

PRS TRENDS





Picking up where the Q1 2022 PRS Trends Report left off, this quarter's edition comes at a time of continued significant political and economic volatility.

The impact of Russia's invasion of Ukraine is still being felt on a global economy that has yet to find its feet following the upheaval caused by the pandemic.

We've seen how this has reduced consumer confidence and landlords are no different. Our research shows that compared to a year ago, they are generally less upbeat about the prospects for different aspects of operating a lettings business as well as the wider economy.

The cost-of-living crisis does appear to be having an impact on tenants' ability to pay their rent, but not to the same degree that was seen during the height of the Covid pandemic. After dropping to 33% last quarter, the average proportion of landlords reporting rent arrears has increased to 36% in Q2 2022.

There is, however, evidence that there is plenty to be positive about.

Yes, the proportion of landlords reporting increasing tenant demand has dropped since the previous quarter, but this is from the all-time high reported in Q1 2022 and the slight decrease means that tenant demand remains robust.

This strong demand means that the incidence of voids has decreased in the three months since our previous PRS Trends report and now sits at just one percentage point higher than the historic low reported at the end of last year.

As well as experiencing comparatively fewer incidences of voids, landlords have told us that when their properties are vacant, it takes less time than it did previously for them to become occupied again.

These are just a few measures that highlight how, despite the challenges we currently face in the UK and in many other nations around the world, the fundamental need for homes that are affordable and meet the needs of a wide range of people remains.

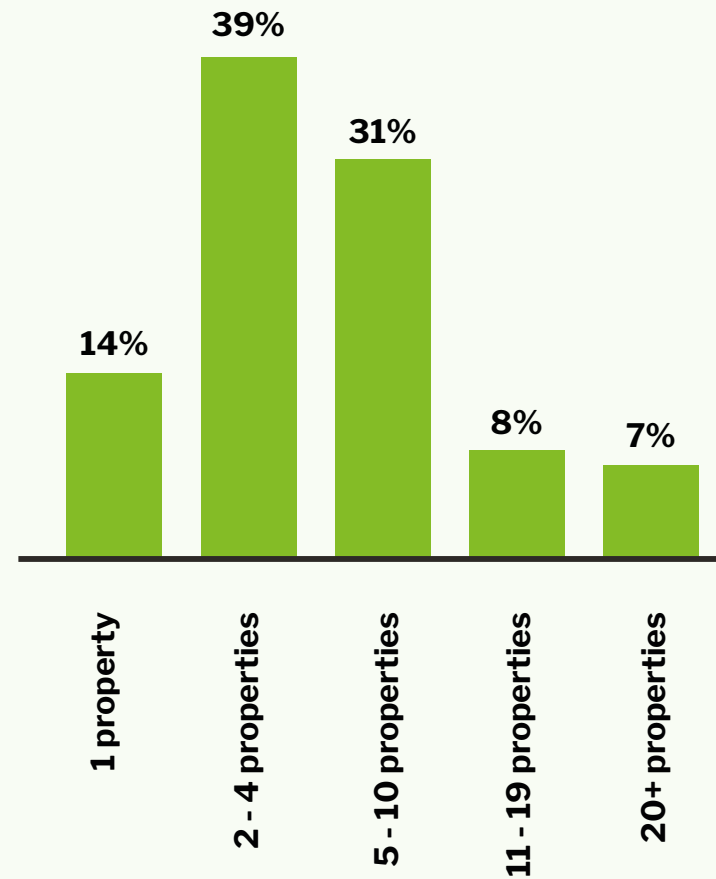
Buy-to-let landlords have an important part in providing these homes and we'll continue to work hard to support them with finance products that are tailored to this specialist sector.

