As buy-to-let celebrates its 25th anniversary, we look at its evolution and its impact on the UK private rented sector

paragon

The 1990s. Where we chose life, where tick followed tock, where we knew what we really, really wanted, where it nearly came home.

Oasis vs Blur, New Labour vs tired Conservatism, Benn vs Eubank, Clinton vs Lewinski, Leo vs an iceberg.

A decade of new inventions – the world wide web, text messages, DVDs and, of course, buy-to-let…

1 NEW MESSAGE

Richard Rowntree

Managing Director of Mortgages
Paragon Bank

The 1990s was a pivotal decade for the UK - culturally, technologically and politically.

Emerging from a dire recession that blighted the start of the decade, the country began to find its confidence. Girl Power and Britpop provided the musical backdrop as British film, art, food and theatre thrived.

In sport, the advent of the Premier League brought some of the world's best players to our football stadiums, whilst our national teams across a range of sports no longer brought embarrassment.

A Labour Government was elected on a wave of optimism after 18 years of Conservative power, implementing a range of growth initiatives, expanding job opportunities and promising to rid the country of the 'boom and bust' that had blighted previous Governments.

Sixteen years of economic growth after 1992 added to the general upbeat confidence of the nation.

Meanwhile, communication and information sharing were revolutionised through the introduction of the internet and widespread adoption of mobile phones. The first web browser was launched in 1993, three years before we'd even heard of Google.

Alongside these high-profile events, the 1990s also saw the introduction of buy-to-let, heralding significant changes in how we live. Launched at London's RAC Club on 24 September 1996 by the Association of Residential Letting Agents (ARLA), the term buy-to-let gave a consumer-friendly label to an investment many had never before considered.

Although not grabbing many headlines at the time, this event would go on to have a significant impact on the UK's housing provision, encouraging new investment into a private rented sector (PRS) that had become a byword for bad quality housing and poor treatment of tenants.

Demand from tenants for private rented property was growing fast in the early 1990s because of a string of social demographic, political and economic factors. Landlords and letting agents could not keep up with demand and this led ARLA to develop buy-to-let with a small group of lenders, including Paragon.

The creation of buy-to-let has very much been a force for good. It has helped to shape a PRS that is fit for purpose and provides choice, value and flexibility for tenants. The result is a PRS that is almost unrecognisable from a quarter of a century ago.

This report examines the conditions that led to the inception of buy-to-let, how this type of mortgage lending has impacted housing in the UK and what the future may hold for the PRS.

1996

PRS IN NUMBERS

Attitudes to renting

Source: Paragon

54% OF TENANTS say that renting either suits their current situation or that they enjoy renting

48% of tenants say they don't have to worry about repairs

35% indicated that they benefit from the flexibility to move easily

Landlords

Source: HMRC & English Private Landlord Survey

2.65 MILLION landlords in the UK

Over half (59%) of landlords are aged 55 years or older. Given the older age profile, it is unsurprising that a third (33%) of landlords are retired

Buy-to-let lending

Source: UK Finance

159,979

BTL loans written in the UK in H1 2021

£26 BILLION

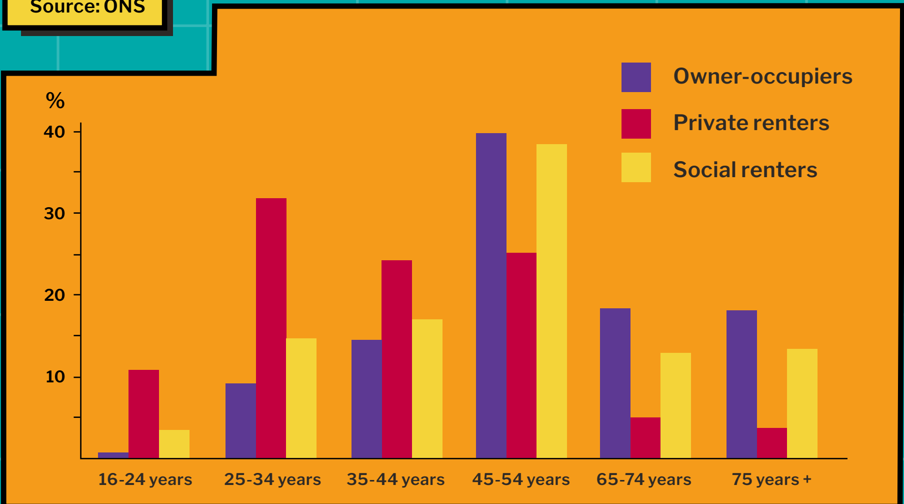
Value of BTL loans written in UK in H1 2021

£540 BILLION

BTL gross advances written between 2000 and 2020

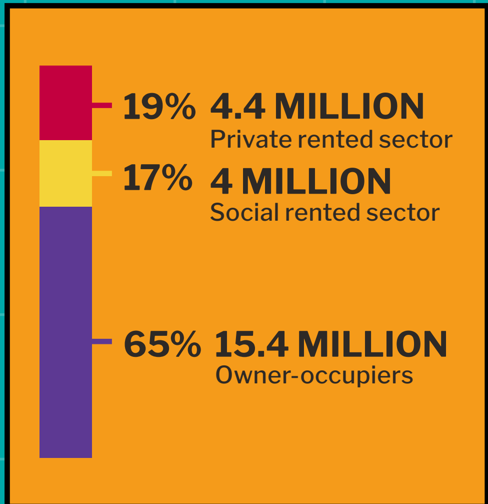
Age of Household Reference Person (HRP) by tenure, 2019-20

Source: ONS



English households by tenure

Source: English Housing Survey



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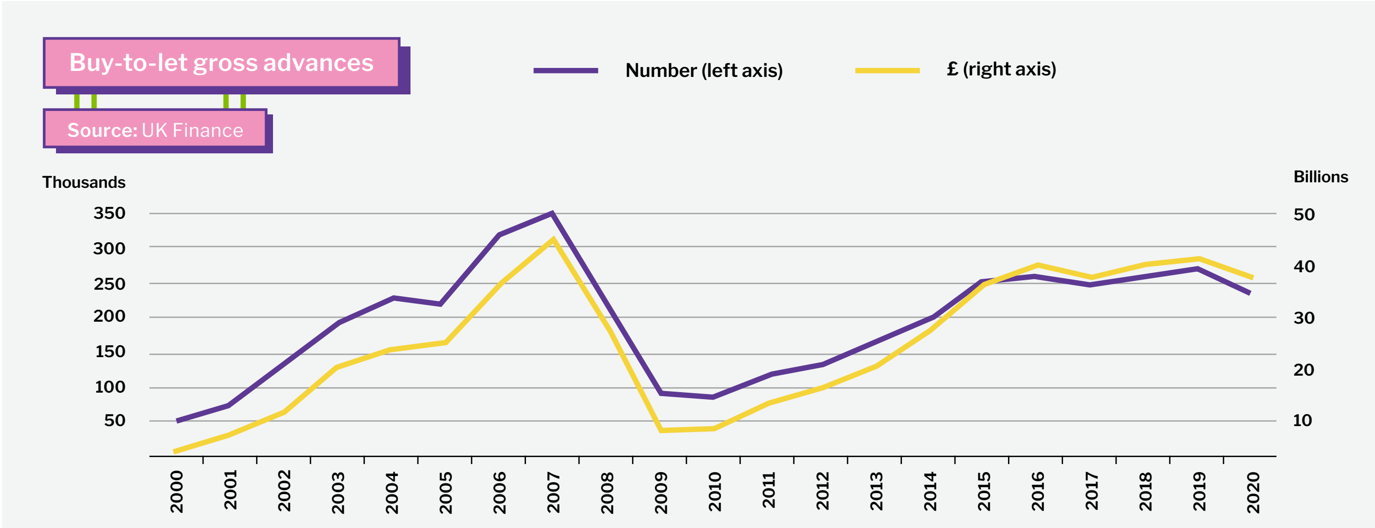
THE GROWTH OF BUY-TO-LET LENDING

Buy-to-let struck a chord with investors but the sector's growth has not been without challenges



Today, buy-to-let can be classed as a mature mortgage product that has facilitated the growth of the private rented sector (PRS) and helped drive standards of rented homes.

