



# PRS TRENDS





This edition of Paragon's PRS Trends report covers the final quarter of what was a strong year for the buy-to-let market. Landlords continued their buying momentum from 2021, adding much-needed new homes to the UK private rented sector.

This was likely driven by the final months of the year seeing a continuation of the all-time high in tenant demand, first reported by landlords in the Autumn. Linked to this, Q4 also saw the lowest level of void incidences since 2017.

Alongside this demand, the 32% of landlords who told us that they have experienced tenants in rent arrears is now at its lowest level in six years. This is consistent with separate research that found that when facing financial pressure, tenants will often prioritise paying rent over non-essential spending.

Yields generated by buy-to-let investors have remained stable and while profitability has dropped, closer inspection of the data reveals that this is primarily driven by greater numbers breaking even instead of a rise in those making a loss.

But, with the research for our report undertaken during November and December 2022,

the economic upheaval caused by the mini-budget will have been fresh in the minds of landlords.

Along with the widely reported cost-of-living crisis, this fiscal instability has had a telling negative impact on optimism amongst landlords, with confidence dropping to levels only slightly above that seen when the severity of the Covid pandemic first became apparent in early 2020.

Importantly, as we saw in the previous edition of PRS Trends, it appears that much of this negative outlook is influenced by anticipation of trying times ahead rather than an actual deterioration in business performance.

Landlords face some undeniable challenges, a convoluted and increasingly austere regulatory landscape and the aforementioned economic challenges spring to mind, but with more people than ever before needing good quality, affordable homes, buy-to-let remains a prudent investment option for many, something that Paragon will continue to support.

**Richard Rowntree**  
Managing Director of Mortgages

# Portfolios

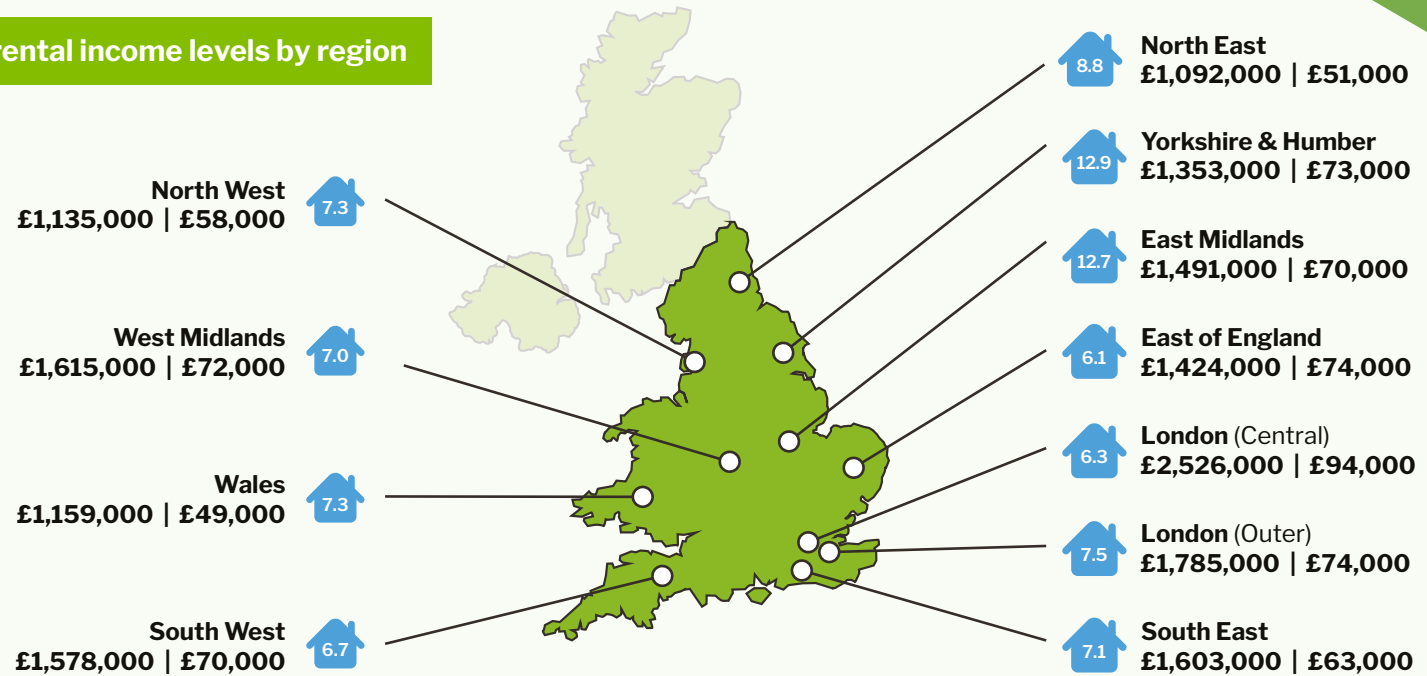
The average value of portfolios dropped from £1.49 million in Q3 2022 to £1.39 million this wave. It is likely that this can be attributed, in part, to a reduction in the typical portfolio size as the average of 7.5 properties owned by each landlord fell from 8.0 in Q3 2022.

Typically, each property is valued at £186,400 and generates an annual income of £8,267, or £689 a month, an increase of £21 on last quarter.

There is noticeable regional variation in portfolio sizes. Landlords in Yorkshire & The Humber and the East Midlands boast the largest portfolios, with an average of 12.9 and 12.7 properties respectively. This is more than double the average number of homes operated by landlords in Central London (6.3) and the East of England (6.1).



## Portfolio value & gross annual rental income levels by region

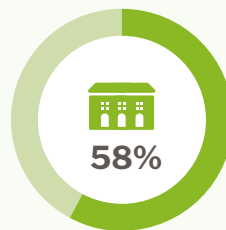




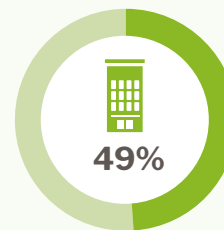
Despite a 3-percentage point decrease in the proportion of landlords indicating that they own at least one, terraced houses continue to be the most popular property type. Flats configured as individual units retain their place as the second most commonly owned rental property, with just under half (49%) of landlords stating that they own at least one.

As can be expected, diversity of property types increases with portfolio size. Those with the largest portfolios, made up of 20 or more homes, are much more likely to own detached houses, bungalows and short-term or holiday lets compared to landlords with fewer than three properties.

