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PRS TRENDS

Q1 2022

The first PRS Trends report of the year looks at Q1 2022, a time when the usual promise of a new year was drastically dashed by conflict causing devastation at a scale we've not seen in Europe since the Second World War.

Although the greatest impact is clearly on those directly involved, the war in Ukraine has been felt far beyond those close to the fighting. Russia's invasion has caused a shock to economies around the world, and this is likely to have a knock-on effect on the UK's property market, highlighting the influence of the interdependent and delicately balanced, politically speaking, global society we have grown so used to.

Focusing on the insight provided by landlords, the standout headline is another all-time high in the proportion reporting increasing tenant demand during the previous three months.

Strong demand was reported by landlords in all regions but particularly interesting was the increase seen in both central and outer London. The marked increase in tenant demand is further evidence of the capital's rental market rebounding following a significant dip as the pandemic diminished the city's draw amongst workers and tourists alike.

Although demand for privately rented homes continues to outstrip supply, there has been an increase in the incidence of void periods experienced by landlords. It is important to view this statistic in context, however, because the four percentage point rise is from the historic low reported at the end of last year. In addition, there has been a substantial drop from 103 days in Q4 2021 to 78 days in average void durations, the shortest length recorded since the early part of the Covid pandemic.

A similar story can be seen when we look at rental yields because the average achieved by landlords has fallen by 0.5 percentage points, but this is from the three-year high of 6.0% recorded last quarter, highlighting the importance of tracking trends in the market.

Landlords tell us that their ability to make a profit from their lettings activity has remained stable, edging up slightly on last quarter. This is likely to be a key factor in the positive outlook that landlords have when thinking about the prospects for their businesses and the private rented sector more broadly. The rapid rise in property prices seen over the past year seems to be driving landlord confidence in the capital gain potential of their property investments but this morale does not extend to the UK financial market, unsurprising given the current challenges faced by the economy at home and abroad.

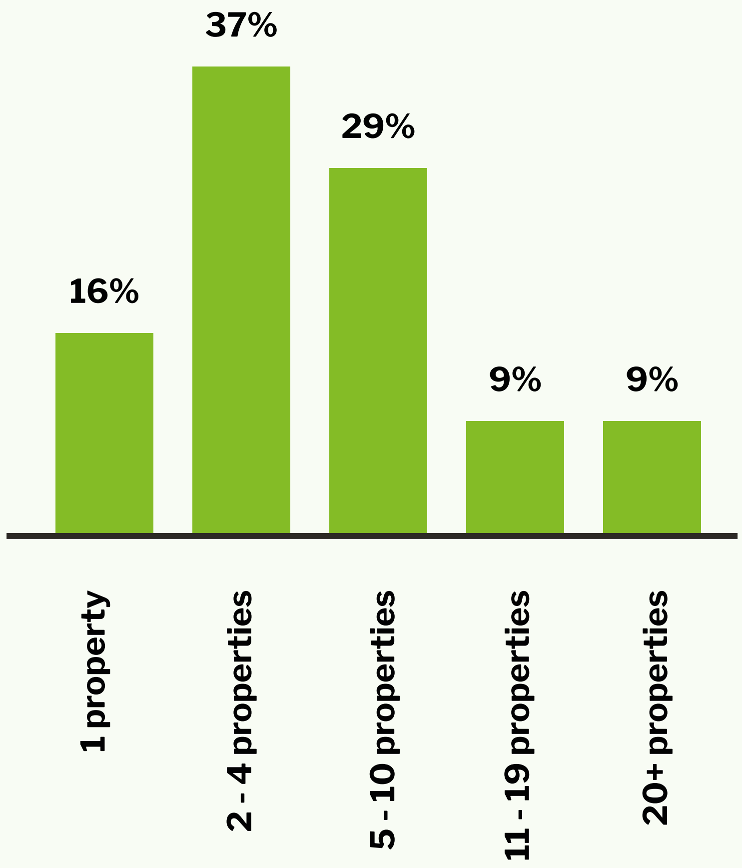
Richard Rowntree
Managing Director for Mortgages

Portfolios

Since Q4 2021, the size of a typical portfolio has increased from 6.9 properties to 8.0 properties. Despite this increase, the approximate value of portfolios has fallen from £1.4 million in Q4 2021 to £1.38 million this quarter. Based on this, each buy-to-let property has an average value of £172,625.

Reflecting the rise in rents seen across the sector since last quarter, the annual gross rental income generated by portfolios has climbed from £59,000 in Q4 2021 to £61,000 in Q1 2022. Breaking this down, each property generates £635 per calendar month on average, equating to £7,625 annually.

Number of properties in portfolio (by percentage of landlords)



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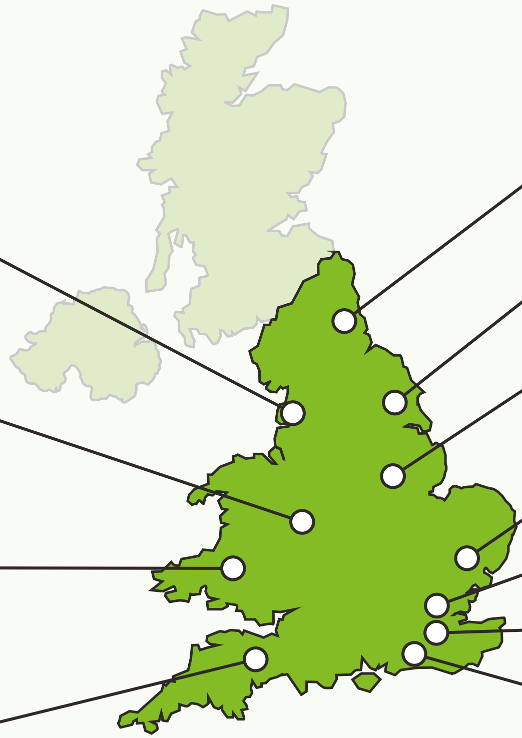
Gross annual rental income & portfolio value levels by region



