

Q3 2019 HIGHLIGHTS

- Average portfolio size now 13.2 properties
- Portfolio gearing close to historic low
- Less than one in ten landlords plan to expand

LANDLORD PORTFOLIOS RESILIENT BUT LIMITED APPETITE FOR EXPANSION

Three-quarters of the way through 2019 and approaching some milestone moments in the UK's political and economic history, the state of the country's Private Rented Sector (PRS) shows little change, as landlords remain cautious but continue to optimise their property portfolios for the challenges that lie ahead.

Whilst many of the landlord sentiment indicators in Paragon's long-running PRS Trends report are historically low, the result of successive governments imposing fiscal and regulatory changes, there is still a story of resilience – something we've tracked since 2016.

In our latest survey for Q3 2019, the average portfolio size amongst our experienced panel of 201 landlords has grown to 13.2 properties. With this increase, so too a rise in portfolio value, now at £1.82 million, a second successive record high.

The proportion of landlords saying tenant demand is growing or booming is also the highest it's been in almost a year (since Q4 2018), reversing a substantial drop in Q1 2019 (21%) and returning to the same level it's roughly maintained since Q2 2017 (average 30%) This is consistent with the latest information from RICS which notes that a combination of high tenant demand and low supply is driving rents up across most regions.

This higher demand for rented property, however, is not matched by any widespread ambition for

expansion, with only 8% of landlords planning to buy in the next quarter and 22% planning to sell.

Looking in more detail, large-scale landlords continue to be far more active, with 10% expecting to buy compared with 1% of small-scale landlords, providing further evidence of a widening polarisation between the strategies of these two groups. As large portfolio landlords continue to make targeted, strategic investments, smaller non-portfolio landlords are more likely to maintain or divest.

Landlord optimism remains historically low at 11%, down from 13% in the previous quarter and 41% in Q1 2014. This extends what is now a long-term downward trend since shortly before the government announced its plans to change the way landlords are taxed, increased stamp duty on second homes, and held the EU Referendum.

As a result, and with more unpredictability ahead, average gearing of investment portfolios increased on the previous quarter but stays historically low at 33% loan-to-value (LTV), as do average mortgage payments as a proportion of rent, unchanged at 25%. This is the result of landlords seeking to strengthen their financial position amid on-going turbulence in the PRS.

In this report, we look at the key trends that landlords are reporting in more detail and show how they have changed over time.



John Heron,
Managing Director of Mortgages, Paragon

OUR LANDLORD PANEL

Our panel is an experienced group of 201 buy-to-let landlords, with 84% of those surveyed having been residential landlords for more than ten years and 47% having been involved for more than 20 years.

65% of landlords surveyed in Q3 2019 are classed as professional – owning three or more properties – making our results a more accurate reflection of landlords with larger property portfolios.



