

PRS TRENDS

Q20
421





The latest Private Rented Sector trends report reveals continued strong demand for rented homes, low incidences of void periods and landlords responding to changing tenant preferences.

The final Private Rented Sector (PRS) Trends report of 2021 helps to reinforce the idea that the PRS has been a vital facet of the UK's housing provision during another year full of ups, downs and uncertainty.

The strong tenant demand seen over the past 18 months has continued and been experienced by landlords in all regions, including Central London where the impact of the pandemic was felt to a greater degree compared to other areas.

This sustained need for privately rented homes has helped to drive a 5-year low in the incidence of void periods and stable landlord profitability.

We also see how changing tenant preferences are influencing landlord investment intentions. More landlords who are looking to grow their portfolios over the next year plan to purchase semi-detached and detached properties. Signifying a shift towards larger homes, semi-detached houses are a more attractive acquisition than terraced properties for the first time since the metric was tracked in 2017.

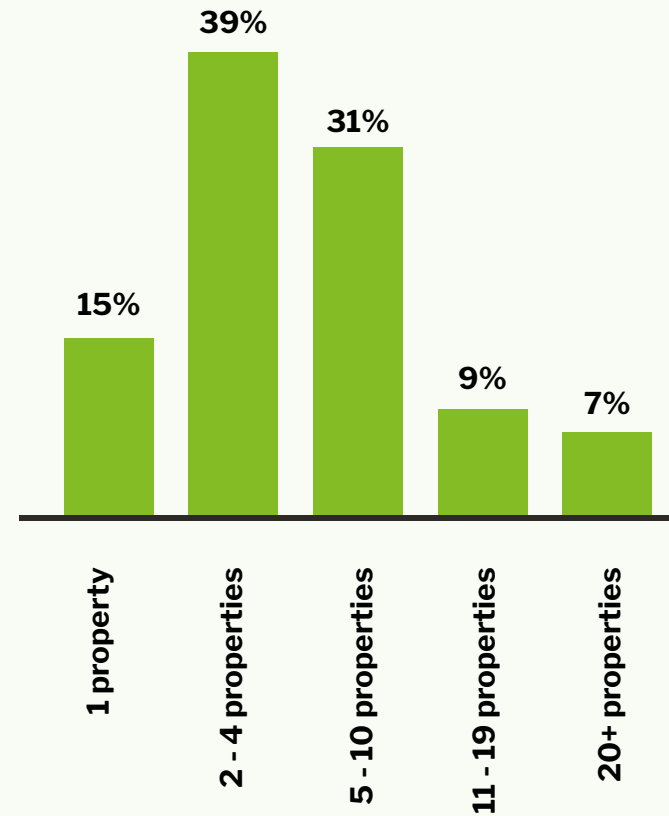
Richard Rowntree
Managing Director for Mortgages



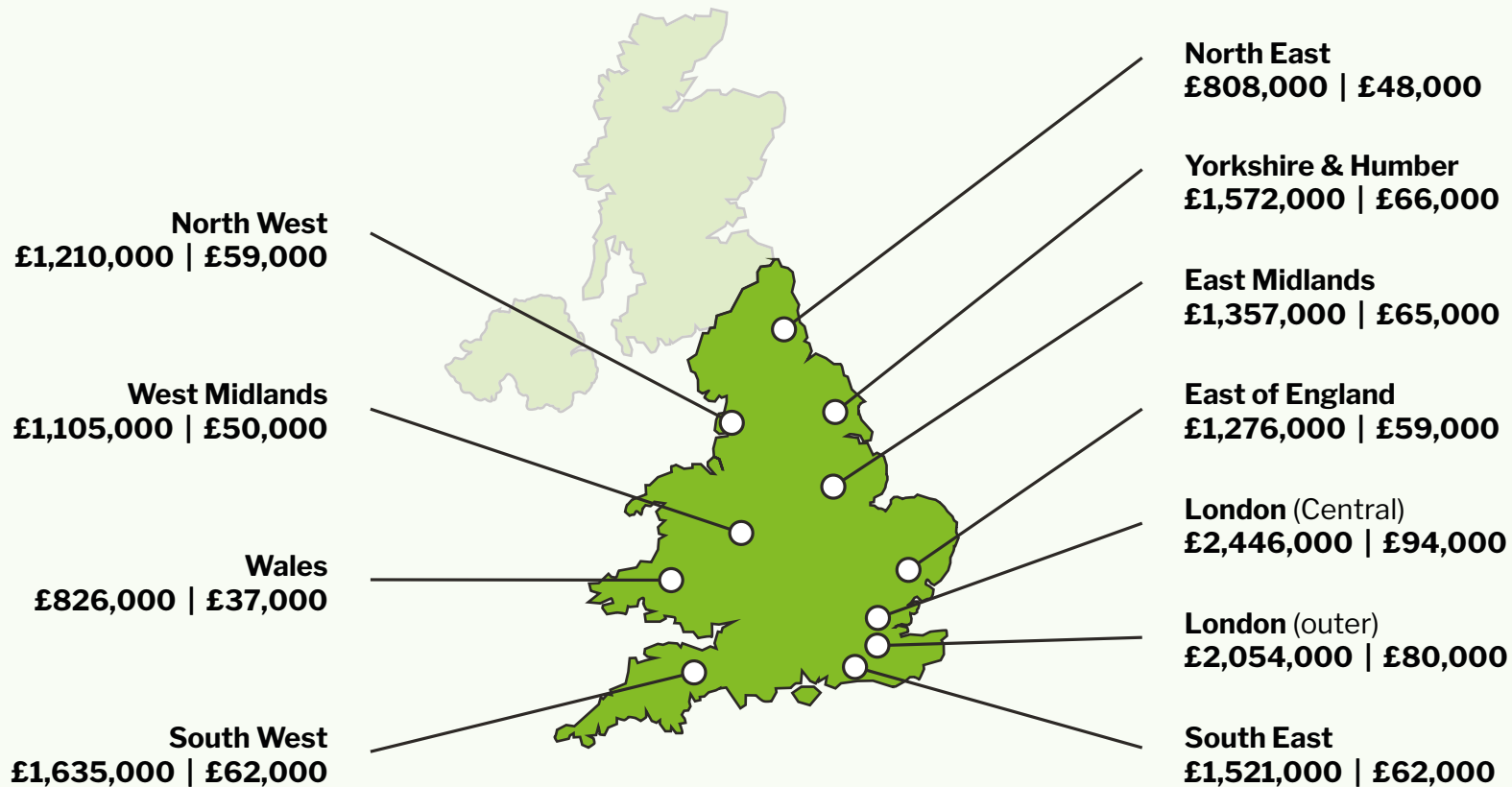
Portfolios

A typical portfolio has an approximate value of £1.4 million in Q4 2021, delivering £59,000 in gross rental income annually. This comprises an average number of 6.9 properties, each valued at an average of £201,600 and contributing £8,550 or £713 per calendar month.