North West
£1,374,000 | £64,000

West Midlands
£1,298,000 | £68,000

Wales
£1,326,000 | £61,000

South West
£1,598,000 | £64,000

North East
£1,438,000 | £72,000

Yorkshire & Humber
£1,488,000 | £71,000

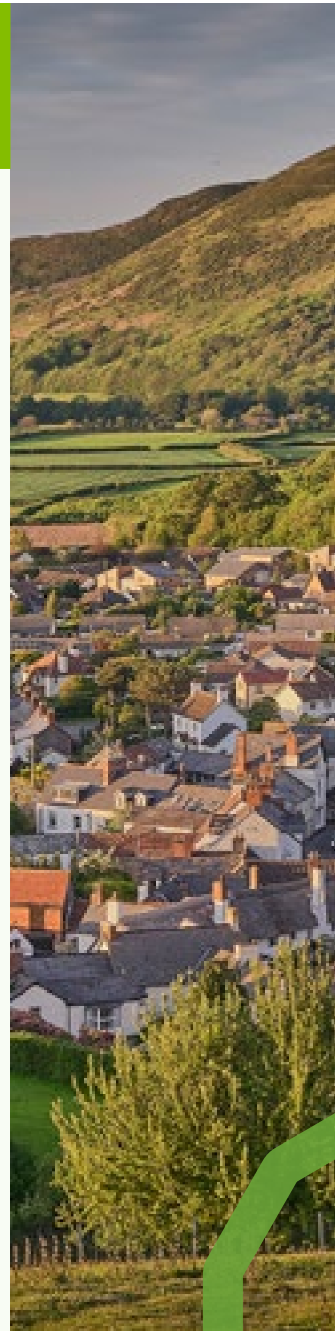
East Midlands
£1,671,000 | £76,000

East of England
£1,320,000 | £64,000

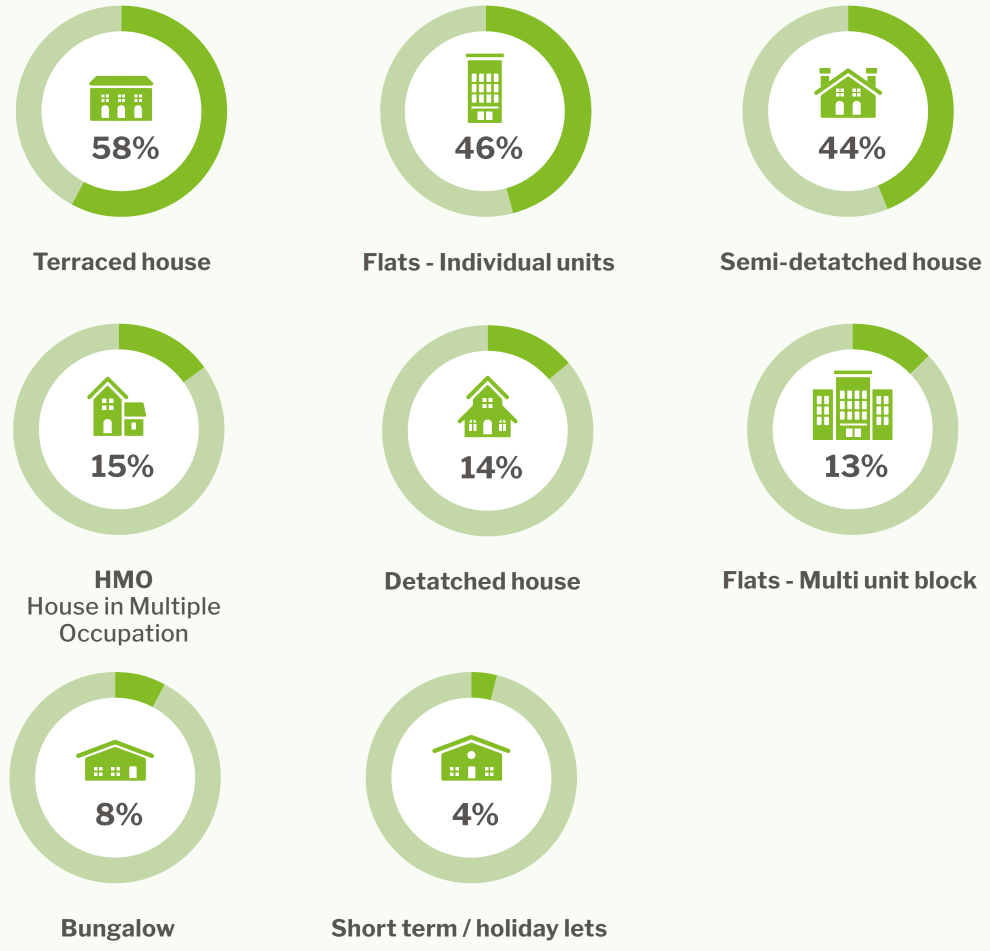
London (Central)
£2,018,000 | £71,000

London (outer)
£1,857,000 | £76,000

South East
£1,503,000 | £60,000



Type of property owned



The make-up of portfolios has remained relatively consistent, with terraced houses, owned by 58% of landlords, still the most common property type. Flats (individual units) are owned by 46% of landlords, making them the second most popular buy-to-let investment, while semi-detached houses come closely behind as the property type chosen by 44%.

Families with children continue to be the most common type of tenant after an increase of two percentage points since Q4 2021 in the proportion of landlords who let to this cohort – 51% to 53%.

The proportion of landlords letting to young couples, 49%, and young singles, 43%, has also grown slightly since last quarter and this results in no change amongst the top three groups who let homes privately.

Tenant type

53% Families with children

49% Young couples

43% Young singles

35% Older singles

28% White collar / professionals

24% Older couples

22% Blue collar / manual workers

16% Universal credit claimants

15% Retired

14% Students

12% Local housing allowance claimants

6% Migrant workers

6% Other benefit claimants

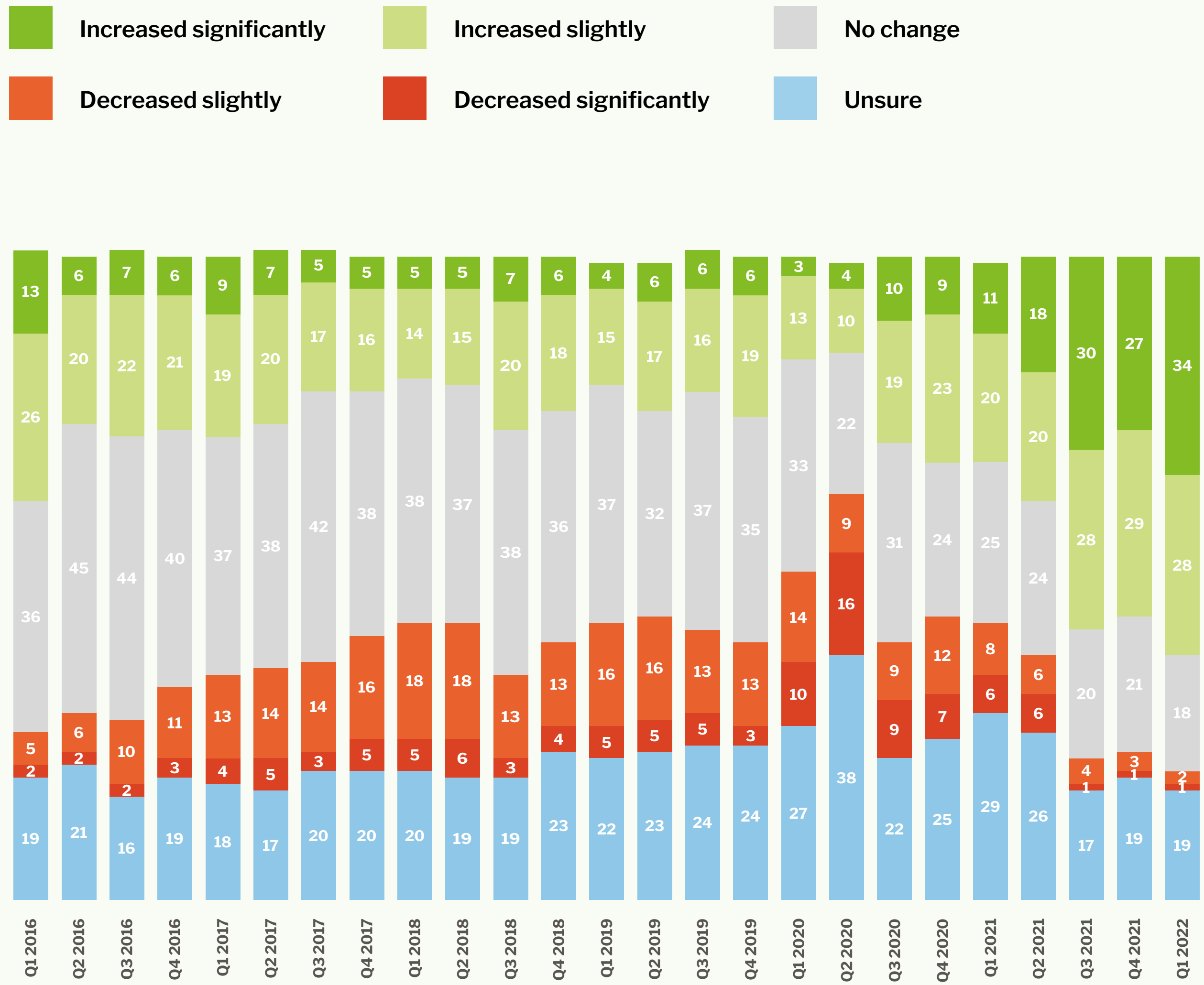
2% Executive / company lets

Tenant demand

The first quarter of 2022 sees another all-time high in the proportion of landlords reporting increasing tenant demand during the quarter. The previous all-time high of 57% was reported in Q3 2021 and, after a dip of one percentage point last quarter, this has risen to 62%.

Behind this net increase we see that just over a third, 34%, of landlords reported 'significant' increases in tenant demand, with a further 28% experiencing 'slight' increases.

