

Q2 2019 HIGHLIGHTS

- Average portfolio size now 13.1 properties
- Large scale landlords making targeted investments
- HMO purchases on the rise
- Landlords continue to prioritise financial strength

LARGE SCALE LANDLORDS MAKING TARGETED INVESTMENTS

We are now at the half way mark for 2019 and, looking back over the last six months, it's clear that the landlord behaviour continues to polarise according to portfolio size, with professional landlords with larger portfolios making targeted investments to optimise their position.

On average, landlords who belong to Paragon's long-standing survey panel now have 13.1 properties in their portfolio, up from 12.8 properties three months ago.

Underlying these headline figures, we see that landlords with between 11 and 20 properties have grown as a proportion of the survey population from 14% to 18% and this, in part, explains why average portfolio values are getting higher. For example, in this quarter, average portfolio value increased to £1.76 million, reaching an all-time high.

According to our latest survey, larger scale landlords are nearly three times as likely (11%) to be considering a property purchase in the next quarter as their smaller scale counterparts (4%).

Interestingly, there has been a sharp increase in those considering buying HMO property (House in Multiple Occupation) up from just one in 20 (5%) to one in five (20%).

Not only is this indicative of higher experience levels amongst prospective buyers, it also suggests that landlords are looking to add higher yielding properties into their portfolios perhaps to offset some of the pressure from rising tax costs.

Despite the higher activity levels among larger scale landlords overall landlord sentiment remains subdued, with only 13% of our sample feeling optimistic about the future.

Not surprisingly therefore, landlords continue to take steps to bolster their financial position with debt still barely over one third of average portfolio value and mortgage payments as a proportion of rent down from 27% to 25%.

In this report, we look at the key trends that landlords are reporting in more detail and show how they have changed over time.



John Heron,
Managing Director of Mortgages, Paragon

OUR LANDLORD PANEL

Our panel is an experienced group of 203 buy-to-let landlords, with 88% of those surveyed having been residential landlords for more than ten years and 52% having been involved for more than 20 years.

Three quarters (75%) of landlords surveyed in Q2 2019 are classed as professional – owning three or more properties – making our results a more accurate reflection of landlords with larger property portfolios.