Moray Hulme
Director - Mortgage Sales

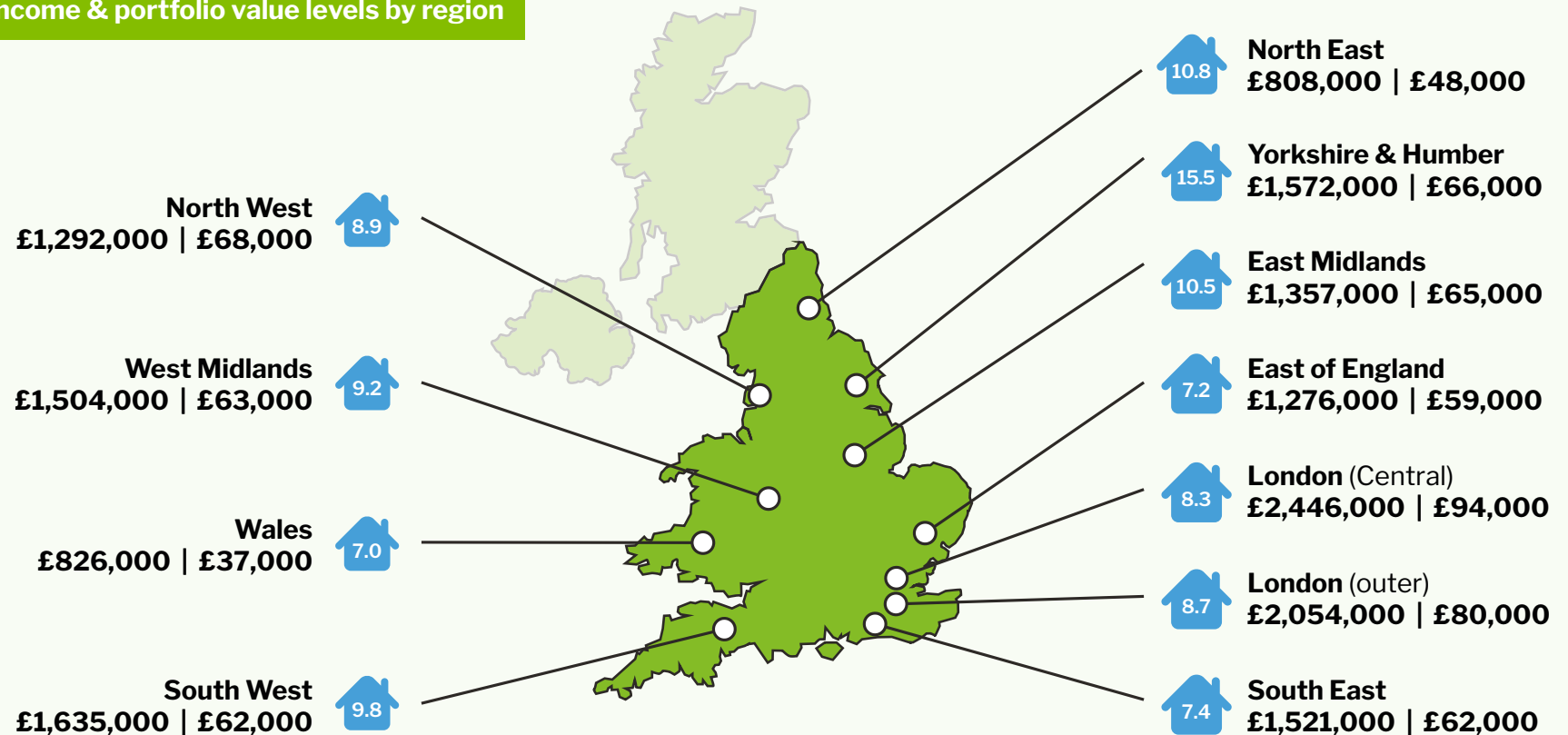
Portfolios

In Q2 2022 the average portfolio is made up of 8.1 properties, with the highest proportion of landlords (39%) owning between two and four properties, followed by just under a third (31%) who operate portfolios with between five and 10 homes.

Number of properties in portfolio
(by percentage of landlords)



Gross annual rental income & portfolio value levels by region

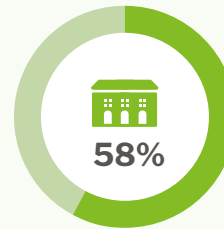


**The average portfolio
is worth approximately
£1.47 million in total**

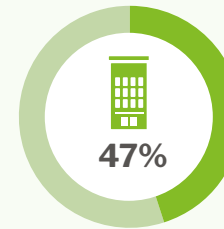
Average portfolio sizes vary considerably across England and Wales. The most notable example can be seen between landlords in Yorkshire and The Humber and their counterparts in Wales, the former owning more than twice the number of properties than the latter – 15.5 vs 7.0.

Based on this average number of properties, typically valued at £181,358 each, the average portfolio is worth approximately £1.47 million in total. With each property generating an average annual gross income of £7,901, equating to £658 per calendar month, a typical portfolio achieves a gross rental income of £64,000 per year.

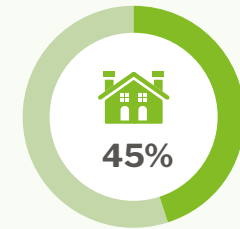
Type of property owned



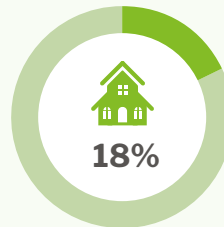
Terraced house



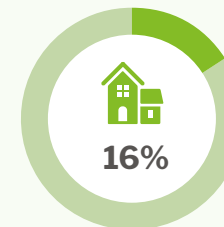
Flats - Individual units



Semi-detached house



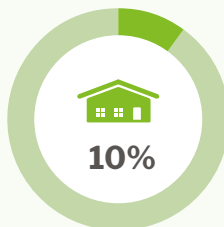
Detached house



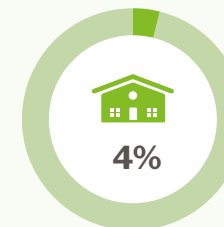
HMO
House in Multiple
Occupation



Flats - Multi unit block



Bungalow



Short term / holiday lets

There has been little change in the make-up of portfolios since the previous quarter and over the longer term; terraced houses remain the property type most commonly owned by buy-to-let investors, with 58% of landlords having at least one in their portfolio.

Individual flats are the second most popular property type for buy-to-let landlords, with 47% owning at least one. This is closely followed by semi-detached houses, a component of 45% of portfolios.

Landlords operating the largest portfolios are significantly more likely to own detached houses, houses in multiple occupation (HMO) and bungalows than those managing smaller lettings businesses, highlighting how portfolios often become more varied with size.

56%

of landlords provide rented homes for families with children

Also remaining consistent are the types of tenants landlords let homes to. Over half of landlords (56%) provide rented homes for families with children, still the most common tenant type. This is followed by young couples and young singles that also retain their places as the second and third most common cohorts of tenants for landlords, with 48% and 45% of landlords counting them as clients respectively.