Number of properties in portfolio
(by percentage of landlords)



Gross annual rental income & portfolio value levels by region



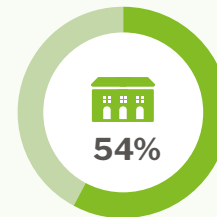


Those with larger portfolios typically have a wider range of property types

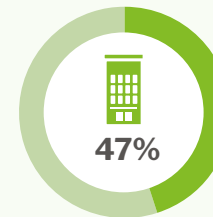
On average, 54% of landlords have at least one terraced house in their portfolio, making them the most popular type of buy-to-let property. This is followed by flats (individual units) which are owned by 47% of landlords and semi-detached houses, owned by 43%.

Compared to single property landlords, those with 11 or more properties tend to have portfolios made up of a wider range of property types, with larger landlords more likely to own HMOs and blocks of flats, for example.

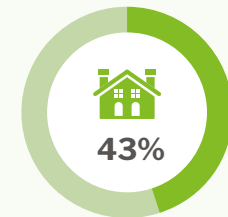
Type of property owned



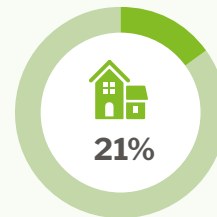
Terraced house



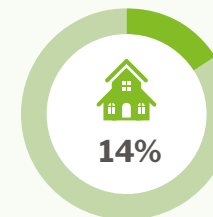
Flats - Individual units



Semi-detached house



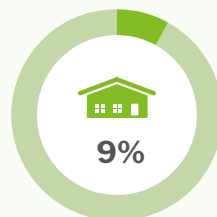
HMO
House in Multiple
Occupation



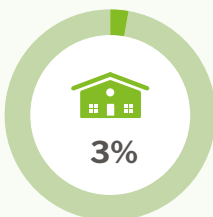
Detached house



Flats - Multi unit block



Bungalow



Short term / holiday lets

51%

of landlords let to families with children, making it the most popular tenant type

Despite falling by 6 percentage points since last quarter, families with children continues to be the most common type of tenant, with just over half, 51%, of landlords letting to this group. This is followed by young couples and young singles.

The typical landlord has 8.5 tenancies which is higher than the 6.9 average number of properties due to some property types, such as HMOs, housing multiple tenants.

Across these 8.5 tenancies, 3.0 different tenant segments are represented on average.

Tenant type


51%

Families with children


43%

Young couples


41%

Young singles


34%

Older singles


26%

White collar / professionals


21%

Older couples


18%

Blue collar / manual workers


14%

Students


13%

Retired


13%

Universal credit
claimants

11%

Local housing
allowance claimants

5%

Migrant workers


4%

Other benefit claimants



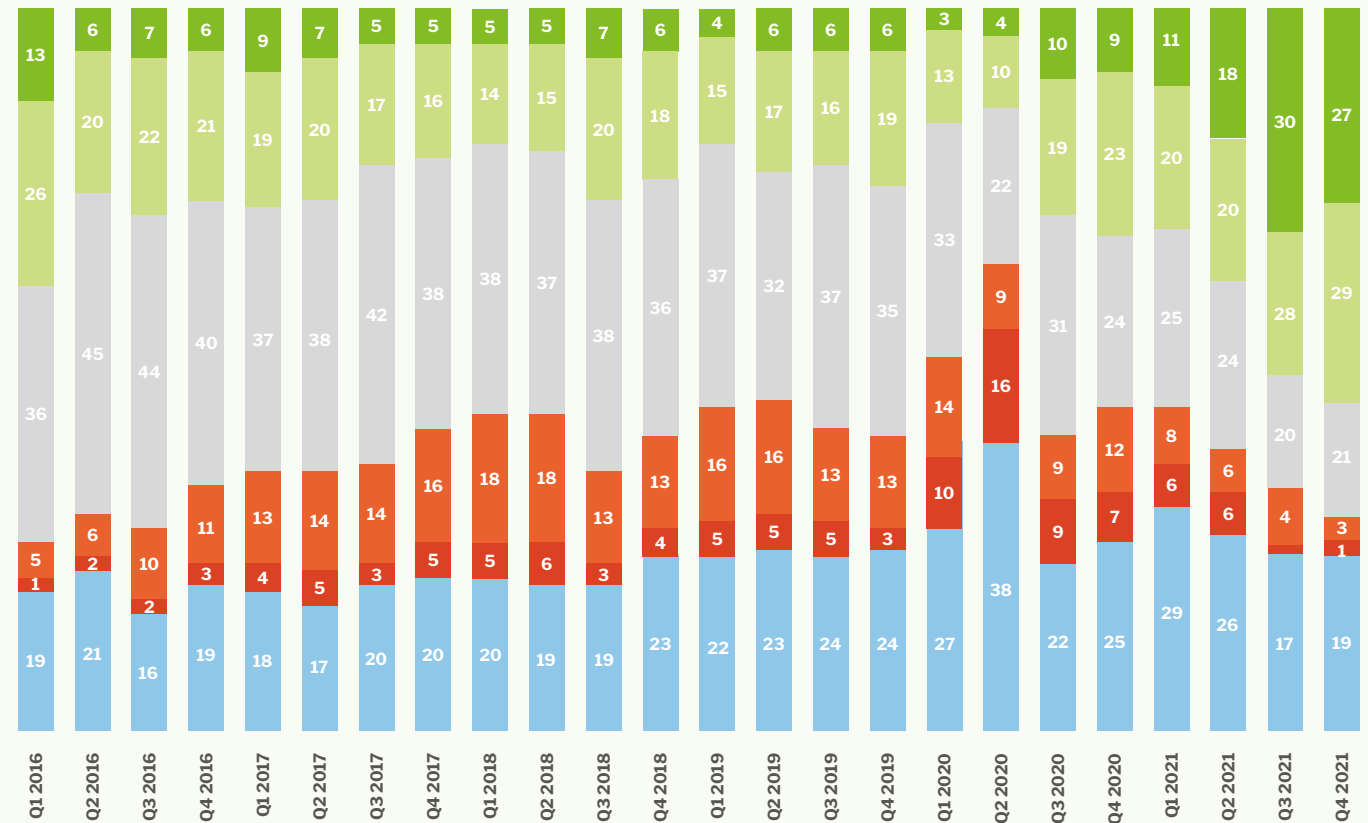
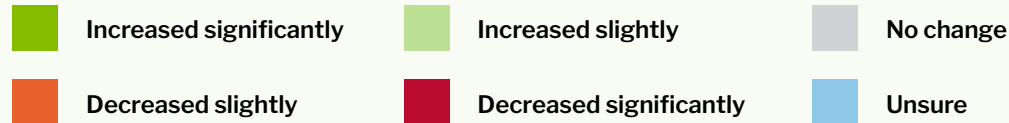
Tenant demand

In Q3 2021, tenant demand hit an all-time high of 57%. This level of demand has continued throughout Q4 2021, with 56% of landlords reporting a net increase during the previous three months.