88% LANDLORDS FOR 10 YEARS +



52% LANDLORDS FOR 20 YEARS +



75% OWNING THREE OR MORE PROPERTIES

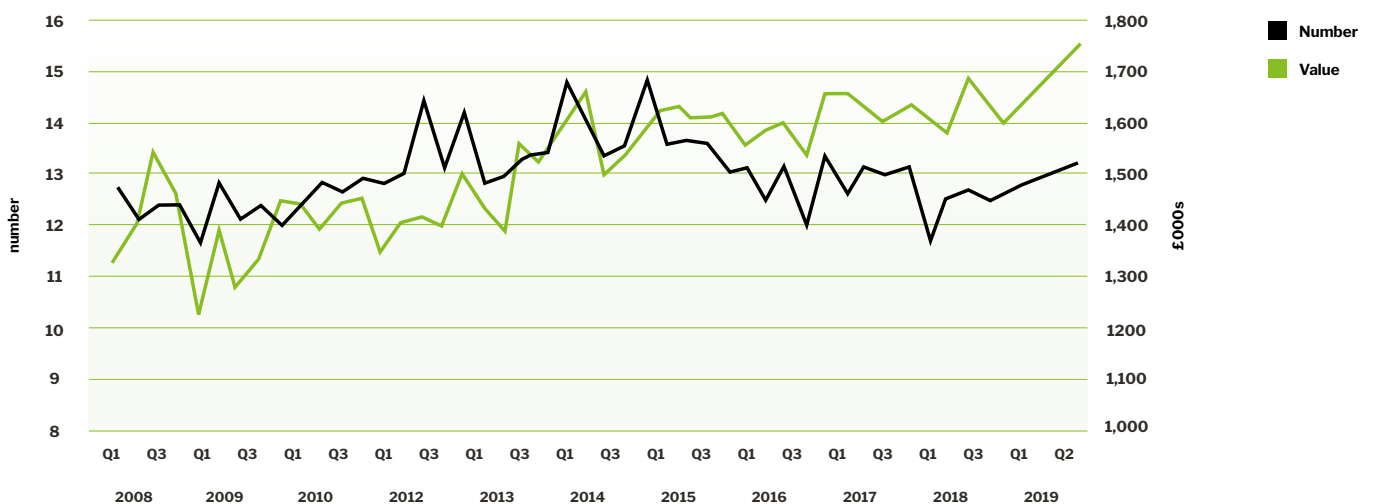
PORTFOLIO SIZE AND VALUE

On average, residential landlords had 13.1 properties in their rental portfolio in Q2 2019, up from 12.8 last quarter and 12.4 properties 12 months ago.

Larger scale landlords appear to be driving the change, with those holding between 11 and 20 properties growing from 14% to 18% of the survey population, resulting in a record average portfolio value of £1.76 million.

Despite this increase, landlords expect to have 12.9 properties in 12 months' time suggesting a cautious mood.

Number of residential properties and value of average rental portfolio

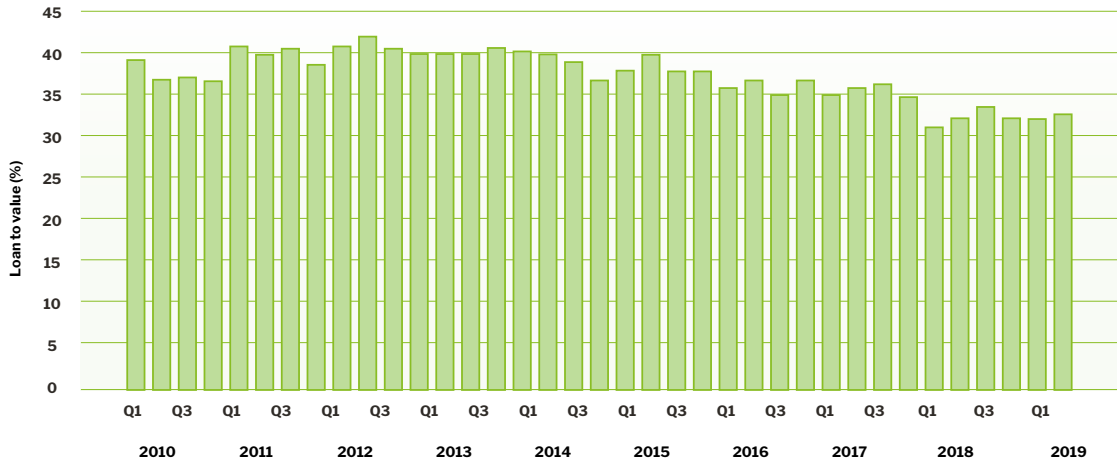


GEARING AND FINANCE COSTS

When it comes to their finances, landlords are exercising care.

Back in 2014, prior to the announcement and implementation of the landlord tax changes, average portfolio gearing was over 40%. Gearing measures debt funding as a proportion of total portfolio value and, as this graph shows, landlords' average gearing is now just 33%.