Tenant type



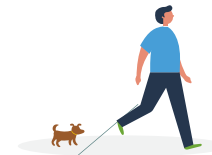
56%
Families with children



48%
Young couples



45%
Young singles



33%
Older singles



30%
White collar / professionals



26%
Older couples



22%
Blue collar / manual workers



15%
Universal credit
claimants



15%
Retired



13%
Local housing
allowance claimants



11%
Students



4%
Other benefit claimants



5%
Executive /
company lets



5%
Migrant workers

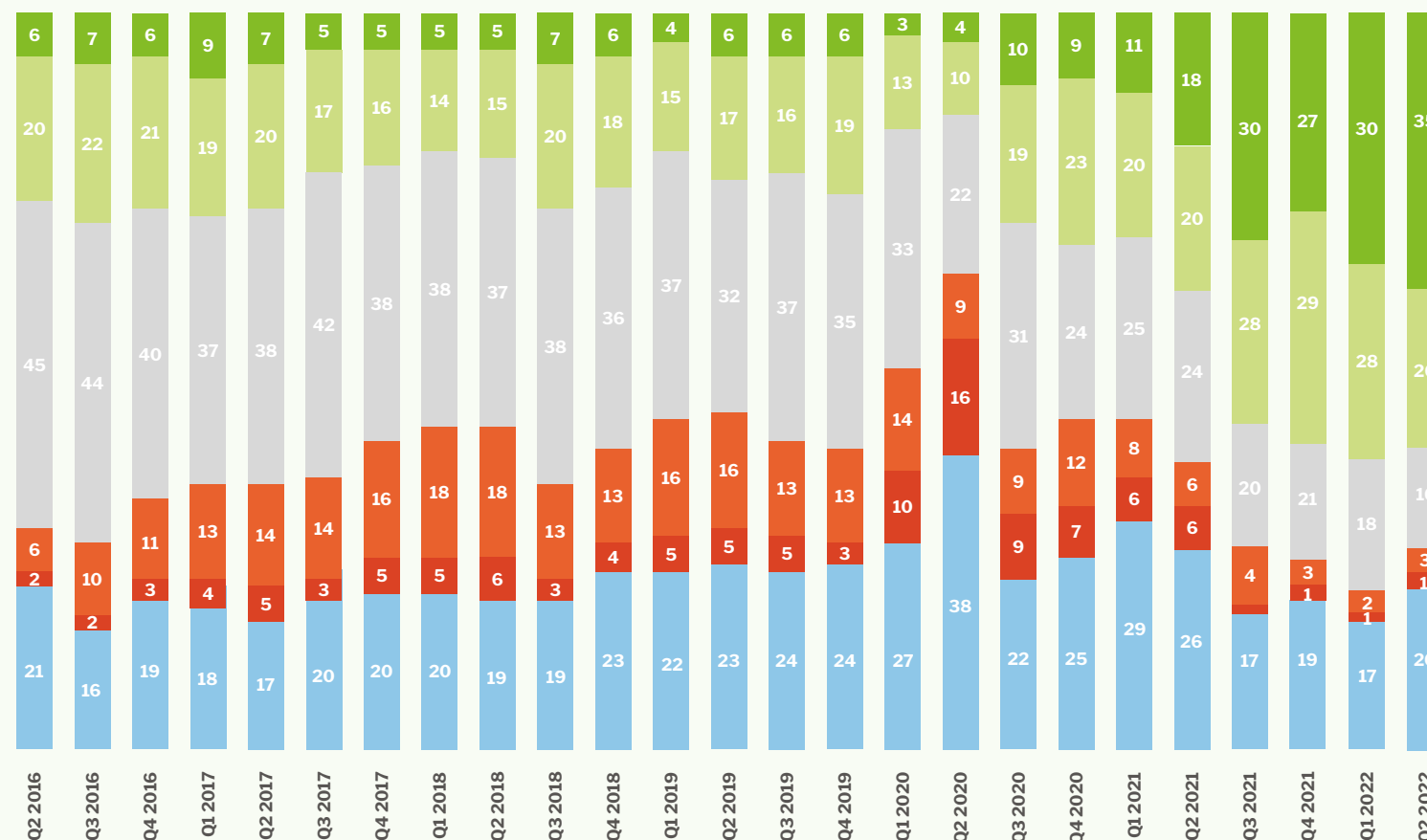
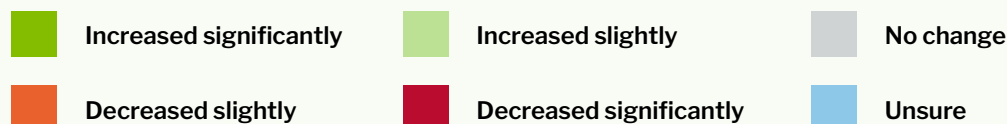


Tenant demand

Although experiencing a slight drop from the all-time high of 62% seen in the previous quarter, the proportion of landlords reporting increasing tenant demand remains high at 60% in Q2 2022.

While the percentage of landlords declaring significant increases has grown by one percentage point since last quarter (34% in Q1 2022 to 35% in Q2 2022), there has been a drop of two percentage points in the proportion who feel that tenant demand has increased slightly (28% in Q1 2022 to 26% in Q2 2022). In addition, the proportion of landlords who have seen tenant demand decrease slightly has risen from 2% last quarter to 3% this time around, contributing to the slightly lower net increase in demand overall.

