

Complex Buy to Let Index Q1 2017

This quarterly industry index tracks mortgage transaction data for Vanilla Buy to Let, Houses in Multiple Occupation (HMO), Multi-unit Freehold Blocks (MUFB) and Semi-Commercial Property (SCP).

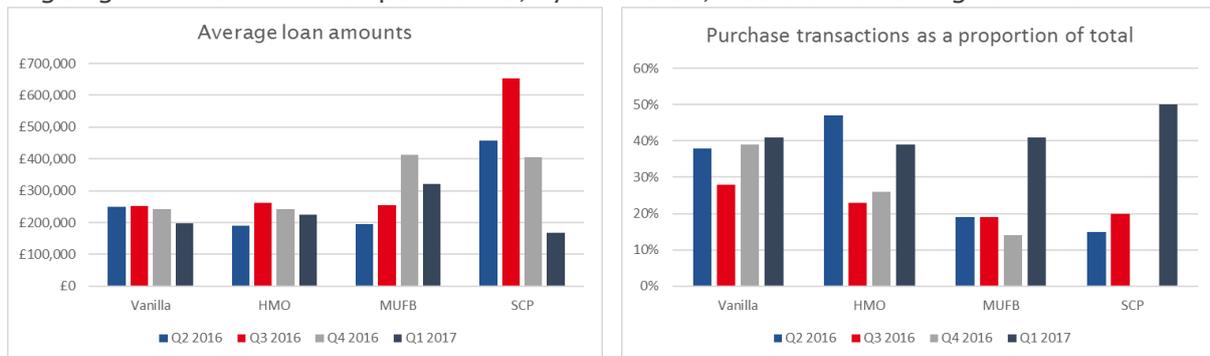
Lenders and Products				
	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Average no. products	1,180	1,120	1,238	1,167
No. of lenders*	33	33	35	36

BTL product numbers have gone up and down across the past 12 months, with the number of products in Q1 coming in close to but slightly below the number available back in Q2 2016. This reflects the state of flux that the private rented sector has been in, with regulatory and tax relief changes effecting strong changes in borrower demand. The trend within Q1 has been for increasing product numbers, as lenders seek new ways to remain competitive in 2017.

Landlords opt for complex, cheaper purchases

Purchases saw a sharp increase in market share in the first quarter of 2017, most evidently among complex property types. Vanilla purchases were also slightly (c.3%) above the long-term trend, which is likely evidence of an ongoing process of incorporation via purchase transactions. Meanwhile, we have seen a marked drop in the average loan amount and property value across all property types, suggesting that landlords are refocusing this quarter on cheaper and complex properties to make the most of their capital.

We have also seen an increase in the average requested loan to value, with closer examination suggesting a link to increased limited company activity. Limited company borrowers typically receive higher LTVs than those borrowing in personal names, so the ongoing trend towards incorporation is, by extension, also a trend for higher LTVs.



Gap narrows in average yields

There were no abrupt movements in rental yields this quarter, perhaps somewhat surprisingly given the clear trend for lower-value investments, which traditionally offer better percentage returns. The main feature of rental yields this quarter was a reduction in the margin between different property types, with average HMO and SCP yields falling by 0.9% and 0.6% respectively. This brought them much closer to MUFB and vanilla property yields, which rose 0.5% and 0.2% respectively to close the gap.

*Excludes regional and less active lenders

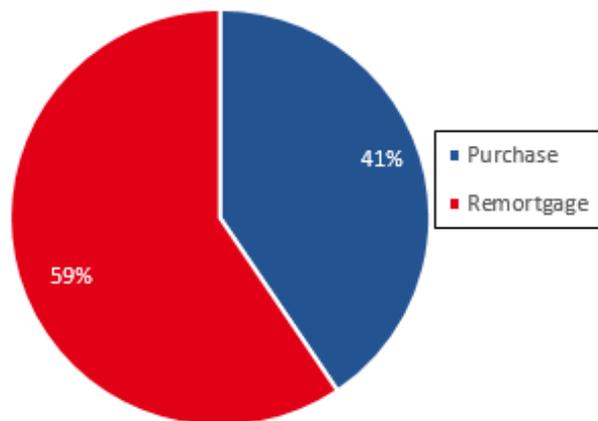
Vanilla Buy to Let				
	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Purchases	38%	28%	39%	41%
Remortgages	62%	72%	61%	59%
Average loan size	£250,759	£252,964	£243,226	£196,813
Average property value	£364,409	£391,008	£413,737	£299,075
Average loan to value	69%	67%	67%	68%
Average yield	5.8%	5.6%	5.5%	5.7%

The vanilla buy to let market remained broadly similar to last quarter in terms of average LTVs, gross yields and the proportion of purchases and remortgages. Rather, where we saw substantial differences with vanilla properties was in the value of properties that landlords sought to borrow against and, consequently, how much they borrowed per mortgage.