Average gearing of investment property portfolios



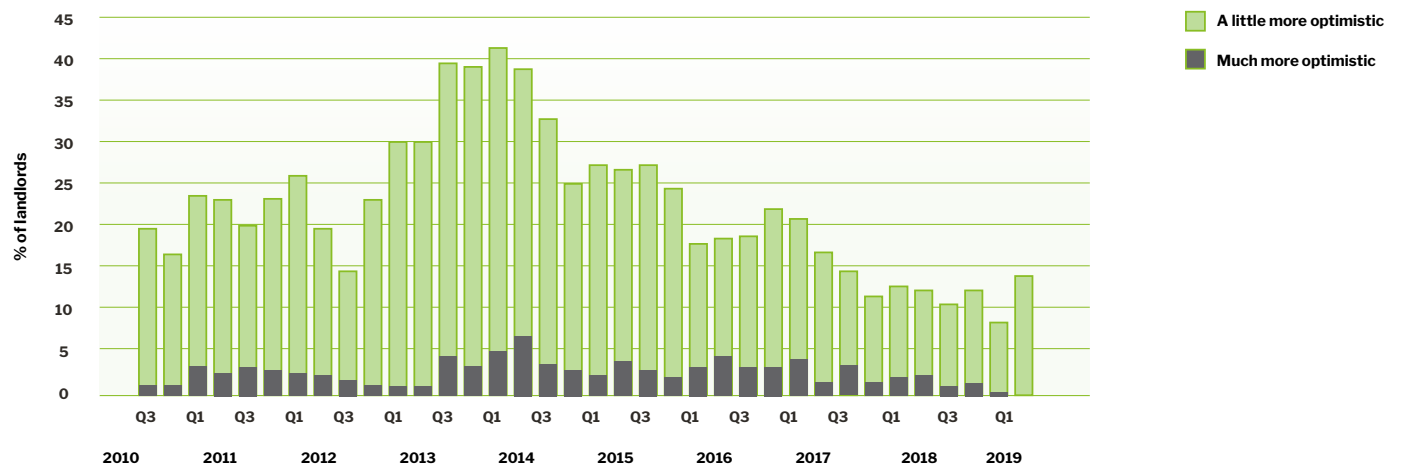
This reduction in gearing, combined with a trend for landlords to remortgage on to lower interest rate products, means landlords are now spending a smaller proportion of their rental income on mortgage payments – down from 30% at the beginning of 2017 to 25% today.

LANDLORD OPTIMISM

Despite the uptick in portfolio size and value, landlord optimism about the future remains subdued.

In 2014, one third of landlords (33%) felt optimistic about their future prospects but today this stands at just 13%.

Landlord optimism about portfolio prospects



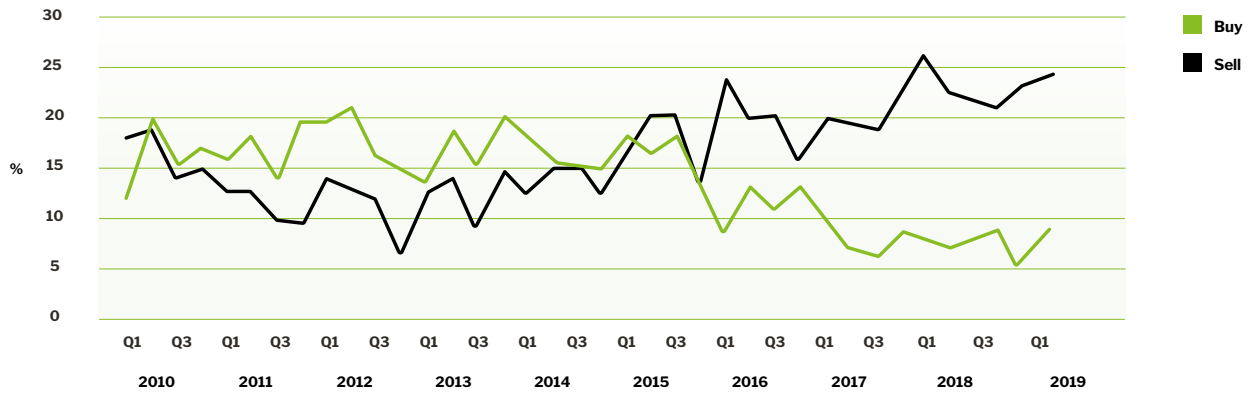
BUYING VS. SELLING EXPECTATIONS

Not surprisingly, landlords are now far less likely to consider adding to their portfolio than before.

Back in 2014, between 15-20% of landlords consistently indicated an intention to buy property in the next quarter, just above those planning to sell.

Since mid-2015, that position has reversed and today those planning to buy comprise between 7-10% of the landlord population, almost 3 times lower than those who plan to sell.