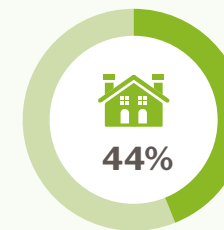
Type of property owned



Terraced house



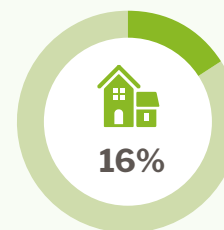
Flats - Individual units



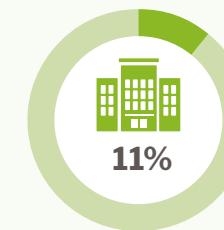
Semi-detached house



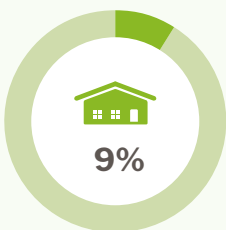
Detached house



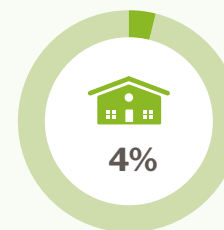
HMO House in Multiple Occupation



Flats - Multi unit block



Bungalow

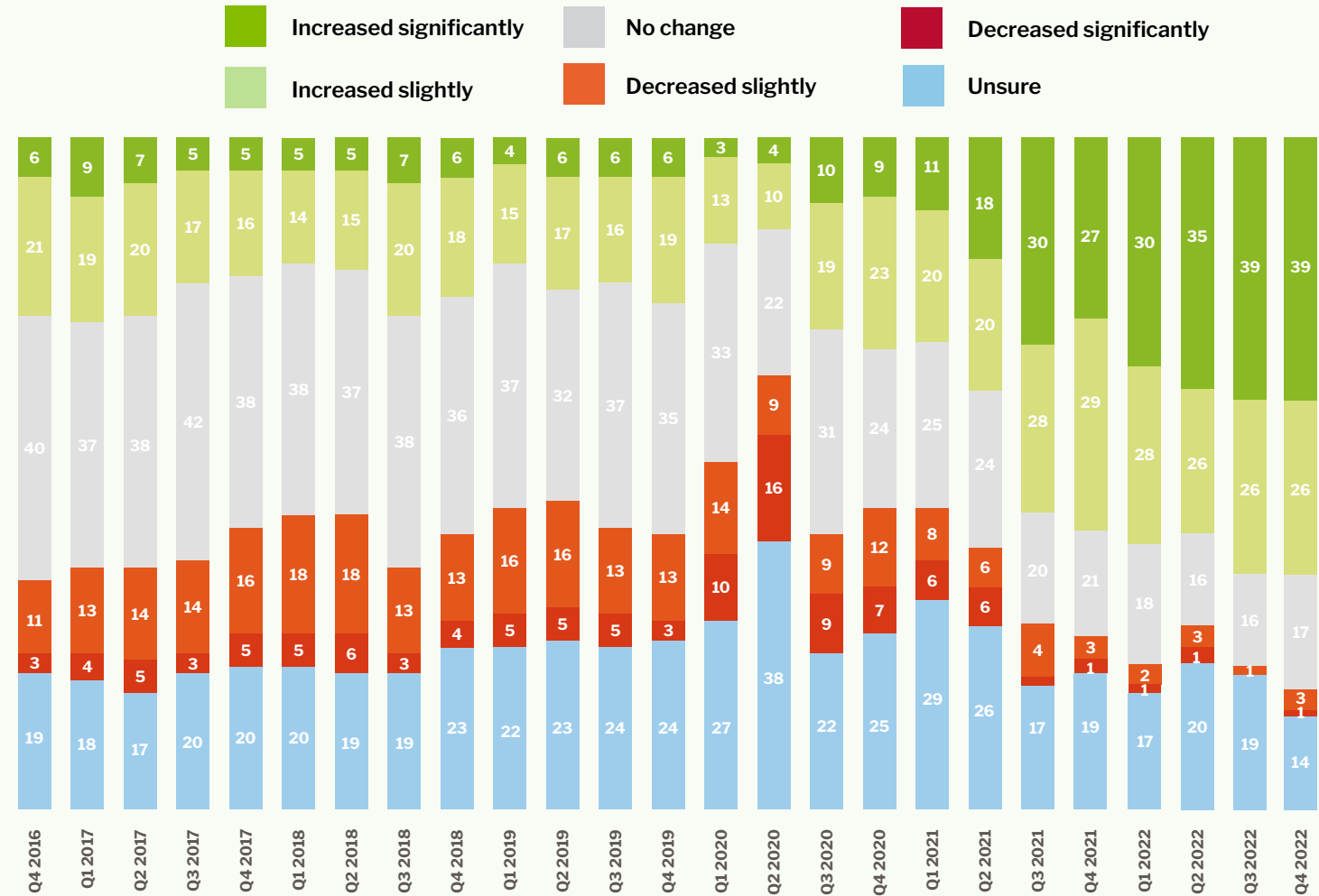


Short-term / Holiday lets

# Tenant demand

The all-time high in tenant demand seen in the last quarter continued into Q4 2022, with 65% of landlords again reported an increase over the previous three months.

Tenant demand in last three months (%) - Historical



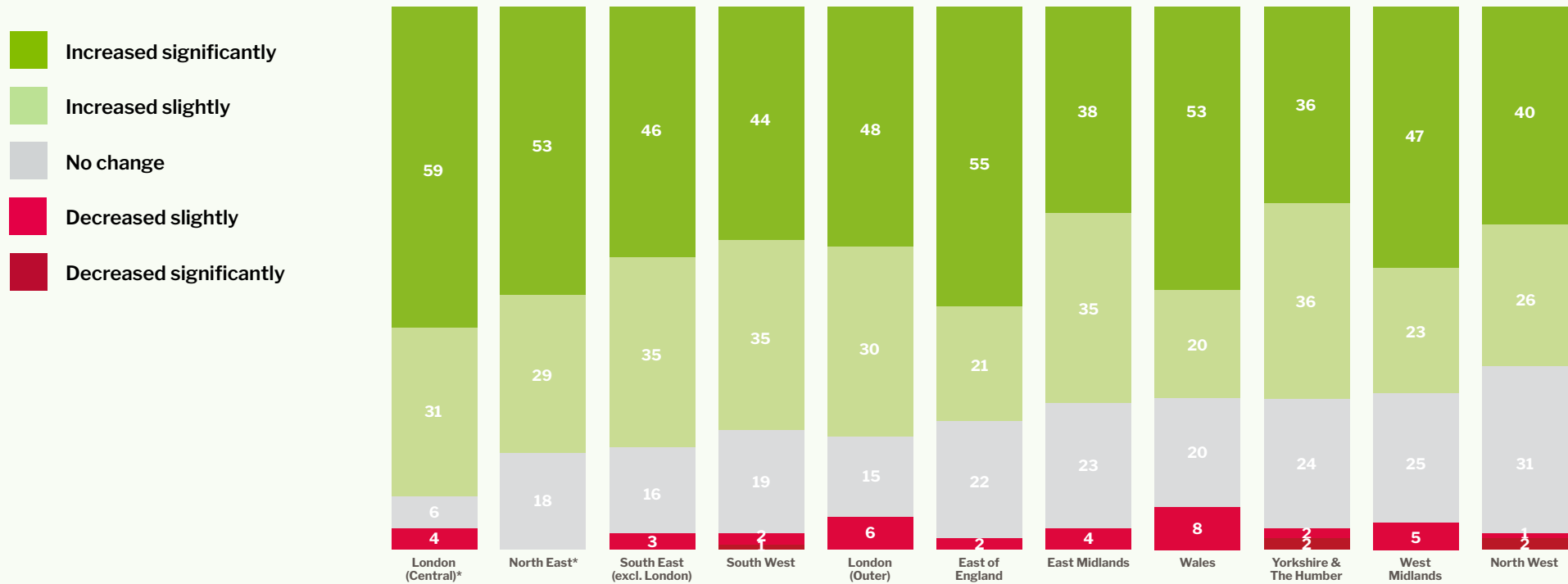
The strongest levels of tenant demand were seen in Central London, where nine in 10 (90%) landlords recorded an increase during the previous three months, up from 79% in Q3 2022. When compared to the 12% of Central London landlords who reported increased demand in the second quarter of 2020, the height of the Covid pandemic,