84% LANDLORDS FOR 10 YEARS +



47% LANDLORDS FOR 20 YEARS +



65% OWNING THREE OR MORE PROPERTIES

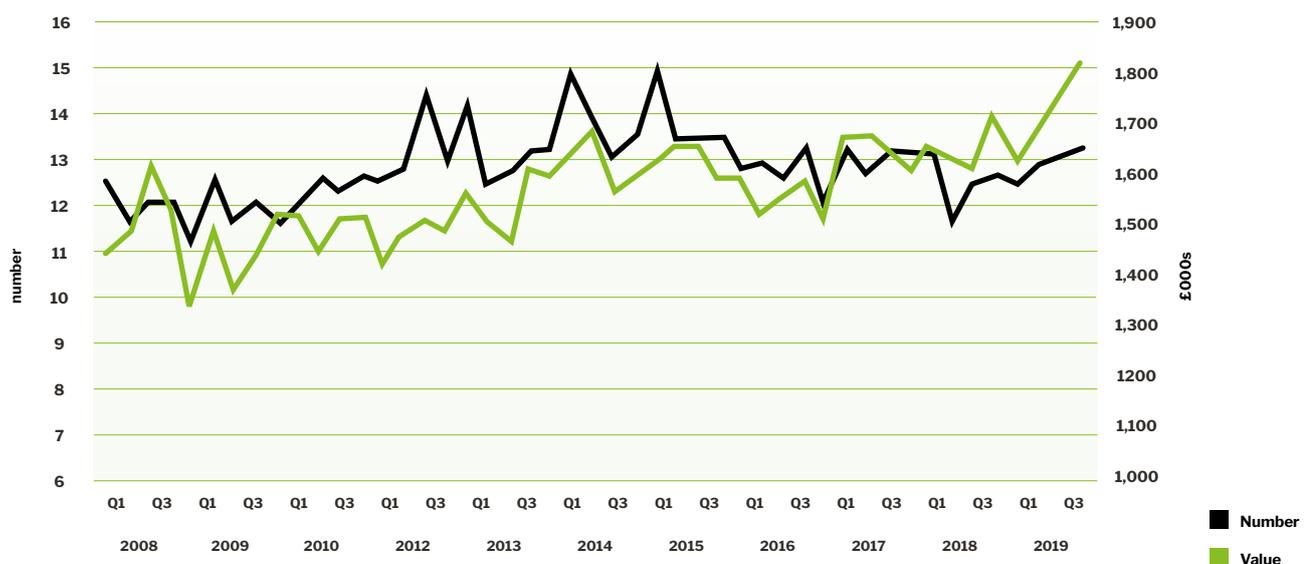
PORTFOLIO SIZE AND VALUE

On average, residential landlords had 13.2 properties in their rental portfolio in Q3 2019, up slightly from 13.1 last quarter and the third consecutive quarterly increase.

Larger scale landlords continue to drive the trend, with those holding between 11 and 20 properties stable at 17% of the survey population, resulting in a second consecutive record average portfolio value of £1.82 million.

Despite this increase, landlords remain cautious, reporting an expectation to have an average of 12.8 properties in 12 months' time.

Number of residential properties and value of average rental portfolio



GEARING AND FINANCE COSTS

Unsurprisingly, landlords are continuing to exercise care over their finances – a trend that has been consistent since 2014.

Average portfolio gearing – debt funding as a proportion of total portfolio value – has fallen from over 40% five years ago to 33% in Q3 2019. The long-term trend highlights landlords spending a smaller proportion of their rental income on mortgage payments, as fiscal and regulatory changes targeting landlords have dampened landlord motivation to take higher loan-to-value buy-to-let mortgages.

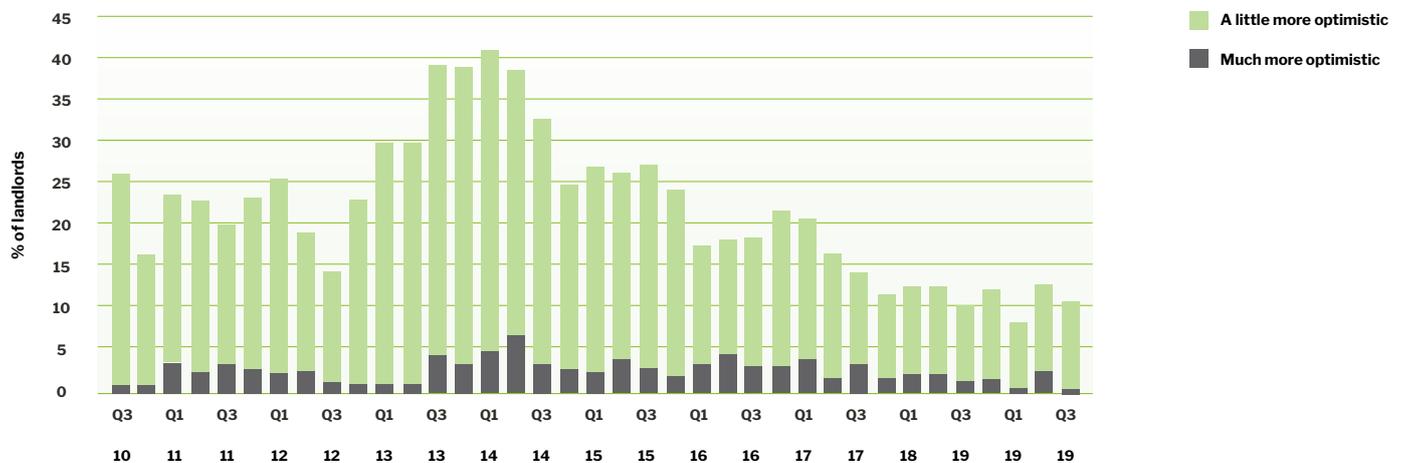
Average gearing of investment property portfolios



LANDLORD OPTIMISM

Despite more encouraging signs in portfolio size and value in Q3 2019, landlord optimism remains historically low and now sits at 11%, down from 13% in the previous quarter. This extends what is now a long-term downward trend in optimism since the record high 41%, recorded in Q1 2014, shortly before the government announced its plans to change the way landlords are taxed, increased stamp duty on second homes, and held the EU Referendum.