Landlords with larger portfolios of 11 or more properties were more likely to report increased tenant demand compared to those with 1-10 properties – 74% vs 53%.

Only 1% of landlords said that tenant demand had reduced significantly, with a further 3% reporting a slight decrease.

Tenant demand (%)



The South West continues to be the region seeing the strongest levels of increasing tenant demand overall after 77% of landlords reported it has either increased significantly (43%) or slightly (34%).



When analysed at a regional level, we see interesting shifts in tenant demand. The most notable change was seen in Central London after the 54% net increase reported in Q3 2021 climbed to 74% this quarter. As a result, Central London goes from the region with the weakest tenant demand last time it was measured, to the third strongest area in this regard. This places Central London just behind Yorkshire and The Humber which has also seen considerable growth.

This data supports other evidence, such as the number of new tenancies being 50% above the five-year average, that highlights a resurgence of London's rental market.

Taking the place of Central London as the region with the lowest proportion of landlords reporting increased tenant demand is the North East. Unchanged from last quarter, 59% of landlords with property in the North East indicated that demand had increased, while the proportion noting slight decreases grew from 7% to 11%.

Porlock Village, Somerset



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



Only
25%
of landlords have
experienced a void
period in the last
three months,
a five-year low



Proportion of landlords experiencing a void period (%)

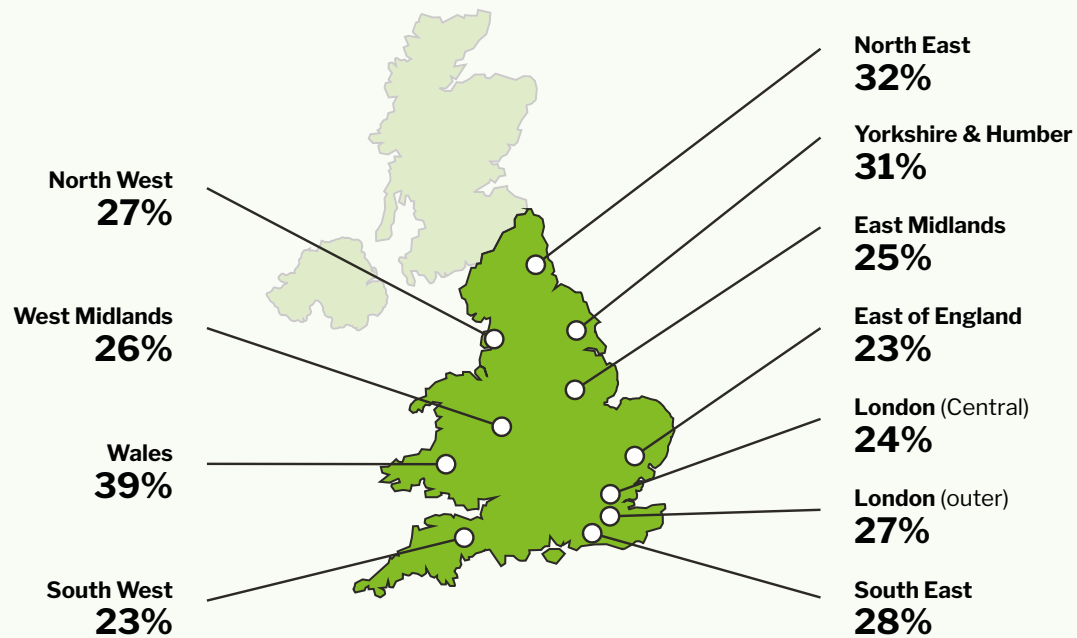


After peaking at 39% in Q3 2020, the incidence of voids has continued to drop. Now, 25% of landlords have experienced a void period in the last three months, a five-year low.

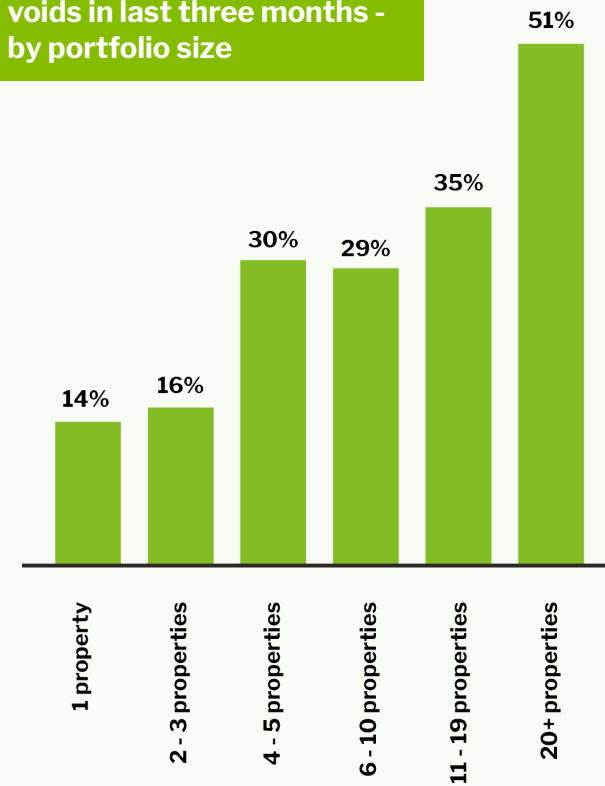
This decrease is mostly driven by a reduction in landlords with portfolios consisting of six or more properties experiencing recent voids.