this acts as evidence of returning interest in rented homes that are centrally located in the capital.

Other regions seeing strong levels of tenant demand across the previous three months include the North East and South East of England, where it was reported by 82% and 81% of landlords respectively.



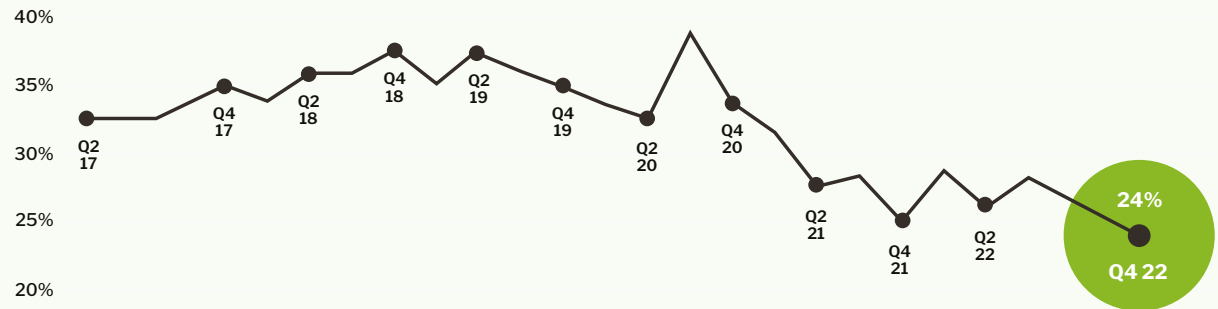
**Tenant demand in the last three months (%) - Regional**



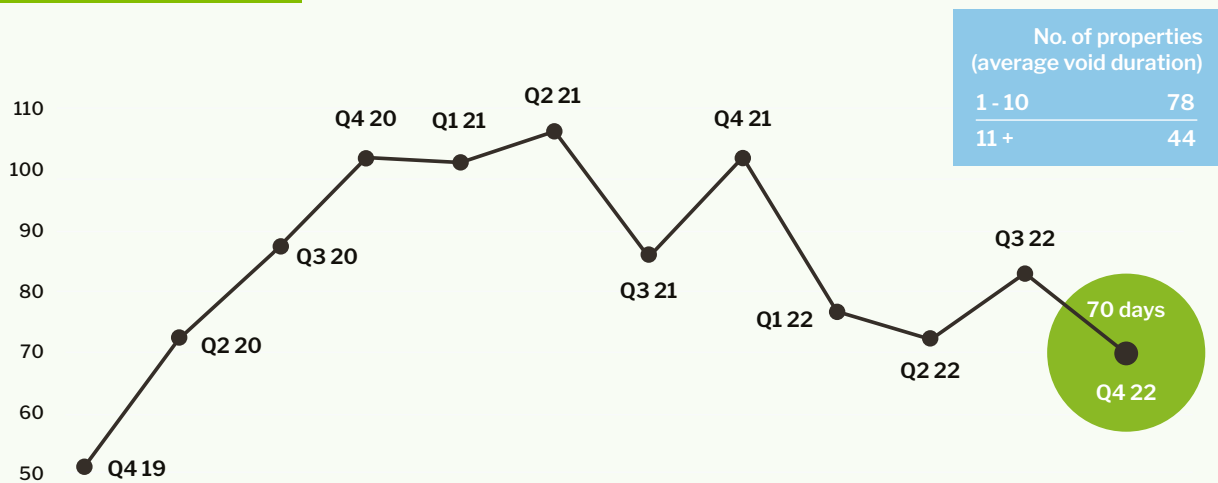
Q4 2022 saw fewer than one in four (24%) landlords report a vacant rental property. This follows a drop from 28% in Q3 2022 and, unsurprisingly given the continued record high tenant demand, marks the lowest level of void incidences since the metric was first tracked in 2017.

Alongside this, there was also a fall in the typical void duration from 82 to 70 days on average. Interestingly, there is a significant difference in void duration experienced by landlords with between one and 10 properties and those with portfolios consisting of 11 or more homes – 78 vs 44 days. Could this suggest that landlords with larger portfolios are often more adept at creating homes that appeal to tenants?