Landlord optimism about portfolio prospects



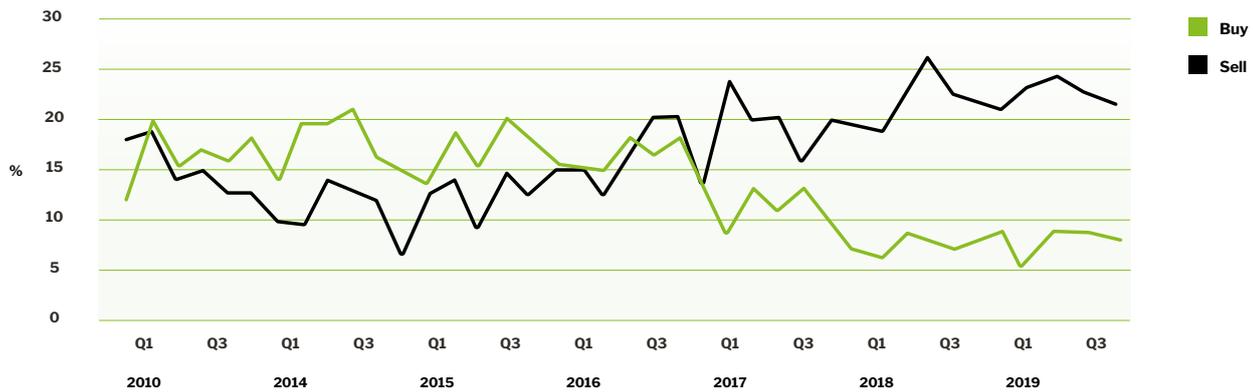
BUYING VS. SELLING EXPECTATIONS

Fewer landlords are expecting to add to their portfolio, with just 8% expecting to purchase property in the next quarter, almost reaching the historic low of 6% in Q4 2018. This remains some way off highs of 15-20%, maintained between 2010-2015.

The proportion of landlords expecting to sell property in the next quarter also decreased slightly, from 23% to 22%, representing the first time that both measures have simultaneously slowed since the same time last year. The disparity between landlords expecting to buy vs. those looking to sell now sits at 15%, as the gap continues to widen since the two were exactly even in Q3 2014.

The number of small-scale landlords looking to purchase property in the next quarter fell from 4% to 1%, whilst landlords with larger portfolios continue to be far more active, with 10% of this group expecting to buy.