Landlords in the South West and East of England were least likely to have experienced void periods in the last three months

Landlords experiencing voids in last three months - by region



Landlords experiencing voids in last three months - by portfolio size



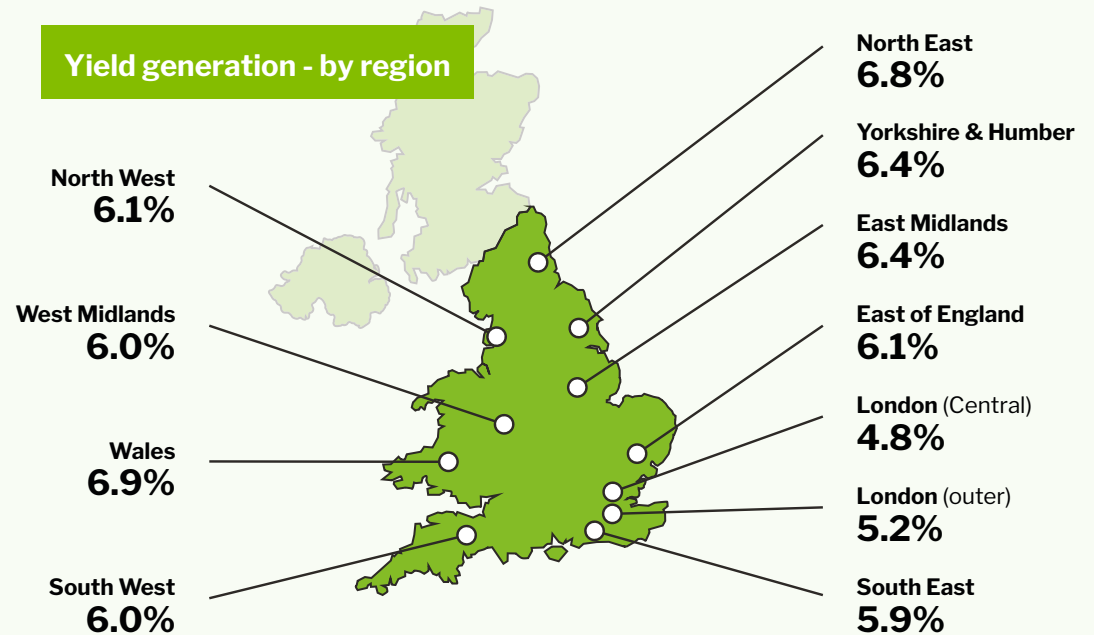
Yield generation

In Q4 2021, after a slight increase of one percentage point since last quarter, yields achieved by landlords returned to the 3-year high of 6% that was originally recorded in the first quarter of 2021.

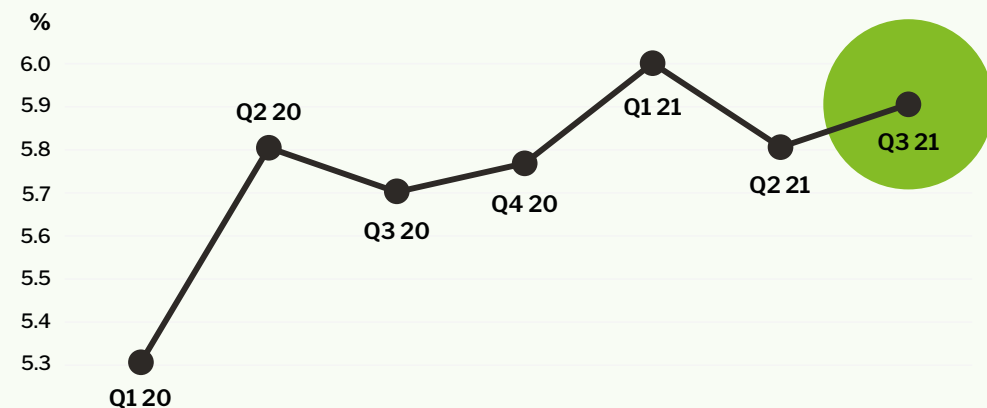
The highest average yields are generated by landlords in Wales (6.9%) and the North East (6.8%), following increases of 1.0% and 0.6% respectively since last quarter.

The encouraging uptick in tenant demand seen in Central London has not translated to profits generated. Last quarter, landlords in Central London reported yields of 5.9%, aligning it to the national average, but Q4 2021 sees the capital's centre fall to the bottom of the regional yield table.

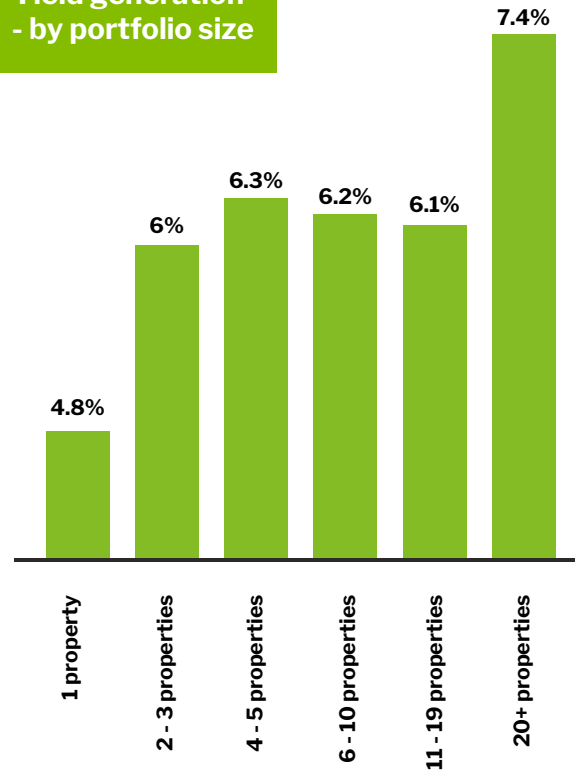
Yield generation - by region



Yield generation - historical

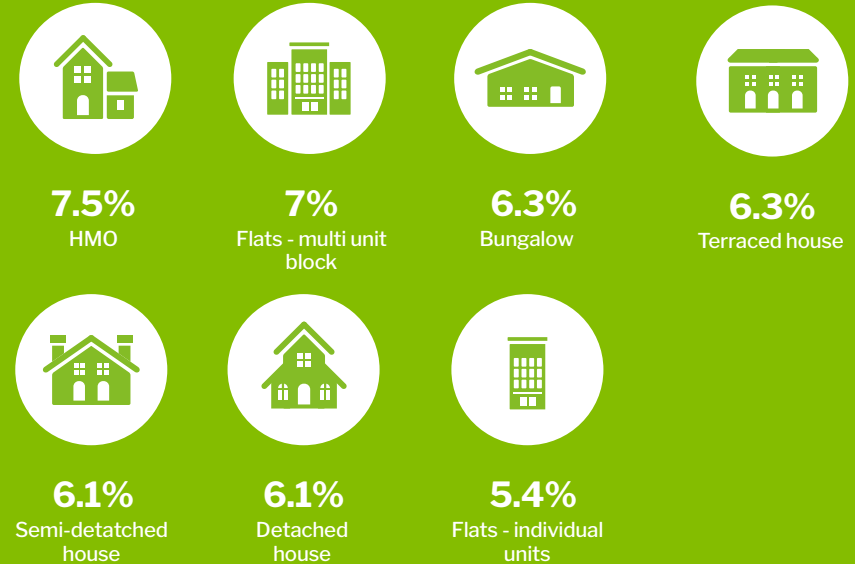


Yield generation - by portfolio size



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



Yields achieved by landlords letting Houses in Multiple Occupation (HMO) increased by 0.3 percentage points from 7.2% last quarter to 7.5% in Q4 2021. As a result, HMOs continue to be the property type responsible for generating the highest yields.