**Proportion of landlords experiencing a void period (%)**



**Void duration (days)**



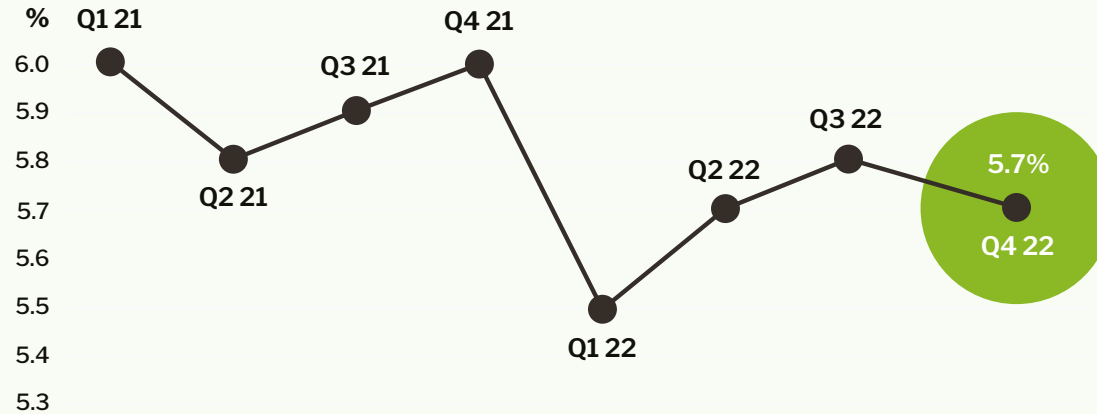
# Yield generation

Rental yields in Q4 remained stable at 5.7%. This follows a 0.1 percentage point decrease since Q3 2022, and with yields being 5.5% in Q1 and 5.7% in Q2 2022, shows a continuation of the 12-month average for the year.

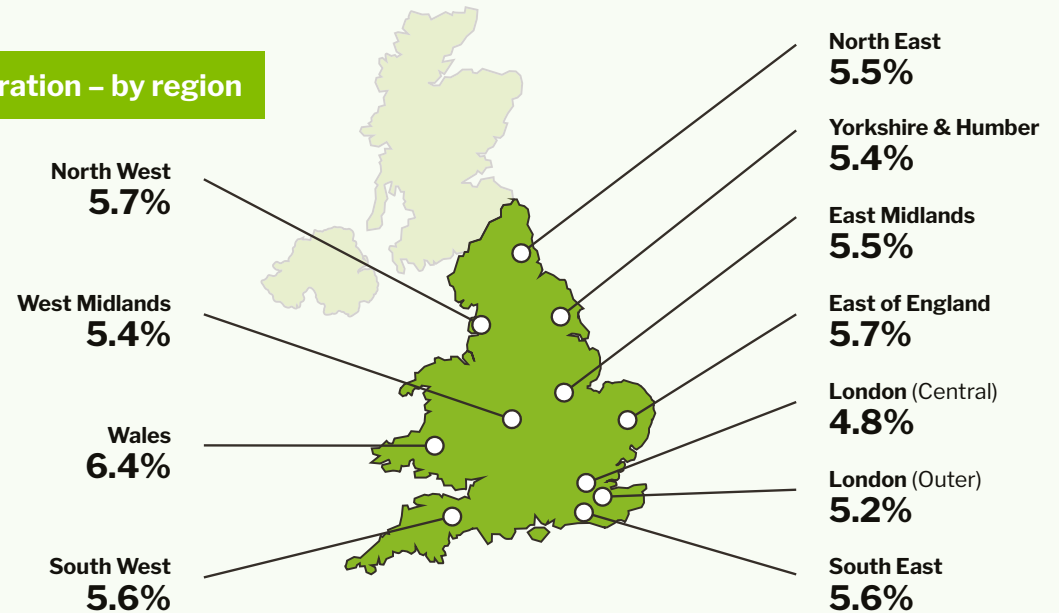
Analysing rental yields regionally, Wales saw the strongest performance during Q4 2022, with an overall average of 6.4% after climbing from 5.8% in Q3. Previously occupying the top spot as the region where landlords achieved the highest yields, the West Midlands slipped down the table after yields of 5.4% were recorded, down from 6.3 last quarter.

As we saw in Q3 2022, despite strong tenant demand, landlords who let property in Central London and Outer London continue to generate the lowest yields, 4.8% and 5.2% respectively. It is likely that this is due to typically higher prices paid for properties in these regions.

## Yield generation – historical



## Yield generation – by region





After being overtaken by multi-unit blocks of flats in Q3 2022, this quarter saw HMOs reclaim the title of highest yielding property type. Landlords with HMOs reported achieving yields of 6.4%, while those with multi-unit blocks of flats generated yields of 6.3% after a dip of 0.1% since last wave.

The biggest decline in rental yields between the third and fourth quarters was reported by landlords operating bungalows, with a decrease of one-percentage point from 6.1% in Q3 to 5.1% in Q4.

### Yield generation – by property type

**6.2%**

Flats – Multi unit block

**6.4%**

HMO

**5.1%**

Bungalow

**5.7%**

Terraced house

**5.8%**

Detached house

**5.5%**

Flats – Individual units

**5.6%**

Semi-detached house

# Rising rents

Unsurprisingly due to higher numbers of tenancies, over the next six months landlords with 11 or more properties are more likely to increase rents across some of their portfolio compared to those with fewer. Despite this, landlords with the smallest portfolios will do so to the greatest degree – 8.7% vs the average of 7.7% seen across all portfolio sizes. This behaviour could be indicative of an ability to spread costs, impacting each tenant to a lesser degree, that increases in line with the number of properties owned.

Covering the increased cost of running a property and aligning with local market rents remain the most common drivers of rental increases, cited by 72% and 61% of landlords respectively. The proportion of landlords who will increase rent to cover increased mortgage finance costs has increased by 7-percentage points since the previous quarter to 47%, while a 3-percentage point increase on Q3 2022 sees tax changes as the cause of 43% of landlords anticipating rent increases.



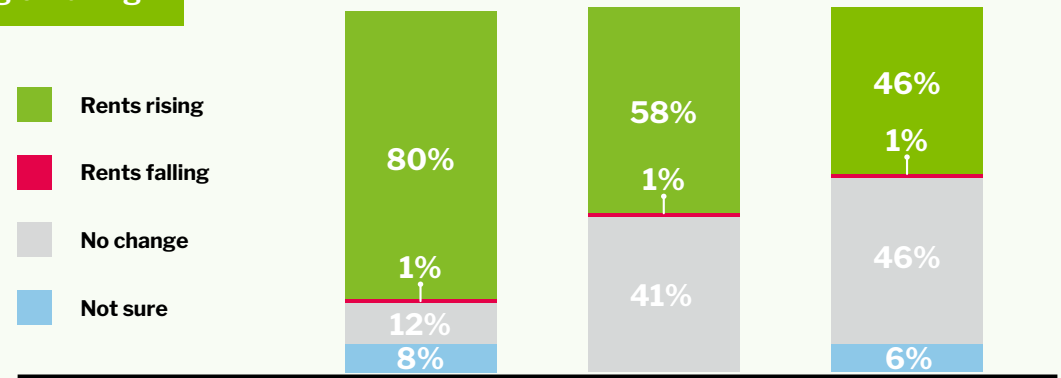
## Rents rising or falling?