Tenant demand (%)



Analysing tenant demand regionally, we see that the strongest levels are currently seen in the South West and the East of England, where net strong demand is reported by 90% of landlords, up from 89% and 80% since last quarter, respectively. This is closely followed by the South East, where 88% of landlords reported strong tenant demand.

Since the previous quarter, the biggest increase in net strong demand was recorded by landlords operating in Outer London. In Q1 2022 net strong demand was experienced by 72% of Outer London buy-to-let investors, a figure that climbed to 85% this quarter. With the previous PRS Trends report highlighting how the proportion of landlords in Central London reporting increasing tenant demand had grown by 10 percentage points since the end of 2021, this is further evidence of strong recovery of the capital's private rental market.

Although still experiencing high levels of strong demand currently, since the previous quarter there has been a noticeable cooling of tenant demand in Wales. In Q1 2022, 91% of landlords in the country recorded net strong tenant demand, the highest of any location. After being the only region to hit double figures for 'weak' tenant demand (10%) in Q2 2022, Wales has slipped to seventh of 11 regions in respect of tenant demand, with net strong demand seen by 83% of landlords.



Net strong tenant demand for rental properties

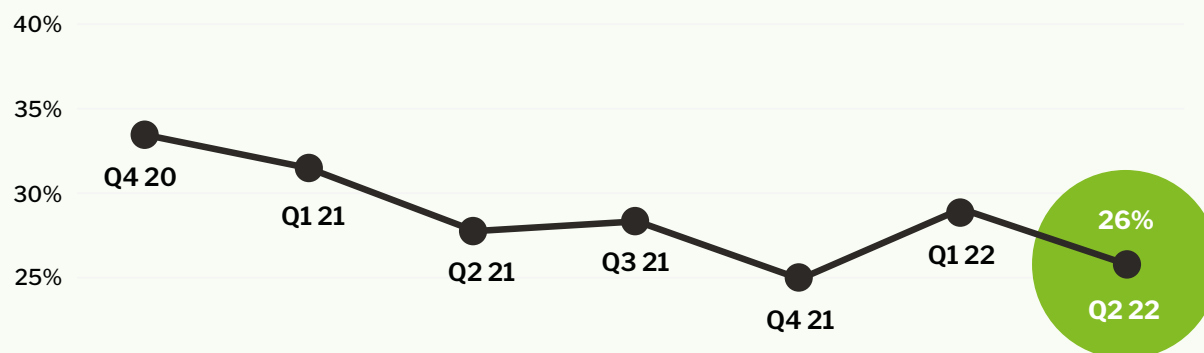


Note: Net strong demand is 'Very strong' and 'Strong' minus 'Weak' and 'Very weak'.

Since Q1 2022, there has been a three percentage point decrease in the incidence of void periods after 26% of landlords experienced one within the previous three months. However, this is just one percentage point higher than the historic low of 25% recorded in Q4 2021.

Alongside this drop in void incidence, the typical void duration has fallen to 71 days from 78 days reported by landlords in Q1 2022.

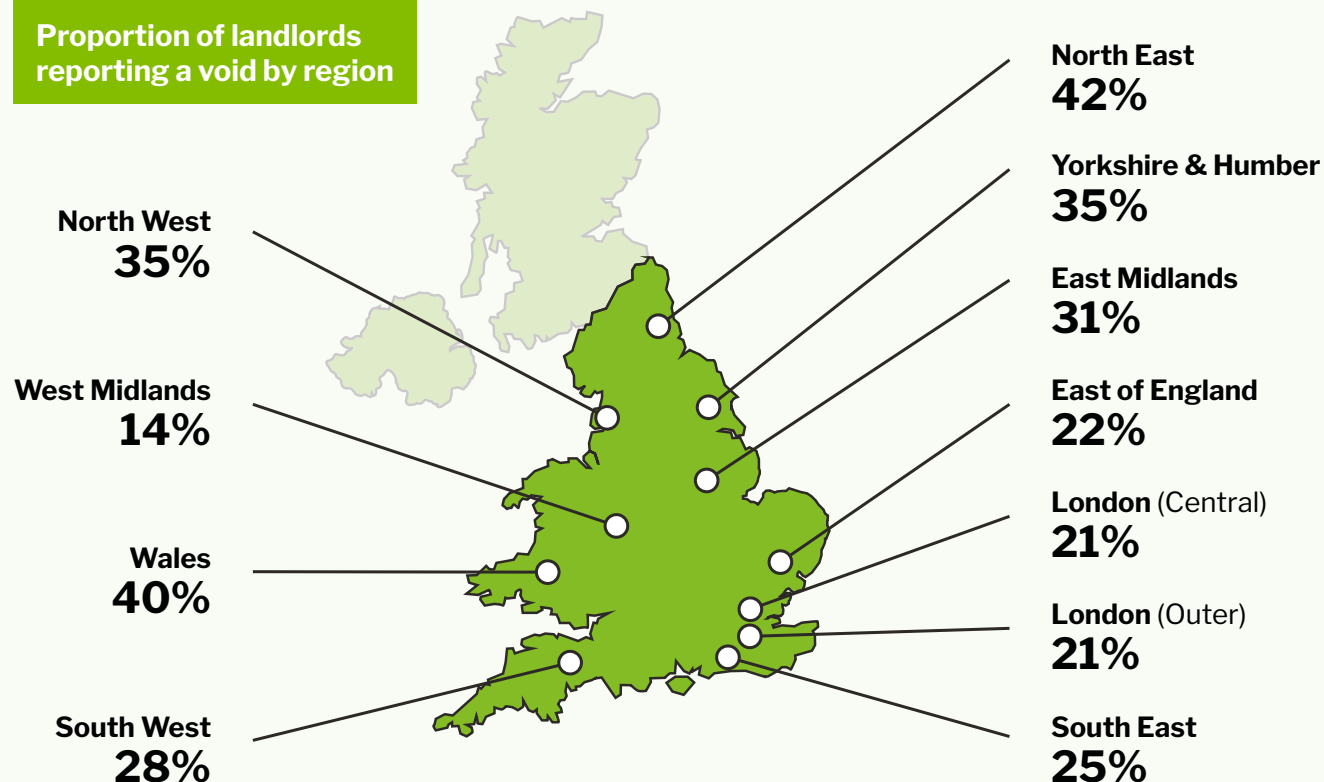
Proportion of landlords experiencing a void period (%)