Similar to HMO, the ability to house multiple tenancies in

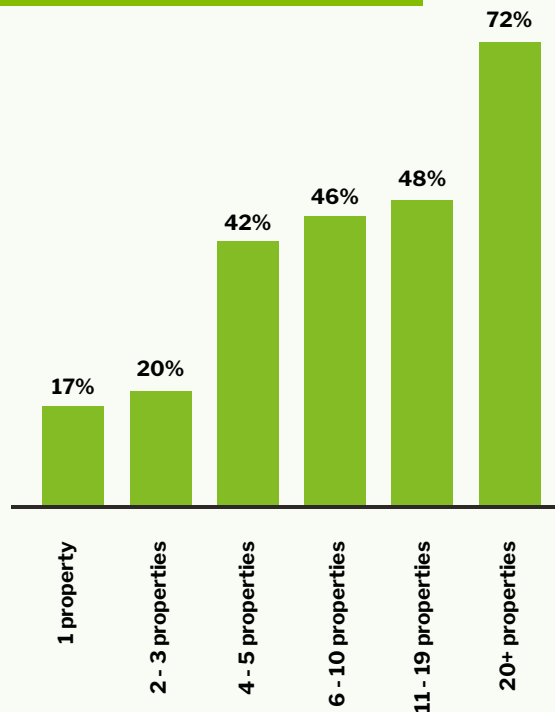
one larger property delivers strong yields for landlords managing multi-unit blocks of flats, the second highest yielding property type.

Conversely, flats configured as individual units offered landlords the lowest average yields of 5.4% in Q4 2021 after a fall of 0.5 percentage points since the previous quarter.

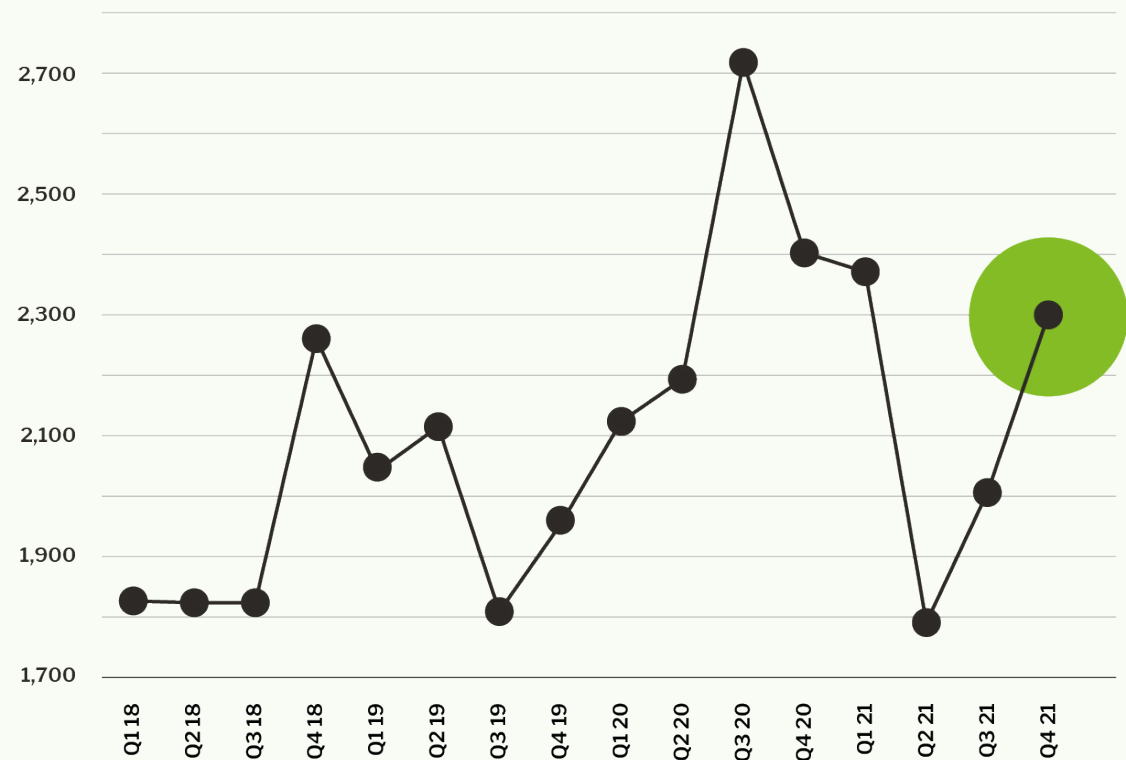
Rent arrears

The average proportion of landlords experiencing tenants in rent arrears saw a slight rise from 35% last quarter to 36% more recently. This figure rises in line with portfolio sizes, reaching 72% amongst landlords with 20 or more properties, the substantial increase due to their increased exposure to tenants in arrears.