Tenant demand (%)



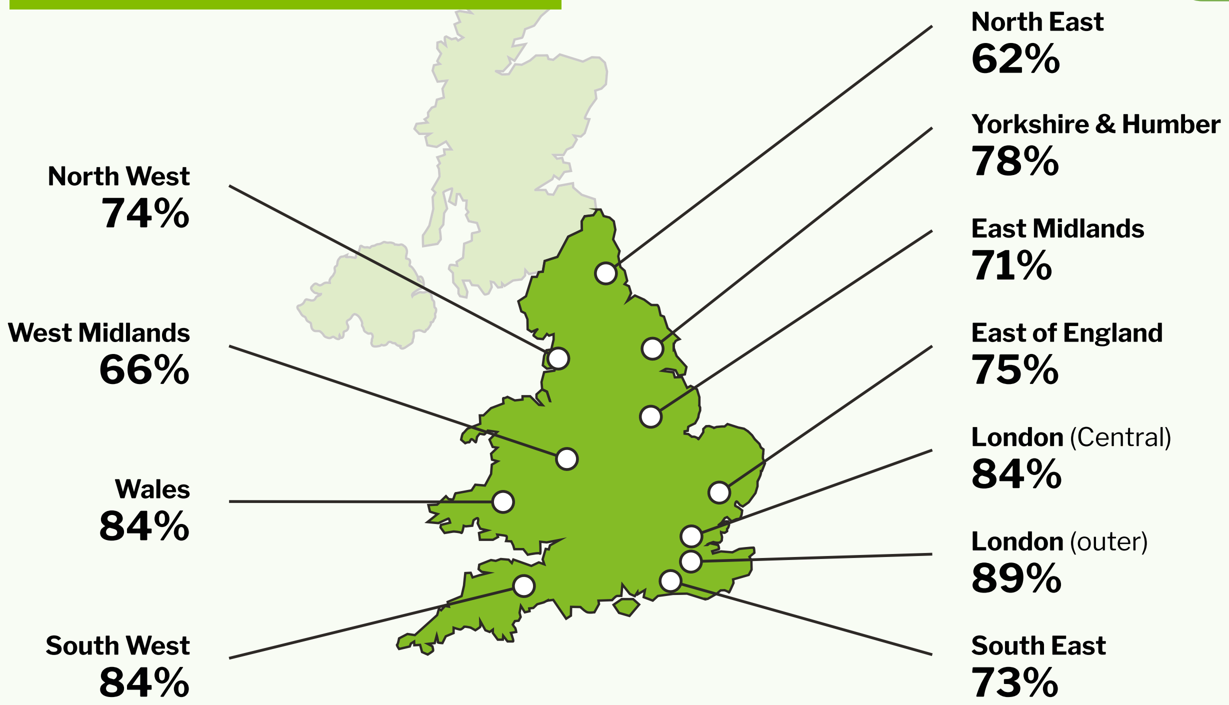
At the other end of the scale, decline in demand, both significant and slight, were recorded by just 3% of survey respondents.

The strong levels of tenant demand previously reported by landlords in the South West continues into 2022, with a net increase reported by 84% this quarter. The same proportion of landlords operating in Central London saw net increases in tenant demand, the 10-percentage point increase on the 74% noted last quarter highlighting how the resurgent market is going from strength-to-strength.

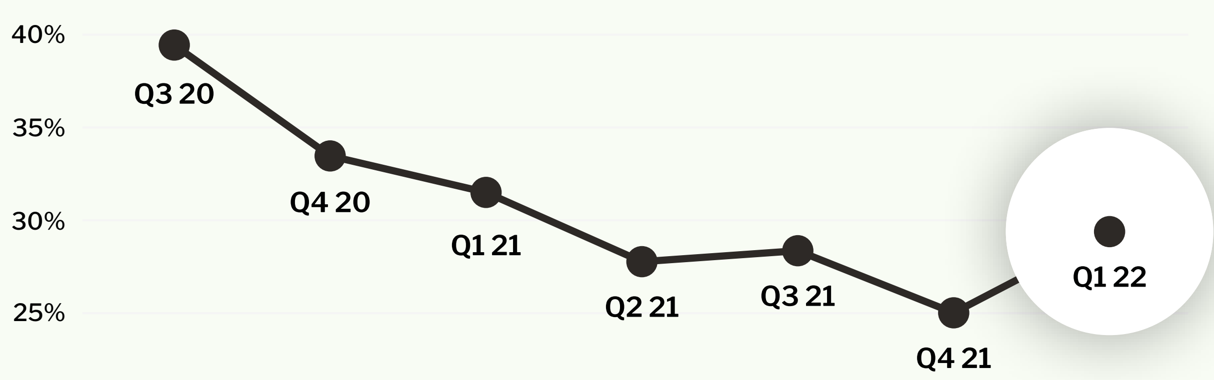
This shift now appears to be spreading throughout the capital's boroughs as tenant demand for the previous three months in Outer London has increased from 62% last quarter to 89% this time around, driven by 44% of landlords reporting 'slight' increases, while 35% said demand had increased 'significantly'.

Wales has also seen strong growth in tenant demand, with the 70% of landlords recording net increases in Q4 2021 climbing to 84% in Q1 2022.

Tenant demand in last three months
% of landlords reporting net increase

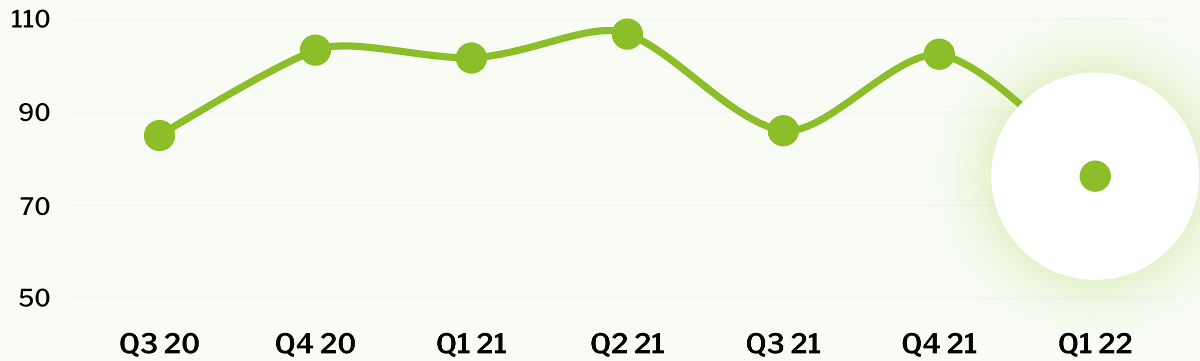


Incidence of voids in last 3 months (%)



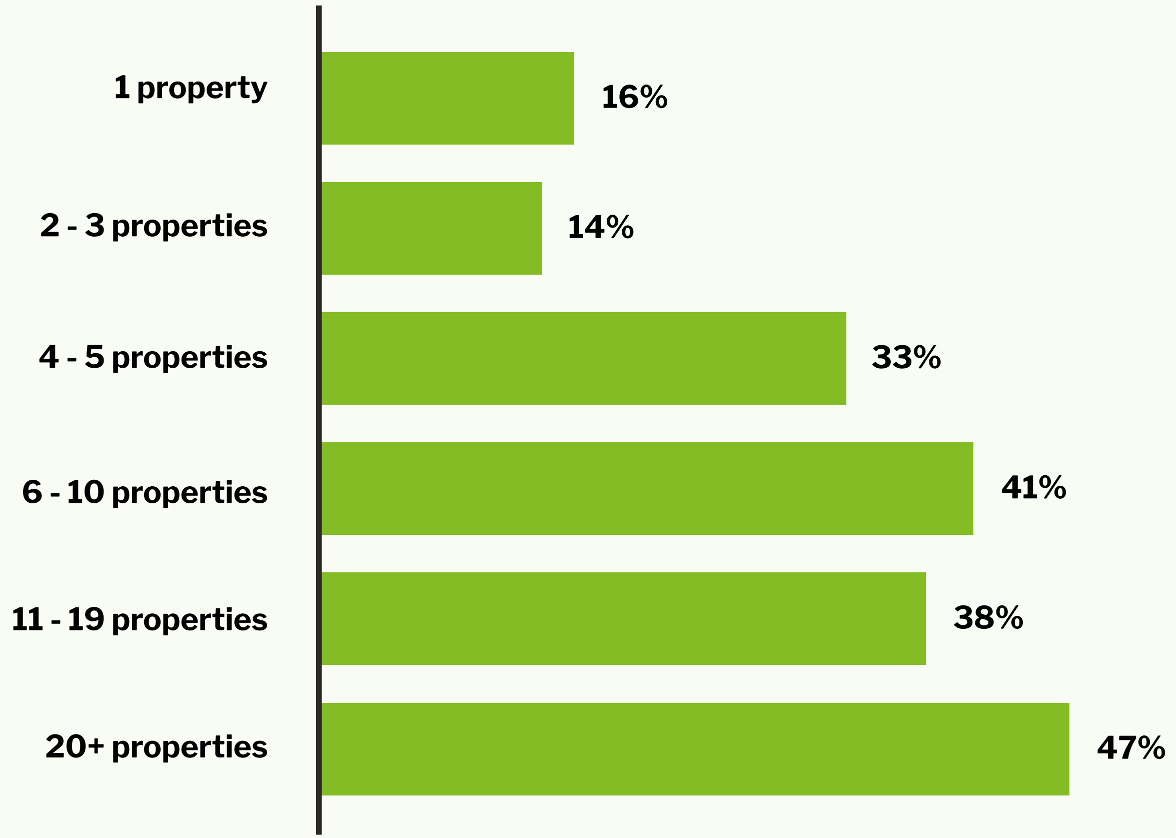
The incidence of void periods has increased by four percentage points on Q4 2021 to 41%. Seemingly at odds with such strong tenant demand, it should be noted that this increase is from the historic low reported last quarter and that average void duration has dropped from 103 days in Q4 2021 to 78 days, the shortest length recorded since the early part of the Covid pandemic.