Void duration (days)



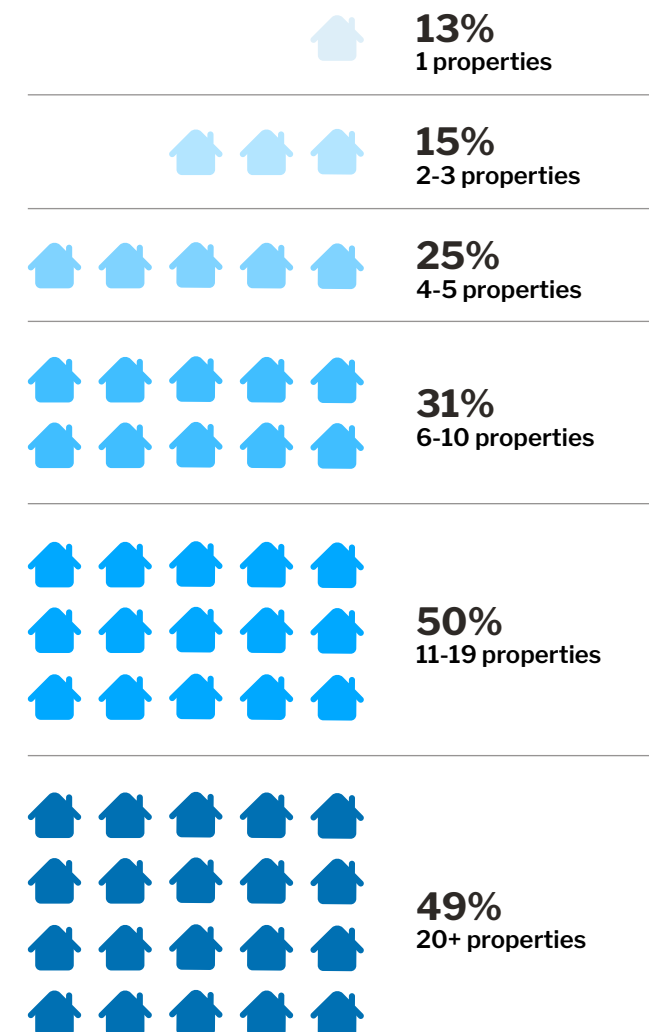
Proportion of landlords reporting a void by region



Landlords in the north of the country are more likely to have experienced a void recently

With the likelihood of having an empty property increasing in line with the number of tenancies agreed by a landlord, it is unsurprising to see void periods generally become more prominent as portfolio sizes grow. Linked to this, we see that landlords in the north of the country are more likely to have experienced a void recently, owing to the fact that they often own bigger portfolios than those operating further south.

Proportion of landlords reporting a void by portfolio size



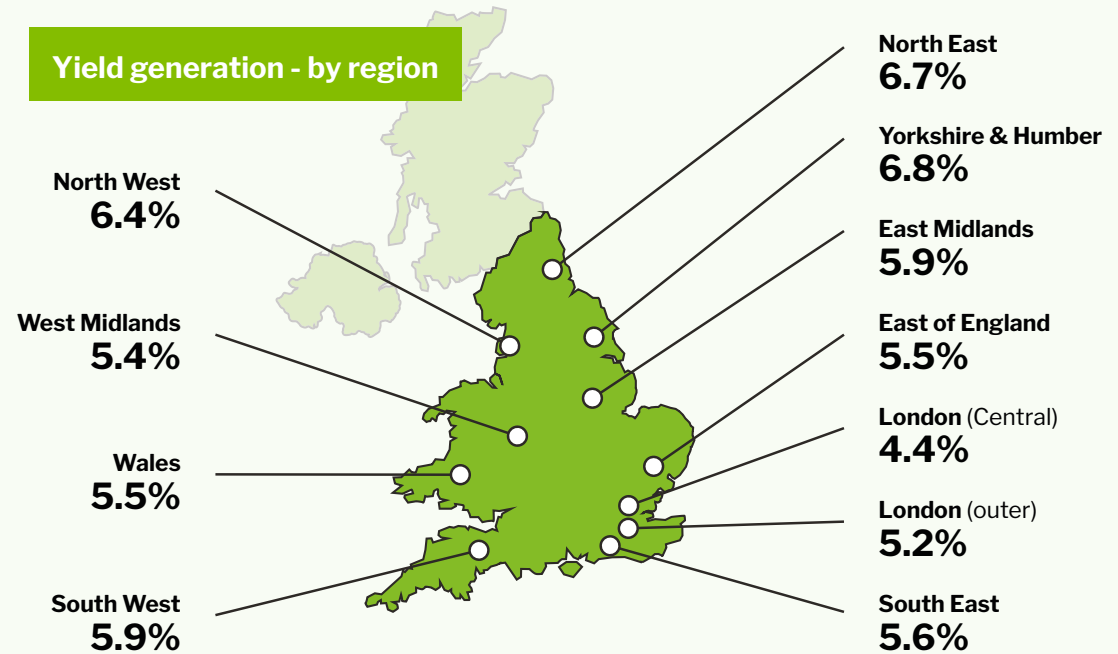
Yield generation

The average rental yield achieved by landlords has increased by 0.2 percentage points since last quarter to 5.7% in Q2 2022.

