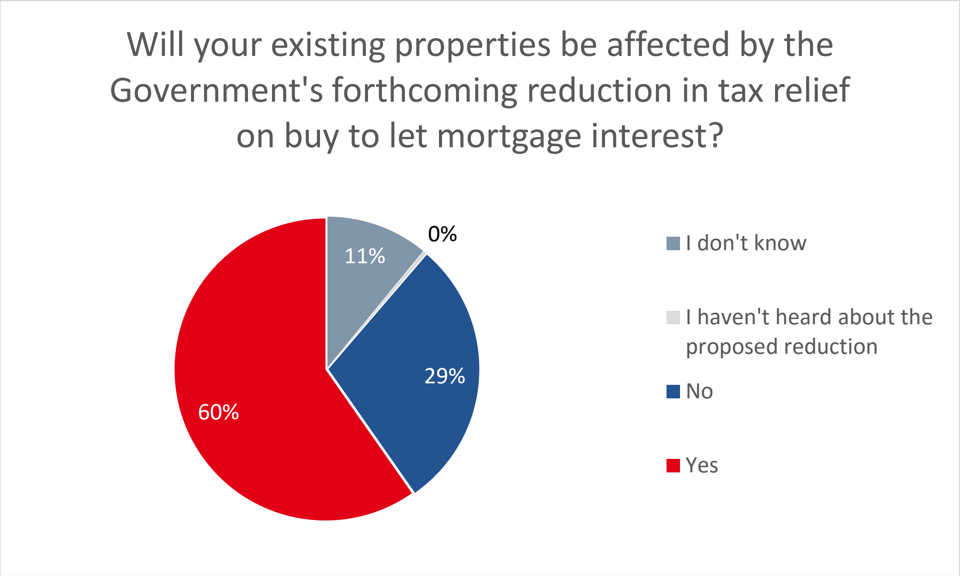

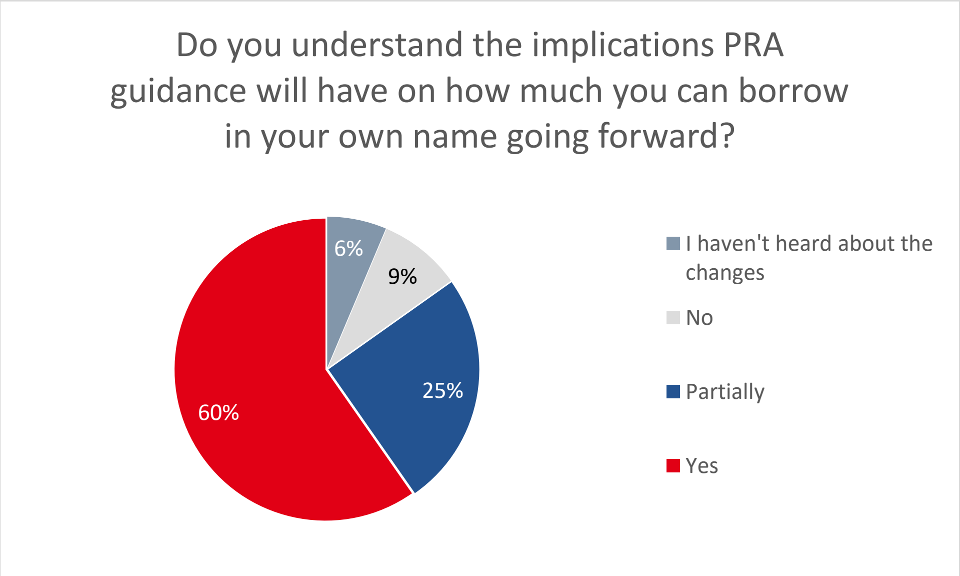

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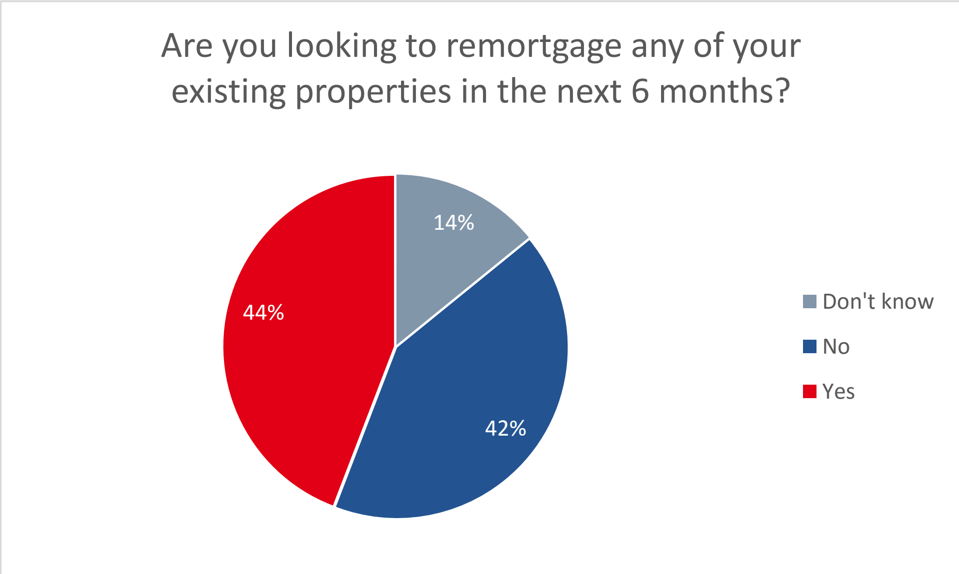