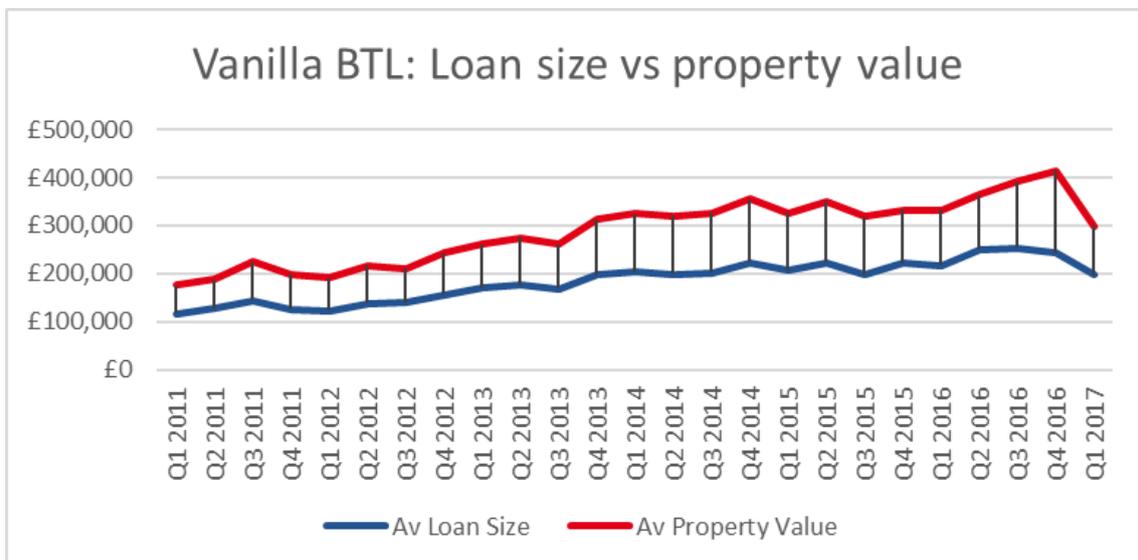
Q1 saw a reduction in average loan size of 19%, along with a 28% drop in the average value of security used compared to Q4. Even though the average property value for vanilla transactions has fallen more than the average loan size, average LTV of each property has actually risen very slightly to 68%. This can happen when high value properties are used to secure low LTV loans and low value properties are used to secure high LTV loans, or when multiple properties are used as security for a single loan.

Average loan size this quarter fell below £200,000 for the first time since Q3 2015, had a very similar average loan size. However, the average property value in Q1 2017 was lower, resulting in higher average LTV. Current rental yields are also higher, suggesting that vanilla properties in achieved similar rental incomes this quarter despite the cheaper properties on the market.

Vanilla BTL Mortgages



Vanilla BTL: Loan size vs property value



HMOs

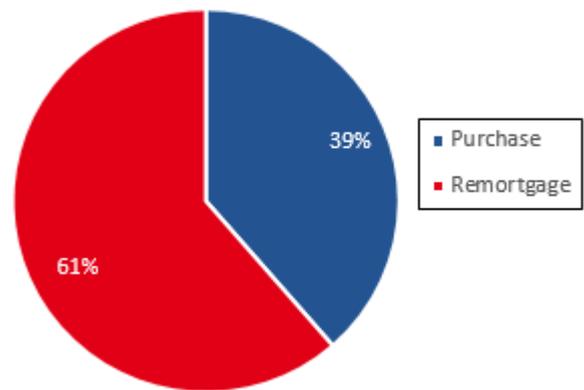
HMO					
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Purchases	56%	47%	23%	26%	39%
Remortgages	44%	53%	77%	74%	61%
Average loan size	£146,887	£190,497	£261,099	£242,744	£224,360
Average property value	£238,728	£252,471	£365,685	£355,087	£331,711
Average loan to value	62%	75%	72%	70%	70%
Average yield	10.2%	10.5%	9.7%	10.4%	9.3%

Unlike vanilla properties, HMO purchases and remortgages are not stable, and the first quarter of 2017 saw purchases gain a greater share of lending among transactions involving these properties.