Void Duration (Days)



It's fairly reasonable to expect that the more properties a landlord owns, the more likely they are to have one or more vacant and we do generally see void incidence increase in line with portfolio size. Interestingly, however, a key driver of this quarter's average increase in voids was the rise from 29% in Q4 2021 to 41% in Q1 2022 recorded by landlords with mid-sized portfolios of 6-10 properties.

Landlords experiencing voids in last three months - by portfolio size



Yield generation

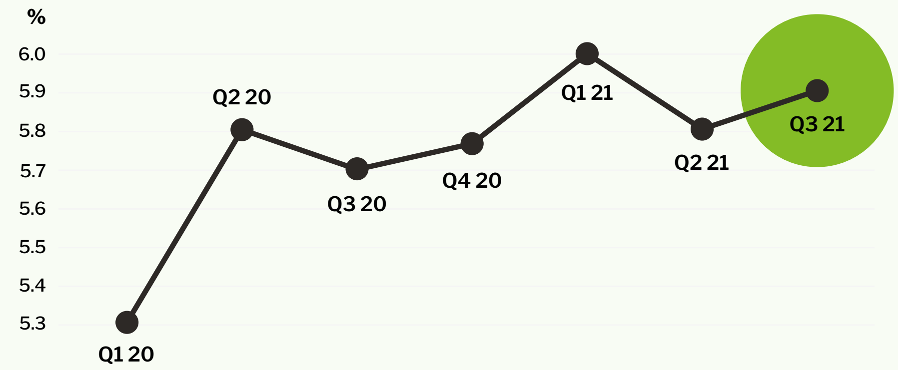
The average rental yield achieved by landlords has fallen from the 3-year high of 6.0% recorded last quarter to 5.5%.

As we saw in the previous quarter, the highest yields were achieved by landlords operating in Wales and the North East, although these regions were consistent with the overall reduction reported by landlords across the majority of the UK, falling from 6.9% to 6.0% and 6.8% to 6.0% respectively.

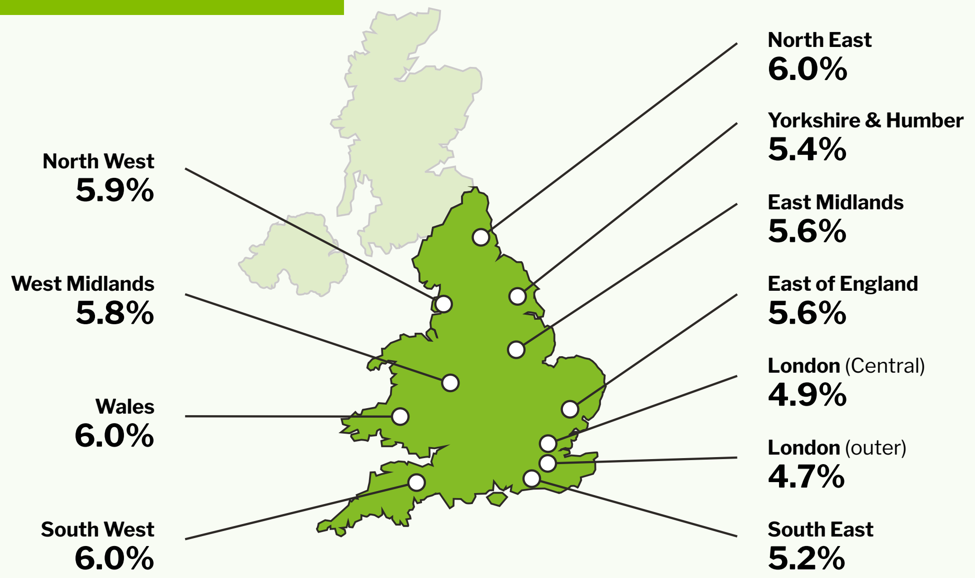
Yields of 6.0% were also seen in the South West, perhaps driven by the strong demand reported by landlords in the region. This represents no change since Q4 2021, bucking the general trend for falling returns and pushing the region up from the eighth best performing to third.

Again, consistent with Q4 2021, the resurgent tenant demand seen in the capital is yet to have any significant impact on landlords' bottom lines. Both Central and Outer London remain as the regions seeing the lowest rental yields, with the first seeing an increase of 0.1 percentage points and the latter a fall of 0.5 percentage points on last quarter.

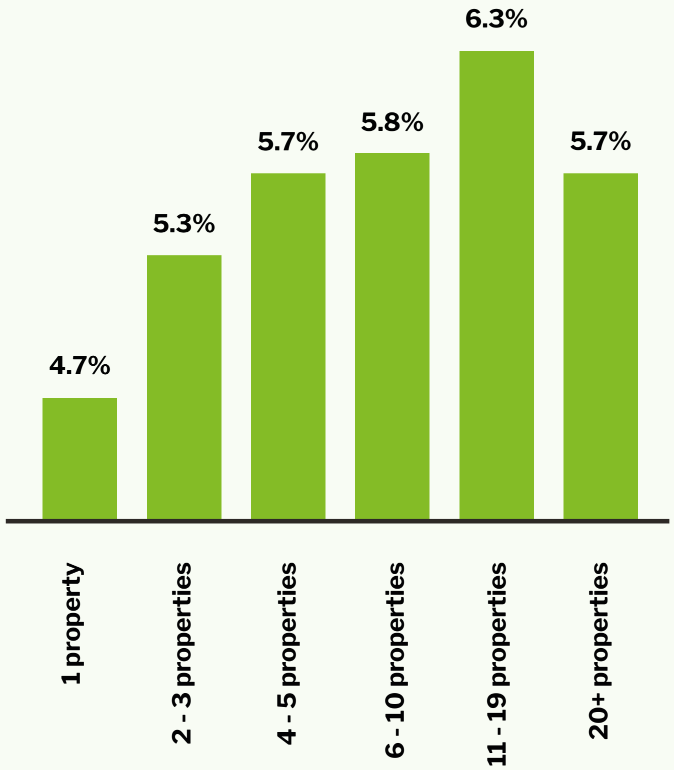
Yield generation - historical



Yield generation - by region



Yield generation - by portfolio size



When looking at the yields generated by different sized portfolios, we see relatively little variation, except at the two opposing ends of the scale – single property landlords report achieving yields of 4.8% on average, while those with 20 or more properties in their portfolios secure yields of 7.4%.

Yield generation - by property type

6.8% HMO

6.3% Flats - multi unit block

5.2% Bungalow

5.8% Terraced house

5.6% Semi-detatched

5.3% Detatched

5.5% Flats - individual

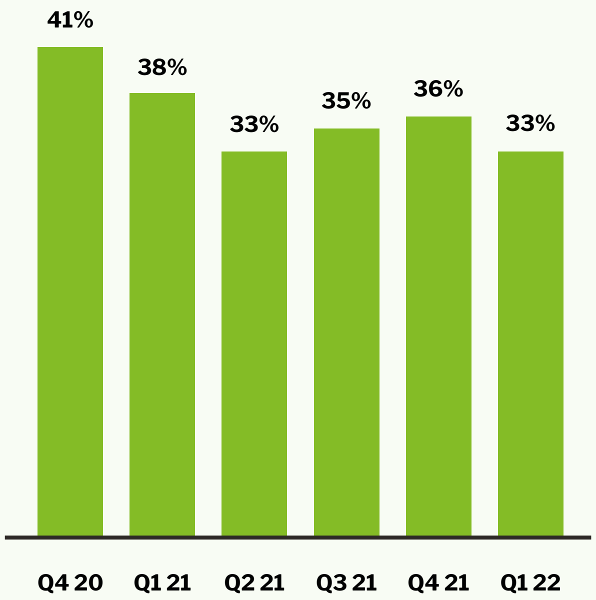
HMOs continue to be the property type with the ability to achieve the highest yields despite a decline from 7.5% in Q4 2021 to 6.8% this quarter.

Likewise, flats configured as multi-unit blocks saw a decline in the yields generated but remain the second-best performing property type in this regard. The same stability was not seen in bungalows, which produced the third highest yield of any property type last quarter but achieved the lowest returns in Q1 2022 following a fall from 6.3% to 5.2%.