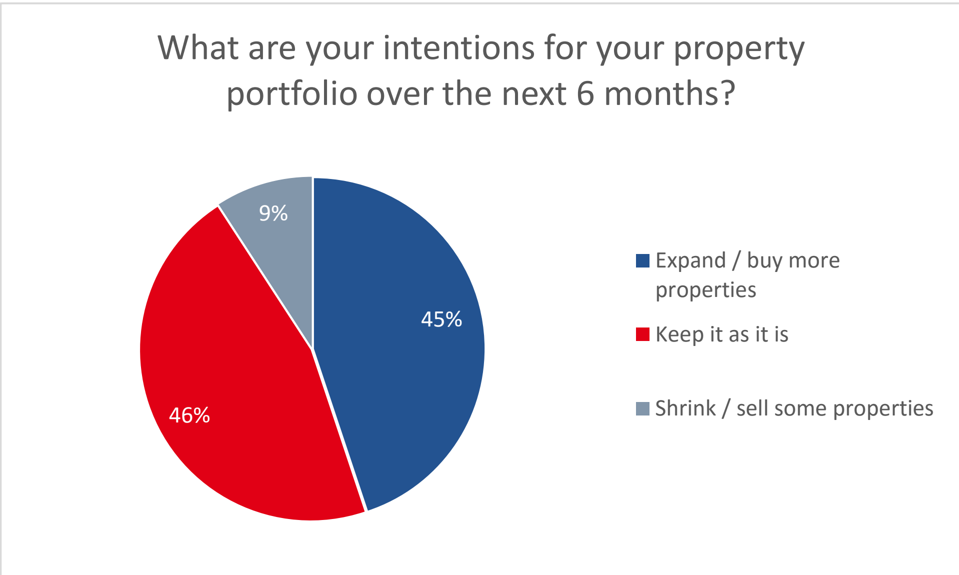

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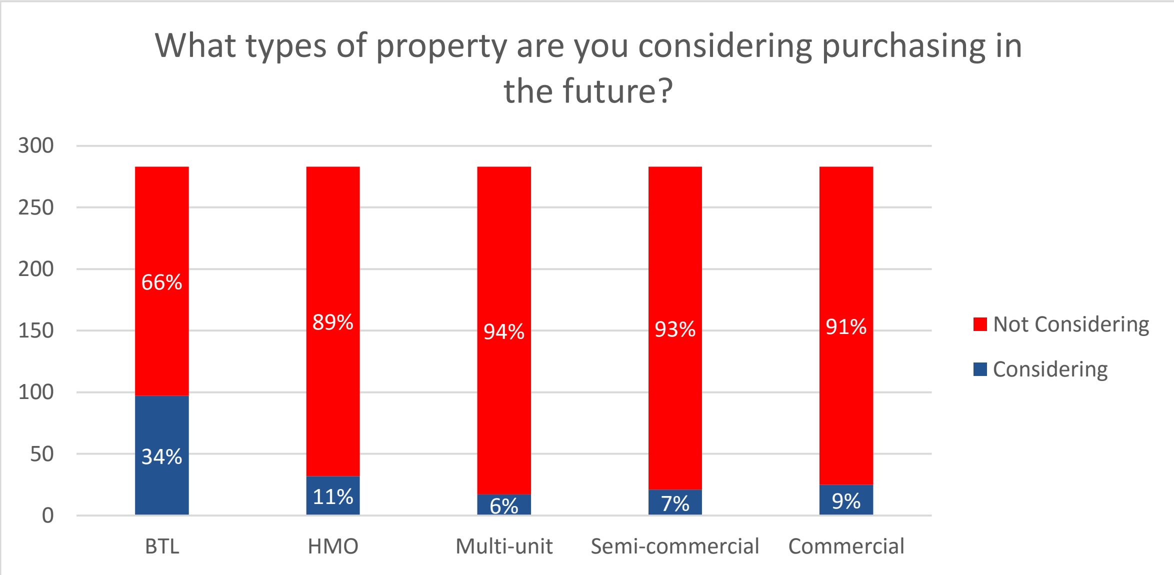