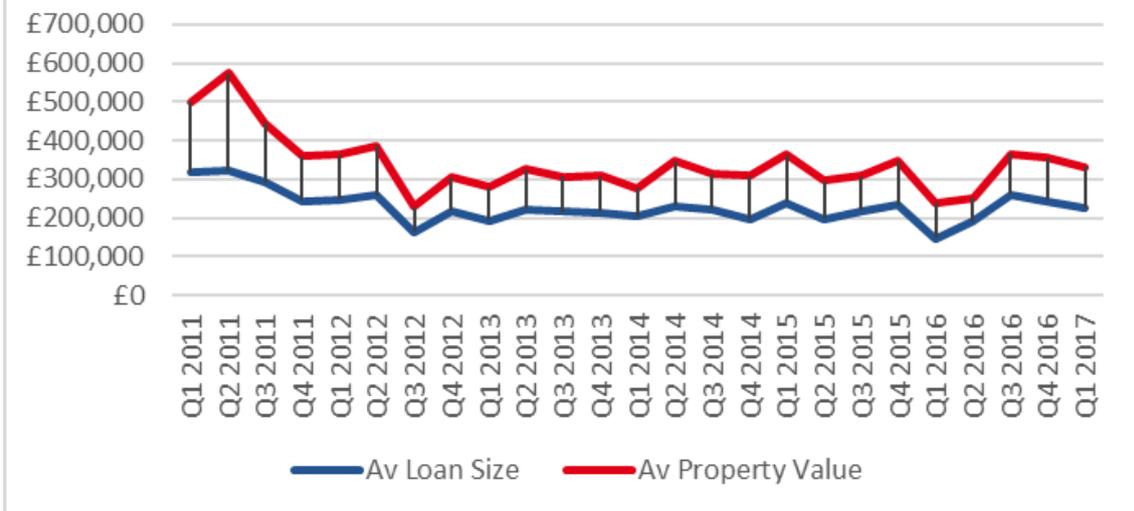
Although remortgages still form the bulk of buy to let mortgage lending, purchases have increased across all property types. This hints at growing investor confidence after the slowdown in Spring and Summer 2016, following the introduction of the SDLT surcharge.

As in Q4, average loan size and property value among HMO transactions fell, although both remain well above Q1 and Q2 2016, which saw exceptional lows. Excluding the balance of purchases and remortgages, Q1's figures are a return to those typical of HMO properties, being broadly similar, for example, to those seen in early 2015 when changes to mortgage tax relief had yet to be announced.

HMO BTL Mortgages



HMO: Loan size vs property value

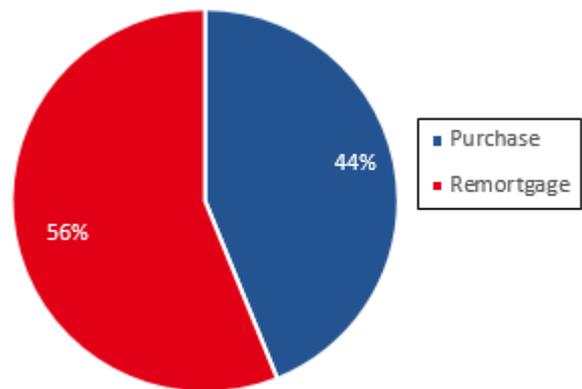


Multi-Unit Freehold Blocks

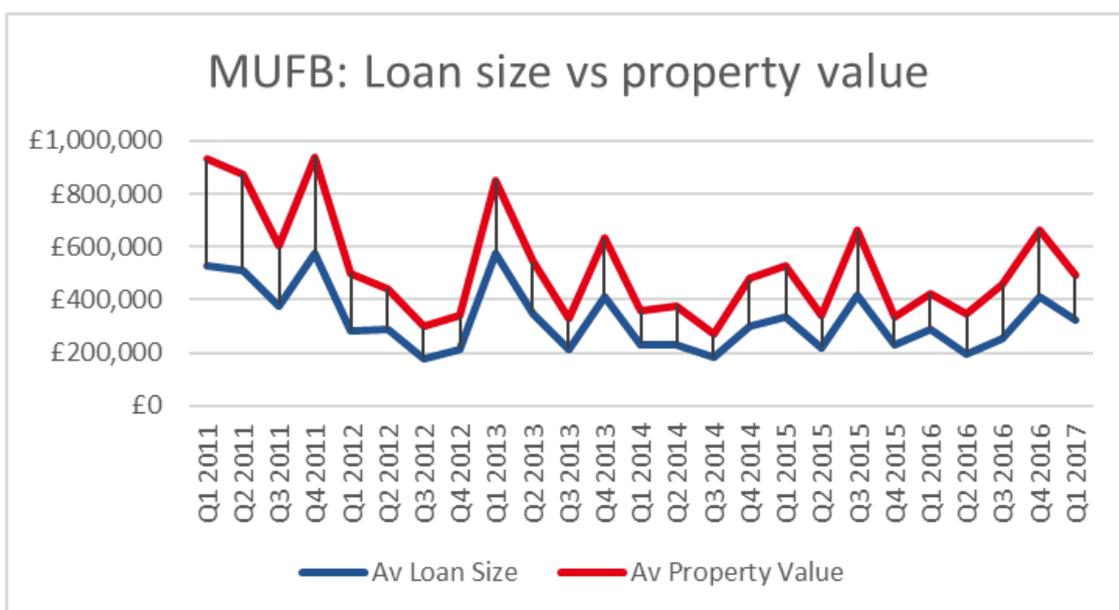
MUFB					
	Q1 2015 - Q4 2016 quarterly average	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Purchases	18%	19%	19%	14%	41%
Remortgages	82%	81%	81%	86%	59%
Average loan size	£293,305	£195,164	£254,093	£411,768	£322,364
Average property value	£469,712	£346,180	£458,267	£665,222	£492,707
Average loan to value	67%	56%	67%	68%	71%
Average yield	7.6%	9.5%	8.7%	7.3%	7.8%