The most recent industry data shows there are over two million buy-to-let mortgages currently outstanding with a value of £279 billion. In total, £540 billion has been lent between 2000 and 2020 and buy-to-let represents 18.1% of all mortgages outstanding.

It is an established product that has now weathered two major financial shocks – the global financial crisis and the coronavirus pandemic – as well as significant fiscal and regulatory changes.

Its path can be categorised into four distinct periods – rapid early growth, the global financial crisis, recovery and the abandonment of the Government's tenure neutral policy in 2016. We cover each below:

Rapid early growth

Although buy-to-let was introduced in 1996, it was from the 2000s onwards where it really took off. UK Finance figures show that between 2000 and 2007, gross advances grew from £3.9 billion to £45.7 billion, whilst the number of buy-to-let mortgages advances increased from 48,400 to 346,000.

It went from representing less than 2% of outstanding mortgages to one in 10.

This period coincided with a significant expansion in the number of lenders and mortgage product availability, but – as with the owner-occupied sector - also saw softening of lending criteria and over-expansion by some operators as competition intensified.

Concerns also arose over the over-exposure of lenders and borrowers to certain sections of the market, such as city centre flats which saw rapid expansion during this period. The global financial crisis exposed those fears.

The global financial crisis

The global financial crisis of 2008 to 2010 scarred the buy-to-let market, ultimately leading to the demise of some of the leading lenders of the time as the financial services sector consolidated and Government stepped in to stop major banks failing.

Names such as Mortgage Express disappeared as their parent companies were absorbed by other financial services companies, whilst 'non-bank' lenders, including Paragon, were unable to lend due to the closure of the financial markets and access to funding.

Lending fell sharply, from £45.7 billion in 2007 to £28.5 billion the following year and £8.6 billion in 2009. Between 2008 and 2010, the number of loans written for buy-to-let house purchase halved from 103,990 to 49,400.

The impact of the financial crisis was widespread for the UK financial services sector and the buy-to-let market. It led to a regulatory overhaul and the creation of ring-fenced banks, separating retail and commercial banking with the riskier investment banking side.

Recovery

Whilst the buy-to-let market never hit the heights of the pre-crisis era again, the need for rented housing and strong levels of tenant demand led to a more sustainable recovery of the sector. This was a more prudent, mature market, with lenders taking an increasingly cautious approach to underwriting.

Lending recovered strongly in the years after 2010

Lending recovered strongly in the years after 2010, rising from £9.6 billion that year to £37.9 billion in 2015.

By this point, remortgaging had started to account for a greater proportion of lending activity as those mortgages written in previous years matured. In the five years between 2002 and 2007, house purchase represented 57% of gross advances; in the five years between 2010 and 2015, that had decreased to 50%.

However, this was just the start of a shift towards remortgaging as the Government abandoned its tenure neutral stance in 2016.

Abandonment of tenure natural policy

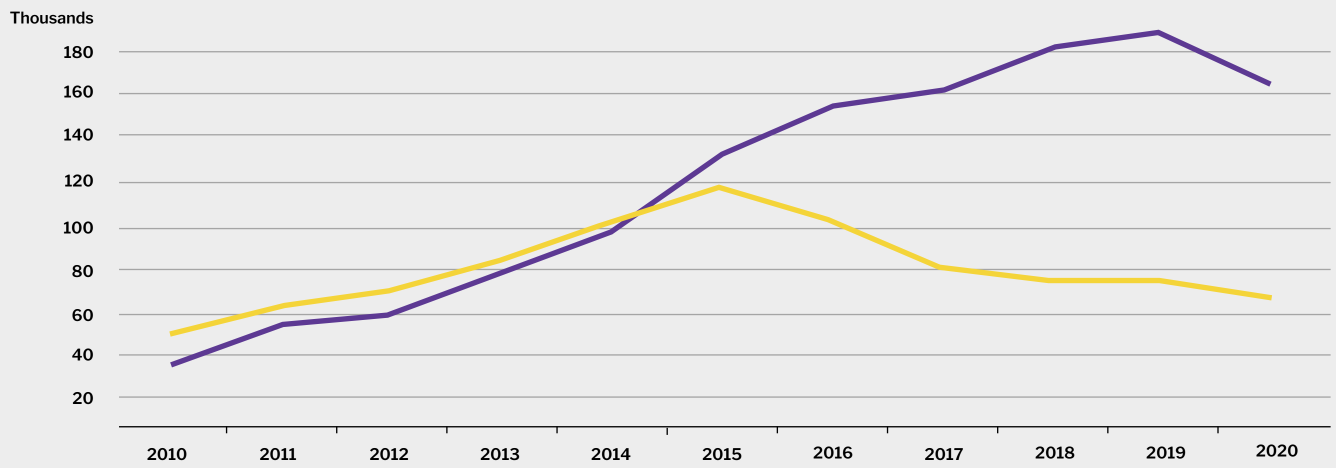
In a drive to increase home ownership and grow the number of first-time buyers, the Government introduced measures to curb buy-to-let house purchase in 2016. In April that year, a 3% Stamp Duty surcharge was introduced, whilst a phased end of mortgage tax relief from 2017 was also announced.

Additionally, the Prudential Regulation Authority introduced more stringent underwriting rules for portfolio landlords – those with four or more properties – in 2017 which required lenders to take a more specialised approach that considered the strength of the portfolio overall, rather than just the individual property.

The result of these measures was a reduction in buy-to-let house purchases. Whilst overall lending remained robust, the number of loans for house purchase reduced from 117,500 in 2015 to 73,400 in 2018. Conversely, the number of buy-to-let loans for remortgage purposes grew.

Buy-to-let gross advances

Source: UK Finance



THE PROFESSIONALISATION OF THE PRS

The evolution of buy-to-let has coincided with the professionalisation of the PRS, as well as improving standards

As the buy-to-let market has evolved, the proportion of portfolio landlords has grown, helping to professionalise the private rented sector (PRS) and raise standards.

Government data shows that whilst 45% of landlords have one rental property, this represents just 21% of properties within the PRS. A further 38% own between two and four properties, representing 31% of the sector, with the remaining 17% of landlords owning five or more properties, representing 48% of the private rented sector.

Since 2010, the proportion of landlords with just one property has declined from 78% to 45% or from 40% to 21% of the sector. Meanwhile, the proportion of landlords with five or more properties increased from 5% to 17% or from 39% to 48% of the sector.

Furthermore, Hamptons research highlights an increase in the number of limited companies established for buy-to-let businesses. The 41,700 set up in 2020 more than doubled the number in 2016 as more and more landlords started to operate as professional entities.

This concentration of stock towards portfolio landlords has coincided with rising standards in the PRS. Over the past 25 years, landlords have made tangible improvements to the sector that millions of tenants call home. Homes in the sector are newer, larger, warmer and more energy efficient than they were 25 years ago, plus tenants have more choice, as well as greater protections.