With generally cheaper property prices in the north of the country, above average yields are achieved by landlords in each of the northern regions, with 6.8%, 6.7% and 6.4% reported in Yorkshire and The Humber, the North East and the North West respectively.

The same principle applies at the other end of the scale, with landlords in the capital, where property is often more expensive to purchase compared to many other parts of England and Wales, recording the lowest yields of 5.2% in Outer London and 4.4% in Inner London.

Yield generation - by region



Yield generation - historical



Yield generation - by property type**7.0%**
HMO**6.1%**
Terraced house**6.0%**
Flats - multi
unit block**5.8%**
Semi-detached
house**5.8%**
Bungalow**5.6%**
Flats - individual
units**5.6%**
Detached
house

After an increase of 0.2 percentage points since the last quarter, HMOs remain the highest yielding property type on average, with landlords who own them reporting returns of 7.0% in Q2 2022. This was followed by terraced houses, which became the second highest yielding property type at 6.1%, overtaking individual flats which generated returns of 6.0% for buy-to-let investors in Q2 2022.



The average proportion of landlords reporting rent arrears has increased to 36% in Q2 2022

Rent arrears

After dropping to 33% last quarter, the average proportion of landlords reporting rent arrears has increased to 36% in Q2 2022. Although this is below the high of 42% reported during the peak of the Covid pandemic, this could be driven to some degree by the current increases in the cost of living.

Proportion of landlords reporting rent arrears - historical

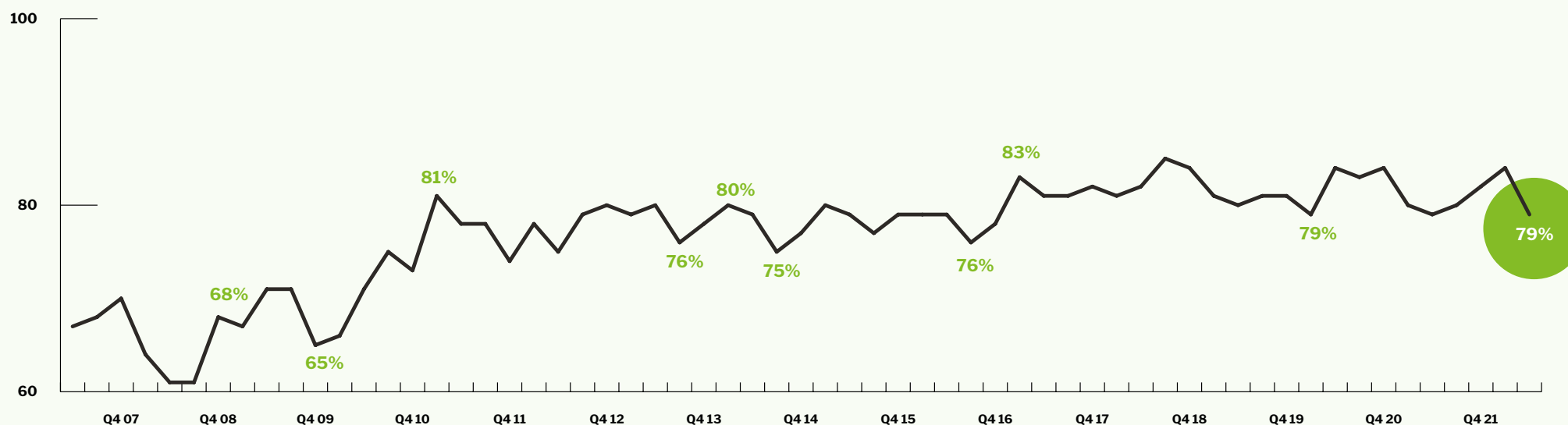


Profitability*

While there has been no change in the proportion of all landlords who declared making a profitable full time living from their letting business - three in 10 – this quarter sees a three percentage point rise to 17% in those who break even or make a loss.