Proportion of landlords expecting to buy and sell property in the next quarter

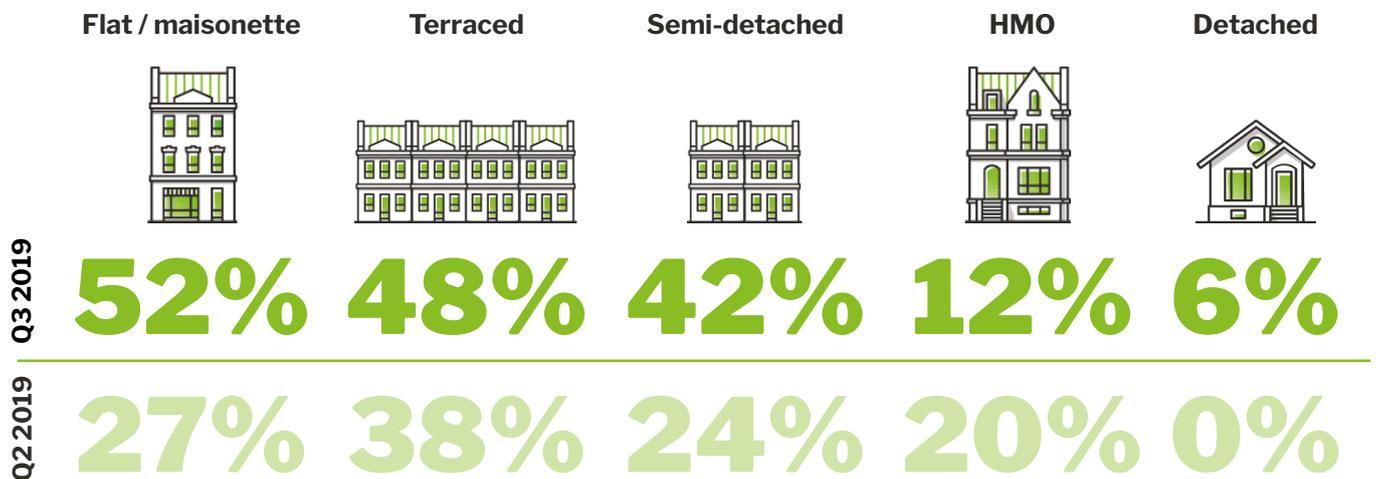


PROPERTY TYPES

Following last quarter’s jump in the proportion of landlords indicating an interest in purchasing Houses in Multiple Occupation (HMOs), up from one in twenty (5%) to one in five (20%), this has shortened to one in eight (12%) in Q3 2019.

Three types of property have increased substantially in the quarter, with 48% expecting to purchase a terraced house – up 10% – and 42% expecting to purchase a semi-detached house – up from 24% in Q2. 52% of landlords said they expect to purchase a flat/maisonette – almost double compared with the Q2 report. These all represent the highest proportion of landlords expecting to buy these types of property in over a year.

Type of property expected to purchase

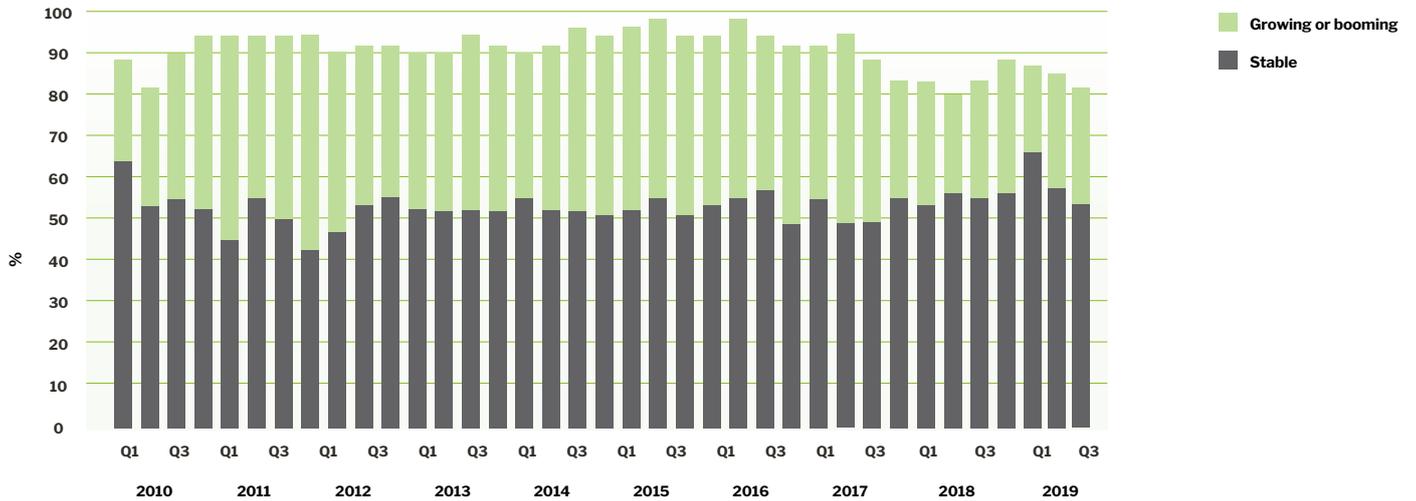


TENANT DEMAND

At 29%, the proportion of landlords saying tenant demand is growing or booming is the highest it's been in almost a year (since Q4 2018), reversing a substantial drop in Q1 2019 (21%) and returning to the same level it's roughly maintained since Q2 2017 (average 30%).

The overall number of landlords reporting tenant demand as stable, growing or booming, however, declined slightly in Q3 2019 to 81%, down from 86%

Proportion of landlords who say tenant demand is growing or booming



VOID PERIODS

There is once again no change to void periods, with the average still at 3 weeks. This keeps void periods at the upper end of a long-term range of 2.5 to 3 weeks, established for almost a decade (since Q4 2010).

