The buy-to-let market

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Buy-to-Let – a 2008/09 update

This note is intended to provide an interim update on the buy-to-let market in July 2009. There is currently in a state of flux and a full update will be produced when the market settles. The original chapter on the buy-to-let market was written at a time when the housing market was healthy and homes were perceived to be a safe long-term capital investment. Since then, the market has changed significantly. The number of property sales has decreased significantly from 2006/07 levels. Most activity in the housing market is among current homeowners who need to move, either for work purposes or to downsize. Non-necessary investment purchasing such as buy-to-let is largely on hold. Average house prices are falling, so property is not perceived to be quite the safe investment it was.

Mortgage lenders are behaving cautiously and there are fewer mortgages available than there were, particularly for niche models such as buy-to-let. According to a press release from the comparison site www.moneysupermarket.com, there was a 95% drop in the number of buy-to-let mortgages available from 4,384 in May 2007 to 213 in May 2009. Buy-to-let mortgage rates have fallen by 1.51% compared to the 2.6% decrease for mainstream home loans, largely due to the UK's largest buy-to-let lender, Bradford & Bingley, collapsing.

The ARLA national survey of residential landlords (Dec 2006) showed that most owned 1 or 2 properties and preferred to buy properties in good condition. The most recent survey available (March 2009) showed that the percentage of respondents who owned 1 or 2 properties had decreased from 58% to 44%, and the number who owned more than 10 had increase from 6% to 11%. From March 2007 onwards, the ARLA survey asks about the condition and type of property landlords buy. Over this period there has been a decrease in the % of properties bought new build, off-plan, recently refurbished and in good condition. And an increase in the % of properties in need of refurbishment and in poor condition.

The decline in purchasers of new-build and off-plan purchasers is likely to be due to the mortgage situation. The ARLA survey also shows an increase in the number of properties owned per landlord and the preference for buying properties in need of work. These both point to stronger interest from "professional" landlords and a possible decrease in the number of people investing in property as part of a wider portfolio. The local survey of estate agents (see Appendix 4) showed a decrease in the number of people looking to buy buy-to-let properties. But there were no real signs of vast numbers of people leaving the sector either. The Letting Agent Survey showed there was strong demand for residential properties.

Is buy-to-let dead?

At the time of writing, mortgage lenders are more cautious and house prices are falling, so there is little buy-to-let activity. Buy-to-let has a "high-risk" reputation and can be viewed negatively in the current market. However, it does provide rental properties for which there is strong demand. If landlords are purchasing lower quality properties, refurbishment and improvement are a good way to increase value in the current market, so if people are buying to renovate they may be helping improve the stock profile. "Dormant" is probably a more accurate description than dead. The trends in the ARLA quarterly surveys suggest what may emerge, is a more "professional" buy-to-let sector. The Rugg Review[1] and the HCA both suggest that professionalisation should be encouraged a long with large scale investment by bodies such as pension funds.

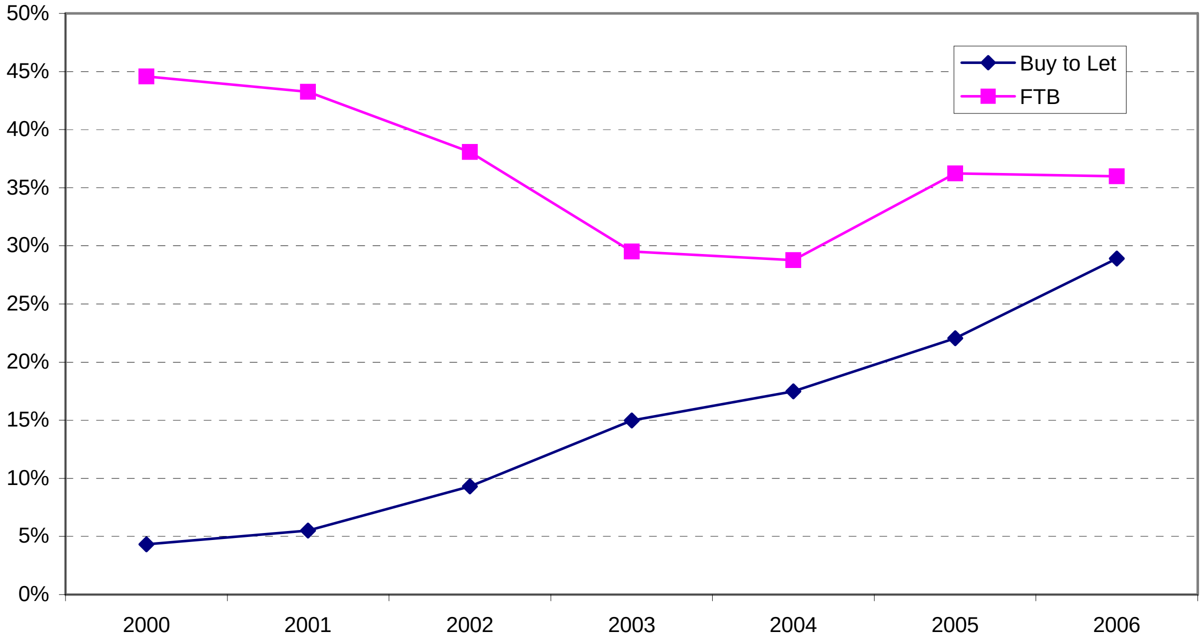
[1] http://www.york.ac.uk/inst/chp/publications/PDF/prsreviewweb.pdf