Over the past 25 years, landlords have made tangible improvements to the sector that millions of tenants call home

Paragon's recent report, Driving Standards in the Private Rented Sector, highlighted how the portion of homes in the sector classed as 'decent' under Government standards increased from 53.2% in 2006 to 76.7% last year.

The proportion of PRS stock built since 1991 has grown from 14% in 2009 to 22% in 2019, with the number of homes in this category doubling over the period – 509,000 to 1 million

Overall, 3.6 million homes are now classed as decent, compared to 1.4 million in 2006. Conversely, the number of homes classed as non-decent in the PRS has not reduced significantly, with 1 million homes categorised as non-decent today compared to 1.21 million in 2006.

This suggests that the growth in new properties coming into the PRS over that period is driving up standards for the sector overall and diluting the stubborn proportion that remains non-decent.

Proactive, engaged landlords who have driven the growth of stock typically will invest in their property. Data from insurance firm LV shows that landlords spend a combined £4.7 billion a year on maintaining and improving their property, whilst Paragon research shows that landlords spend an average of £8,720 on upgrading a buy-to-let property after purchase.

Other notable upgrades in the sector include:

- The energy performance of the sector has improved, with a 272% increase in PRS homes with an energy rating of C or above since 2009 to 1.8 million
- The proportion of PRS stock built since 1991 has grown from 14% in 2009 to 22% in 2019, with the number of homes in this category doubling over the period – 509,000 to 1 million
- Homes are larger. Compared to 2009, there is a greater proportion of homes in the sector of at least 70m^2 - 50.6% today vs 48% in 2009. In terms of absolute numbers, that equates to a 38% increase in the number of properties to 2.4 million
- There is a greater choice of homes, with the number of semi-detached, terraced and purpose-built flats increasing
- Over three quarters of landlords (77%) invest in upgrading newly purchased property before letting it out to a tenant

A PROVEN ASSET CLASS

The credit performance of buy-to-let loans has consistently outperformed the owner-occupied sector

Buy-to-let is a mature mortgage product with a strong credit performance. The percentage of loans more than three months in arrears has been consistently lower than that of the owner-occupied market over the past 20 years aside from a short period during the global financial crisis.

Buy-to-let is a mature mortgage product with a strong credit performance

There are a number of reasons for this. Fundamentally, landlords have enjoyed strong levels of demand for their product. Consistently robust tenant demand has also meant that void periods – the time a property is empty between lettings – is typically short.

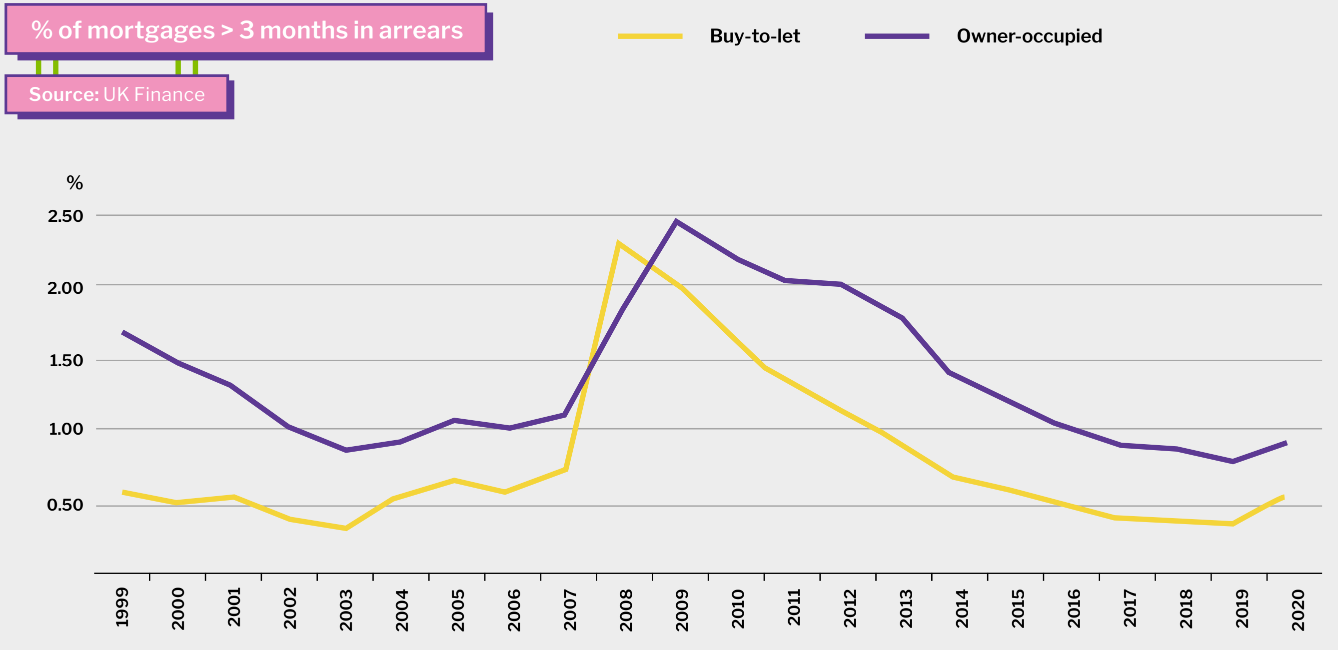
Additionally, landlords will usually either have a primary source of income that their buy-to-let property supplements or will operate a portfolio of properties that are able to more easily absorb any losses from a single property during a void period.

Landlords have enjoyed strong levels of demand for their product

Buy-to-let lenders also apply tighter lending criteria, particularly over the past five years. Lenders will typically ask for the rental income to be a minimum of 125% of the mortgage payment, whilst they will assess mortgage affordability based on a significantly higher interest rate than the product rate.

% of mortgages > 3 months in arrears

Source: UK Finance



Trends in tenure: 1918 to 2013-14

Sources: 1918: Estimates by Alan Holmans of Cambridge University Department of Land Economy
1939 to 1971: “Housing Policy in Britian”, Alan Holmans, Table V1
1981, 1991: ONS Labour Force Survey;
2013-2014: English Housing Survey; full household sample

EXPANDING THE PROVISION OF RENTED HOUSING

The introduction of buy-to-let halted the decades long decline of the private rented sector

Buy-to-let was devised to encourage new investment into a private rented sector (PRS) that had been in long-term decline. The recession of the early 1990s exposed a lack of options for those for whom home ownership was out of reach, but who couldn’t qualify for diminished social housing provision.

The PRS had fallen from over 70% of homes post WWI to less than 10% by the late 1980s, fuelled by the growth of social housing, successive policies to encourage home-ownership and a legal landscape that afforded little legal protection to landlords.

The recession of the early 1990s exposed a lack of options for those for whom home ownership was out of reach

The result was an investment opportunity that had little appeal, something the Housing Act 1988 was introduced to remedy. Outlining the statutory rights and legal responsibilities of both landlords and tenants, the overhaul of legislation aimed to make letting property more attractive.

Deregulation meant that landlords could determine rent levels, which tenants had the right to challenge, and the introduction of assured shorthold tenancies gave landlords the right to repossess properties after the end of the fixed term, upon issue of a Section 21 notice.

These measures are considered a crucial turning point in the resurgence of the PRS because the increased protections gave landlords more confidence to invest in property.

The advent of a consumer-focused, easy to understand mortgage product in buy-to-let broadened its appeal further and the market took off and landlords grew their portfolios.