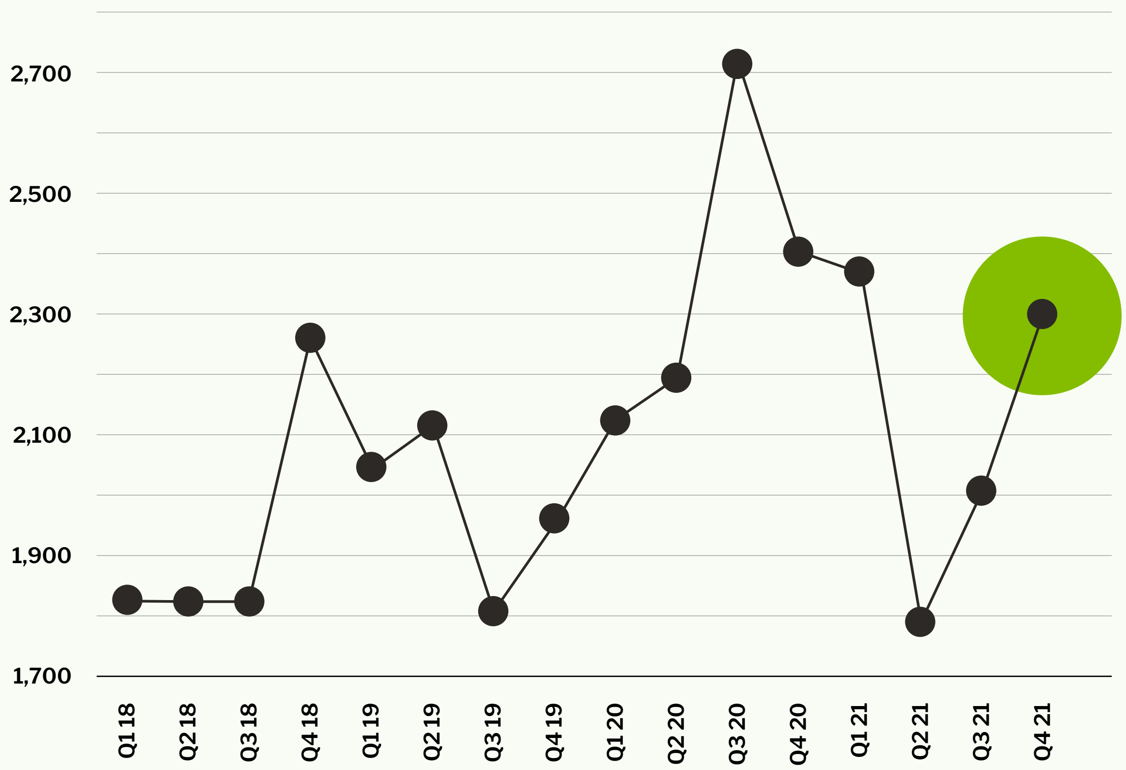
Rent arrears

On average, 33% of landlords reported experiencing tenants in rent arrears in Q1 2022, falling from 36% last quarter.

Incidence of Arrears in Last 12 Months



Average amount owed by tenants

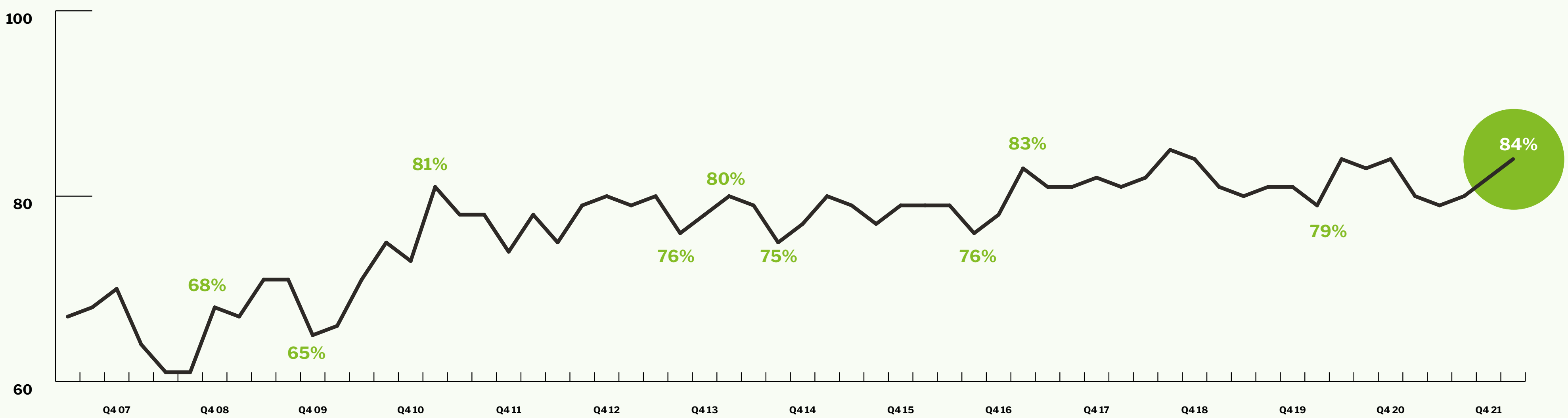


These landlords have an average of 1.5 tenants currently behind on their rental payments with the average amount owed £2,280, largely unchanged from the £2,300 outstanding last quarter.

Profitability

Net profitability is calculated by subtracting the proportion of landlords who make a financial loss from those who report making a profit. Q1 2022 sees a slight uplift in net profitability to 84%, up from 82% last quarter to continue the upward trend evident since the second quarter of last year.

Landlord profitability - historical

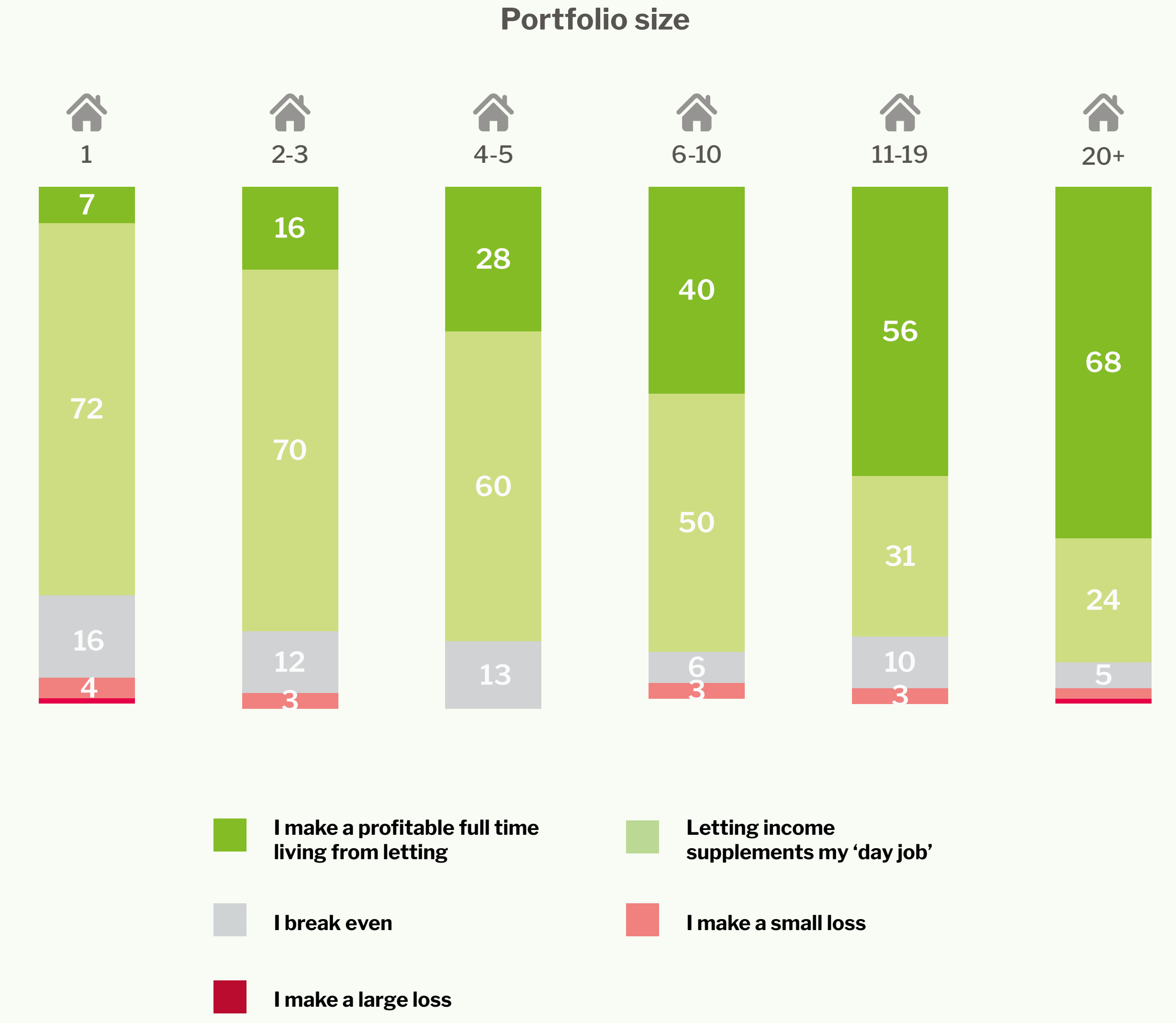


Lettings businesses provide a profitable full time living for three in 10 of all landlords. This figure more than doubles to 68% for landlords with 20 or more properties, revealing how as portfolios increase in size, so does the proportion of landlords who make a profit.