- Rents rising
- Rents falling
- No change
- Not sure

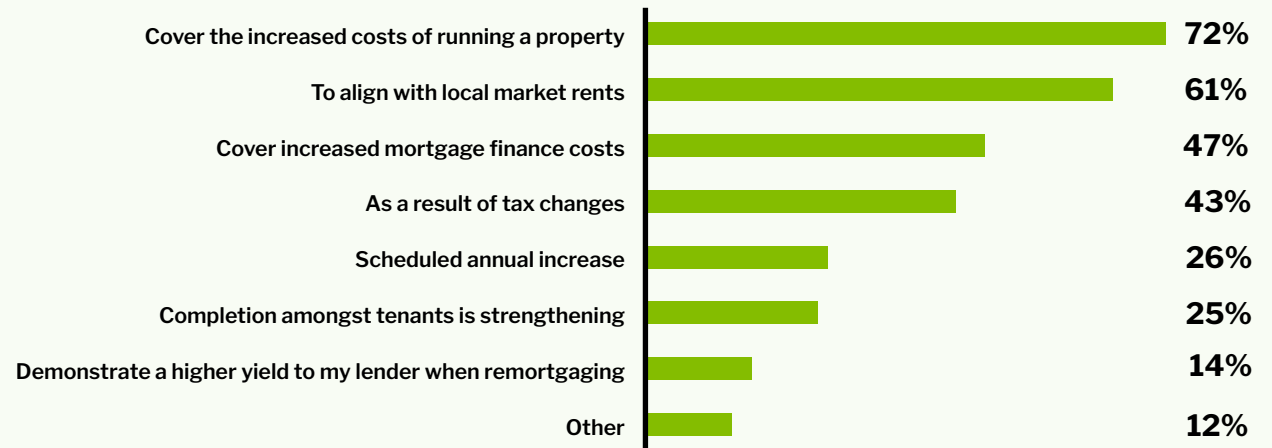
CURRENT trend in areas where you let properties

Across your own letting portfolio in LAST 12 months

Across your own letting portfolio in NEXT 6 months



## Reason for rent increase



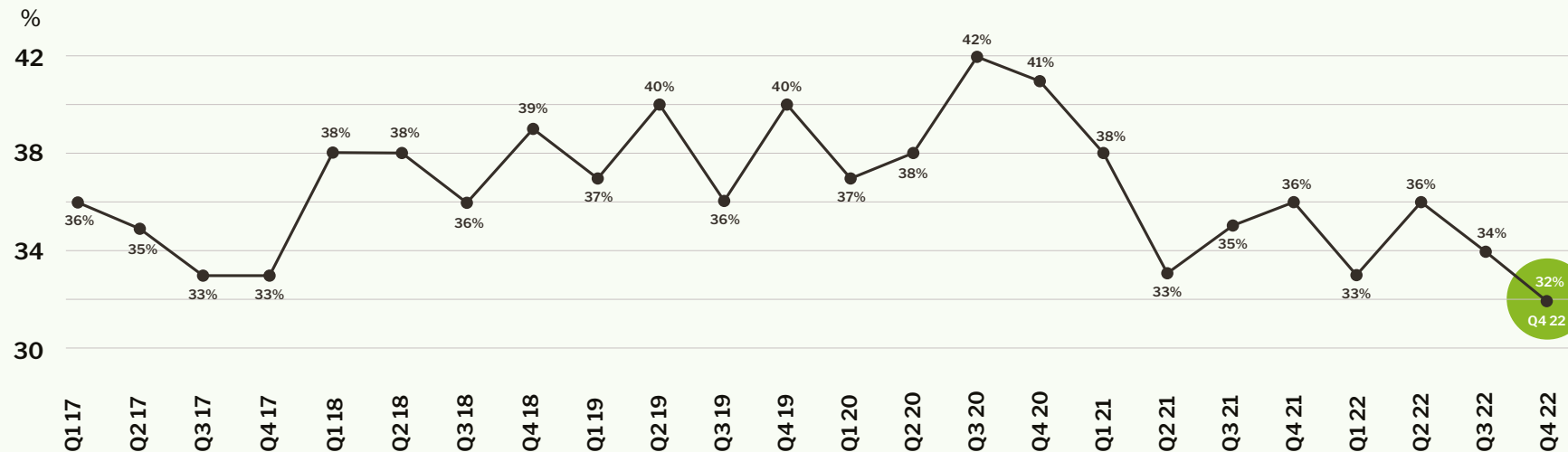
# Rent arrears

For the second quarter running, the incidence of arrears has fallen by 2-percentage points, with the 32% of landlords experiencing arrears now at its lowest level in six years.

Historically, landlords letting to students have been most likely to report rent arrears but this changed in Q4 2022, with students being the tenant type least likely to have fallen into arrears at 23%. On average, landlords experienced 1.3 tenants who were behind on their rental payments in Q4 2022, a fall of 0.6 since Q3 2022.



## Proportion of landlords reporting rent arrears



# Profitability

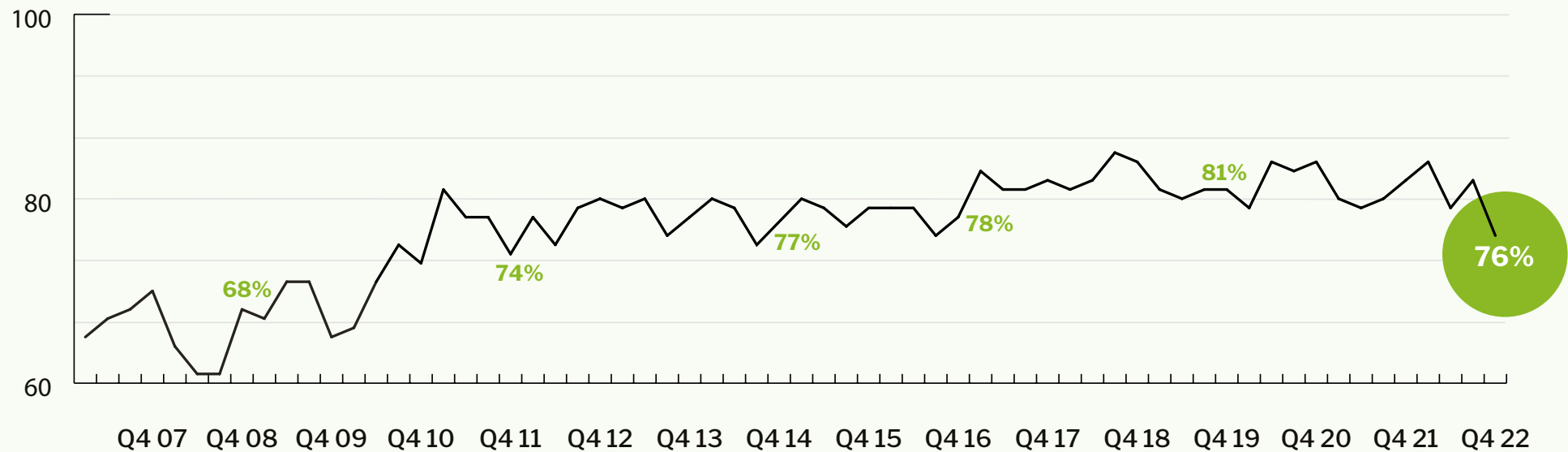
Net profitability is calculated by subtracting the proportion of landlords who make a financial loss from those who report making a profit.