Although the proportion of buy to let purchases (as opposed to remortgages) occurring has risen across all property types since last quarter, this is perhaps most significant among multi-unit freehold blocks. While semi-commercial properties saw a greater swing, this is almost typical for SCPs as they consistently see low transaction volume, causing any changes to greatly impact the figures. Nevertheless, purchases have risen from less than 20% of MUFB transactions in 2015 - 2016 to 41% in Q1 2017.

MUFB BTL Mortgages



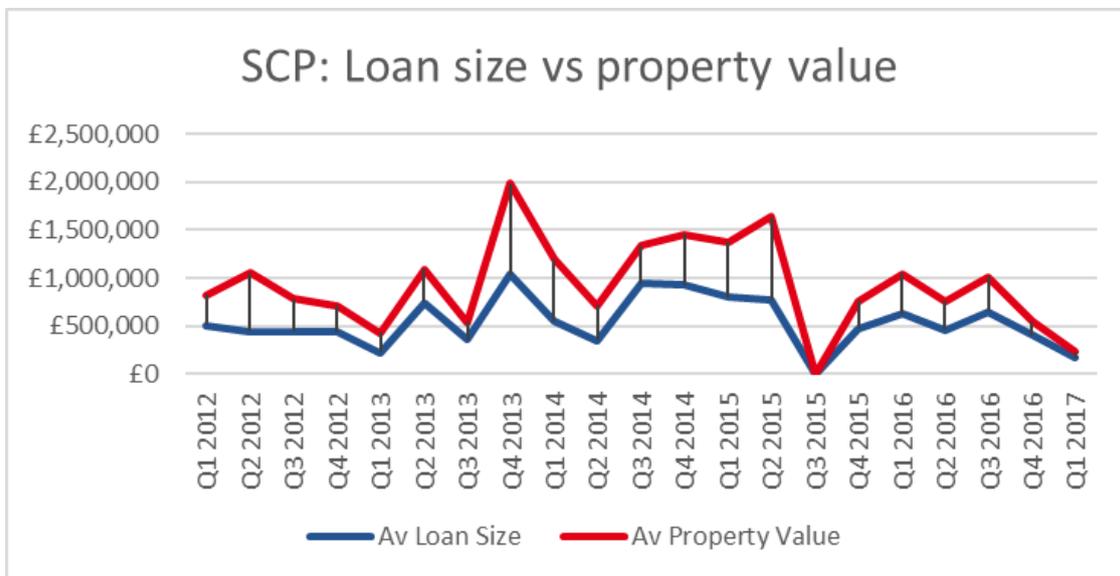
MUFBs have also followed the other major trend this quarter, showing lower average loan and property values, although as with HMOs these are both still well above what we saw in early 2016. Multi-unit property values and loans tend to go up and down much more than HMOs or vanilla properties, with the latest figures quite close to the quarterly average over the past six years.



Semi Commercial Properties

Always a less common investment, semi-commercial properties show rapidly fluctuating results due to limited volume of business. This quarter saw even more limited activity than usual, with the result being a data set containing no high value transactions at all and a dramatic decrease in average property value and loan size.