Arrears by number of properties



Average amount owed by tenants

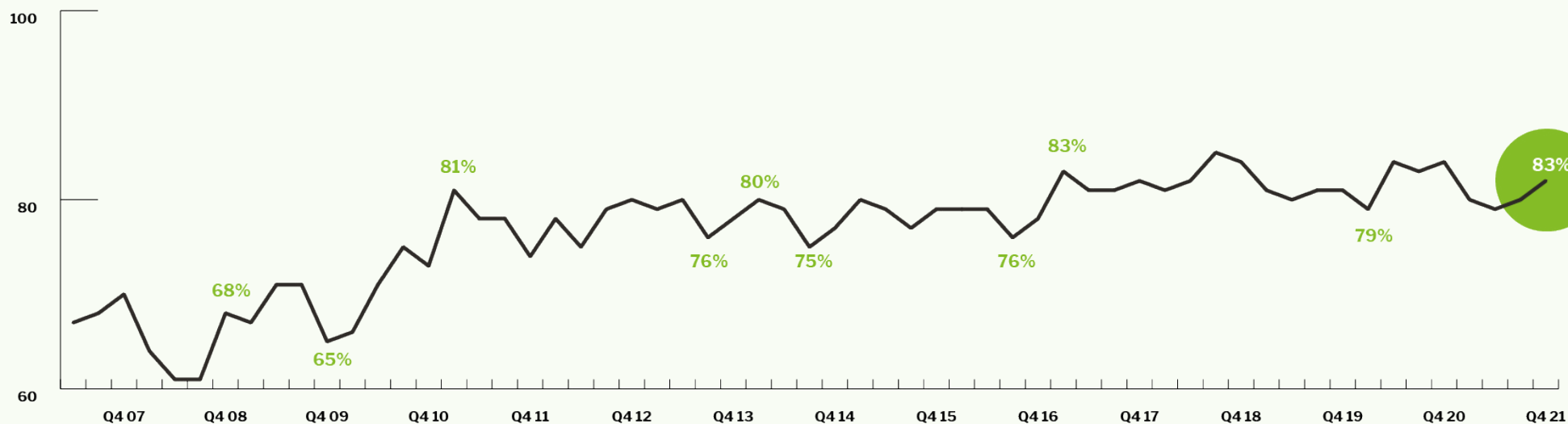


The average value of rent owed by tenants continues to rise following the 5-year low of £1,780 recorded in Q2 2021. After climbing by £271, the average value of rent owed by tenants in Q4 2021 was £2,300.

Profitability

Landlord profitability in 2021 averaged lower than in 2020 but was stable and largely consistent with the long-term trend

Landlord profitability - historical

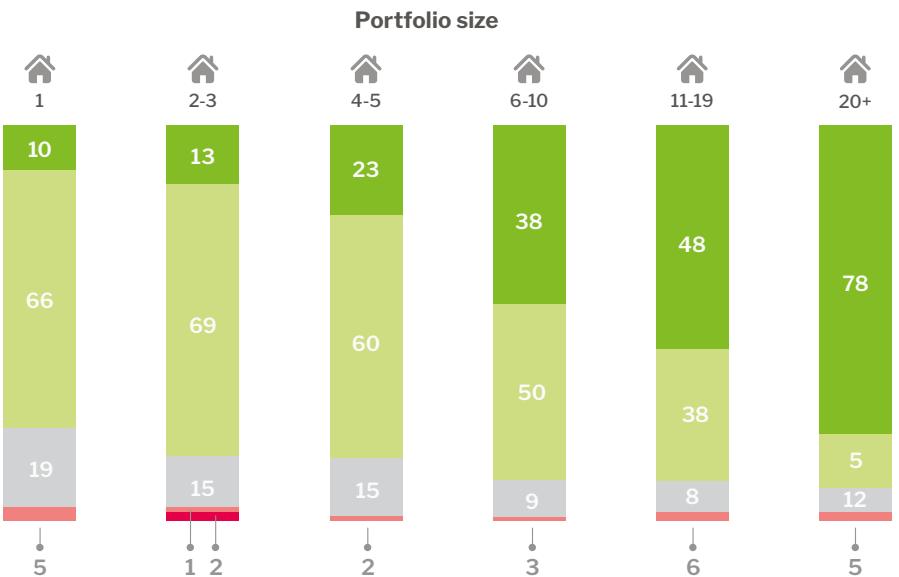


Compared to the previous three, the final quarter of the year saw the largest proportion of landlords making a profit from their lettings activity. After rising by two percentage points since Q3 2021, 82% of landlords reported either making a profitable full time living from letting (29%) or that letting supplements their 'day job' (56%).

Profitability correlates to portfolio size, with the proportion of landlords generating a profit increasing in line with the number of properties owned.

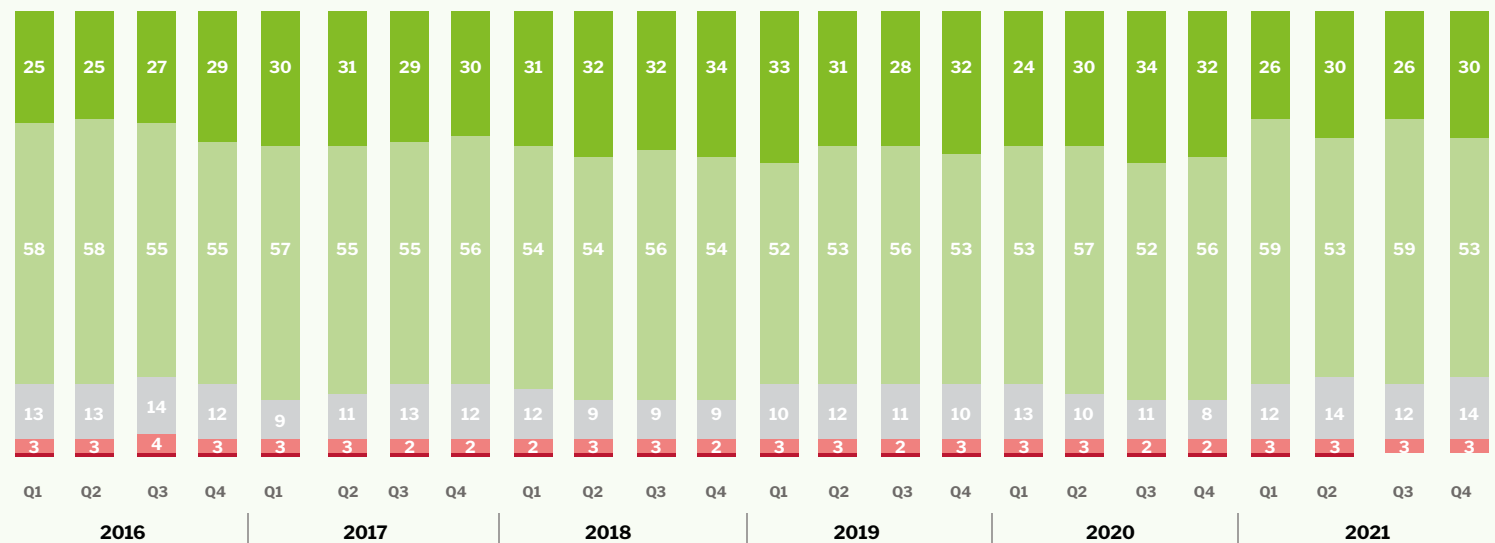
Profitability (%)

- I make a profitable full time living from letting
- Letting income supplements my 'day job'
- I break even
- I make a small loss
- I make a large loss



Profitability 2016 - 2021

- I make a profitable full time living from letting
- Letting income supplements my 'day job'
- I break even
- I make a small loss
- I make a large loss



Landlord business expectations

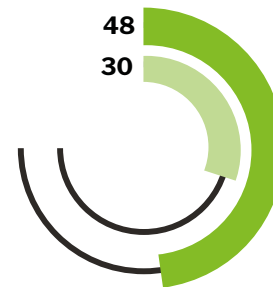
While seeing relatively little change since last quarter, when compared to the same period in 2020, landlord confidence has increased across all of the key optimism indicators. This metric is generated by asking private rented sector (PRS) landlords to rate five different facets of letting – capital gains, rental yields, UK financial market, UK private rented sector and own lettings business.