Net profitability recorded by landlords has decreased by 6-percentage points from 82% in the previous quarter to 76% in Q4 2022. The proportion

of landlords who reported a 'small loss' or 'large loss' in Q4 2022 is one percentage point higher than the previous quarters in 2022. The decrease in profitability compared to the previous quarter can be attributed to a rise in the proportion of landlords who are 'breaking even' financially, the highest since 2021.



## Landlord profitability – historical



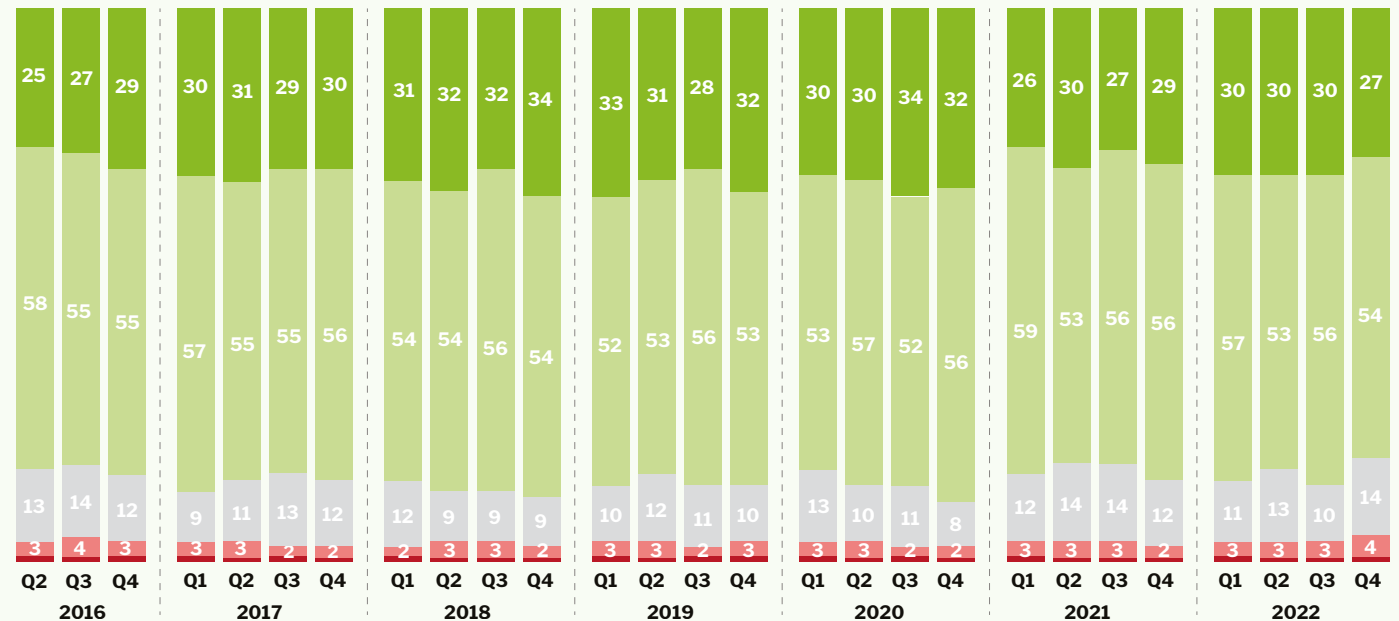
Analysing profitability in more detail we see that in Q4, 81% of landlords reported making a profit from letting their properties. The highest proportion of landlords generating some degree of profit – either a full time living or in support of another income source - can be seen in the 90% of those with portfolios made up of between four and five properties.

Additionally, the proportion of those making a full-time living from their rental activity increases in line with portfolio size. Over six in 10 (64%) landlords with portfolios comprising of 20 or more properties make a full time living from their letting activity, compared to 5% of those who own a single buy-to-let home.



**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



# Landlord business expectations

When rating their expectations for five different aspects of letting - capital gains, rental yields, UK financial market, UK private rented sector and own lettings business - we see that landlord optimism fell during the quarter.

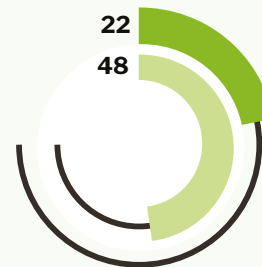
The 24% of landlords rating their expectations for their own lettings business as good or very good is the second lowest level ever recorded, with the lowest being 19% at the onset of the Covid pandemic.

The decline in confidence reflects the current challenges facing the economies at home and abroad. It is most evident amongst landlords with portfolios consisting of 2-3 and 20+ properties as well as those with tenancies in the East of England, East Midlands and Wales.

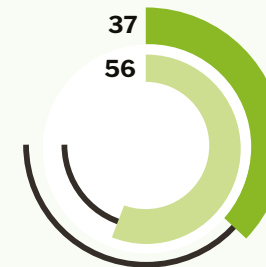
## Landlords rating their expectations for next three months as 'good'/'very good' (%)