Today, the PRS is the UK's second largest housing tenure, accounting for 19% of households, up from 10% recorded in 2001, and is now above the provision of social housing at 17%.

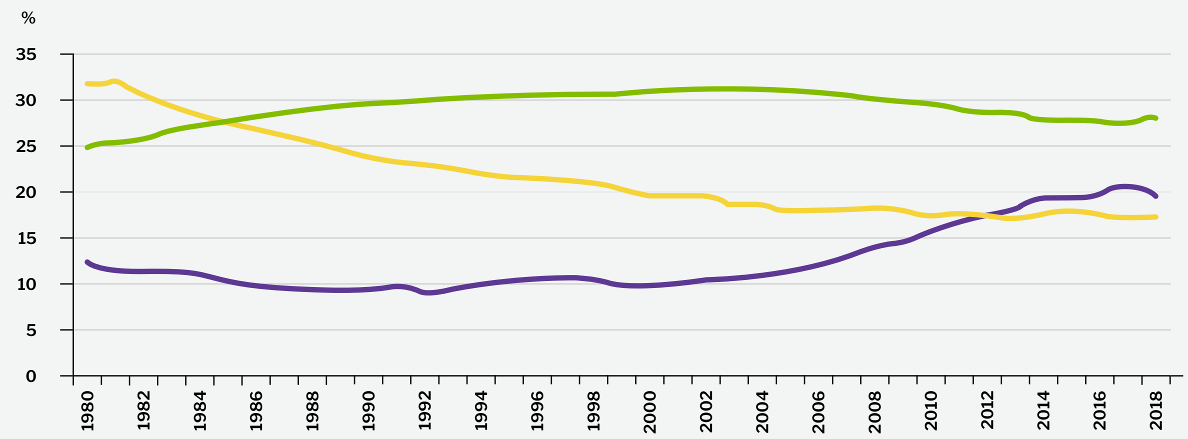
Renting is no longer seen as a last resort, or a sector dominated by students and younger generations, it is now a tenure of choice as well as need. People of all ages and backgrounds are actively choosing to live in the PRS as it provides greater flexibility and better suits their lifestyle requirements.

The buy-to-let market has played a crucial role in the development of the PRS over the past 25 years, having enabled a market to diversify and meet the needs of a changing demographic. It has allowed more private landlords to enter the market and it has encouraged competition, which in turn has increased the level of quality across homes in the sector.

The buy-to-let market has played a crucial role in the development of the PRS over the past 25 years, having enabled a market to diversify and meet the needs of a changing demographic

Proportion of households by tenure

Source: MHCLG



THE INCEPTION OF BUY-TO-LET

Paragon's former Director of Mortgages John Heron was one of the key figures behind the launch of buy-to-let. He tells his story

1 NEW MESSAGE

John Heron

Former Director of Mortgages
Paragon Bank

arla | propertymark

Recounting how buy-to-let mortgages were born, I'd say that the proverb 'necessity is the mother of invention' definitely applies.

Following the increased consumer confidence of the 1980s, the start of the next decade brought about what was, for many, the first experience of recession. Rapidly falling property prices resulted in homes with negative equity, and with rising unemployment leading to limited incomes, many who had borrowed excessively to buy during the boom had to surrender property.

This resulted in an increase in demand for homes which far outstripped supply. The social sector was unable to respond at the required speed and scale as many of the homes from that sector had transferred to owner-occupation as part of the Government's Right-to-Buy scheme.

Members of the Association of Residential Letting Agents (ARLA) sought a solution that would allow existing landlords to expand their stock. Legislative changes introduced to encourage more private investment in the private rented sector were yet to be fully realised and lettings businesses were relatively few at the time, so bringing more landlords into the market was also important.

I met with Andrew Reeves, my main contact at ARLA, to discuss the missing element – a mortgage product that could support investors with the funds needed to respond to the housing shortage.

Prior to the launch of buy-to-let mortgages, no consumer-focused financial product catering specifically to residential landlords existed. The only way a landlord could finance a property portfolio was through commercial mortgage terms, which Paragon already offered.

These weren't the most appealing as they often featured high rates and were offered at low loan-to-value. I imagine some investors used standard residential mortgages but in cases where the tenants weren't declared, the terms of the mortgage would have been breached.

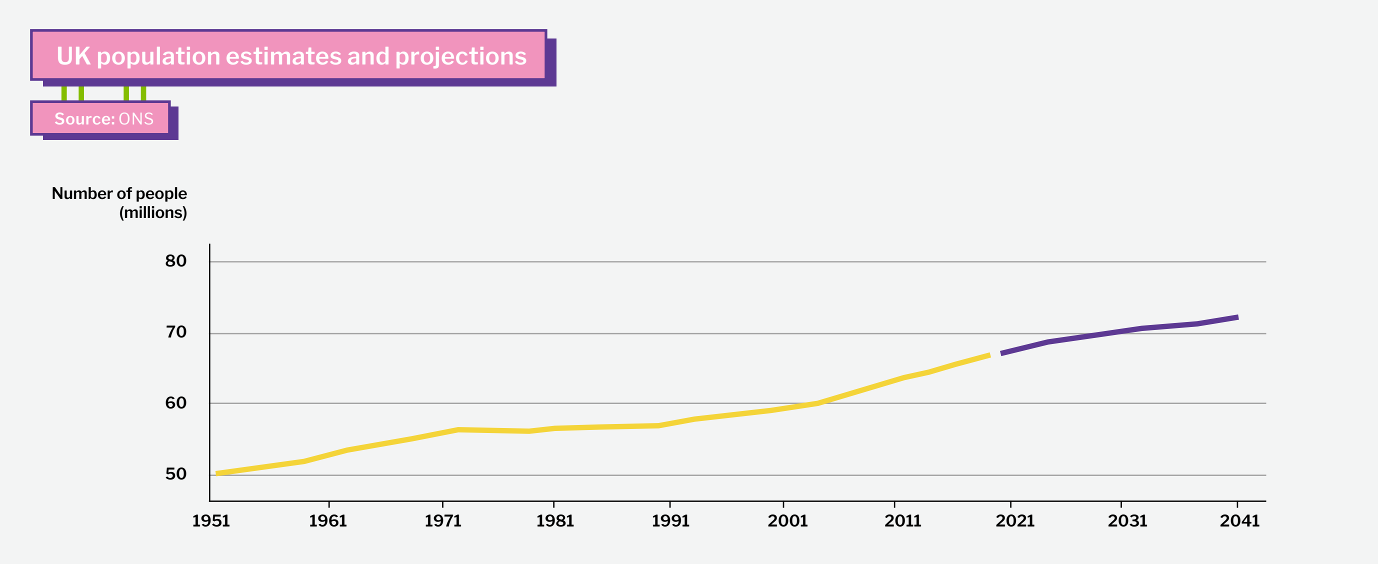
Understanding that one small niche lender would not be enough to satisfy demand if the scheme took off, I floated the idea of a panel and other lenders, including Mortgage Express and Woolwich, came onboard.

Buy-to-let mortgages were officially launched at an event at the RAC Club on 24 September 1996 and then presented to the full ARLA membership at the association's conference in 1997.

The rest, as they say, is history.

THE DRIVERS OF GROWTH

Buy-to-let was launched during a period of significant social and demographic changes that helped propel its growth. We examine some of the trends



Several factors contributed to the growth in demand for rented housing and, in turn, the need for the expansion of the private rented sector (PRS).