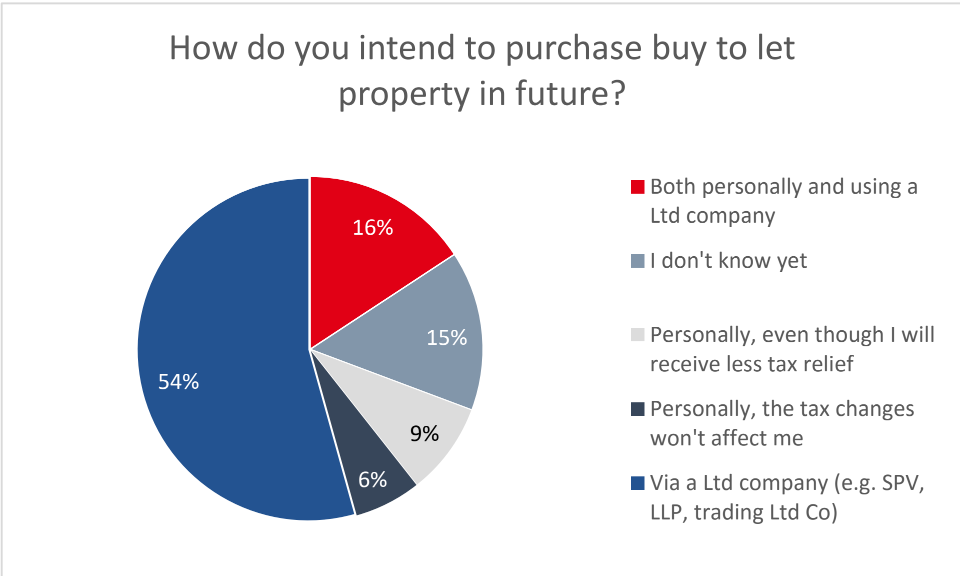

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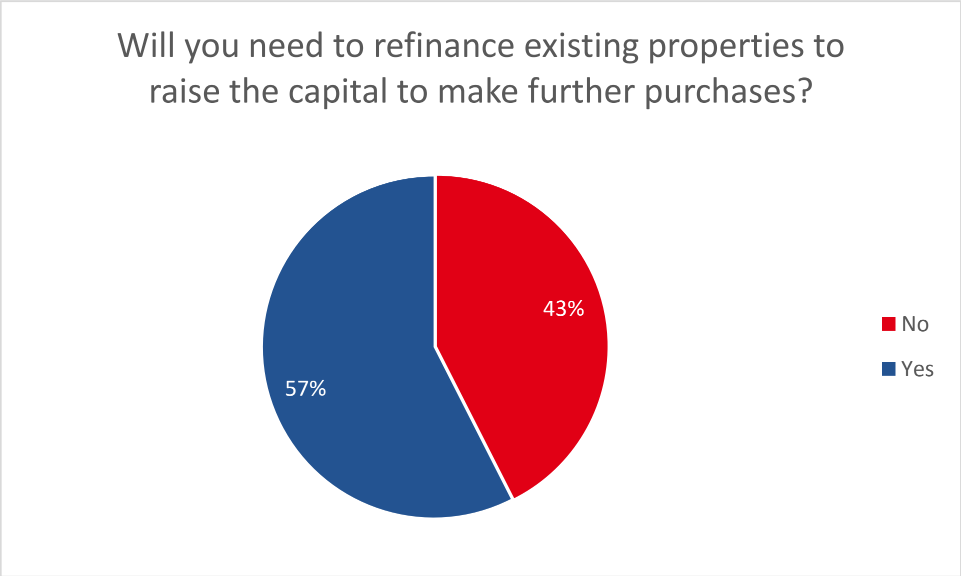

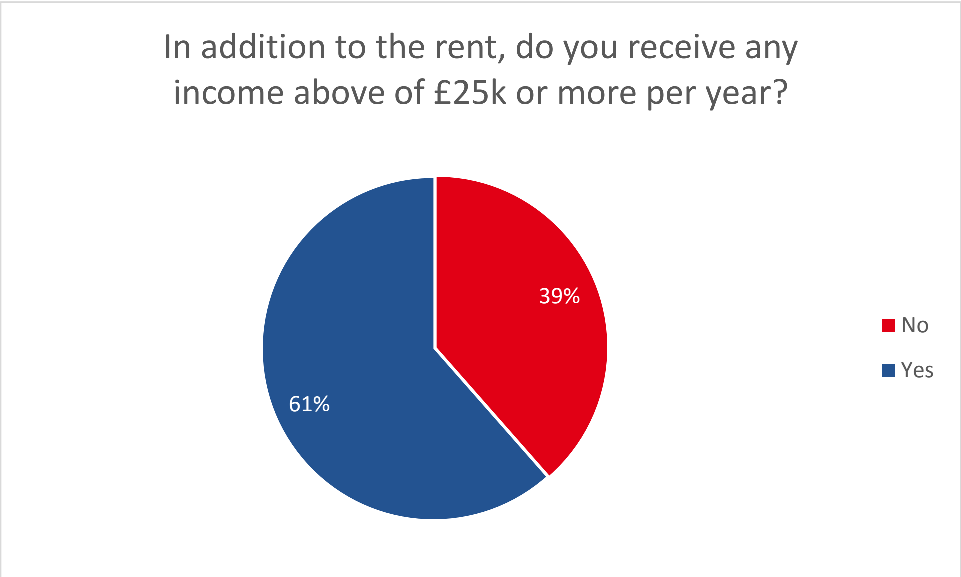

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