■ Q4 22

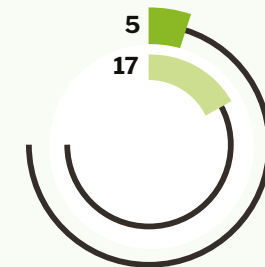
■ Q4 21



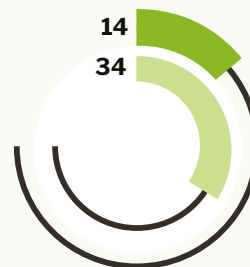
Capital gains



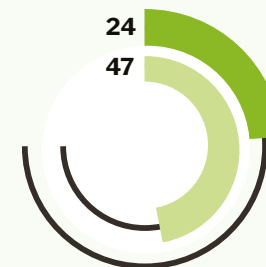
Rental yields



UK financial market



UK private rented sector



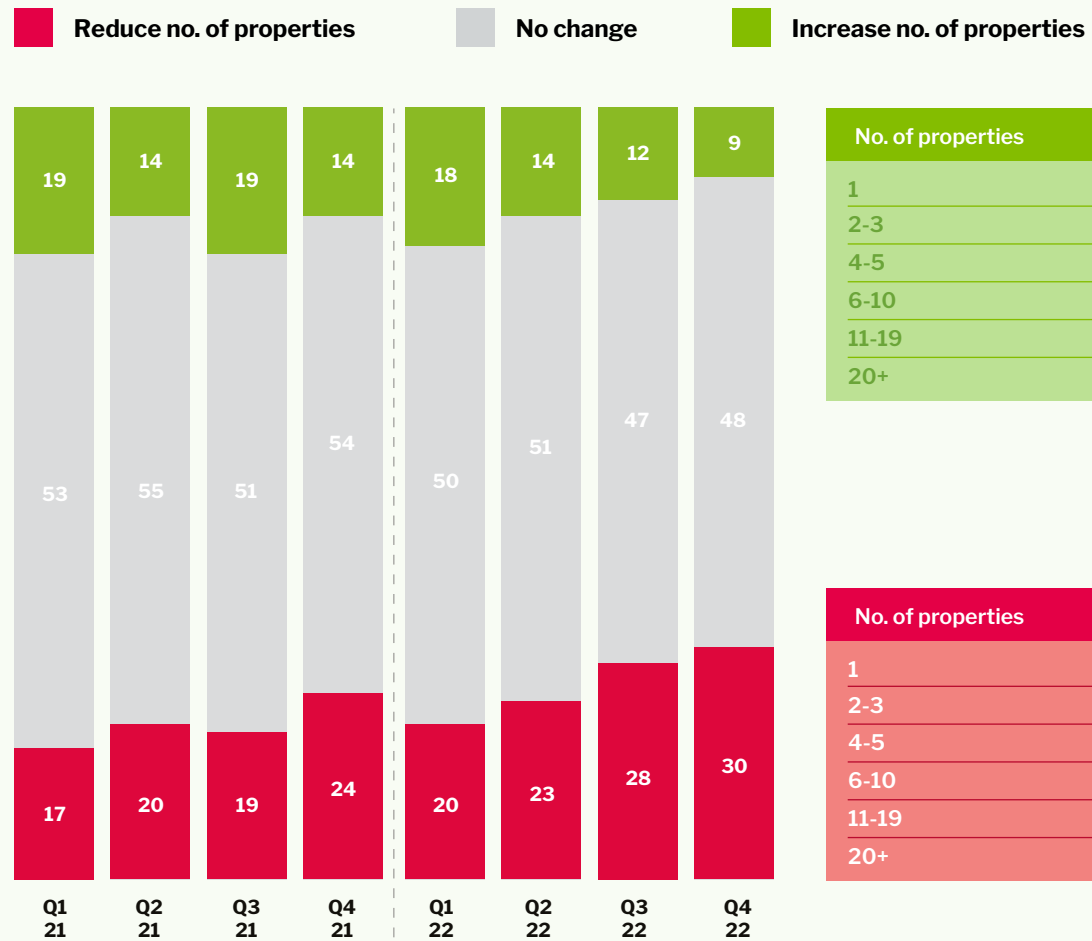
Own lettings business

# Portfolio intentions

When asked about modifying their portfolios in 2023, the proportion of landlords looking expand was the lowest level in over five years. This was due to a drop of three-percentage points from the previous quarter, with a total of 9% advising that they plan to increase their portfolios.

With landlords surveyed in November and December, it is likely that future investment behaviour will have been negatively impacted to some degree by the high mortgage rates seen in the wake of the mini budget. With the economy having recovered from this temporary shock, we would expect portfolio intentions to be more positive in the next edition of PRS Trends.

## Landlord portfolio intentions – historical



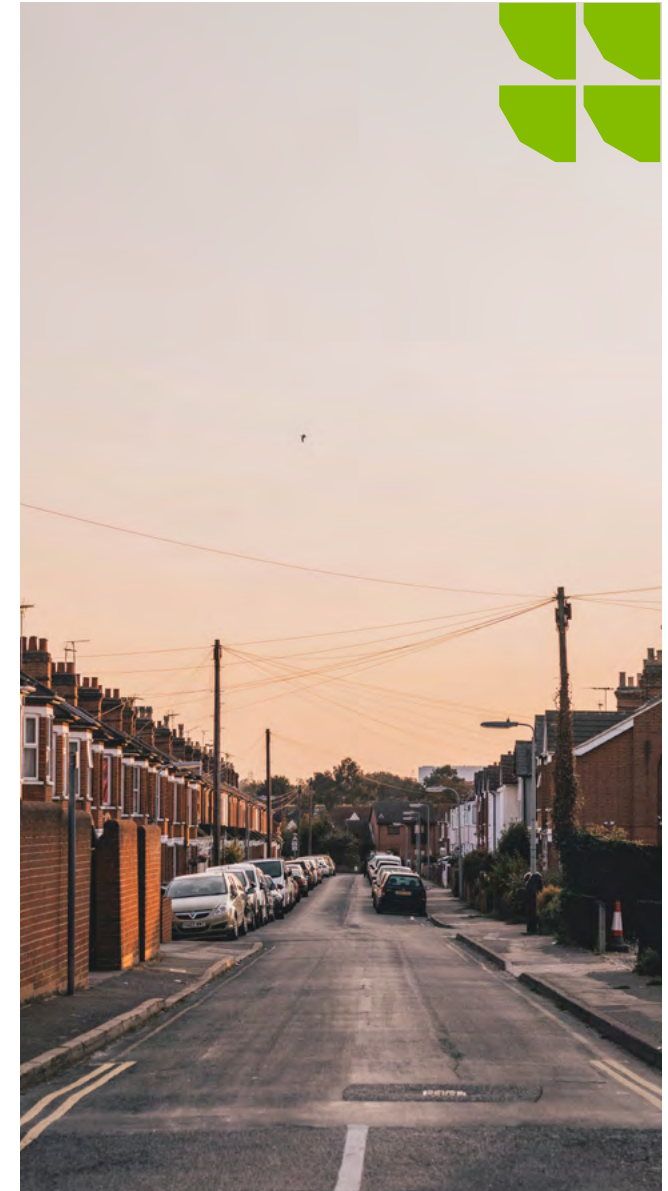
No. of properties	(%)
1	4
2-3	8
4-5	12
6-10	9
11-19	11
20+	16

No. of properties	(%)
1	15
2-3	22
4-5	33
6-10	41
11-19	35
20+	44



Landlords operating in the South West and North West are most likely to expand their portfolios, with 21% and 19% hoping to do so. Those in the East of England and Central London are least likely to buy properties during the next 12 months.