Landlord profitability - historical



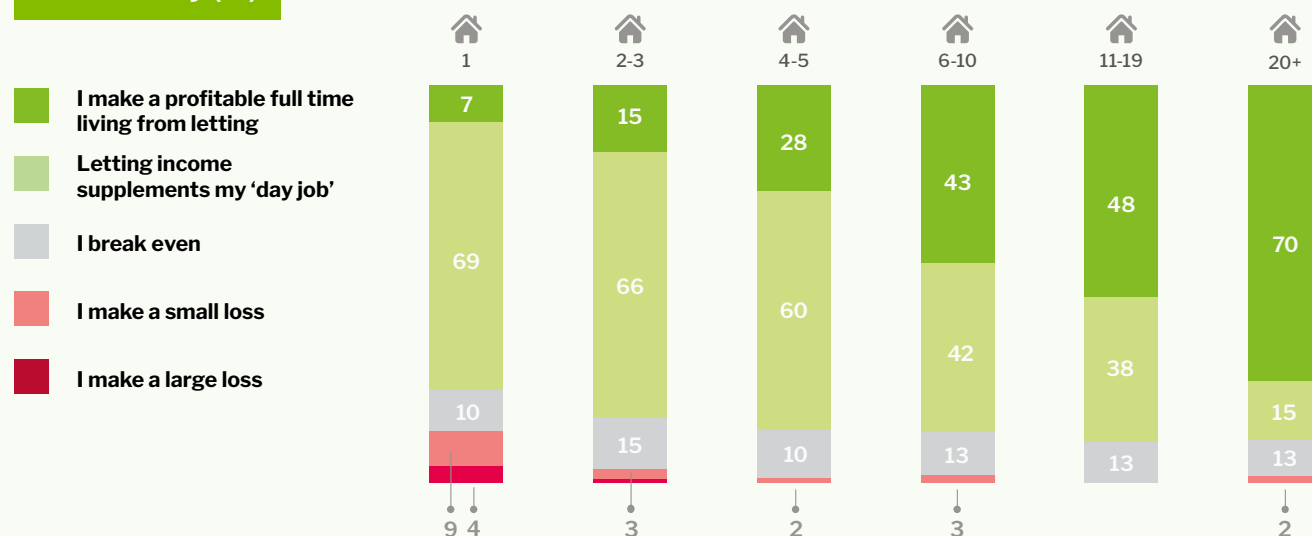
*Proportion of those reporting making a profit minus those making a loss.



Losses are significantly more likely to be declared by those who own just one property

Variation in profitability appears to correlate with portfolio size, with the proportion of those making a full-time living from their letting activity climbing from 7% amongst single property landlords to 70% amongst those with 20 or more properties. Likewise, losses are significantly more likely to be declared by those who own just one property (13%) compared to those who let between 11-19 homes (0%).

Profitability (%)



Landlord business expectations

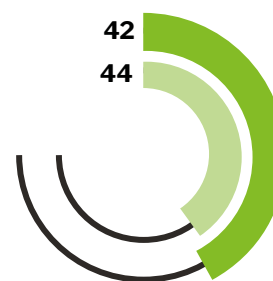
In order to gauge their market confidence and business expectations, landlords are asked to rate five different facets of letting – capital gains, rental yields, UK financial market, UK private rented sector and own lettings business.

The results show that landlords are generally less confident in the prospects for each of these areas compared to the same period a year ago. The most notable drop in confidence is seen in outlook for the UK Financial Market, with just 7% of landlords rating its prospects as either 'Good' or 'Very Good' compared to 25% in Q2 2021. This is unsurprising given the current economic climate and the lower levels in confidence are less pronounced for other metrics.

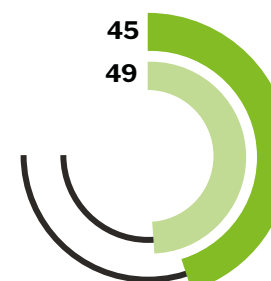
Landlords rating their expectations for next three months as 'good'/'very good' (%)

■ Q2 22

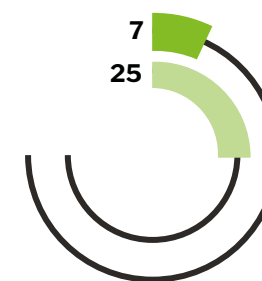
■ Q2 21



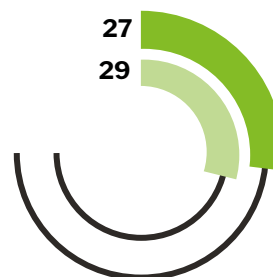
Capital gains



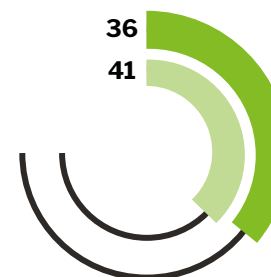
Rental yields



UK financial market



UK private rented sector



Own lettings business

Portfolio intentions

Asked about their portfolio intentions for the next 12 months, 14% of landlords indicated that they plan to purchase property, a decline of four percentage points since Q1 2022, while 23% intend to divest, an increase of three percentage points since the last quarter.

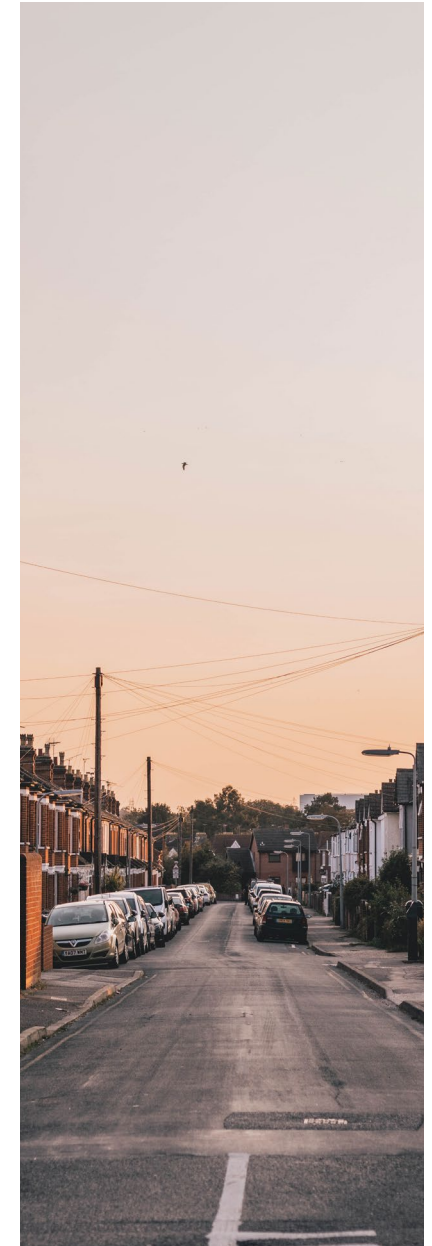
The 14% of landlords who will seek to expand their portfolios in the next 12 months anticipate purchasing an average of 2.2 properties. Those that wish to reduce the size of their portfolio expect to sell a similar number of properties, 2.3, on average.