The most notable increase can be seen in capital gains following year-on-year growth in confidence of 18%. A modest year-on-year increase of 4% can be seen in the proportion of landlords rating their expectations for the UK financial market as either 'good' or 'very good'. Perhaps influenced by the widely reported rises in inflation, this is following a fall of nine percentage points from 26% to 17% since last quarter.

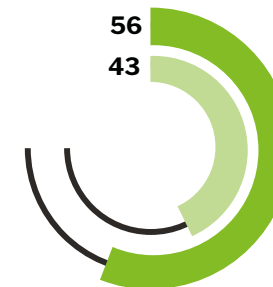
Landlords rating their expectations for next three months as 'good'/'very good' (%)

■ Q4 21

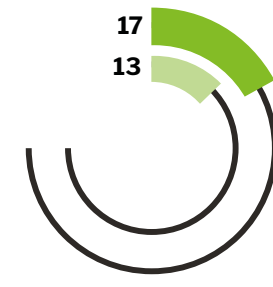
■ Q4 20



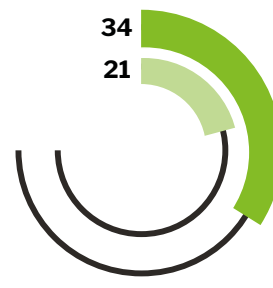
Capital gains



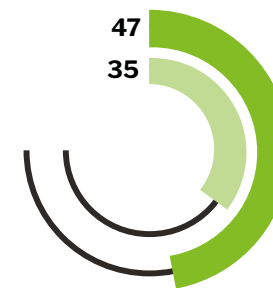
Rental yields



UK financial market



UK private rented sector



Own lettings business



Honing in on landlords' expectations for their own lettings businesses, we see that optimism remains consistent with the 5-year high recorded in Q3 2021.

This is an average, aggregated across all landlords surveyed but when viewed by different portfolio sizes, optimism is seen to a greater degree amongst those with larger portfolios – 43% of landlords with between one and three properties stated that they rate their expectations for their lettings business as good or very good, rising to 58% amongst those with 20 or more properties.

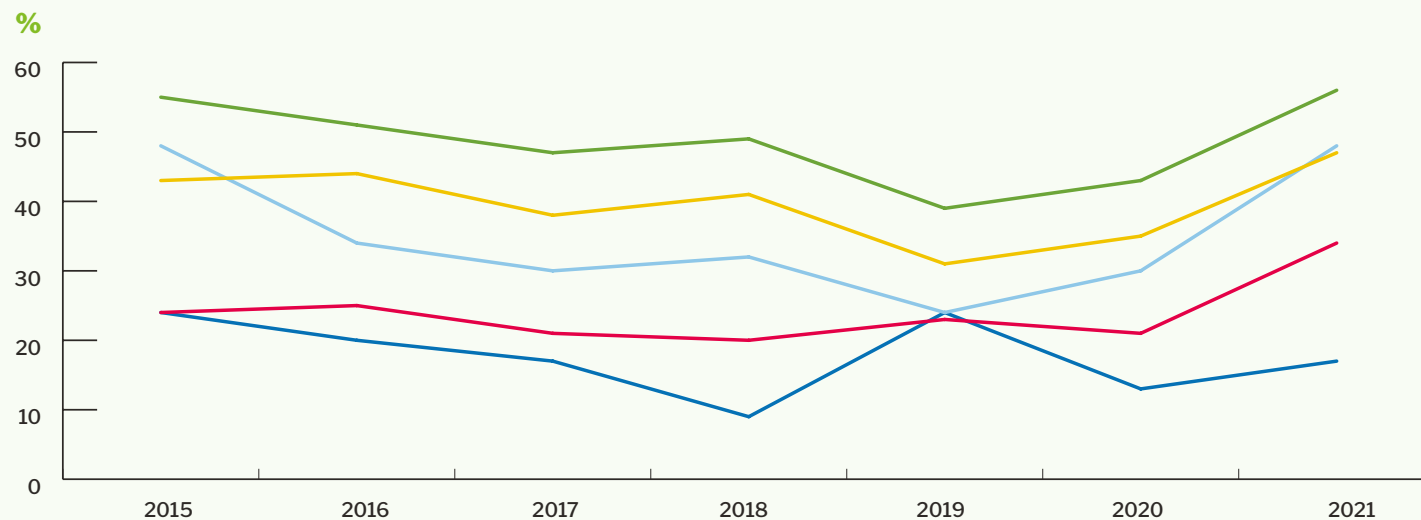
Seemingly influenced by the property type's strong yield performance, landlords who let HMO are more likely to feel upbeat (59%) compared to those who manage flats (45%) and houses (48%).

59%
**of landlords who let HMO
are more likely to feel
upbeat compared to those
who manage flats (45%)
and houses (48%)**



Landlord confidence trend

Business expectations - % rated 'Good' or 'Very Good'



Portfolio intentions

During the time since the last PRS Trends, there has been an increase in the proportion of landlords who have expressed an intention to sell property in the next 12 months, rising from 19% in Q3 2021 to 24% in Q4 2021.

Alongside this, the proportion intending to acquire more properties has fallen from 19% in Q3 2021 to 14% this time around. Those that plan to expand their portfolios will look to acquire an average of 1.9 properties, mirroring the number of properties that those divesting expect to sell.