### Region of properties intended to purchase in next 12 months



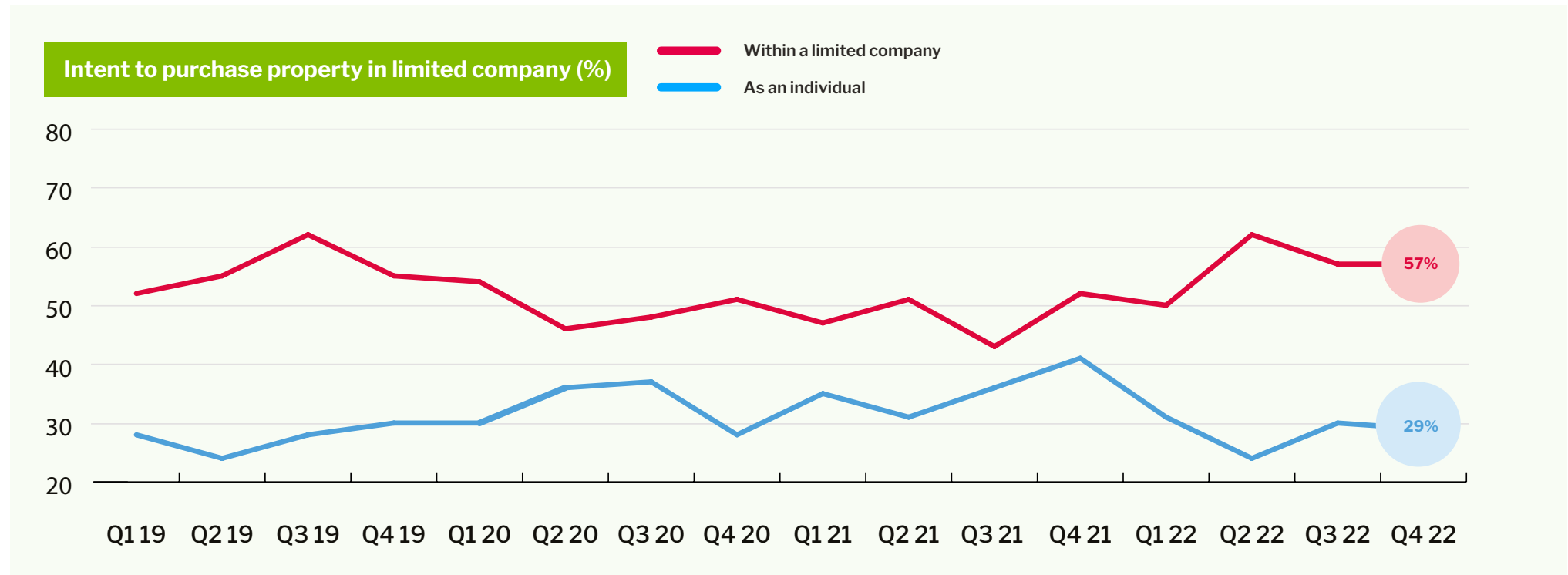


# Property purchase strategies

When asked about their plans to purchase new rental properties, there was little change in the response overall.

Landlords who plan to purchase in a limited company structure remained stable at 57%. The proportion of landlords who plan to expand their property portfolio as an individual has dropped slightly compared to the previous quarter and now totals 29%.

Those who have portfolios of six or more properties are more likely to purchase in a limited company structure, with an average of 55%, compared to landlords with smaller portfolios which average 45%.



# Remortgage intention

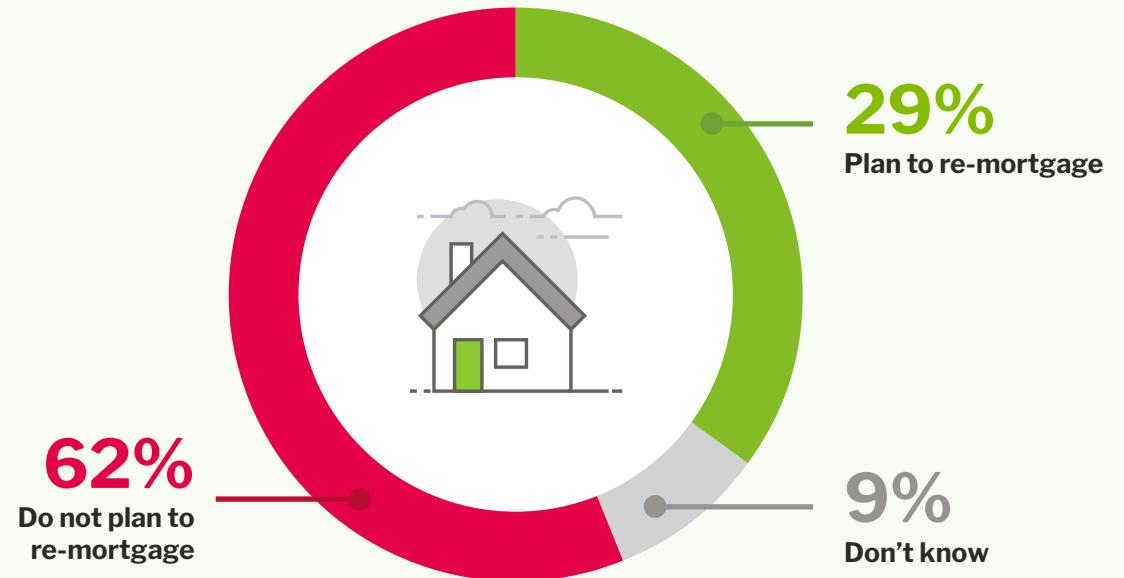
In Q4 2022, 29% of landlords said that they plan to remortgage in the next 12 months. This follows a decrease of 6-percentage points since Q3 2022.

Amongst those that plan to remortgage, five-year fixed rate mortgages are anticipated to be the most common choice for landlords, with 21% indicating that they will opt for these products.

However, compared to the previous quarter, this has fallen by 35-percentage points from 56%, likely reflecting the reduced availability and increased cost of five-year fixed rate products on the market during the end of 2022.

This was as a result of economic instability caused by the mini budget and is also likely to have led to a significant increase in the proportion of landlords who stated that they are unsure of the rate to opt for when remortgaging - 19% in Q3 vs 32% in Q4.

## Plans to remortgage in the next 12 months



## If remortgaging, rate likely to go for...





The Q4 2022 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with 752 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews between November and December 2022.



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