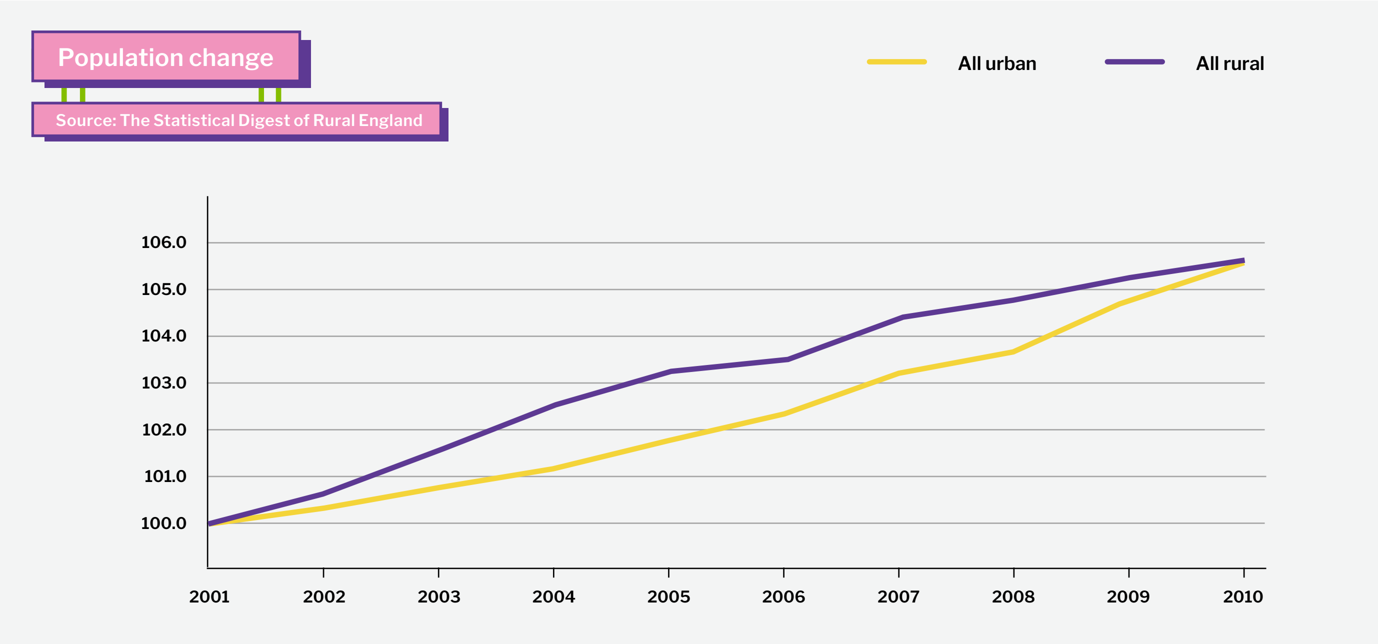
Population increases

ONS data shows that the UK's population has grown year-on-year since 1982.

In 1996, the UK population was estimated to number 58.1 million people and, in the decade that followed, this had risen to 60.8 million people. Another ten years on, in 2016, the population was estimated to be 65.6 million people, which is around 1.2 million fewer than the 66.8 million at the last count in 2019.

By looking at various data sets, we can see how this has had an impact on the PRS.

According to The Statistical Digest of Rural England, the population has grown at a much faster rate in urban and suburban areas compared to rural areas.

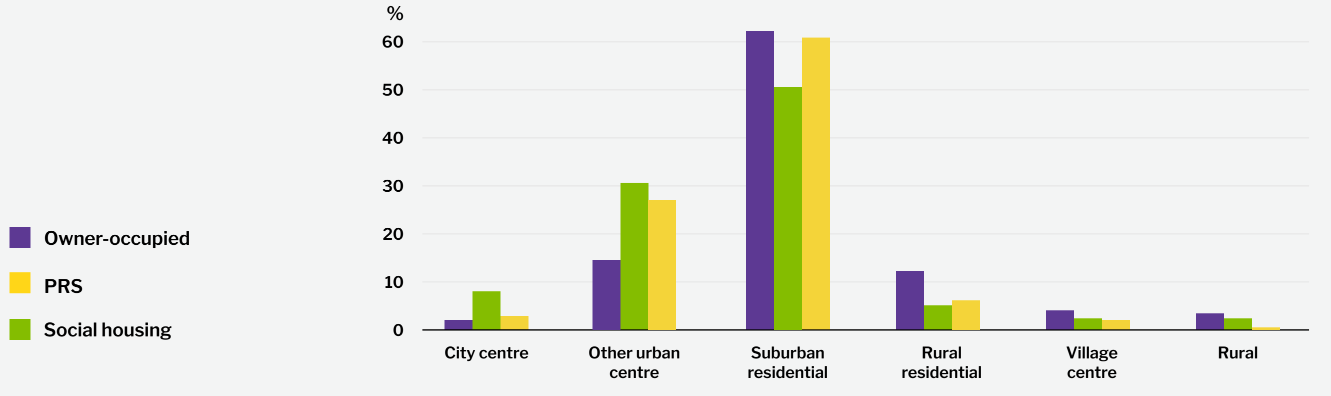


This is broadly consistent with the distribution of the privately rented, with Ministry of Housing, Communities and Local Government (MHCLG) figures showing that half of PRS stock is located in suburban residential areas. The majority of the remainder, 39%, can be found in city centre or urban locations where the PRS accounts for a higher proportion of homes than the owner-occupied and social housing tenures.

The relatively low concentrations of PRS homes in rural areas could be attributed, in part, to the greater level of fluidity of urban housing markets, which tend to be more transient and more suited to rented property.