On average, just under six in 10 say their letting income supplements their day job, highlighting how the majority of landlords are not full-time.

Consistent with Q4 2021, just 3% of landlords report making a loss. This is fairly even across the range of portfolio sizes with a notable exception amongst landlords with between four and five properties where no losses were reported.

Profitability (%)



Landlord business expectations

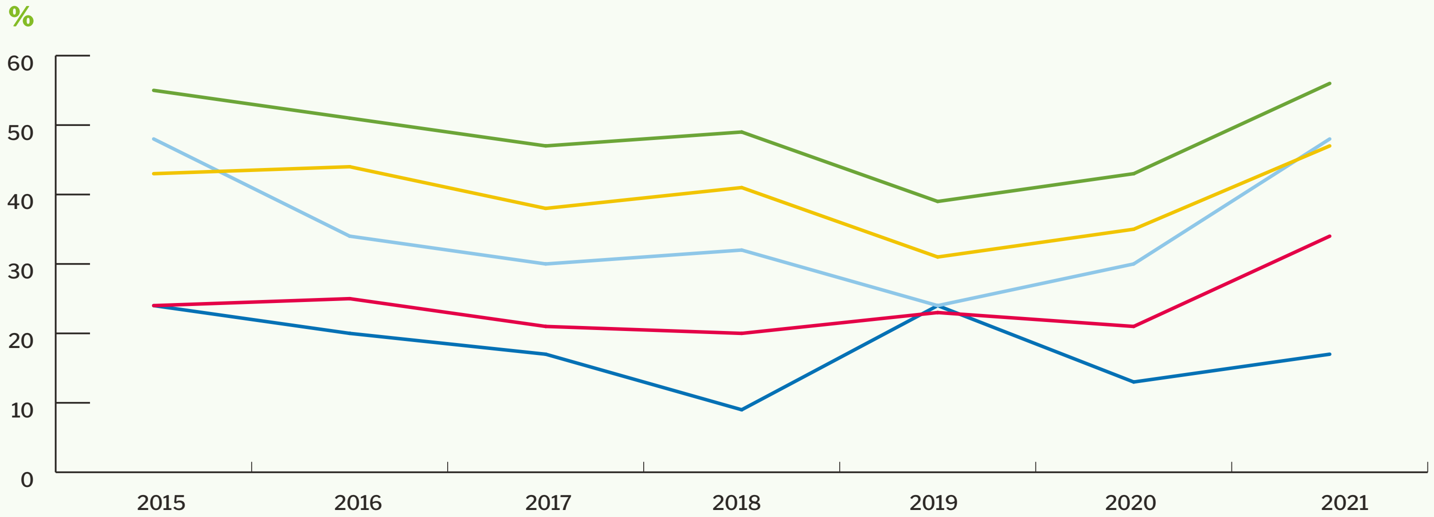
We're provided with a really interesting picture by asking landlords to rate five different facets of letting – capital gains, rental yields, UK financial market, UK private rented sector and own lettings business.

This is because their responses seem to reflect the appreciation of property values and overall strength of the buy-to-let sector, driven by continued demand for privately rented homes, but concern about the wider economy is apparent - compared to the same period a year ago we see that landlords are more confident about prospects for capital gains, rental yields, their own lettings business and the UK private rental sector. The outlook for the UK financial market was less positive however, with the proportion of landlords rating it as 'Good' or 'Very Good' dropping from 21% Q1 2021 to 12% this time around.

Landlords rating their expectations for next three months as 'good'/'very good' (%)

Landlord confidence trend
Business expectations - % rated 'Good' or 'Very Good'

- **Rental yield**
- **Own letting business**
- **Private rental sector**
- **Capital gains**
- **UK's financial market**

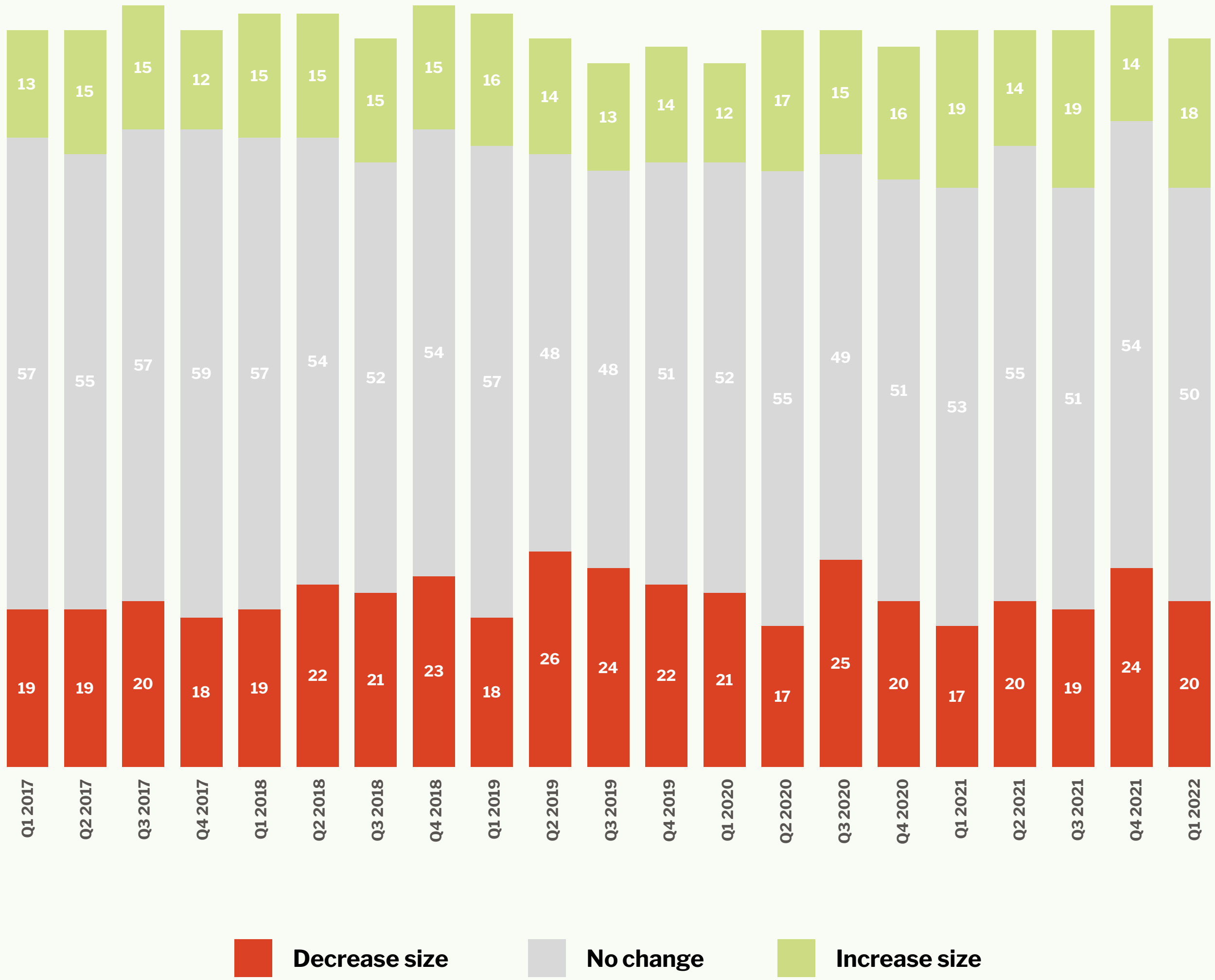


Portfolio intentions

Following a decline to 14% last quarter, the proportion of landlords who indicated that they plan to acquire more properties has grown to 18%. Of these landlords who plan to invest, an average of 1.9 properties are anticipated to be acquired each.