Chapter 16. The buy-to-let market (2008)

16.1 **Introduction**

The buy-to-let market is an important area for study as some argue that investment in the buy-to-let market is pushing up the price of all properties and making homes increasingly unaffordable for aspirant first-time buyers, as shown in Fig 1. However, this may not be a causal relationship and more buy-to-let properties should also mean more private rented provision – around 5 to 6% of UK households live in buy-to-let properties[2]. Because of the rapid growth since the start of the century, it is not yet clear whether this is a long-term trend or a current fashion.

Fig 1: Buy-to-let & first time buyer mortgages, UK 2000-2006



Source: CML

This report draws on a number of sources. It gives a brief review of some findings from national surveys carried out by the Association of Residential Letting Agents (ARLA). The report then examines the cost of buy-to-let properties within the sub-region. This mostly draws on information from the Council of Mortgage Lenders, the Land Registry and The Rent Service. It also looks at the relationship between the average buy-to-let house price and return from rent. Lastly, the report looks at some of the property preferences for buy-to-let investors. The main source for this is the local surveys of estate agents and the local press review.

There is also growing interest in the "buy-to-leave" market, where investors rely solely on the appreciation in value of the property and do not let it out. While this may be understandable financially, it has consequences for local communities if a number of homes are left empty, and for meeting housing need and housing demand by not using the precious resource of a home. This Assessment aims to gather evidence about our housing markets, and it is true to say that buy to leave may have a particularly negative effect on our intention to deliver

[2] ARLA (2006), "Buy-to-Let: The Revolution – Ten Years On."

sustainable communities. However this requires further research in future to monitor its effect on the market, and how changes in house prices affect its occurrence.

16.2 Buy-to-let investors

Below are some of the key findings about buy-to-let investors from ARLA's "Survey of Residential Investment Landlords" (Dec 2006). This national study showed that:

- Most of the respondents (58%) owned 1 or 2 properties, and only a small percentage owned more than 10 (5.8%).
- More than half (51%) had become landlords from 2003 onwards, and 75% since 2000. Fig 1 shows the growth in the number of buy-to-let mortgages since 2000 and the figure has risen from 4% of all mortgages to 29%. Both of these show that the buy-to-let market has grown considerably in recent years.
- Most viewed their properties as a long term investment – 57% said that they planned to keep their properties for more than 10 years after the original purchase date and only 2% said they would sell if property prices fell. Nearly 57% were planning on buying more residential property to let in the next year. This is because many (46%) had chosen to invest to create a nest egg for their long term future and only a small number gave rental income and short term capital gain as reasons for their purchase.
- 69% of those surveyed were aged between 36-55, but 12% were 35 or younger.

From a local survey of estate agents, most of the people who owned the properties managed by the respondents were individuals (around 97%). Some of these would have been buy-to-let, although this number may also have included people who had inherited properties or kept an old house when moving to a new one, e.g. down-sizers. Of the remaining owners, most were private companies and there was a very small number of other institutions e.g. the church.

Table 1: Number of buy-to-let sales, Cambridge sub-region (estimates), 2006

	Survey of Estate Agents (Mean)	Survey of Estate Agents (Mode)	CML
Percentage Sales	18%	20%	29%
Number	3,374	3,749	5,436

Source: Survey of Estate Agents, Council of Mortgage Lenders, Land Registry

There were 18,745 homes sold in the Cambridge sub-region in 2006. Table 2 shows estimated numbers of buy-to-let sales based on the mean (18%) and modal (20%) averages of estate agents in the area, and the figure from the Council of Mortgage Lenders (CML).

Between 3,374 and 5,436 sales in the region in 2006 were to buy-to-let investors. The mid-point of these two estimates (23% of sales) represents 4, 405 homes. Because of low response rates for some areas, estimates at the district level after difficult. However, it is interesting to note that one respondent based in Cambourne estimated that 25% of sales were for buy-to-let as this may be an important consideration in other new developments. Agents in other locations reported higher percentages of buy-to-let sales, e.g. 30% in March and St Neots.