Proportion of stock by area

Source: MHCLG



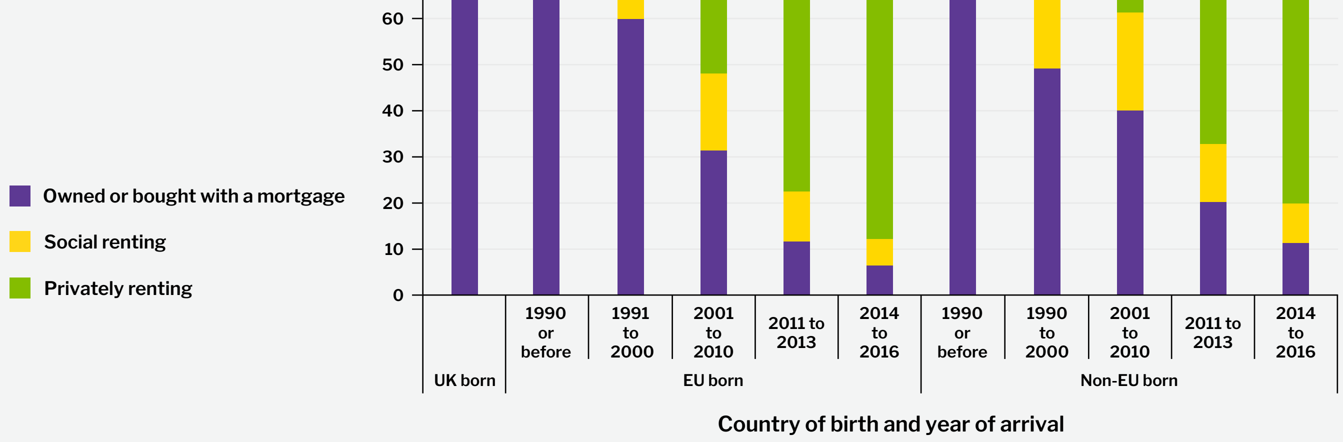
Migration

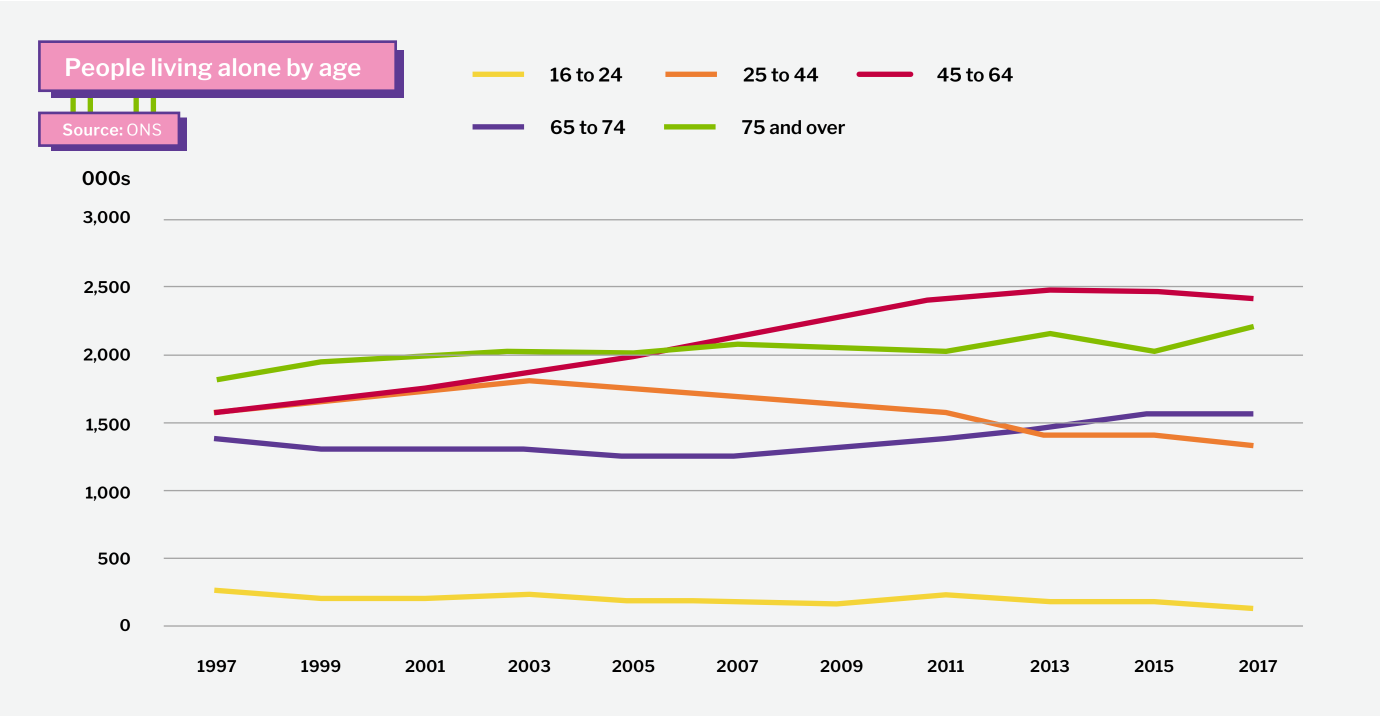
Since the 1990s, population increases have primarily been as a result of migration to the UK, both directly and when we include descendants of migrants. People migrating to the UK typically rent a property before moving into owner-occupation.

The ONS 2016 Annual Population Survey shows that 73% of people who migrated to the UK before 1990 owned or bought a home with a mortgage. However, correlating with the growth of the PRS, this figure dropped significantly, with 88% of EU born residents and 80% of non-EU born residents arriving between 2014 and 2016 living in privately rented properties.

Proportion of UK, EU and non-EU born residents by housing tenure and year of arrival

Source: ONS





Growth of single person households

The Labour Force Survey highlights that the number of households in the UK has increased from 23.7 million in 1996 to 27.2 million in 2017.

This rise can be attributed to a number of societal changes, one being an increase in the number of single person households, which ONS data shows has increased from 6.6 million in 1996 to 7.9 million in 2020.

Our ageing population is a key driver of this, with growth in later life divorce and expanded life expectancies increasing the likelihood of outliving a partner and subsequently living alone.

This is illustrated by data showing that between 1997 and 2017 the proportion of people aged 16-24 and 25-44 living alone fell, while there were increases in the numbers of people living alone in the 45-64, 65-74 and 75 and over age groups.

Interestingly, the steepest rise was recorded in people aged 45-64. It is thought that this represented a growing trend in men of this age group who formed new households following divorces from their former wives who often retained the family home with their children.

Growing student numbers

The number of people enrolling onto degree courses has grown substantially since the 1990s.

Labour Force Survey estimates show that in 1996, there were 1.1 million people aged 18 to 24 in full-time education. The latest figures reveal that this is estimated to have risen to 1.9 million people.

Authors of a House of Commons briefing paper analysed various pieces of research and found no clear evidence of an increase in students living at home during their studies so it seems fairly safe to presume that a rise in student numbers would lead to some increase in demand for PRS accommodation.

According to Higher Education Statistics Agency (HESA) data, 61% of full-time students in the UK lived away from home in 2018/19

According to Higher Education Statistics Agency (HESA) data, 61% of full-time students in the UK lived away from home in 2018/19. Of these, HESA found that just under 570,000 opted for privately rented dwellings for their term-time accommodation in 2019/20.

People buying later

There has been a trend for people to buy their first home later over the past 25 years. Government data shows that 68% of 35-44 year-olds had a mortgage in 1997. By 2017, that had fallen to 50%. Conversely, 9% of people in that age bracket were renting in 1997, rising to 28% by 2017.

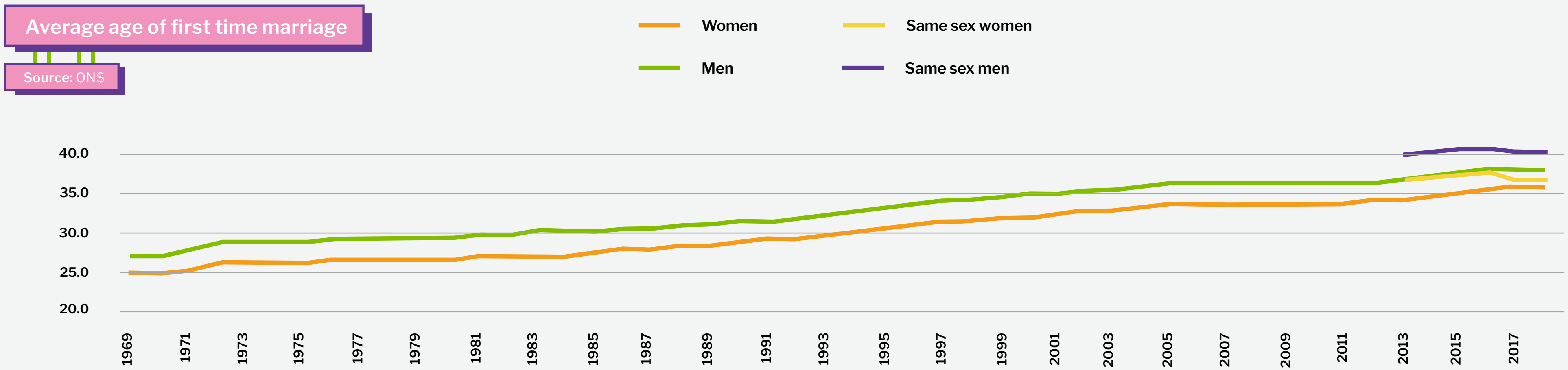
The average age of first-time buyers has moderated in recent years after a long period of growth and currently stands at 32, so people are relying on the PRS for longer.