Proportion of landlords expecting to buy and sell property in the next quarter

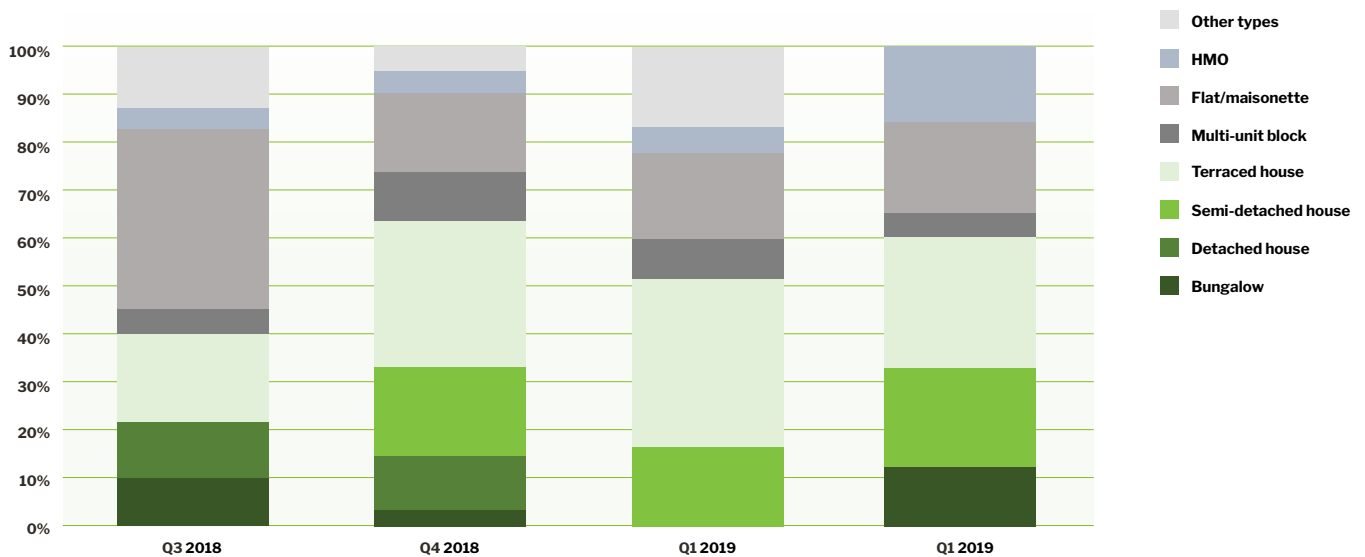


PROPERTY TYPES

This quarter's results show a notable jump in the proportion of landlords indicating an interest in purchasing Houses in Multiple Occupation (HMO), up from one in twenty (5%) to one in five (20%).

Given the more complex nature of this property type, not only does this suggest a higher experience level among landlords looking to expand but also perhaps an interest in driving higher yields to offset upward pressure on costs as tax changes start to bite.