SCP				
	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Purchases	15%	20%	0%	50%
Remortgages	85%	80%	100%	50%
Average loan size	£458,285	£652,180	£405,288	£167,600
Average property value	£760,714	£1,014,620	£549,000	£228,000
Average loan to value	60%	69%	62%	73%
Average yield	5.2%	7.7%	8.5%	7.9%



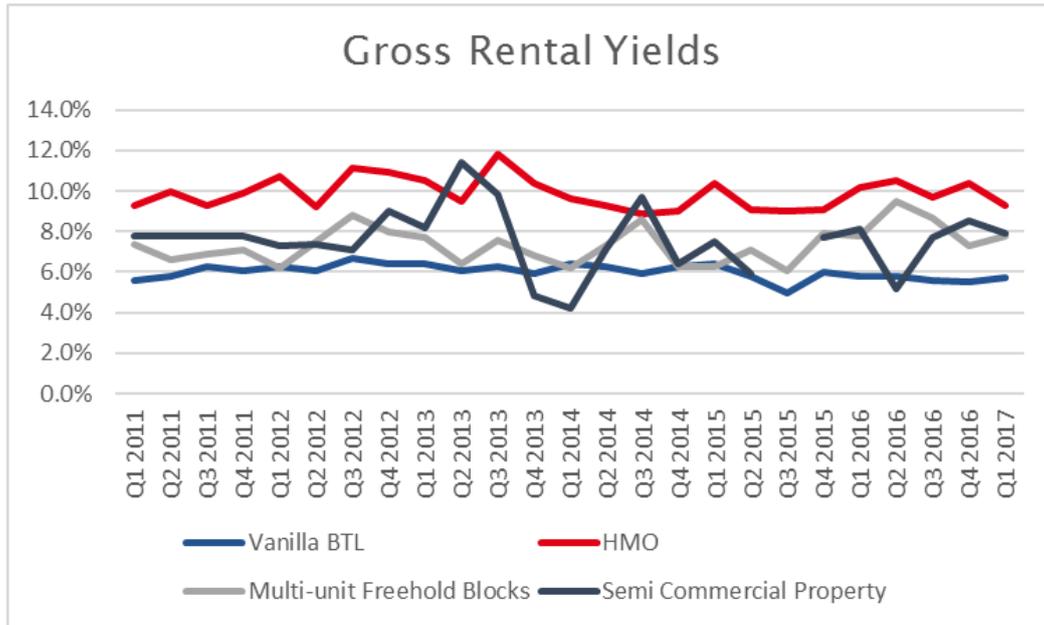
Detailed yield comparison

The first quarter of 2017 has clearly brought with it returning landlord appetite for new purchases, including increased demand for HMOs and MUFBs. While vanilla buy to let offers a stable return on investment, with the most stable rental yields, those willing to take on HMOs, MUFBs or SCPs are often rewarded with higher rental yield.

As in previous quarters, HMOs showed the highest average yield in Q1, offering good returns even after allowing for the increased costs associated with this property type. Average yields have shrunk since 2016, but HMOs continue to offer the highest gross yield as a percentage of property value.

SCP transactions showed an average gross yield of 7.9%, barely retaining second place among properties on the index. Meanwhile, the average yield for MUFB properties recovered after the unusually high incidence of high-value transactions last quarter, reaching 7.8%. While unexceptional among recent quarters, this still represents a healthy income, especially as MUFBs were among the most expensive buy to let properties being financed this quarter.

Vanilla yields saw a modest upturn this quarter, reaching 5.7%.



Jargon Buster

Vanilla Buy to Let

These are standard buy to let transactions. Properties in this category tend to be normal 2-3 bed houses and flats. Both borrowers and properties fit the general lending criteria for off-the-shelf products offered by the mainstream buy to let lenders.

Houses in Multiple Occupation (HMOs)

An HMO is when unrelated tenants have exclusive access to their rooms and share part of the accommodation, such as the kitchen or the bathroom. Examples include bedsit style housing or student shared housing. An HMO may require a licence based on the number of storeys and/or the number of tenants, depending on the local authority.

Multi-Unit Freehold Blocks (MUFBs)

This is a single building with multiple, separate, independent residential units owned under a single freehold title. Examples include purpose-built blocks of flats or Victorian houses converted into flats.

Semi-Commercial Property

Also known as mixed investments, as both names suggest these properties are made up of part commercial and part residential elements, typically shops or offices with flat above.

For more information

To view previous results visit: [Complex Buy to Let Index](#)

Jenny Barrett, Marketing & Research Director

Tel: 01732 471 615

Email: jennyb@mortgagesforbusiness.co.uk

Graeme Wright, Data Analyst

Tel: 01732 471 636

Email: graemew@mortgagesforbusiness.co.uk