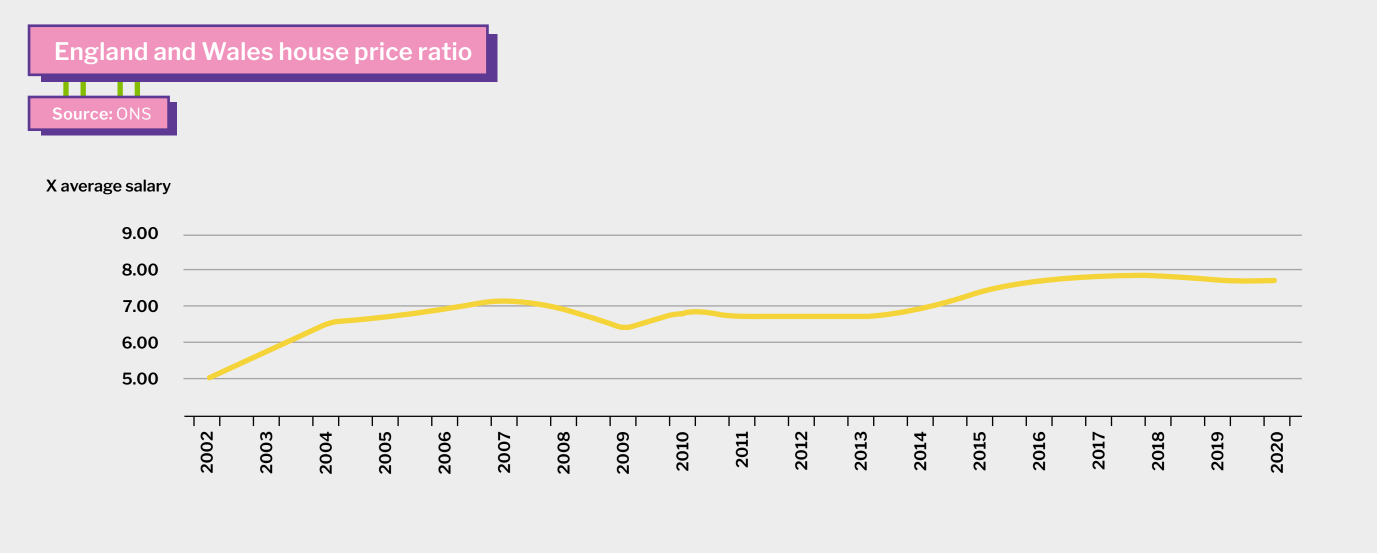
A key reason for this is that people are getting married and starting families later.

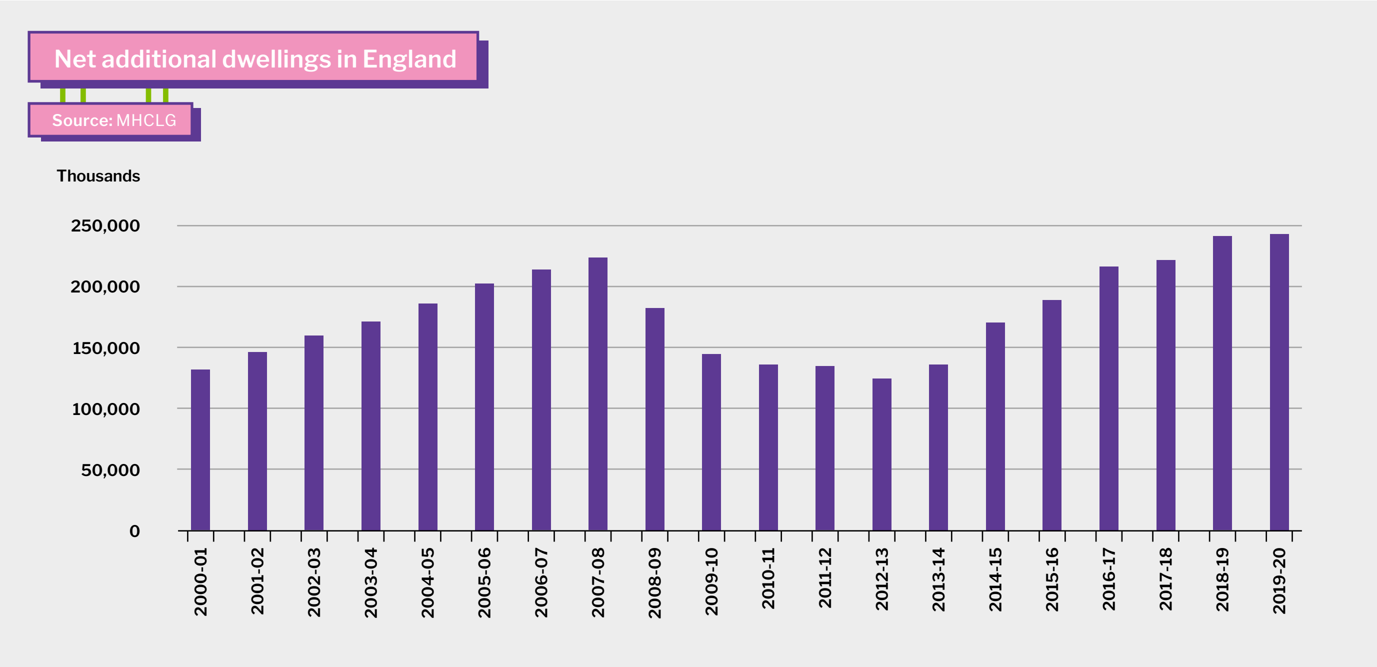
The average age of heterosexual couples getting married has been increasing since the 1970s. ONS figures show that in 1968, the average age of a male and female getting married was 27 and 25. Fifty years later, that had risen to 38 for men and 36 for women. Same sex couples wait even longer, with males marrying at the age of 40 and women at 37.

Meanwhile, the average age of first-time mothers and fathers has risen consistently since the mid-70s, rising from 26 and 29 for mothers and fathers respectively in 1974 to 31 and 34 in 2019.

ONS figures show that in 1968, the average age of a male and female getting married was 27 and 25. Fifty years later, that had risen to 38 for men and 36 for women







Housing affordability

The gap between average house prices and average salaries has risen over the past 20 years. In 2002, on average, house prices were 5.05 times average salaries; by 2020 that had risen to 7.69.

The national figures mask some significant regional differences. London, for example, increased from 6.90 times salary to 12.52 over the same period, putting home ownership out of the reach of many.

Housing supply

One of the contributing factors of housing affordability deteriorating is house building failing to keep pace with Government targets. The Government has set a target of 300,000 new homes to help satisfy demand.

Figures from the MHCLG show that the net additional dwellings – new build homes minus those demolished or change of use, has consistently failed to meet that target.

Limited social housing supply

Alongside the widespread transfer of social housing stock to owner-occupiers as part of the Right to Buy scheme of the 1980s, an overall decline in new affordable homes has also increased demand for PRS properties.

MHCLG affordable housing supply statistics show that 74,530 additional affordable homes were delivered across England in 1995. This fell year-on-year until 2002 when an extra 32,923 affordable homes were provided through a range of Government schemes.

It is important to note that the total number of affordable houses is likely to be lower. This is because the Government published annual report on affordable housing supply doesn't take account of losses through demolitions or sales.