Type of property expected to purchase



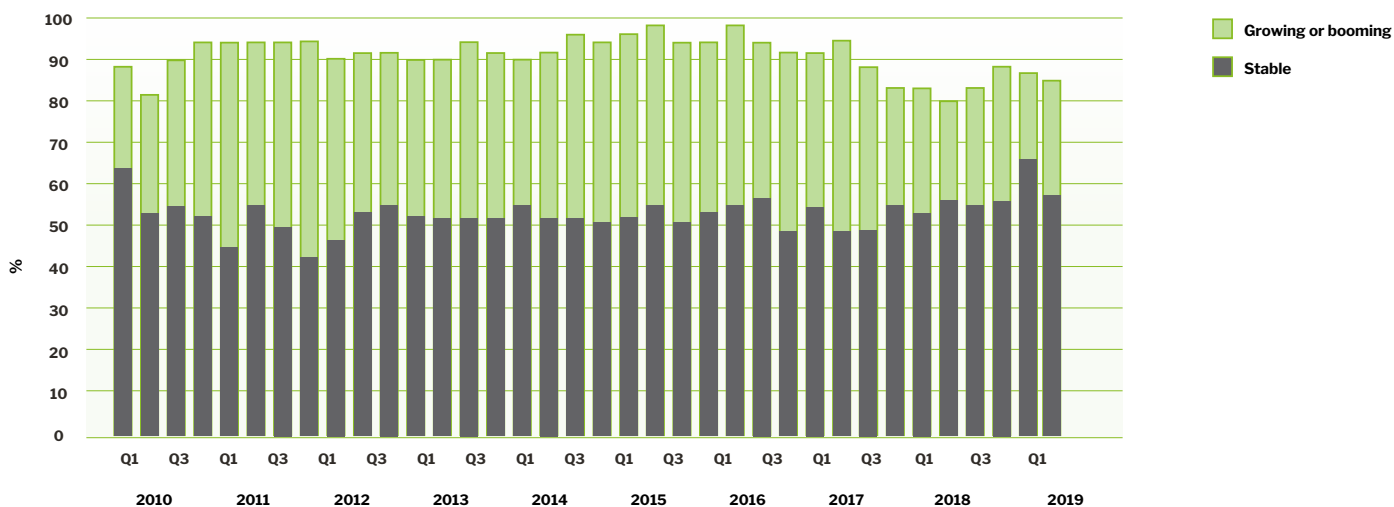
TENANT DEMAND

Notwithstanding the gloomy mood, landlords continue to report a relatively optimistic picture on tenant demand, with almost nine out of ten landlords (86%) saying demand for rental property is either stable, growing or booming.

Encouragingly, this quarter's figures also show an increase in the proportion of landlords who describe tenant demand as growing or booming – up 6 percentage points from 21% in Q1 2019 to 27% this time round.

This ties in with remarks from other commentators, most notably RICS, who argue that falling landlord instructions will result in an increase in the number of tenants chasing available property and put upward pressure on rents.

Proportion of landlords who say tenant demand is growing or booming

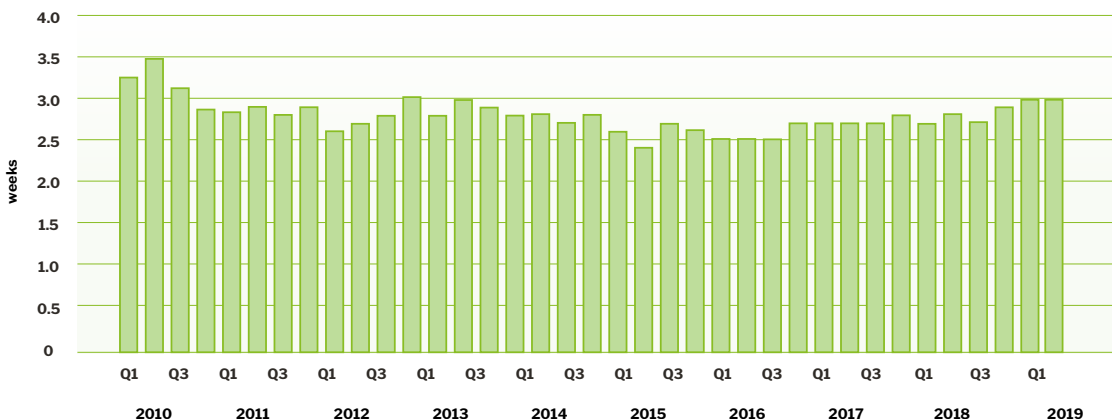


VOID PERIODS

Last but not least, this quarter's results continue to show an average void period of 3.0 weeks, at the upper end of a long-established range of 2.5 to 3 weeks.

The void period measures the average amount of time rental properties are vacant each year.

Average void period



ABOUT PARAGON

Paragon is a leading provider of buy-to-let mortgages for landlords with property portfolios, both big and small, through its portfolio and non-portfolio range. Paragon also offers second charge and specialist residential mortgages.

Paragon lends to private individuals and limited companies and has mortgages suitable for single, self-contained properties, as well as HMOs and multi-unit blocks. Paragon can accommodate higher aggregate lending limits and more complex letting arrangements including local authority leases and corporate leases along with standard ASTs.

Paragon introduced its first product aimed at the professional property investor in 1995 and is a member of UK Finance, the Intermediary Mortgage Lenders Association (IMLA), National Landlords Association (NLA) and the Association of Residential Letting Agents (ARLA).

Paragon Bank PLC a subsidiary of the Paragon Banking Group PLC which is a FTSE 250 company based in Solihull in the West Midlands. Established in 1985, Paragon Banking Group PLC has over £12 billion of assets under management.

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1090-1 (06/2019)