Table 2: Buy-to-let mortgages 2000-2006, UK

	All mortgage advances	Buy-to-let Mortgage Advances	Buy-to-let as %age of all
2000	1,122,000	48,400	4%
2001	1,314,000	72,200	5%
2002	1,397,000	130,000	9%
2003	1,252,000	187,600	15%
2004	1,245,000	217,700	17%
2005	1,015,000	223,800	22%
2006	1,142,000	330,300	29%

Source: Council of Mortgage Lenders

Nationally, Since 2000, the percentage of buy-to-let mortgages have risen from 4% of all mortgage advances to 29% in 2006, and there were almost 7 times more advances in 2006 than there were in 2000. There was an increase of 47% in the number of advances in the last year alone. In 2006, the value of these advances was £38,400,000,000[3], which means average buy-to-let loans were worth around £116,257 each. If people borrowed 72%[4] of the total cost of the house, this would mean the average cost of buy-to-let property for the UK as a whole was £161,469 – around 78% of the national average for all purchases (£204,813). This supports feedback from the local survey of estate agents, which said that buy-to-let investors preferred cheaper properties. Table 3 shows an estimate of the cost per district of buy-to-let properties based on the national comparison:

Table 3: Estimated average cost of buy-to-let properties, by district, Oct – Dec 2006

	Average House Price (all sales)	Average buy-to-let
Cambridge City	284,070	221,575
East Cambridgeshire	205,790	160,516
Fenland	151,810	118,412
Huntingdonshire	199,165	155,349
South Cambridgeshire	253,611	197,816
Forest Heath	185,404	144,615
St Edmundsbury	214,882	167,608

Source: Land Registry

It is possible to get an idea of the type of property preferred by buy-to-let investors and local surveys. The local survey of estate agents showed a preference for two-bedroom properties among this buyer group. This is supported by the review of rental properties in the local papers, shown in Table 4.

3 Council of Mortgage Lenders

4 ARLA Members Survey of the Buy-to-Let Sector, Q1 2007

Table 4: Properties advertised by size, Cambridge sub-region, autumn 2006

Size	Number of advertisements
One Bedroom	173
Two Bedroom	358
Three Bedroom	279
Four Bedroom	139
Five or More	35
Unknown	16

There were more advertisements for two-bedroom properties than any other size. The second most commonly advertised were three bedroom homes. Advertisements for larger homes were less common. By type, terraced properties were the most commonly advertised homes across the sub-region, followed by flats. Both of these were stated as preferences in the survey of estate agents. However, several respondents said that detached houses were not popular with buy-to-let investors, but this was the third most common type of home advertised.

The survey of agents also showed a preference for modern properties, in good condition and low maintenance. Of the 1000 advertisements used in this research, 514 were for modern properties. In the most recent survey of ARLA, new homes up to ten years old were the most highly desired type of property. This is interesting with reference to new-build apartments in Cambridge City. A recent survey of apartment dwellers showed that 73% of residents were owner occupiers and 27% were renting. This is slightly higher than the proportion of private renters in the city as a whole - 24% according to the last census.

There is some evidence that buy-to-let investors either don't have anything to do with Houses in Multiple Occupancy (HMOs) or specialise in them. This is from the national ARLA survey. Some 89% of buy-to-let investors have no HMOs in their property portfolio and just under 4% have nothing else, as shown in Table 5.

Table 5: Proportion of properties owned which are HMOs in June, Sept and Dec 2006

Proportion of Properties	% of respondents		
	Jun 06	Sep 06	Dec 06
None	82.6%	88.4%	88.9%
Less than Half	9.8%	6.8%	5.6%
More than Half	1.3%	0.4%	1.7%
All	5.9%	4.4%	3.8%
Total Respondents	**288**	**250**	**234**

Source: ARLA Survey of Residential Investment Landlords, Dec 2006

These data also a decrease in the percentage of buy-to-let investors involved with HMOs. The main reasons given for leaving this section of the market were:

- The cost of alterations (most important factor).
- The cost of HMO licences (second most important factor).
- Too much bureaucracy.
- Too many new rules.

16.3 Summary of Issues (2008)

- The buy-to-let market has grown considerably since the turn of the century. Most buy-to-let investors own either one or two properties, and most are individuals rather than companies. A large number are aged 36-55 years old most tenants of their tenants are younger (48% are under 30). Most view their investment in residential property as a long-term plan and say they would hold on to property in the event of a price crash as they see their property as a "nest egg".
- Between 3,374 and 5,436 of the 18,745 properties sold in the sub-region in 2007 were sold to buy-to-let investors. New homes in Cambridge have a higher percentage of private tenants than in the rest of the city, (27% compared with 24%). Of these new apartments, people prefer to buy-to-let and have some rental income rather than buy-to-stand due to service charges.
- The percentage of buy-to-let sales given by the estate agent based in Cambourne is one of the highest in the region (25%). This may be an important consideration for other new developments.
- The average cost for buy-to-let properties nationally is slightly lower than the average cost for all properties, which reflects comments in the local survey that buy-to-let investors looked for cheaper properties, although size, age, and condition were more important factors. Most buy-to-let investors buy with a mortgage, although a small number buy outright.
- The "ideal" buy-to-let property in the sub-region is a modern, two-bedroom terraced house or flat as these are cheap to buy and easy to rent.
- There is a preference for traditional homes over HMOs and some evidence of people leaving this part of the market due to pressures such as licence fees, alteration costs and bureaucracy. However there are a small number of investors who specialise in this type of accommodation.
- ® This section of the housing market is a changing one, strongly affected by the health of the overall housing market, and requires ongoing monitoring and research to understand it's benefits, it's drivers and it's effects on the rest of the housing market.