A SHIFTING REGULATORY AND LEGISLATIVE LANDSCAPE

Buy-to-let has operated in a market of changing Government policy and direction

While the size and scope of the legislative framework may make it challenging for property investors to navigate, any rules in place to improve the safety and standards of PRS properties should, of course, be welcomed

Landlords and buy-to-let lenders have operated in a changing regulatory and legislative environment over the past 25 years.

Today, the private rented sector (PRS) is subject to in excess of 120 pieces of legislation and regulations, approximately two-thirds of which have been introduced since 1990.

Governing something as large and complex as the UK's second largest housing tenure, it is unsurprising that these laws cover a wide range of areas. Key examples include 'The Housing Act 1996' and 'The Housing Act 2004', Assured Tenancies and Agricultural Occupancies (Forms) Regulations 1997, The Rent Acts (Maximum Fair Rent) Order 1999 and Housing Act 2004.

While the size and scope of the legislative framework may make it challenging for property investors to navigate, any rules in place to improve the safety and standards of PRS properties should, of course, be welcomed.

There are calls for further legislation and the Government has expressed a desire to further reform the PRS, including the mooted Renters' Reform Bill. This would include a number of changes, most notably, the ending of so-called 'no fault' evictions through the repealing of Section 21 of the Housing Act 1988, while lifetime deposits for tenants would be put in place.

The disruption caused by the Covid-19 pandemic means that the Bill was not passed but a policy paper detailing the Government's legislative plans is set to be published in autumn 2021.

A 3% increase in duty payable on additional properties was introduced in April 2016 as part of a wider overhaul of Stamp Duty Land Tax

As well as ensuring they comply with a fractured and complex legal system, landlords have had to contend with a range of fiscal policy changes.

Most notably, a 3% increase in duty payable on additional properties was introduced in April 2016 as part of a wider overhaul of Stamp Duty Land Tax. The lowering of the threshold at which the tax was charged meant that any buy-to-let purchase valued above £40, 000 would incur an additional 3% surcharge.

In the same year, as part of his summer budget, George Osborne announced changes to tax relief on buy-to-let mortgage interest.

The coalition Government Chancellor restricted landlord tax relief for finance costs to the basic rate of income tax. This meant that landlords could no longer deduct mortgage interest and other allowable costs from their rental income before calculating their tax liability.

The impact of this policy was analysed by Hamptons which forecasted that landlords would have purchased an additional 250,000 homes had it not been for tax changes.

Lenders have also experienced regulatory changes. Under changes to PRA underwriting standards, introduced in 2017, lenders were required to expand their underwriting criteria from focusing on rental income and property value to assessing all of a borrower's existing rented properties and other assets, liabilities, income and costs.

ONE LANDLORD'S STORY

Ian Jones shares his experience of being a landlord over the past 20 years and how he thinks portfolio landlords are better suited for growth

1 NEW MESSAGE

Ian Jones
Landlord

Ian Jones is a landlord who lives in Brighton and Hove, which is also where most of his 10 buy-to-let properties are located.

A landlord since 1999, Ian says he started letting property to provide an alternative to a pension, encouraged by the relatively competitive borrowing and potential long-term returns on his investments.

Ian recognises that the private rented sector has changed significantly since he started out at the end of the 90s.

One of his areas of focus is student lettings and this is a market that he feels has improved, pointing to competition amongst private landlords, large investors and developers helping to drive up standards to match rising expectations.

Over the years, buy-to-let mortgages have been the main source of finance facilitating the expansion of Ian's portfolio, but he also turned to friends and family when lending checks became more stringent as a result of regulatory changes.

Comparing the present market with how things were when he purchased his first BTL property, Ian can see challenges for new private landlords.

"An indirect consequence of Covid-19 has been increased demand for properties and this has pushed up prices. Maintenance costs have also increased and when you factor in the higher taxes that landlords now face, you can see how it becomes more difficult for those entering the sector and smaller scale landlords who may not benefit from the same leverage or economies of scale of more seasoned investors."

Ian feels that this will give experienced investors, who have built up equity, an advantage in future, suggesting that larger, professional landlords will become more commonplace.

"The cost of money won't be as cheap as it is currently so those with equity in their larger portfolios will be better equipped to respond to changing market conditions such as fluctuations in demand.

"More experienced investors may also be better placed to adapt to changes in Government policy, such as tax increases or the proposed EPC requirements which I see as being costly to implement, particularly for those with period properties."

Alongside the challenges faced by the sector, Ian sees opportunities, highlighting some of the fundamental drivers of demand for privately rented property.

"The Government has failed to build enough new properties in the last 20 years, and I don't see that changing. Combine that with an expanding population and it is extremely unlikely that the current supply-demand dynamic will change much in the near future."

THE FUTURE

Buy-to-let is a mature, seasoned and proven financial product that has facilitated the upgrade of the private rented sector. But what does the future hold?

With so much change evident in the private rented sector (PRS) since the introduction of buy-to-let mortgages 25 years ago, it is inconceivable that the sector will look the same as we move forwards.

In the coming months and years, the sector will be shaped by a wide range of different influences. We examine a few of these.

Tenant demand

It is likely that the impact of Covid-19 will be felt across all tenures for some time.

Landlords have responded to the changing wants and needs of tenants that have been influenced by successive lockdowns. The increased importance of extra space – spare rooms for home offices and gardens – and reduced need to commute five days per week are some of the factors that have shaped the housing market over the past year or so.

There has been an increase in applications for semi-detached and detached homes and rural and coastal properties have become even more desirable.

While the tapered end of the Stamp Duty holiday has reduced purchase activity, it is expected that this effect will be relatively short-lived, and the strong tenant demand we have seen recently will remain.

Housing goes green

The environment has been an area of growing concern for some time and with evidence highlighting a need for urgent action, leaders across the globe are devising ways to create sustainable societies.

The Government has proposed that all rented housing will require a minimum EPC of C by 2028. Consultation on the proposals is still underway so it is still unclear if, how and when a change of this magnitude will be implemented.

What is certain, is that the PRS will have to build on the progress it has made during the past decade - the proportion of PRS homes at EPC C or above is higher than the owner-occupied market – to play a part in reducing the overall impact of residential property, currently responsible for around a quarter of UK emissions.

Despite the progress made, with six in 10 rented homes still rated below EPC C and a high proportion of dated, difficult to upgrade stock, the sector will have to overcome substantial challenges.

This means that the introduction of any policy in this area could have tangible consequences for the sector, influencing things like the type of properties landlords choose to buy and sell in future.

Build to Rent (BTR)

BTR is not a new concept but, as we saw with the PRS, is one that appears to be growing and here to stay.

Figures published in Q1 2021 by the British Property Federation show there were 188,456 BTR homes completed, under construction or in planning, up 21% on the same period in 2020.

BTR and buy-to-let can coexist to help tackle the UK's housing shortage.

While investment that delivers additional stock should be welcomed in all its forms, careful consideration should be given to ensure that new homes are available to people across the socio-economic spectrum.

Analysis by Property consultancy JLL revealed that BTR homes command an 11% premium on average local market rents, something that not all tenants will be willing or able to afford.

While there are certainly merits to BTR properties, many of which benefit from new construction techniques, some tenants may prefer the more personal service provided by individual landlords. Unlike large scale institutional investors, individual landlords often are able to quicky respond to the changing needs of tenants or market conditions. We have seen many examples of this over the past year as landlords worked with tenants to overcome the challenges of Covid-19 financially and practically.

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