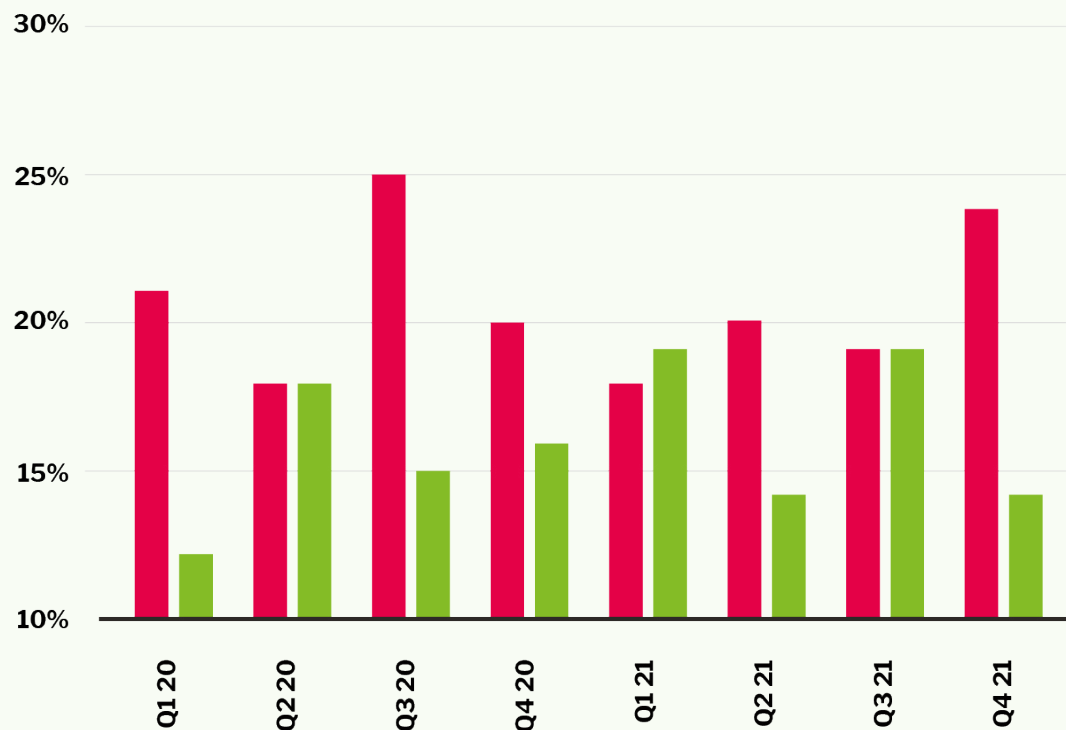
Those with larger portfolios anticipate being more active in the market over the next year compared to their counterparts with fewer properties – 24% of landlords with 11 or more properties expect to buy and 32% think they will sell.

Amongst those seeking to expand their portfolios, semi-detached houses have overtaken terraced houses as landlords' intended purchase targets.

Landlord portfolio intentions - historical

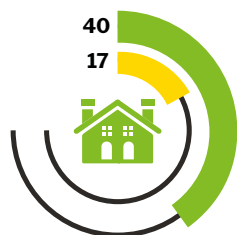
Reduce no. of properties

Increase no. of properties

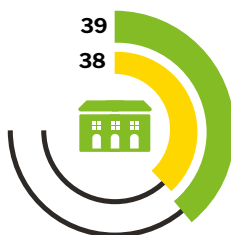


Planned purchase behaviour in the next 12 months

Will buy Will sell



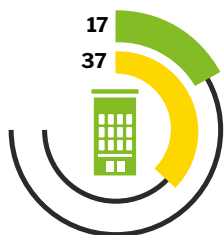
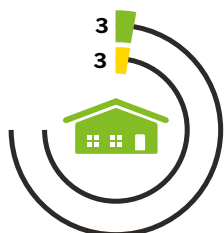
Semi-detached house



Terraced house



Detached house

Flats - individual units
in a blockHMO (House in
Multiple Occupation)Flats - a block of
individual units

Bungalow



After a 6% increase since Q2 2021, 40% of landlords now plan to purchase semi-detached homes, while 39% will target terraced houses.

This marks the first time that semi-detached houses have been more attractive to investors than terraced homes since the metric was first tracked in 2017.

Further evidence of growing tenant demand for larger homes, the past two years have also seen a rise in the popularity of detached houses.

In Q2 2019, 9% of landlords revealed a desire to add a detached property to their portfolio, climbing to 18% in Q4 2021.

Property purchase strategies

The proportion of landlords who plan to purchase their next buy-to-let property within a limited company structure has increased by 9 percentage points from 43% in Q3 2021 to 52% in the final quarter of 2021.

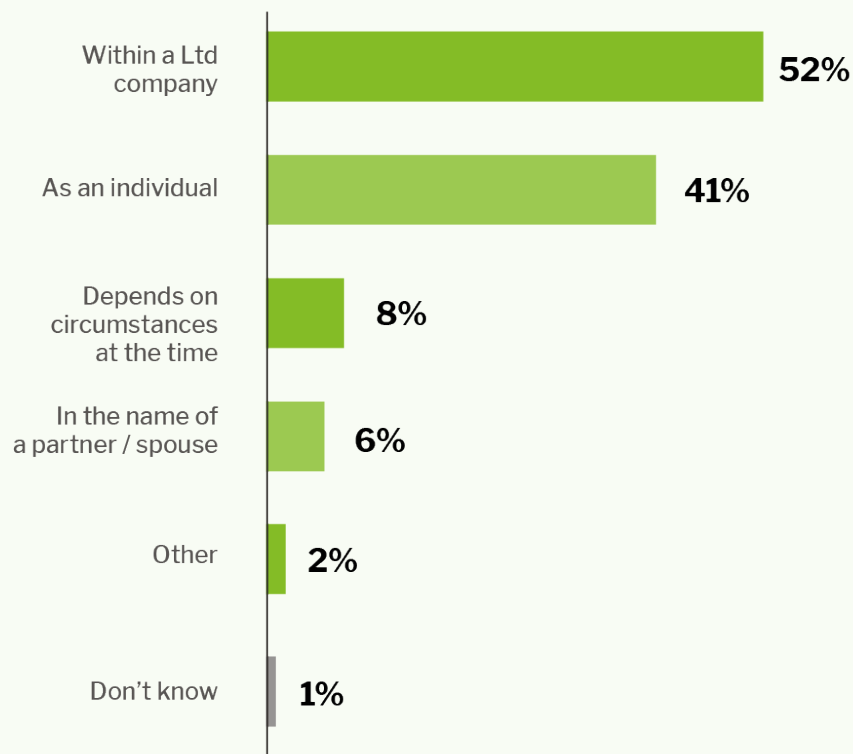
During the same period, there has also been a rise in the proportion of those who plan to make their next property investment as an individual – up from 36% in Q3 to 41% in Q4 2021.

Buy-to-let lending is the most popular source of funding for intended property acquisitions after being found to be the preferred option for 68% of landlords.

This is followed by releasing equity from existing property which increased by eight percentage points since Q3 2021 to 24%, overtaking purchasing outright using previously invested funds.

The popularity of equity release as a funding strategy is higher amongst larger portfolio landlords, with 39% of those with 11 or more properties expressing an interest in this method, dropping to 18% amongst respondents with ten or fewer properties.

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





The Q4 2021 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with almost 800 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews during December 2021.



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