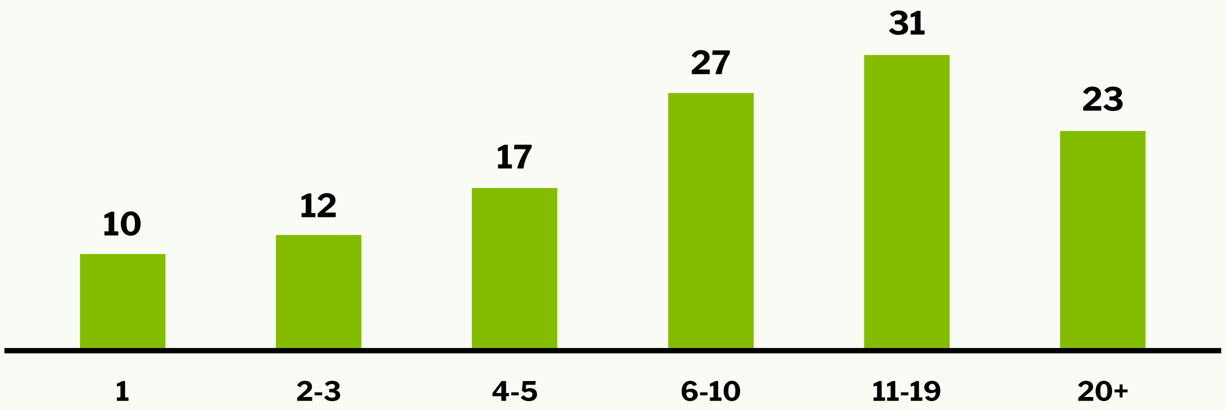
There has also been a decrease in the proportion of property investors who intend to reduce the size of their portfolios in the next 12 months, falling from 24% in Q4 2021 to 20% in Q1 2022. These landlords expect to sell an average of 2.5 properties each.

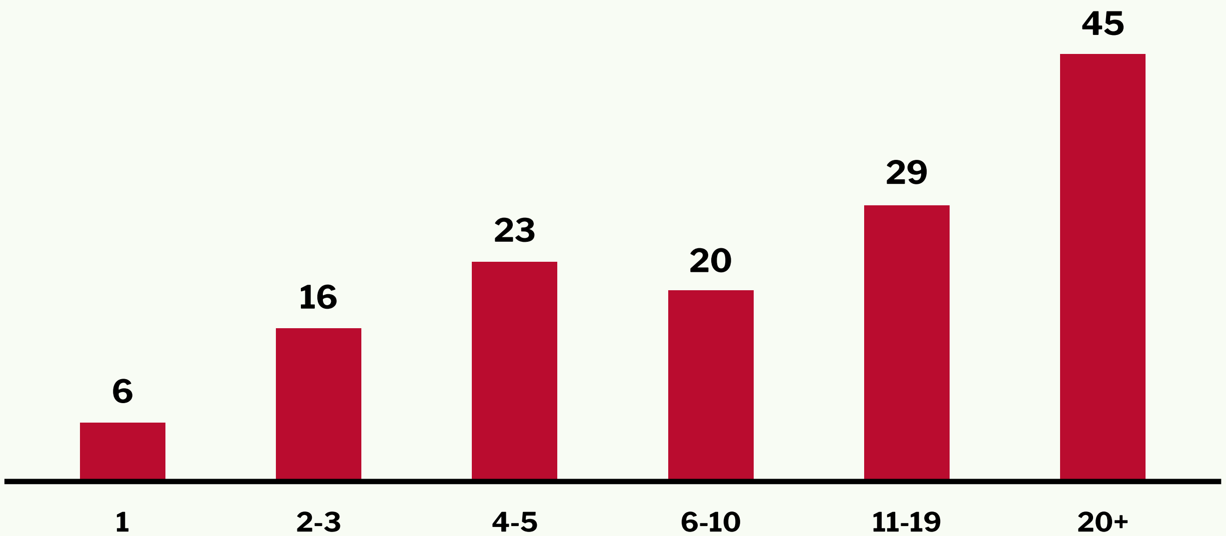
Portfolio Intentions in next 12 months (%)



Adjustments to portfolios are more likely to be made by those with larger portfolios. Almost one third (31%) of landlords with between 11 and 19 properties will seek to buy while 29% plan to sell, increasing to 45% amongst those with 20 or more properties.

Portfolio Intentions in next 12 months (%)





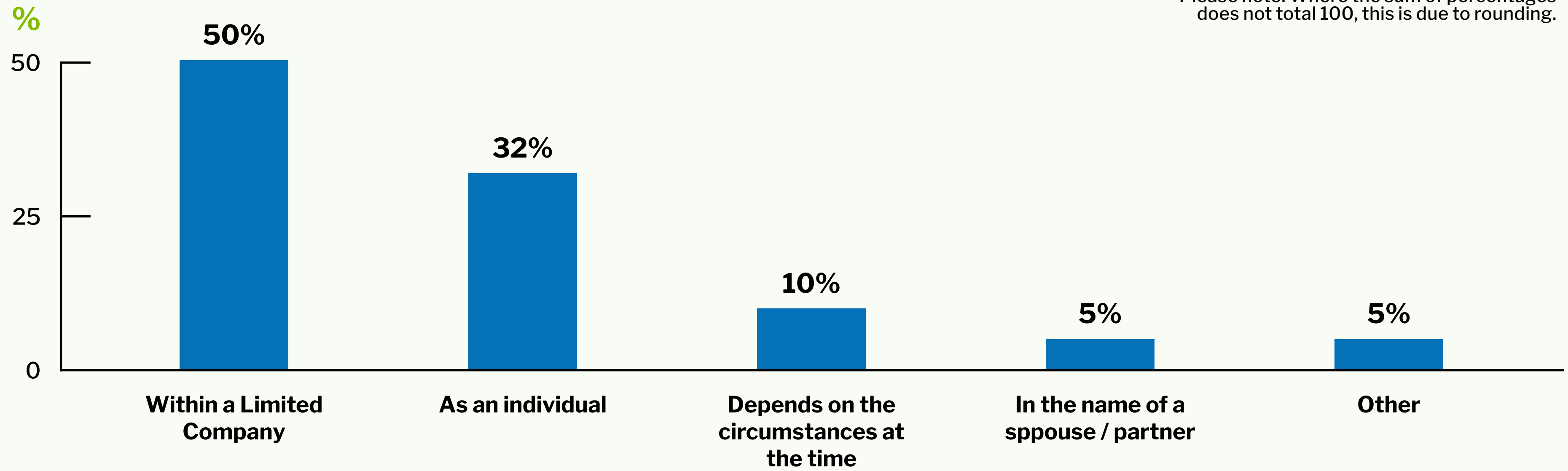
Property purchase strategies

Since the previous PRS Trends report there has been a fall of two percentage points in the proportion of landlords who plan to purchase their next buy-to-let property within a limited company - 52% in Q4 2021 to 50% in Q1 2022.

Alongside this, the proportion of those who plan to make their next property investment as an individual has decreased by 10 percentage points from 41% in Q4 2021 to 31% in Q1 2022.

How landlords intend to buy the buy-to-let property

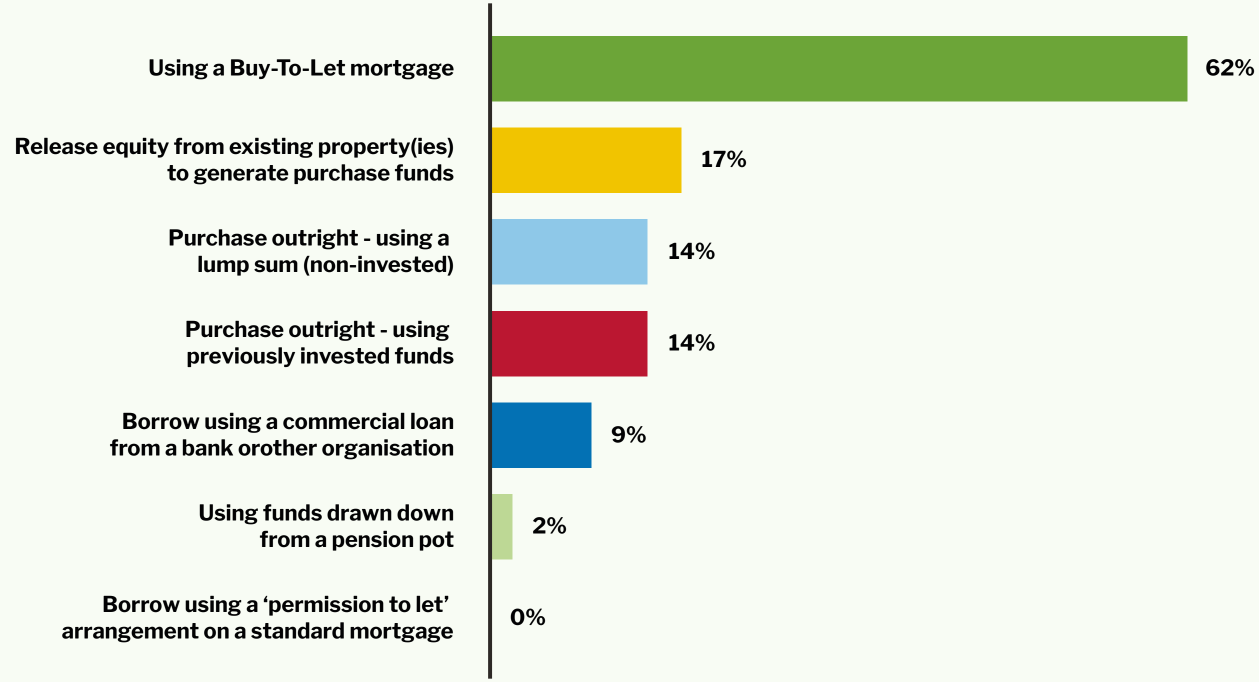
*Please note: Where the sum of percentages does not total 100, this is due to rounding.