Landlord portfolio intentions - historical



Property purchase strategies

There has been a considerable increase in the proportion of landlords who plan to make their next buy-to-let purchase through a limited company, rising from 50% in Q1 2022 to 62% this quarter, the highest level in three years. This intention increases amongst landlords with six or more properties, with 78% saying they will utilise a limited company structure when making their next property investment, compared to 47% of those with between one and five lets.



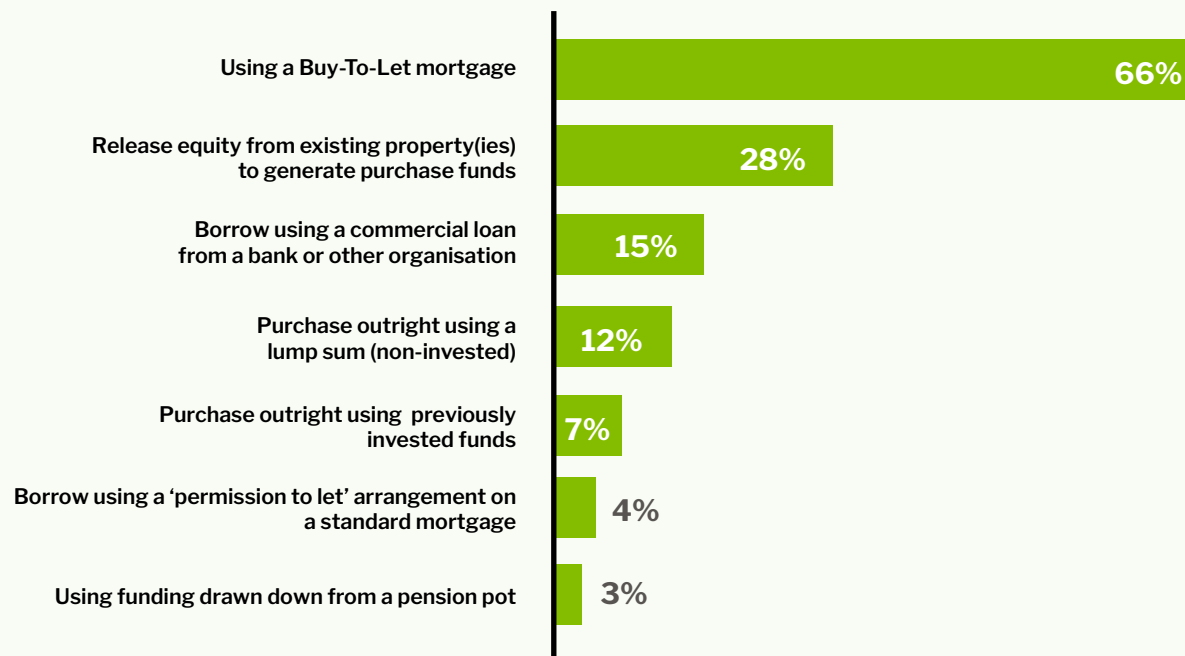
This quarter also sees an increase in the proportion of landlords who expect to finance their property acquisitions with buy-to-let mortgages, rising by four percentage points since Q1 2022 to 66%, remaining the most popular option of funding.

Seeing the most pronounced increase since the start of the year is the proportion of those who will release equity from existing property in order to expand their portfolio during the next 12 months. This has grown from 17% in Q1 2022 to 28% in Q2 2022.

Alongside this, there has been a decline in the proportion of property investors who foresee purchasing homes outright by using either invested or non-invested funds.

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 (%)



Remortgage intention

The proportion of leveraged landlords who plan to remortgage during the next 12 months has edged up by one percentage point since last quarter to 31%. The majority of these, 57%, will opt for a 5-year fixed rate product, likely seeking to benefit from the stability of locking in to a mortgage ahead of further expected rises to the base rate of interest as the Bank of England attempts to limit inflation.

Mortgages fixed for two years are the second most popular choice, with 14% of landlords expecting to opt for one on remortgaging. Three-year fixed rate products are less popular, with 5% of landlords likely to choose one, while just 1% think they would select a variable rate mortgage. One in 10 property investors said that they would take the advice from their broker.

Plans to remortgage in the next 12 months



If remortgaging, rate likely to go for...

57%
Fixed (5 yr)

14%
Fixed (2 yr)

12%
Don't know

10%
Will take advice
from broker

5%
Fixed (3 yr)

1%
Fixed (other)

1%
Variable



The Q2 2022 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with 708 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews between May and June 2022.



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