The void period measures the average amount of time rental properties are vacant each year.

Average void period

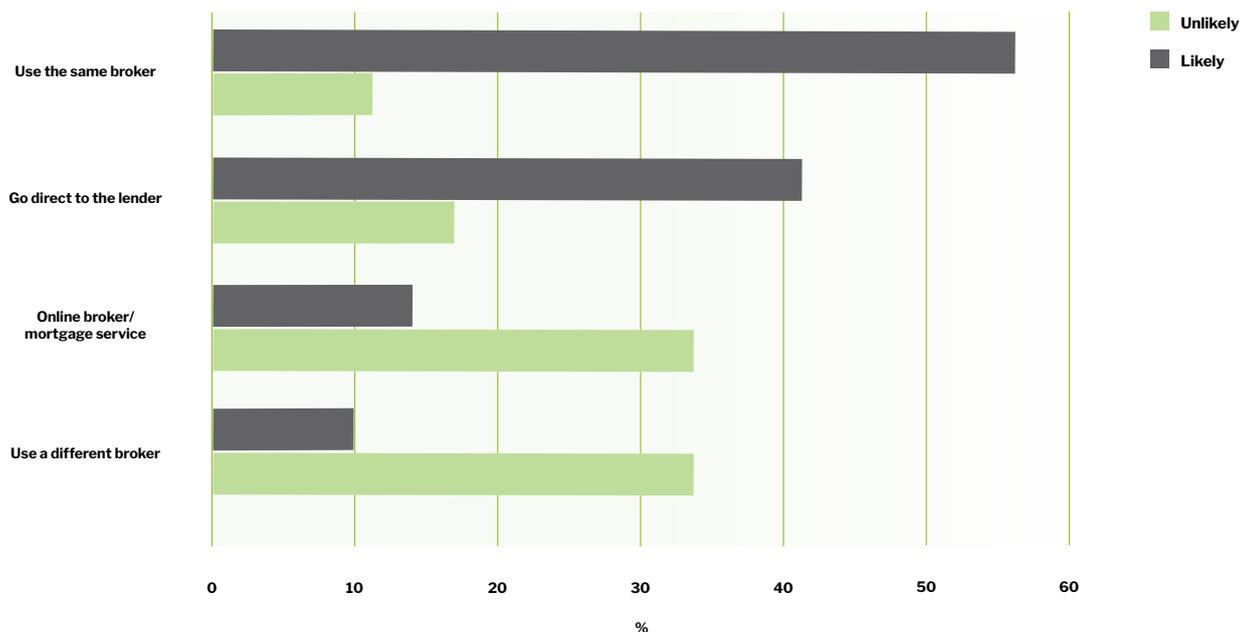


MORTGAGE SOURCING

For the first time we asked landlords how they were most likely to source their next mortgage, with the overwhelming majority of more than half (57%) likely to reuse the same broker as their previous mortgage(s). 41% of landlords said they would most likely go direct to their lender, with similar responses from both large and small-scale landlords.

Meanwhile a few landlords said they would use a different broker (10%) or use an online broker or mortgage service (16%), indicating that the majority of landlords trust their intermediaries and are largely happy with their lender(s).

Most likely way of sourcing next mortgage



ABOUT PARAGON

Paragon is a leading provider of buy-to-let mortgages for landlords with property portfolios, both big and small, through its portfolio and non-portfolio range. Paragon also offers second charge and specialist residential mortgages.

Paragon lends to private individuals and limited companies and has mortgages suitable for single, self-contained properties, as well as HMOs and multi-unit blocks. Paragon can accommodate higher aggregate lending limits and more complex letting arrangements including local authority leases and corporate leases along with standard ASTs.

Paragon introduced its first product aimed at the professional property investor in 1995 and is a member of UK Finance, the Intermediary Mortgage Lenders Association (IMLA), National Landlords Association (NLA) and the Association of Residential Letting Agents (ARLA).

Paragon Bank PLC a subsidiary of the Paragon Banking Group PLC which is a FTSE 250 company based in Solihull in the West Midlands. Established in 1985, Paragon Banking Group PLC has over £12 billion of assets under management.

For further information contact:

Kathryn Rhinds
PR Manager - Mortgages
Tel: 0121 712 3161
Email: kathryn.rhinds@paragonbank.co.uk

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