Looking at how investors intend to finance their property acquisitions we see that buy-to-let lending remains the most popular choice, chosen by 62% of landlords. This is despite a drop from 68% last quarter, with a similar decline of seven percentage points in those who say they will release equity from existing properties – 24% in Q4 2021 to 17% in Q2 2022.

It appears that funding sources are influenced by portfolio sizes, with landlords who own 11 or more properties less likely to purchase using buy-to-let lending (67% vs 46%) or by releasing equity from existing properties (19% vs 11%) but more likely to buy outright using a lump sum of non-invested funds.

Source of funding for next property purchase (%)

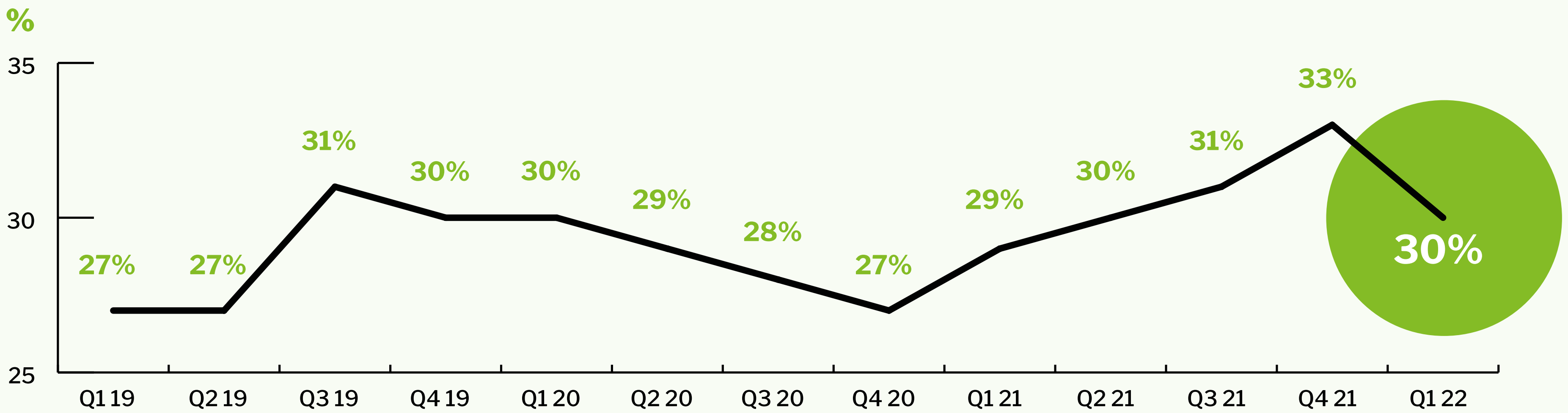


1-10	67	19	12	12	7	1	0
11+	46	11	20	17	14	6	0

Remortgage intention

During the next 12 months three in 10 leveraged landlords plan to remortgage. Remortgage intent is unsurprisingly more common amongst portfolio landlords, those with four or more buy-to-let mortgages, when compared to those with between one and three properties (39% vs. 24%).

Intend to remortgage in next 12 months (% YES)



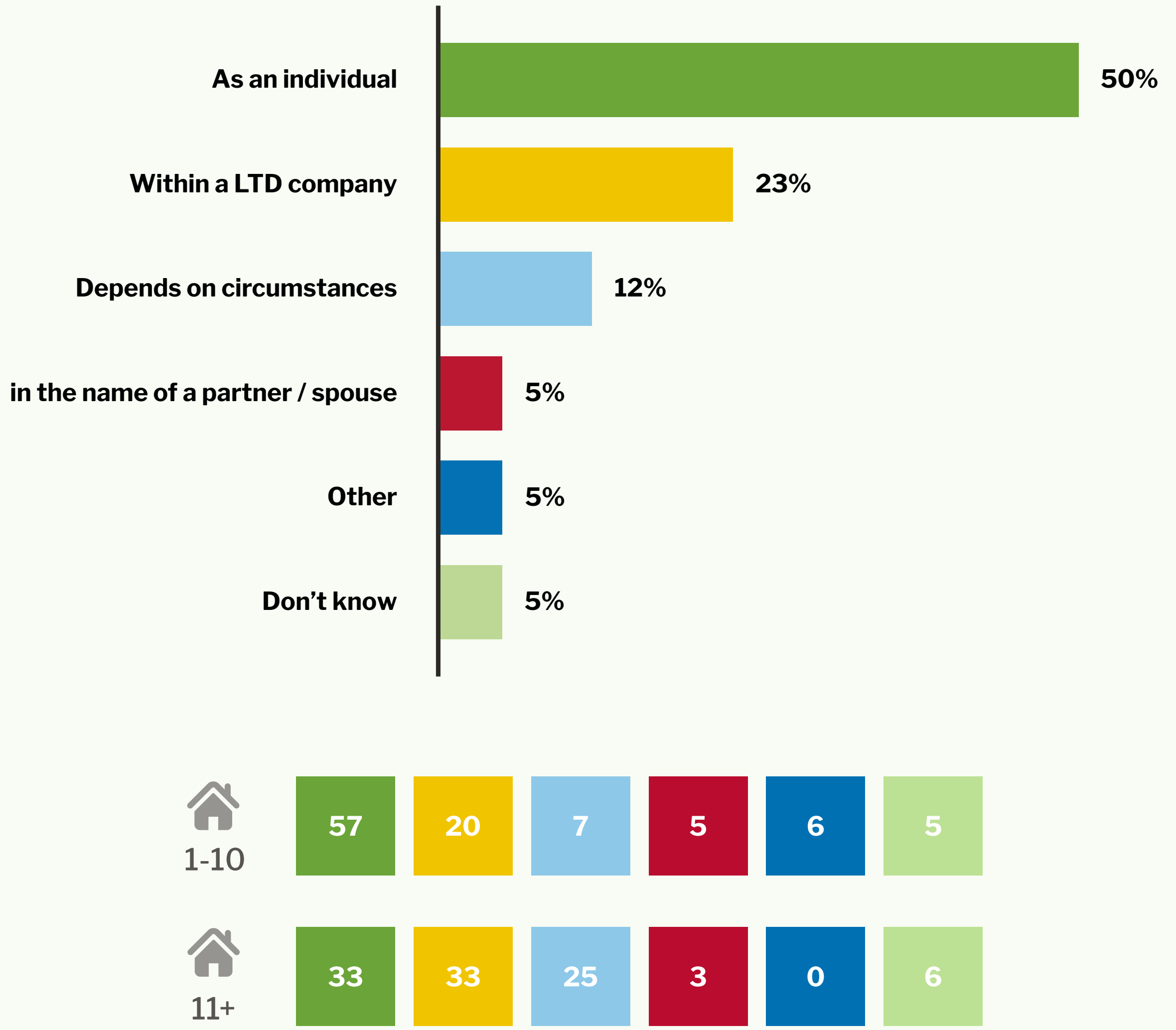
Of those who plan to remortgage over the next year, half intend to do so as an individual, the most popular option. Re-mortgaging within a limited company is the second most common choice, the intention of just under a quarter. This is followed by the just over one in 10 who say it depends on the circumstances.

One in twenty will remortgage in the name of a spouse or partner or using an other method.

Similarly to sources of funding for planned purchases, we see differences in the remortgage plans based on portfolio sizes.

Those with between one and 10 properties are much more likely to remortgage as an individual (57% vs 33%) while those with portfolios made up of 11 or more properties recorded an increased likelihood of remortgaging within a limited company (33% vs 20%).

Plans to remortgage as (%)



The Q1 2022 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with 729 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews during March 2022.

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